

# Prince William County ECONOMIC INDICATORS NEWSLETTER

Volume 8, Issue 3

July - September 2008

## Highlights

- Third quarter GDP: -0.3% expected to continue negative over next 2 or 3 quarters.
- National unemployment rate: 6.1% in August, an increase from March's 5.1%.
- County real estate market mixed— prices are still decreasing, inventory still high, though sales have increased—over 900 in September. Commercial real estate seeing a rise in total vacancy rates.
- County and area labor markets still healthy relative to the nation, but unemployment is increasing, at 3.9% (September 2008).
- At-place employment: 103,696 (4<sup>th</sup> Quarter 2007)—0.4% decrease from the previous quarter.

## Economic Focus

You went to sleep on a quiet summer's evening, content that most everything was in order—the door locked, the lights off, the cat brought in, your portfolio healthy and growing. Your sleep is disturbed in the middle of the night, however, by a faint, brief flash through the window and you count, “One, one-thousand, two, one-thousand...twelve, one-thousand...” and a distant, barely audible rumble, way off in the distance: Bear-Stearns...”Okay”, you say to yourself, and roll over back to sleep. A few minutes later, however, another flash and, “One, one-thousand, two, one-thousand...ten, one-thousand...” But this time the rumble is deeper, louder, closer: Merrill Lynch. You are now semi-awake, awaiting the next flash, which, alarmingly, comes brighter, sooner. “One, one-thousand, two, one-thousand...five, one-thousand...” Double boom: Fannie Mae, Freddie Mac! Now you are sitting upright, looking out the window as the wind begins to blow and the rain to fall. Flash! “One, one-thousand, two, one-thous...” BOOM! AIG! The storm is here. The lightning and thunder coming, it seems, one right after the other. Is this the

deluge? Is it a passing storm? Should you head for the storm cellar, or will it all seem like a bad dream by the light of the day?

This is not to make light of what is the most serious economic crisis facing the United States since the Great Depression. Housing values, the most obvious culprit of the current crisis, have fallen precipitously, making a mockery of most people's largest investment. Dragged down with it are 401Ks, pension plans, and other pieces of the typical portfolio. Spending on large and small ticket items, long the bulwark against economic decline, has been severely challenged as credit tightens and the consumer withdraws. As is the case in all emergencies, however, the thing *not* to do is panic and be seized by either the urge to flail around in disarray, or be paralyzed by fear. The machinery of government, via the Treasury Department, the Federal Reserve, central banks of this and other nations, and a wide swath of Congress are moving with grim determination—borne out of necessity—to shore up liquidity and confidence in a badly shaken market and constituency. With the federal bail-out of AIG—



the largest insurance group in the world—and a major underwriter of financial and credit institutions; and the \$700 billion legislation to shore up flagging banks around the country and jump-start the paralyzed credit market; there can be no doubt of the seriousness of the situation, nor of the long-term sea-change in the way money, wealth, credit and capital markets function. All of this against the backdrop of a general election fraught with uncertainty and change. As the third quarter of 2008 gives way to the fourth, this much is certain: many more questions than answers are apparent and a time of volatility and challenge are here for the present, and likely for some time to come.

Throughout 2008 the severity and scope of the real estate downturn spread into other areas of the economy, notably credit and banking markets, and has now rippled into retail. This downturn was experienced nationwide, but perhaps most acutely in those communities that saw the most dramatic increases in housing markets over the past several years.

