Fairfax County Economic Index

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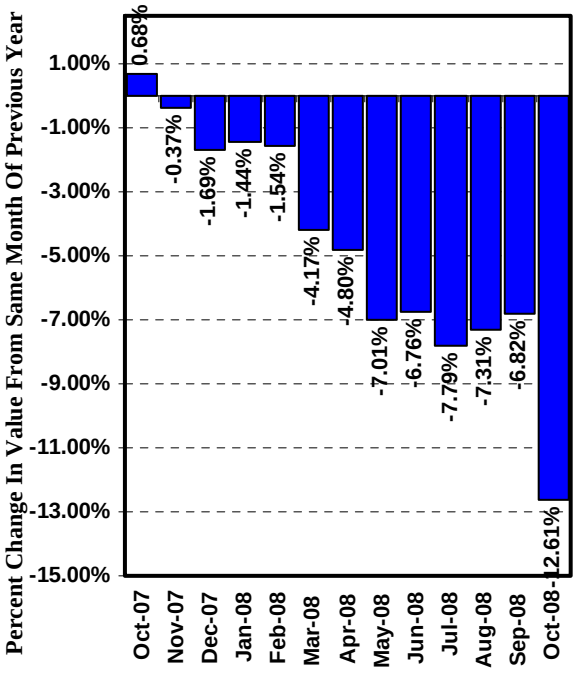
County Economy Weakens in October And Its Outlook Remains Weak Well Into 2009

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, decreased to 119.49 from September's revised value of 126.20 for a loss of 5.32 percent. This was the Index's eighth decrease in nine months dating back to the beginning of the year. On a monthly over-the-year basis, the Coincident Index continued to decline falling below its same-month 2007 level by 12.61 percent. October's decline was double the September-to-September decrease reflecting the unusual one-month deterioration in the national economy. October's monthly over-the-year loss was its twelfth consecutive decline following forty-eight consecutive monthly over-the-year gains. In October, three of the Index's four components contributed to its decline.

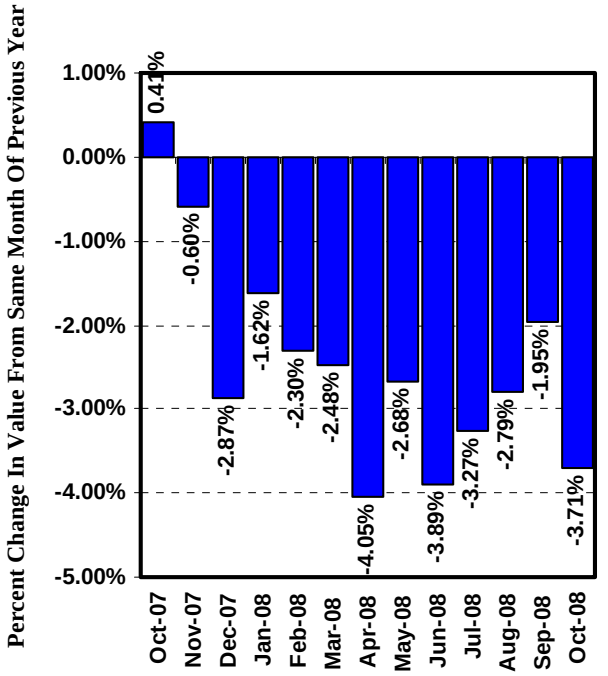
- Consumer confidence (in the present) experienced its greatest one-month decline since the Index began in 1967;
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, decreased for a second month; and,
- Total employment was lower (on a seasonally adjusted basis) for the eighth time in nine months; while,
- Sales tax revenues, adjusted for inflation and seasonal variation, increased for the second time in three months.

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



Source: Center for Regional Analysis, George Mason University

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



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 115.56 in October for a loss of 1.97 percent. This was the second decline in the Index following two monthly gains. However, on a monthly over-the-year basis, the Index has declined twelve months in a row falling 3.71 percent below its same-month value in October 2007. As with the Coincident Index, October's sharp decline in the Leading Index reflects unusual economic turbulence at the national level that has since moderated and is likely to be reflected in the November data. In October, two of the Index's four indicators contributed to its decline.

