



Fairfax County Economic Index

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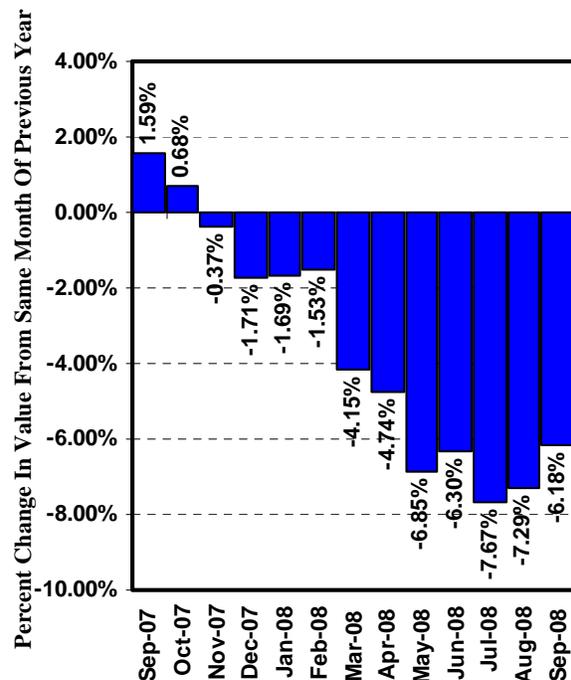
NOVEMBER 2008

Economy Gains in September But Outlook Remains Weak Into 2009

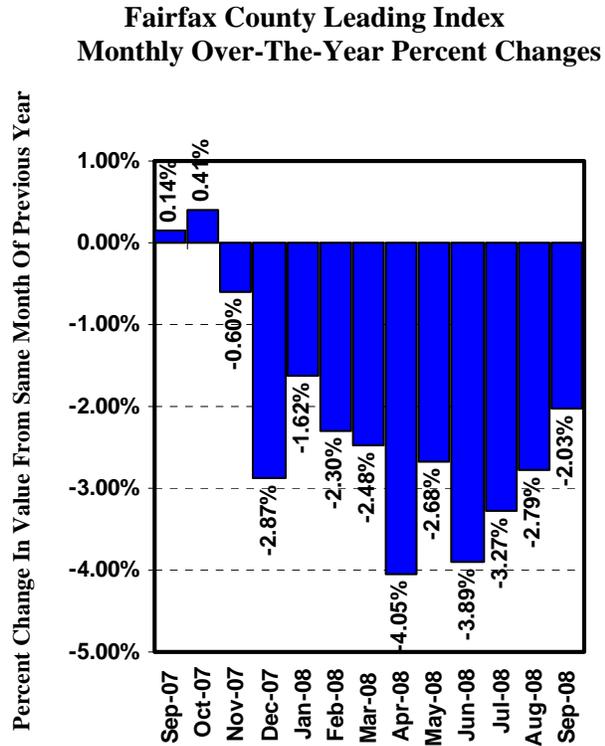
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 127.06 from August's revised value of 126.74 for a gain of 0.25 percent. This was the Index's first increase following seven consecutive month-to-month losses since its peak in January. On a monthly over-the-year basis, the Coincident Index continued to decline falling below its same-month 2007 level by 6.18 percent although the rate of decline has lessened since peaking in July. September's monthly over-the-year loss was its tenth consecutive decline following forty-eight consecutive monthly over-the-year gains. In September, two of the Index's four components contributed to its increase.

- Sales tax revenues, adjusted for inflation and seasonal variation, increased for the third time in four months; and,
- Consumer confidence (in the present) increased for the second time in three months; while,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, decreased following two monthly gains; and,
- Total employment was lower (on a seasonally adjusted basis) for the eighth consecutive month.

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



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, decreased to 117.98 in September for a loss of 0.27 percent. This decrease in the Index followed four monthly gains over the preceding five months dating from April. However, on a monthly over-the-year basis, the Index has declined eleven months in a row falling 2.03 percent below its same-month value in September 2007 although its rates of decline have lessened each of the last three months since June. In September, three of the Index's four indicators contributed to its decline.