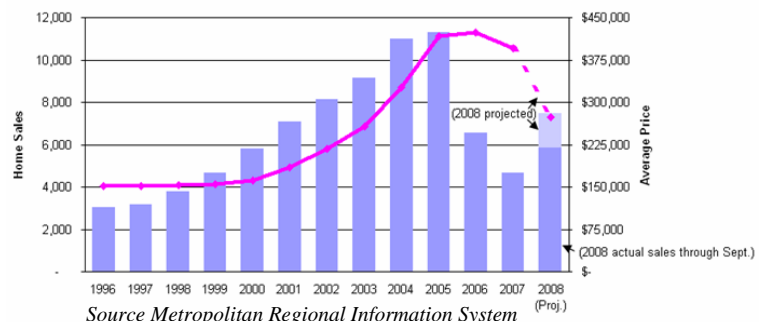
Foreclosures in the nation continued to increase during the quarter both nationally and locally. In 2006 fewer than 250 foreclosures were reported in Prince William County. By 2007, however this number increased by over ten-fold as over 2,800 foreclosures were reported. The 2007 total was exceeded in 2008 by June and currently stands at over 5,200 (January-September 2008). With the downturn in the housing market, the construction industry, particularly in residential construction, has followed suit. Residential construction across the nation declined at a 25 percent annual rate in the fourth quarter 2007 and has remained troubled throughout 2008.

Despite the acute crisis in the housing market, the local economy still exhibits some resilience. In Northern Virginia, and in Prince William County, unemployment, while increasing throughout the year, continues to outperform the national rate. The predominance of the federal government and Prince William's enviable proximity to it will help to ameliorate any downturn in economic activity. And, like the impact locally of homeland security measures in the aftermath of 9-11, the creation a

massive federal program to bail out the troubled financial sector may well be a boon to the Northern Virginia and Prince William economy. However, the importance of real estate revenue in Prince William County's fiscal considerations, particularly from residential real estate, serves as a major cautionary note over the next several years and factors into all fiscal discussions.

According to data from Metropolitan Regional Information Systems (MRIS), 2007 home sales (single family, townhouses and condominiums) in Prince William County totaled 4,642--a 29.3% decline from the 6,570 units in 2006 and a 58.9% decline from the peak year of 2005 when 11,301 homes were sold in the county. In the five-year

**Home Sales & Average Prices in Pr. William Co.**



period 2001-2005, an average of 9,334 homes were sold annually in the county; in 2007 approximately half that number were sold. The average sale price of homes sold in 2007 was \$395,616--a 6.5% decline from the peak year of 2006, when the average sold price was \$423,023.

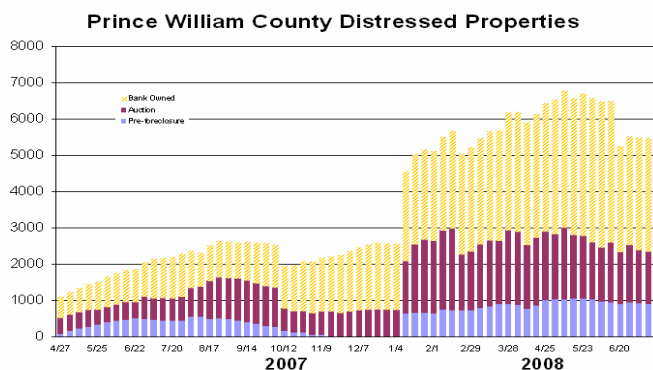
Home sales in Prince William County for September 2008 continued to reflect a troubled market, though some positive signs were apparent. Some 4,489 properties were in the County's inventory of homes for sale in September 2008, a decrease of 7.2% since August. Home sales increased during the Quarter, with over 800 homes sold in July and August and 934 in September, a significant trend as compared to January and February 2008, when fewer than 400 homes were sold monthly. The September 2008 sales volume was only two homes shy of equaling the highest September volume in the County's history. The ratio of homes on the market to homes sold has declined during the year from 16.5 in February to 4.8 in September--the lowest ratio since March 2006 and a definite improvement since September

2007, when the ratio stood at 18.6. September 2008 was the first time since October 2005 that the Prince William County homes on the market to sales ratio has been below that of Northern Virginia. Home sale prices continued to decline throughout the quarter, with the average home in the county selling for \$230,999 in September. This

**The September 2008 sales volume was only two homes shy of equaling the highest September volume in the County's history.**

represents a decline of over \$220,000 (-50%) in the average sale price since December 2005, when the average home in Prince William County sold for over \$458,000. The increase in sales, coupled with decreased prices from a year earlier, suggest that lower priced homes, such as those found in foreclosure, bank auctions and short sales, are what are moving in the market. This may be the precursor to the entire market's moving to a more reasonable state, but a turn around is quite some time off with a still substantial inventory of homes on the market—a market still swollen with foreclosed properties; and chances are that any upturn will see much more modest appreciation of home values over longer periods of time.

