

Fairfax County Economic Index

VOLUME XII, NUMBER 5

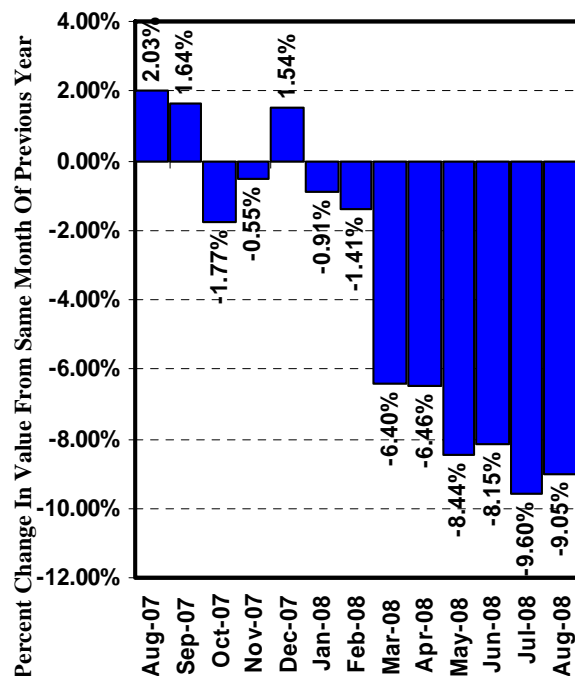
OCTOBER 2008

Economy Slow But Steady In August Outlook Remains Weak Into 2009

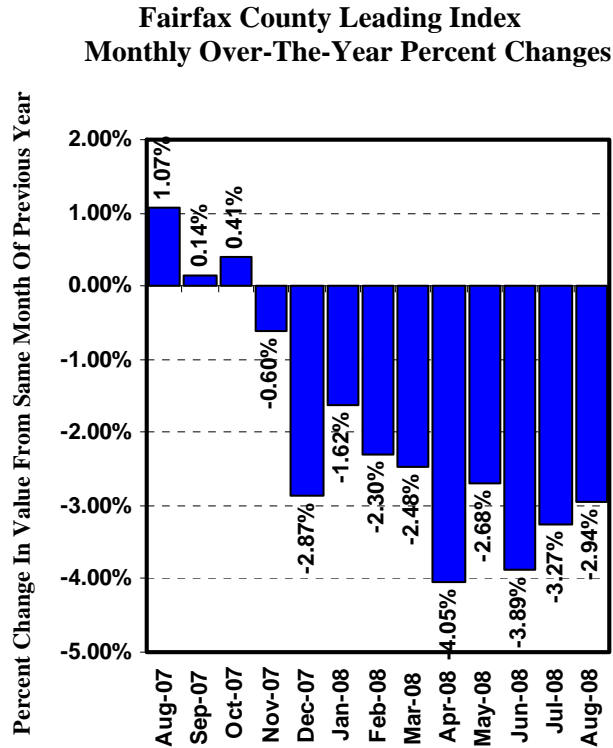
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 124.37 from July's revised value of 124.25 for a small gain of 0.10 percent. This was the Index's first increase following six consecutive month-to-month losses since its peak in January. On a monthly over-the-year basis, the Coincident Index continues to lag, falling below its same-month 2007 level by 9.05 percent. The monthly over-the-year loss in August was its eighth consecutive decline and tenth decrease in twelve months. In August, two of the Index's four components contributed to its increase over July.

- Sales tax revenues, adjusted for inflation and seasonal variation, increased for the second time in three months; and,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, increased for the second month in a row and the third time in four months; while,
- Total employment was lower (on a seasonally adjusted basis) for the seventh consecutive month; and,
- Consumer confidence (in the present) fell for the fifth time in six months.

Fairfax County Coincident Index
Monthly Over-The-Year Percent Changes



Source: Center for Regional Analysis, George Mason University



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The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 117.92 in August for a gain of 0.13 percent. This was the Index's second monthly gain in a row and sixth gain in eight months. However, on a monthly over-the-year basis, the Index has declined ten consecutive months, falling 2.94 percent below its same-month value in August 2007. In August, two of the Index's four indicators contributed to its gain over July.