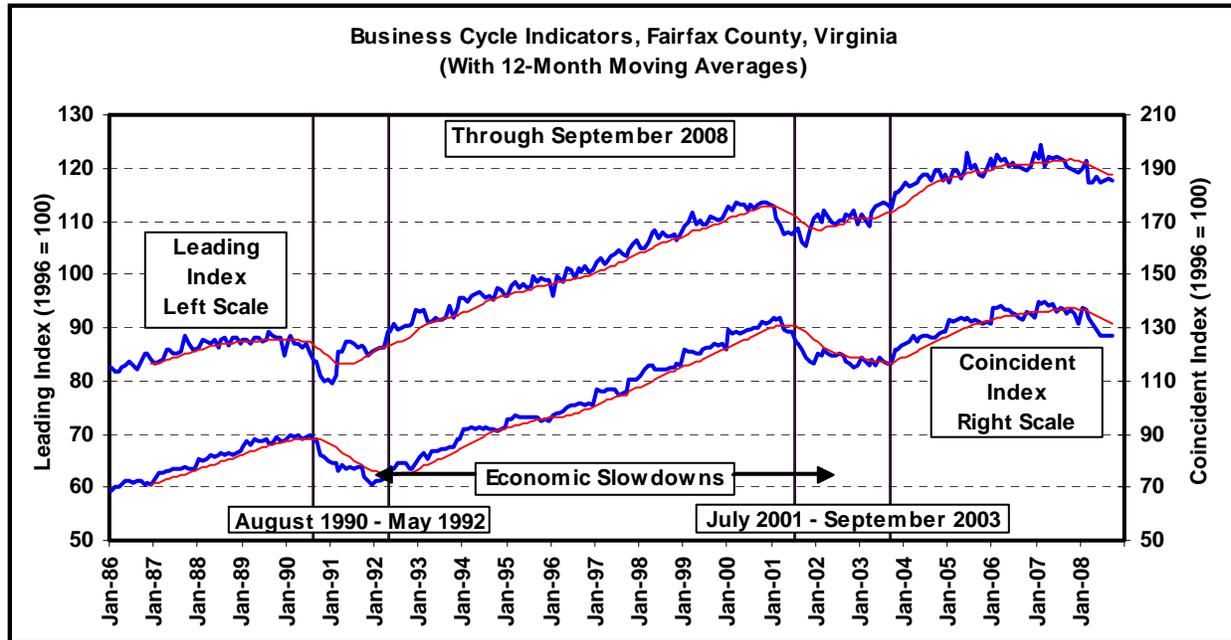
- Automobile registrations fell in September after registering a strong gain in August;
- Residential building permits declined for the third time in four months; and,
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the fourth consecutive month; while,
- Consumer expectations (consumer confidence six months hence) increased for the third consecutive month following five monthly decreases.

The Fairfax County economy continued to grow slowly in September registering a slight uptick in the Coincident Index following seven monthly declines. 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 have driven the national economy into recession. While both the Leading Index and Coincident Index are tracking below same-month 2007 levels, their performance in September, as in August and July, reflected slower rates of decline. Still, the Washington area and Fairfax County economies are feeling the downdraft from growing problems within the national economy and cannot expect to experience recovery until the financial markets stabilize and consumer and business confidence are reestablished.

CURRENT CONDITIONS

The outlook for the U.S. economy has taken a turn for the worse since September and forecasts are now pointing to a four-quarter recession spanning the second half of 2008 and at least the first half of 2009. This downturn now appears to be more severe than the 1990-1991 recession but not as deep as the 1981-1982 recession with GDP contracting 2 percent in 1982. The 2008-2009 recession is expected to be longer than recent recessions that lasted only 8 months and is likely to experience a long recovery extending from mid-2009 through 2010. 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. These effects will be countered by Fairfax County's underlying strengths—especially its large federal contractor base and highly educated resident work force. Still, as long as consumer spending lags, the County's economy cannot achieve a full recovery and this will depend more on psychology—consumer confidence—than on the County's underlying performance.