A further indication of intransigent problems in the real estate market is the number of “distressed” properties, meaning homes in pre-foreclosure (mortgagee has missed at least 3 mortgage payments), auction (property has been publicly advertised and put up for auction) and bank-owned (lender has foreclosed). Realtytrac.com is an on-



Source: Realty Trac.com

line service that tracks this type of activity across the nation. In Prince William County, the number of distressed properties increased dramatically throughout the first three quarters of 2007, before leveling off towards the end of the year. In April 2007, a total of 1,103 distressed properties were reported in Prince William County, including 70 pre-foreclosed, 448 auction and 585 bank-owned. By the end of December, there were approximately 2,500 distressed properties in the county. And in January 2008, the number shot up to over 5,000 distressed properties, with expectations that at least one more wave was on the way. In September 2008, Realtytrac.com reported an average of over 7,600 distressed properties in Prince William County.



### *National Economic Conditions*

National economic indicators exhibited varying signs during the quarter, with housing markets woes apparently rippling into retail activity, energy costs rippling into auto and truck markets and an edgy, nervous consumer and investor. Non-farm payrolls declined by 60,000 in July and 84,000 in August, continuing monthly declines since February 2008. Job losses in the quarter were led by the goods producing sector, specifically construction which has declined by 175,000 between April and August and manufacturing, which declined by 214,000 during the same period. In the service providing sector, retail service jobs declined between April and August by 116,000 and business services declined by 157,000. Real Gross Domestic Product (GDP) is the broadest measure of economic activity in the United States and is a reliable indication of the overall strength and performance of the national economy. The 2007 annual rate of 2.5% is slightly less than the average over the last 4 years of 2.8%; the Fed's target is 3.0%. U. S. Gross Domestic Product began 2008 with a rather modest 0.9% in the first quarter (revised in July), but grew at a rather robust pace of 3.4% in the second quarter. GDP for the 3<sup>rd</sup> Quarter 2008 was -0.3% a reflection of a slowing economy. Most predictions are for much slower growth for the remainder of 2008 and the first half

of 2009 as the economy reacts to the financial crisis and tightening retail activity.

- **Labor Market** – Payroll jobs declined by 299,000 during the quarter, compared to 191,000 job loss in the previous quarter. Initial claims for unemployment benefits for the week of September 29 were 499,000, well above the 400K weekly level which economists consider the benchmark for a weak job market. The national unemployment rate in August was 6.1% an increase from April's 4.8%.
- **Leading Indicators** – The index of leading indicators was 0.3% in September, as compared to -0.9 in August and -0.7 in July. September's number does not reflect any impact from the recent stimulus package. September's number follows four straight months of negative or no growth. Expectations are that, despite September's positive reading, the longer term prospect is less optimistic. The index is designed to signal changes in economic activity over the next few months.
- **Automobiles** – The nation's auto industry continued to feel the effects of both the ongoing financial and credit crisis as well as consumer uneasiness over volatile gas prices. Domestic auto sales in September were reported at 4.3 million, a 4.4% decline from August's 4.5 million. Sales of light domestic trucks were reported at 5.3 million in September, a 10.2% decline from August's 5.9 million. Total domestic sales of automobiles and light trucks was reported at 12.5 million, an 8.8% decline from August's 10.4 million. Domestic sales as a percentage of all sale in the United States was reported at 76.8% in September. The industry may need to consolidate. The National Automobile Dealers Association (NADA) estimates that 700 dealerships will close in 2008 on top of 430 that closed in 2007. Fewer dealerships will result in the loss of approximately 37,000 jobs and impact retail sales. Auto sales make up 18% of retail sales in the United States.
- **Housing Industry** – Some 817,000 housing starts were reported in September 2008, a 6.3% decline from August. Housing starts reached a 17 year low in March as did permits to build. There was some improvement in early summer, but this gave way to further deterioration in August and September. The continuing bad news in this regard probably served as a downward catalyst in financial markets here and abroad. The plunge has been a large drag on economic growth as further risk surrounds the defaults/foreclosures that come as a result of falling home prices and high loan to value ratios. Any upturn in new construction could be a long way off. The correction for the inflated housing market was expected (and needed) but not to the severe extent we are witnessing. Poor quality mortgage underwriting has added strongly to the downturn. Stability will have to wait for new home sales to tick higher and unsold inventory to decline. Housing starts have fallen 60% since the January 2006 peak. Building permits registered an 8.3% decrease in September from August, with 786,000 new permits reported nationally in September 2008. New home sales followed housing starts and permits, reaching a 13 year low in November and declined further during the second and third quarters of 2008. Some 460,000 new home sales were reported nationwide in August, an 11.5% decline from July's 520,000. Existing home sales were reported at 4.91 million in August, a 2.2% decline from July's 5.02 million—this despite increases in sales of foreclosed and other distressed properties. Indications are that, despite modest improvement in existing home sales during the quarter, a second wave of pre-foreclosed, auction and bank-owned properties is underway that will substantially add to an already burgeoning inventory of unsold homes on the market. The data suggested that more Americans could lose their homes and that the housing market's troubles might persist longer than many analysts have been predicting.
- **Inflation** – The Consumer Price Index (CPI) for September was flat, as compared to August's -0.1%. Food accounts for 14.9% of