- Consumer expectations (consumer confidence six months hence) increased for the second consecutive month following five monthly decreases; and,
- Automobile registrations were up sharply, more than offsetting their decline in July, and have grown in two of the last three months; while,
- Residential building permits declined in August after registering a strong gain in July; and,

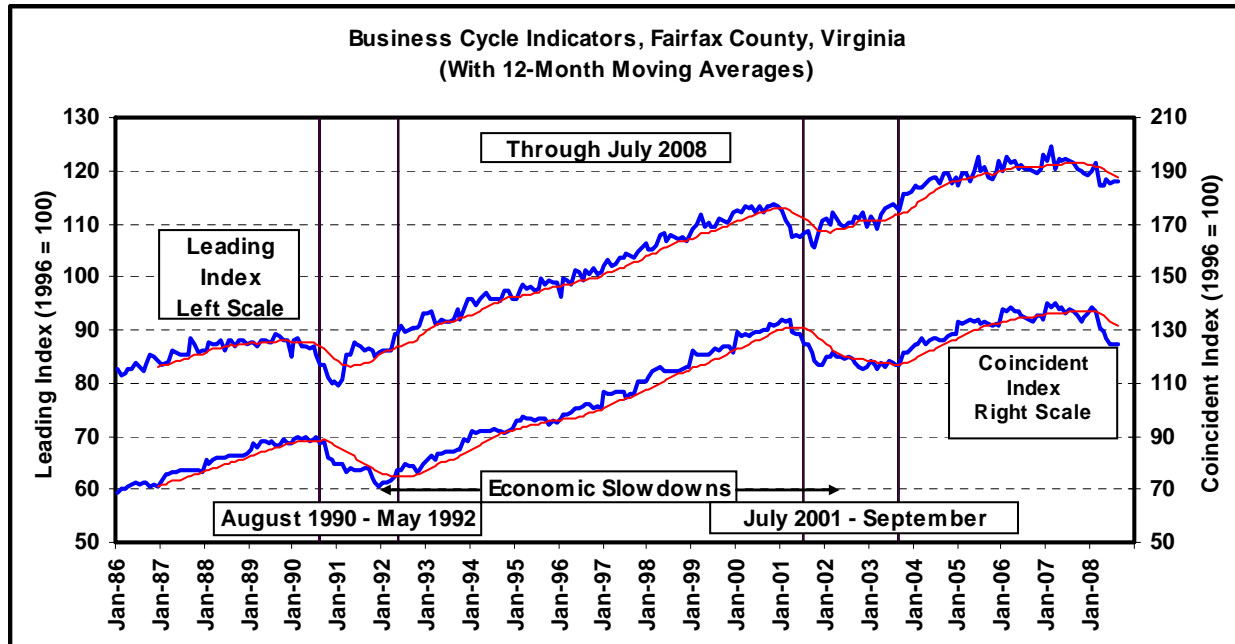
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the third consecutive month.

The Fairfax County economy continued to grow slowly in August extending the trend that dates back to the fourth quarter of 2007. This slowdown at the County level is paralleling the national downturn but continues to be cushioned from the full impact of the negative forces that appear to be driving the national economy into recession. While both the Leading Index and Coincident Index are tracking below same-month 2007 levels, their performances in August showed signs of underlying strength common to the Washington area economy that have protected it from past recessions. Still, the Washington area and Fairfax County economies are feeling the down-

CURRENT CONDITIONS

The outlook for the U.S. economy has taken a turn for the worse since August and forecasts are now pointing to a three quarter recession spanning the second half of 2008 and at least the first quarter of 2009. While this downturn is not expected to be severe by historic standards, it could easily extend further into 2009. The recovery in 2010 is projected to be slow as the lingering effects of the downturn, especially rising unemployment and high consumer debt, will act to counter the positive forces that would ordinarily drive the expansion that is expected to start in mid-2009. The damage done to consumers and business investors by the meltdown in the financial sector and the loss of confidence and trust in the essential institutions supporting the economy will impact Fairfax County's economy along with every other local economy in the nation. These effects will be countered by Fairfax County's underlying strengths—especially its large federal contractor base and highly educated resident work force.

The consequences of the national economic slowdown have resulted in the County's economy growing more slowly each month over the year. Job growth has slowed every month starting in February and unemployment is growing. Still, the labor market conditions remain good compared to most other local economies. In August, the



Source: Center for Regional Analysis, George Mason University

County's job base was 4,478 larger than in August 2007, a gain of 0.76 percent. Employment among County residents, regardless of place of work, was up 1.2 percent or by 3,774 workers over the past twelve months. Still, the number of residents seeking work has grown. In August, unemployment in the County was 3.2 percent, still low but much higher than in August 2007 when it stood at 2.1 percent. This difference represents an additional 6,913 unemployed residents.