The consequences of the County's slowdown are visible in all of the indicators. While the County is still adding new jobs on a monthly over-the-year level, it lost jobs on a month-to-month basis as the economy's growth has slowed in 2008. Still, the labor market conditions remain good compared to most other economies. In September, the County's job base is estimated to have added



Source: Center for Regional Analysis, George Mason University

4,000 net new jobs compared to September 2007 for a gain of 1.75 percent. Employment among County residents, regardless of place of work, was up 1.5 percent or by 8,724 workers over the past twelve months. Still, the number of residents seeking work has grown. In September, unemployment in the County was 3.0 percent, down from the August level of 3.2 percent but up from the 2.1 percent in September 2007. This difference represents a gain of 5,199 unemployed residents.

Consumer spending remains a key force in the economy's performance. Even through consumer confidence has shown some improvement over the third quarter, it remains slow and consistent with recessionary conditions. The most recent data from October, confirm that consumer confidence was seriously eroded from the negative financial news at the end of September that continued into October. As a result, retail sales fell sharply at the national level. While retail sales appear to have gained momentum in Fairfax County in August and September, it is unlikely that this favorable trend will be sustained through the fourth quarter as economic conditions nationally slip deeper into recession.

NEAR-TERM OUTLOOK

The Fairfax County Leading Index appears to have leveled off during the third quarter with

month-to-month losses slowing but has yet to move higher on a sustained basis. This pattern of performance appears to be pointing to a turn around in the economy in spring of 2009 although the timing will be governed by national conditions that could slow the 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 but 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 construction and mortgage loans. Current forecasts for new housing construction in Northern Virginia show gains in 2009 compared to 2008 beginning by the second quarter.

With the effects of the federal government's interventions in the financial markets beginning to show results and the new Administration's economic team in place, consumer confidence should strengthen over the winter months. The convergence of these favorable conditions point to the County's economy re-accelerating by mid-year 2009 although the timing and pace of this rebound will depend on conditions beyond the County's influence.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Sep-08 Prelim.	Aug-08 Final	Sep-07 Final	Aug-08 to Sep-08	Sep-07 to Sep-08
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	127.06	126.74	135.43	0.25	-6.18
Leading Index (1996 = 100)	117.79	118.11	120.23	-0.27	-2.03
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	593,879	594,402	583,677	-0.09	1.75
<i>Estimated Total Wage & Salary Employment (Unadjusted)</i>	595,305	593,700	585,079	0.27	1.75
Transient Occupancy Tax (\$'000=1987, Seasonally Adjusted)	801	805	859	-0.39	-6.74
<i>Transient Occupancy Tax (\$'000=Current)</i>	1,707	1,653	1,744	3.25	-2.10
Sales Tax Receipts (\$'000=1987, Seasonally Adjusted)	9,015	8,823	9,031	2.17	-0.18
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	13,559	13,063	12,591	3.80	7.69
South Atlantic Consumer Confidence	62.5	60.8	136.5	2.80	-54.21
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	4,079	4,831	3,794	-15.57	7.50
<i>Automobile Registrations (Unadjusted)</i>	4,529	5,421	4,213	-16.45	7.50
Initial Unemployment Claims (Preliminary, Seasonally Adjusted)	1,555	1,310	1,123	18.70	38.46
<i>Initial Unemployment Claims (Preliminary, Unadjusted)</i>	1,300	1,219	939	6.63	38.46
Building Permits, Total Number of Units (Seasonally Adjusted)	37	52	116	-29.96	-68.47
<i>Building Permits, Total Number of Units (Unadjusted)</i>	35	59	111	-40.68	-68.47
South Atlantic Consumer Expectations	64.5	53.3	91.0	21.01	-29.12
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	598,598	599,217	589,874	-0.10	1.48
<i>Total Labor Force (Unadjusted)</i>	598,503	604,845	589,781	-1.05	1.48
Employed Labor Force (Seasonally Adjusted)	581,022	579,808	577,498	0.21	0.61
<i>Employed Labor Force (Unadjusted)</i>	580,664	584,356	577,142	-0.63	0.61
Unemployed Labor Force (Seasonally Adjusted)	17,575	19,408	12,376	-9.44	42.01
<i>Unemployed Labor Force (Unadjusted)</i>	17,839	20,489	12,639	-12.93	41.14
Unemployment Rate (Percent, Seasonally Adjusted)	2.9%	3.2%	2.1%	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	3.0%	3.4%	2.1%	--	--

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 vice 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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