the index, and energy 9.7%. The core CPI, which removes energy and other costs, was up a modest 0.1% in September 2008, month-over-month. The Producer Price Index (PPI), a measure of wholesale costs, decreased by 0.4% month over month in September following August's decline of 0.9%. The core PPI increased by 0.4% in September 2008 from August's 0.2%.



## Prince William County

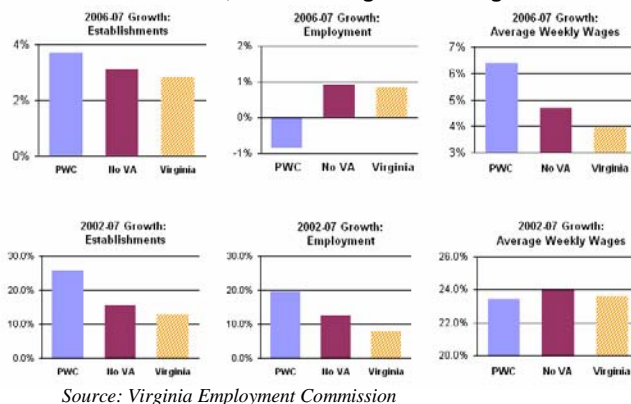
### Local Economic Conditions

Prince William County economic indicators were mixed: continued problems in the housing market, along with some indications of a slight resurgence in some quarters of that market; increased commercial vacancies; but a remarkably resilient and productive labor force was a bright spot.

- Labor Market** – The civilian labor force (207,079 in August 2008) decreased by 1.2% since July—largely the result of the beginning of the scholastic year. Employed persons in the county (199,053 in August 2008) decreased by 1.4% from the previous month. The unemployment rate for Prince William County was 3.9% in August compared to 2.8% in April—a troubling trend but still well below the national unemployment rate of 6.1% in August.
- At-place Employment** - According to data from the U.S. Department of Labor and the Virginia Employment Commission, Prince William County has outpaced regional, state and national economies in business, jobs and wage growth over the last five years but has mixed results when comparing growth over the last year. In 2007 (4<sup>th</sup> Quarter) there were 6,699 establishments in Prince William County, a growth rate of 3.7% since 2006 and 25.8% since 2002 (4<sup>th</sup> Quarter). By comparison, Northern Virginia establishments grew by 3.1% in one year and 15.5% since 2002; statewide, establishments grew by 2.8% in one year and 12.9% since 2002. At-place employment in Prince William County grew by 19.5% since 2002 but declined by 0.8% in the last year. By comparison, Northern Virginia grew by 12.6% since 2002 and 0.9% in the last year.