While the economy has been slowing down over the year, there have been a few positive signs the last several months. Hotel taxes revenues have been up in three of the last four months and sales tax revenues have also been higher in two of the last three months. Auto registrations (sales) rebounded in August and were also up sharply in June. Consumer confidence that had been trending down for many months, also turned around. Much of this progress was likely derailed by the September and October meltdown of the world banking system and performance measures in coming months are likely to reflect more severe declines. Still, the August data for Fairfax County are in-

NEAR-TERM OUTLOOK

The Fairfax County Leading Index has increased on a month-to-month basis in July and August, although continues to track lower than in

2007. This pattern of performance could be pointing to a turn around in the economy by spring of 2009 although the timing will be governed by national conditions that could prolong or slow its recovery.

Renewed residential construction will be a primary driver of the local economy's recovery. The inventory of unsold houses in the County has declined over the year although it is not yet at an equilibrium level. Still, there are signs that the housing market is stabilizing and increasing demand for new construction will emerge in 2009. When this occurs will depend largely on consumer confidence and the ability and willingness of financial institutions to make mortgage loans. These conditions are likely to be in place by the second quarter of 2009.

With continuing job growth and relatively low unemployment in the County, consumer spending will begin to accelerate once consumers feel confident that the economy will recover and that the worst of the downturn is over. After the Presidential election and once the effects of the federal government's intervention in the financial markets show results, consumer confidence should strengthen. The convergence of these favorable conditions point to the County's recovery in early 2009 although the pace of recovery will depend on conditions beyond the County's influence.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Aug-08 Prelim.	Jul-08 Final	Aug-07 Final	Jul-08 to Aug-08	Aug-07 to Aug-08
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	124.37	124.25	136.74	0.10	-9.05
Leading Index (1996 = 100)	117.92	117.77	121.49	0.13	-2.94
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	591,220	591,790	586,742	-0.10	0.76
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	590,522	592,270	586,049	-0.30	0.76
Transient Occupancy Tax (\$'000=1987, Seasonally Adjusted)	702	694	858	1.28	-18.17
<i>Transient Occupancy Tax (\$'000=Current)</i>	1,441	1,476	1,683	-2.37	-14.37
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	8,935	8,372	9,539	6.72	-6.33
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	13,063	12,702	12,987	2.84	0.59
South Atlantic Consumer Confidence	61.9	64.7	140.8	-4.33	-56.04
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	4,831	3,704	4,528	30.42	6.69
<i>Automobile Registrations (Unadjusted)</i>	5,421	4,160	5,081	30.31	6.69
Initial Unemployment Claims (Preliminary, Seasonally Adjusted)	1,310	1,242	1,157	5.45	13.21
<i>Initial Unemployment Claims (Preliminary, Unadjusted)</i>	1,219	1,260	1,077	-3.25	13.21
Building Permits, Total Number of Units (Seasonally Adjusted)	52	160	155	-67.32	-66.29
<i>Building Permits, Total Number of Units (Unadjusted)</i>	59	182	175	-67.58	-66.29
South Atlantic Consumer Expectations	51.8	45.9	98.0	12.85	-47.14
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	599,141	600,811	585,582	-0.28	2.32
<i>Total Labor Force (Unadjusted)</i>	604,769	612,257	591,082	-1.22	2.32
Employed Labor Force (Seasonally Adjusted)	579,863	581,391	573,142	-0.26	1.17
<i>Employed Labor Force (Unadjusted)</i>	584,411	592,402	577,637	-1.35	1.17
Unemployed Labor Force (Seasonally Adjusted)	19,278	19,420	12,440	-0.73	54.97
<i>Unemployed Labor Force (Unadjusted)</i>	20,358	19,855	13,445	2.53	51.42
Unemployment Rate (Percent, Seasonally Adjusted)	3.2%	3.2%	2.1%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	3.4%	3.2%	2.3%	--	--

Note: Initial Claims are inverted prior to inclusion in the leading index; that is, an increase in claims results in a decrease in the index and visa versa. Unadjusted data (italics) and Fairfax County Labor Force data are not included in either index but are shown for informational purposes. All percent changes are calculated from unrounded data. Wage and salary employment estimates exclude Fairfax City and Falls Church.

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We are on the web at:
http://www.fairfaxcounty.gov/economic/economic_index.htm

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