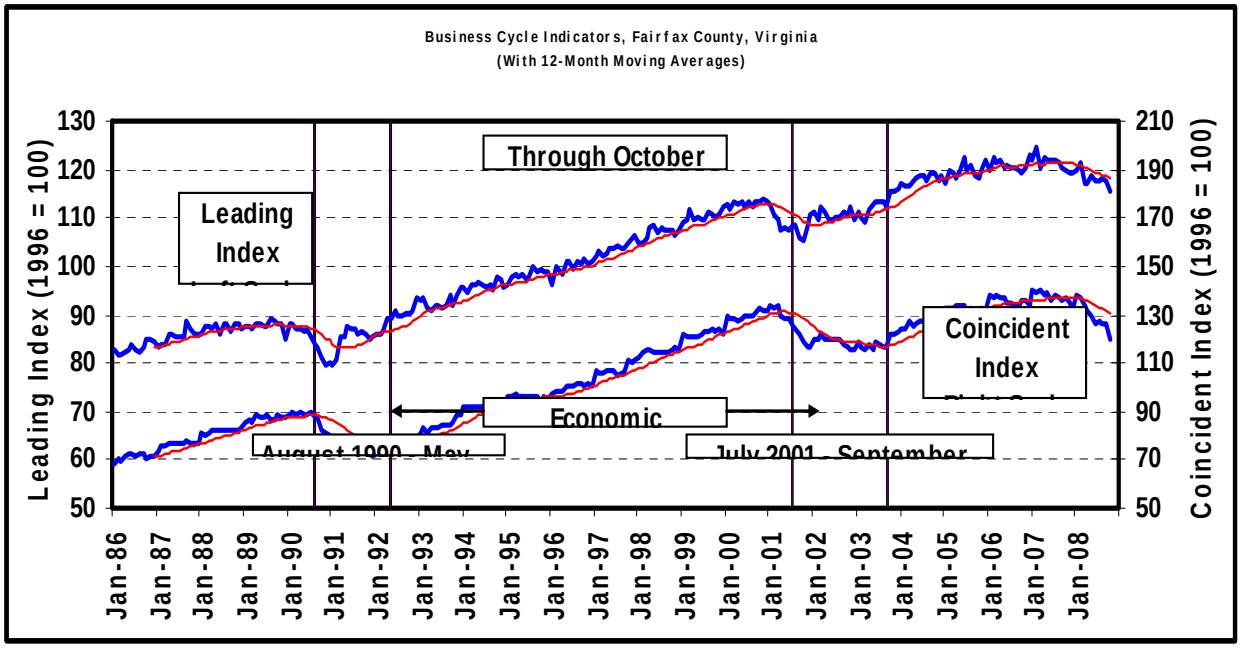
- Initial claims for unemployment insurance increased (worsened) on a seasonally adjusted basis for the fifth consecutive month; and,
- Consumer expectations (consumer confidence six months hence) decreased sharply after having increased for three consecutive months; while,
- Automobile registrations increased in October after declining in September; and,
- Residential building permits were sharply higher following two months of declines.

The Fairfax County economy weakened in October as the national economy's decline appears to have accelerated. Bad news regarding the financial markets drove both consumer confidence in the present and expectations to all time lows with consequences having broad economic ramifications. This weakening of the County economy is paralleling the national downturn that has gained speed during the fourth quarter. Still, the County's economy appears to be cushioned from the full impact of the negative forces that have driven the national economy into its current contraction. While both the Leading Index and Coincident Index are tracking well below their same-month 2007 levels, their performances had shown some improvement during the third quarter. If October's sharp decline turns out to be a one-month event, the underlying strength of the County economy should help sustain it through the national recession that is expected to run at least until mid-2009.

CURRENT CONDITIONS

The outlook for the U.S. economy has taken a turn for the worse since September. Forecasts are now pointing to a recession spanning all of 2008 and at least the first half of 2009 with the economy experiencing its worst performance during the fourth quarter followed by a second quarter of nearly equally negative results. This downturn now appears to be more severe than the 1990-1991 Recession and could be 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 consequences of the County's slowdown are visible in many of the economic indicators. While the County is still adding net new jobs on a monthly over-the-year level, it experienced a small job loss on a month-to-month basis. Still, the labor market conditions remain good compared to most other economies. In October, the County's job base is estimated to have added 5,961 net new jobs compared to October 2007 for a gain of 1.02 percent. Employment among County residents, regardless of place of work, was up 1.2 percent or by 6,722 workers over the past twelve months. Still, the number of unemployed residents seeking work has grown. In October, the unemployment rate in the County was 3.0 percent,



Source: Center for Regional Analysis, George Mason University

the same as in September, but up from 2.2 percent in October 2007. This difference represents a gain of 5,253 unemployed residents.