Employment growth in the Commonwealth grew by 7.9% since 2002 and 0.9% in the last year. The impact of the housing downturn can be seen in last year's employment decline in Prince William County as over 1,600 net jobs in construction were lost (-11.0%) between 2006 and 2007. Likewise, jobs in finance and insurance and real estate, rental and leasing experienced a net loss of 479 jobs (-13.6%) between 2006 and 2007. The average weekly wage in Prince William County grew by 6.4% in the last year and 23.4% since 2002. At-place average weekly wages in Northern Virginia grew by 4.7% in the last year and 23.9% since 2002. In Virginia, weekly wages grew by 3.9% in the last year and 23.6% since 2002.

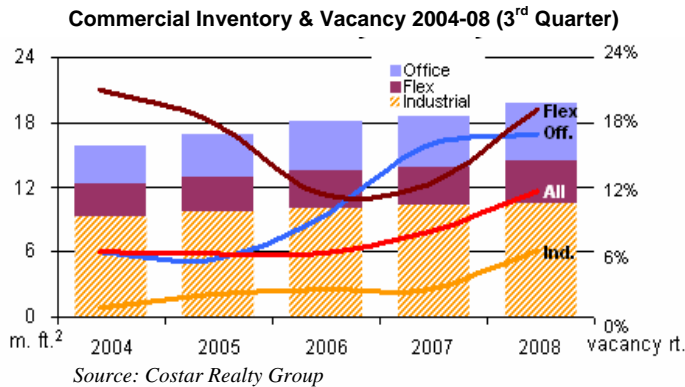
At-Place Establishments, Employment and Wages  
Prince William Co., Northern Virginia and Virginia 2002-07



- Commercial Inventory** – According to Costar Realty Group, a multiple listing service for commercial property, 2007 was a year in which the Prince William County non-retail commercial inventory moderated growth rates from previous years, probably in response to an overbuilt supply, increased vacancy rates and cautionary economic conditions. In the third quarter of 2008, 24 net new non-retail commercial buildings were added since the third quarter of 2007, a growth rate of 4.1%. In the third quarter 2008, 923,737 net new square feet of non-retail commercial space was added since the third quarter of 2007, a growth rate of 4.9% in the past year.

In the third quarter 2008, 5 net new Office buildings were added year-over-year to the inventory; 262,471 net new square feet of Office space were added, an annual growth rate

of 5.2%. Nine net new Flex buildings were added in the third quarter 2008, year-over-year; 408,185 net new square feet of Flex space were added, an annual growth rate of 11.6%. ten net new Industrial buildings were added year-over-year in the third quarter 2008; 253,081 net new square feet of Industrial space were added, year-over-year in the third quarter of 2008, a growth rate of 2.4%.



In the third quarter 2008, a total of 2.35 million square feet of vacant non-retail commercial space was reported by Costar, a vacancy rate of 11.8%. In the quarter, 888,811 square feet of vacant Office space were reported, a vacancy rate of 16.8%. Costar reported 746,332 square feet of vacant Flex space in the third quarter 2008, a vacancy rate of 19.0%. Costar reported 710,424 square feet of vacant Industrial space in the quarter, a vacancy rate of 6.7%.

**Newsletter Notes:**

The Quarterly Economic Indicators Newsletter reports on national, regional and local economic conditions as they impact Prince William County. Key national indicators, such as job creation, housing data and retail sales will have clear meaning at the local level. Other national indicators, industrial production, gross domestic production and consumer confidence, for example, may seem more prosaic and less important at the local level. However, given the county’s proximity to the federal government and its participation in the metropolitan Washington economy, Prince William County is profoundly affected by the ebbs and flows of national conditions.

Local indicators are presented with at least two gestures in mind: a wink at monitoring on-going trends in the county (housing, population and cost-of-living, for example) and a nod towards their impact on the citizens of Prince William County (labor and housing markets) and the county’s ability to provide goods and services to its residents

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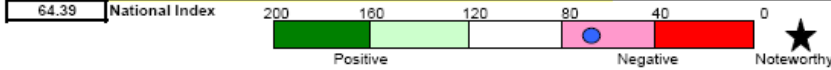
July - September 2008

## Summary of National Economic Indicators as Reported by "Briefing.Com"

10/30/08

Data Released 3rd Quarter 2008

Date	Release	For	Actual	Outlook	Prior	Change	Notes
4-Sep	Initial Claims (000s)	30-Aug	451		444	1.6%	updated
11-Sep	Initial Claims (000s)	8-Sep	445		451	-1.3%	updated
18-Sep	Initial Claims (000s)	13-Sep	481		445	3.6%	updated
25-Sep	Initial Claims (000s)	20-Sep	493		461	6.9%	updated
9-Oct	Unemployment Rate	August	6.1%		6.0%	0.1%	updated
9-Oct	Nonfarm Payrolls (000s)	September	-150		-73	105.5%	updated
9-Oct	Hourly Earnings	September	-0.1%		0.4%	-0.5%	updated
9-Oct	Average Workweek	September	33.8		33.7	-0.3%	updated
10-Oct	Monster Index	September	180		159	0.6%	updated
29-Sep	Personal Income	August	0.5%		-0.8%	1.1%	updated
29-Sep	Personal Spending	August	0.0%		0.2%	-0.2%	updated
16-Oct	Wholesale Inventories	August	0.8%		1.5%	-0.7%	updated
16-Oct	Wholesale Inventories (Sales)	August	-1.0%		0.8%	-1.8%	updated
16-Oct	Ratio Inventory to Sales (months)	August	1.10		1.08	2.0%	updated
16-Oct	Business Inventories	August	0.3%		1.1%	-0.8%	updated
16-Oct	Business Inventories (Sales)	August	-1.8%		0.1%	-1.9%	updated
16-Oct	Ratio Inventory to Sales (months)	August	1.27		1.24	3.0%	updated
16-Oct	Factory Orders	August	-4.0%		0.7%	-4.7%	updated
16-Oct	Durable Orders	August	-4.8%		0.7%	-5.5%	updated
16-Oct	Industrial Production	September	-2.8%	★	1.0%	-3.8%	updated
16-Oct	Capacity Utilization	August	78.4%		78.7%	-2.3%	updated
4-Sep	Productivity-Prel.	Q2 08	4.3%		2.8%	1.7%	
16-Oct	ISM Index (survey)	September	43.5		49.9	-12.8%	updated
16-Oct	ISM Services (survey)	September	50.2		50.8	-0.8%	updated
23-Oct	NY Empire State Index--Seasonally Adjusted (survey)	October	-24.82		-7.41	432.3%	updated
16-Oct	Philadelphia Fed (survey)	October	-37.5		3.8	5.0%	updated
16-Oct	Chicago PMI (survey)	September	56.7		57.9	-2.1%	updated
19-Oct	Leading Indicators	September	0.3%		-0.9%	1.2%	updated
17-Oct	Housing Starts (000s)	September	817	★	872	-8.3%	updated
17-Oct	Building Permits (000s)	September	788	★	857	-8.3%	updated
16-Oct	Existing Home Sales (m)	September	5.18	★	4.91	5.5%	updated
25-Oct	New Home Sales (000s)	September	464		452	2.7%	updated
16-Oct	Construction Spending	August	0.0%		1.4%	-1.4%	updated
20-Sep	Mortgage Loan Index	17-Sep	861.7		496.2	33.4%	updated
20-Sep	Purchase Loan Index	17-Sep	380.4		371.5	2.4%	updated
20-Sep	Refinance Loan Index	17-Sep	2300.0		1222.9	88.1%	updated
16-Oct	Consumer Credit (\$b)	August	-\$7.90		\$5.20	-261.9%	updated
16-Oct	Retail Sales	September	-1.2%		-0.4%	-0.8%	updated
16-Oct	Retail Sales ex-auto	September	-0.8%		-0.4%	-0.2%	updated
12-Oct	Auto Sales-Domestic (m)	September	4.3	★	4.5	-4.4%	updated
12-Oct	Truck Sales--Domestic (m)	September	6.3		6.9	-10.2%	updated
12-Oct	All Light Vehicle Sales Including Foreign (m)	September	12.5		13.7	-8.8%	updated
12-Oct	Domestic Light Vehicle Sales % of All Sales Including For	September	78.8%		75.0%	1.2%	updated
16-Oct	Trade Balance (\$b)	August	-\$59.10		-\$81.30	-3.6%	updated
11-Sep	Treasury Budget (\$b)	September	-\$45.70		-\$111.90	-59.2%	updated
30-Oct	GDP-Adv	Q3 2008	-0.3%		2.8%	-3.1%	updated
16-Oct	Import Prices ex-oil	September	-0.9%		-0.5%	-0.4%	updated
16-Oct	Import Prices with oil	September	-3.0%		2.8%	-5.8%	updated
16-Oct	Export Prices ex-agriculture	September	-1.0%		-0.7%	-0.3%	updated
16-Oct	Export Prices with agriculture	September	-1.0%		-1.7%	0.7%	updated
16-Oct	PPI	September	-0.4%		-0.9%	0.5%	updated
16-Oct	Core PPI	September	0.4%		0.2%	0.2%	updated
16-Oct	CPI	September	0.0%		-0.1%	0.1%	updated
16-Oct	Core CPI	September	0.1%		0.2%	-0.1%	updated
12-Sep	Mich Sentiment-Prel. (survey)	September	73.1		63.0	16%	updated
26-Sep	Consumer Confidence (survey)	September	61.4		58.5	5.0%	updated