Consumer spending remains a key force in the economy's performance. Even through consumer confidence dropped to historic lows in October, retail sales were higher after their September decline. Still, on a monthly over-the-year basis, retail sales as measured by sales tax revenues were down 23.2 percent on a constant dollar and seasonally adjusted basis from October 2007. Additionally, automobile registrations were higher in October after declining in September. For the year, automobile registrations are lagging their 2007 level by 5.6 percent. Still, in a period of tighter credit and sagging consumer confidence, these increases in consumer spending are indicative of a resilient economy. Whether consumer spending continues to hold up as the national economy moves through its most difficult challenge in the last 27 years will test the County economy.

NEAR-TERM OUTLOOK

The Fairfax County Leading Index declined sharply in October just when it appeared to have leveled off during the July-September period with month-to-month losses slowing. This pattern of performance might have been pointing to a turn around in the economy in spring of 2009. However, with October's decline in the Index, the timing of the local economy's reacceleration could be lengthen.

As has been stated previously, renewed residential construction will be a primary driver of the local economy's recovery. The inventory of unsold houses in the County continues to decline although worsening financial conditions and declining consumer confidence slowed the rate of sales in October. Still, there are signs that the housing market is stabilizing and increasing demand for new construction will emerge in 2009. The increase in residential building permits in October as well as for the year (up 9 percent from October 2007) provides an early sign of improving market conditions.

The recovery will fill in slowly over the coming year as the federal actions taken to-date are reinforced by a new federal stimulus package that is expected as an early action of the new Obama Administration. The Fairfax County economy will likely lead the recovery at the national level.

Fairfax County, Virginia Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Oct-08 Prelim.	Sep-08 Final	Oct-07 Final	Sep-08 to Oct-08	Oct-07 to Oct-08
Fairfax County Business Cycle Indicators					
Coincident Index (1996 = 100)	119.49	126.20	136.74	-5.32	-12.61
Leading Index (1996 = 100)	115.56	117.89	120.01	-1.97	-3.71
Fairfax County Coincident Index Components					
Estimated Total Wage & Salary Employment (Seasonally Adjusted)	590,895	591,045	584,934	-0.03	1.02
Estimated Total Wage & Salary Employment (Unadjusted)	*592,730*	*592,464*	*586,751*	*0.04*	*1.02*
Transient Occupancy Tax ($'000=1987, Seasonally Adjusted)	793	801	845	-1.06	-6.15
Transient Occupancy Tax ($'000=Current)	*2,044*	*1,707*	*2,059*	*19.74*	*-0.72*
Sales Tax Receipts ($'000=1987, Seasonally Adjusted)	8,820	8,526	11,490	3.45	-23.23
Sales Tax Receipts ($'000=Current, Unadjusted)	*13,260*	*12,824*	*15,603*	*3.40*	*-15.02*
South Atlantic Consumer Confidence	32.3	62.5	130.1	-48.32	-75.17
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	4,688	4,079	4,965	14.92	-5.59
Automobile Registrations (Unadjusted)	*4,798*	*4,529*	*5,082*	*5.94*	*-5.59*
Initial Unemployment Claims (Preliminary, Seasonally Adjusted)	1,743	1,555	1,126	12.11	54.87
Initial Unemployment Claims (Preliminary, Unadjusted)	*1,750*	*1,300*	*1,130*	*34.60*	*54.87*
Building Permits, Total Number of Units (Seasonally Adjusted)	71	37	66	94.93	8.96
Building Permits, Total Number of Units (Unadjusted)	*73*	*35*	*67*	*108.57*	*8.96*
South Atlantic Consumer Expectations	37.8	65.5	85.1	-42.29	-55.58
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	597,870	598,536	585,895	-0.11	2.04
Total Labor Force (Unadjusted)	*600,557*	*598,441*	*588,528*	*0.35*	*2.04*
Employed Labor Force (Seasonally Adjusted)	579,190	581,001	572,468	-0.31	1.17
Employed Labor Force (Unadjsted)	*582,587*	*580,643*	*575,826*	*0.33*	*1.17*
Unemployed Labor Force (Seasonally Adjusted)	18,680	17,534	13,427	6.53	39.13
Unemployed Labor Force (Unadjusted)	*17,970*	*17,798*	*12,702*	*0.97*	*41.47*
Unemployment Rate (Percent, Seasonally Adjusted)	3.1%	2.9%	2.3%	--	--
Unemployment Rate (Percent, Unadjusted)	*3.0%*	*3.0%*	*2.2%*	--	--

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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