### Prince William County Data (Data Reported by PWCOIT, CZER, VEC, PWCDPW, MRIS, RealtyTrac.com)

Date	Release	For	Actual	Outlook	Prior	Change	Notes
15-Dec	Pr Wm Estimated (Adjusted) Population	Q2 2008	359,332		357,343	0.6%	updated
1-May	Pr Wm COLI 100% Comp	Q1 2007	120.7		124.2	-2.8%	
1-May	Pr Wm COLI Housing	Q1 2007	158.4		167.2	-8.5%	
15-Oct	Pr. Wm Civ. Labor Force	August	207,079		209,695	-1.2%	updated
15-Oct	Pr Wm Civ Emp Lab Force	August	199,053		201,805	-1.4%	updated
15-Oct	Pr Wm Unemployment Rt	August	3.9%		3.8%	0.1%	updated
15-Sep	Pr Wm At-place Establishments	Q4 2007	6,699		6,695	0.1%	
15-Sep	Pr Wm At-place Employment	Q4 2007	103,699		104,133	-0.4%	
15-Sep	Pr Wm At-place Avg Salary	Q41 2007	\$ 42,432		\$ 39,312	7.9%	
18-Apr	Pr Wm Net Vehicles Added	August	2,504		1,948	28.7%	
15-Apr	Pr Wm Sales Tax Revenue Year over Year 12 Month Mov Avg Inceas	July	-1.7%	★	-1.4%	-0.3%	updated
23-Oct	Pr Wm Commercial Inventory (sf including retail)	Q3 2008	37,922,784		37,403,688	1.4%	updated
23-Oct	Pr Wm Commercial Vacancy (sf including retail)	Q3 2008	8.8%		7.8%	1.0%	updated
23-Oct	Pr Wm Commercial Inventory (sf non-retail)	Q3 2008	19,837,341		19,472,405	1.9%	updated
23-Oct	Pr Wm Commercial Vacancy (non-retail)	Q3 2008	11.7%		11.2%	0.5%	updated
10-Oct	Pr Wm Housing Market Unit Sales	September	934	★	838	11.5%	updated
10-Oct	Pr Wm Housing Market Ending Listing Inventory	September	4,489	★	4,835	-7.2%	updated
10-Oct	Pr Wm Housing Market Listing/Sales Ratio	September	4.8	★	5.8	-18.7%	updated
12-Sep	Distressed Properties (Realtytrac.com)	September	7,872		7,392	3.8%	updated

