

The Evolution and Future Structure of the Fairfax County Economy

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Introduction

Fairfax County has emerged as the largest jurisdiction in the Washington metropolitan area as measured by the number of residents and at-place employment. The value of goods and services produced in the County—the County’s economy—exceeded the value of goods and services produced in the District of Columbia, the region’s historic economic center, in 2002 and is projected to grow at a rate more than triple the District’s economic growth rate over the 2000-2020 period.

The economy that has emerged in Fairfax County is different from the District’s economy that is built around the federal government and its national capital functions. The economy that has emerged in Fairfax County has evolved from a suburban- and commuter-based economy in which growth was driven by externally earned income and local population growth. While this initial stage of the economy’s evolution began in the early post-World War II period, the differences between the residentially based economy and the externally driven economy are seen in a comparison of conditions in 1980 and 2000. The County’s economic structure in 2000 provides the basis for its future pattern of growth. Although this pattern cannot be projected with certainty, the directions and magnitude of future economic growth in the County can be established for the coming twenty years by building a forecast on the County’s comparative advantages within the Washington metropolitan economy and its projected growth.

Fairfax County’s Economic Transformation

The County’s economy in 1980 was small and immature. It reflected an employment base that either commuted out to higher value added, higher paying jobs or one whose market was largely the County’s resident population. While the beginnings of a region serving and national-market base were present, its contribution to the local economy was small in comparison to the commuter-based and residentially based economies.

The scale of the County’s gross county product (GCP)—the value of goods and services produced within the County—confirms its early-stage development. In 1980, Fairfax County’s GCP totaled \$16.5 billion (in 2004 \$s). The Fairfax County accounted for 13.9 percent of the Washington metropolitan area economy. Its dependence on jobs outside of the County for its residents is seen in the high percentage of externally earned income (33%) in 1980. This suburban focus is further confirmed by the County’s low number of jobs relative to its size of population. In 1980, Fairfax County had approximately 4.8

jobs for every 10 residents (of all ages). In Arlington County and Alexandria, this ratio was 9.3 jobs for every 10 residents.

Fairfax County's economy in 1980 was based largely on the spending of its residents. This type of spending supported a construction sector, retail and personal services, and government, especially local government services including schools. The composition of this job base was more like other suburban jurisdictions around the nation with more jobs (78%) in the private sector than a focus on the national capital region with one-third of its jobs in the government sector. The salary structure of this residentially based economy was below average; in 1980, the average salary in Fairfax County was only 88 percent of the metropolitan average.

By 2000, Fairfax County's economy was different. While the County's population had growing 60 percent, its job base increased by 147 percent and its gross county product expanded by 291 percent (in inflation adjusted dollars). The County's economic growth between 1980 and 2000 was not dependent on population growth. In order to add more new jobs (446,600) than new residents (376,300) and generate output far in excess of job growth, the economy had to undergo dramatic change. This change is seen in the increase in private sector jobs (accounting for 88% of the total) and the increase in average salary. In 2000, the average salary for all jobs in Fairfax County was \$56,267 (in 2004\$), an inflation adjusted increase of 65.7 percent from 1980. During the same period, the metropolitan area's mean salary increased only 35.5 percent. Where the County's average salary was lower than the area average in 1980, by 2000 it had made up the gap and surpassed the area average.

The change in the County's economy was remarkable. The economy grew 291 percent, a rate more than double the metropolitan gain. Where Fairfax County accounted for 13.9 percent of the regional economy in 1980, by 2000 its share was 24 percent while its share of the total population was 20.4 percent and its share of the area's employment base was 21.6 percent. The jobs added during the eighties and nineties were substantially better jobs with higher value added than were generated elsewhere in the metropolitan area. This growth of higher quality jobs shifted the commuting patterns of County residents. Where 33 percent of earnings were being brought back into the County by residents working outside the County in 1980, this percentage dropped to 7.8 percent by 2000.

With external markets driving the County's economic growth, the mix of jobs changed. The retail sector had accounted for 18.2 percent of all the County's jobs in 1980 but by 2000 accounted for 13.5 percent. The service sector, where the majority of the federal contractors would be classified as well as most of the technology-intensive businesses, experienced a 308 percent increase in jobs and increased its share of the employment base from 28.4 percent to 46.9 percent over this 20-year period. This gain of 265,230 service sector jobs in twenty years accounted for almost 60 percent of the job gain in the County.

While this structural change transformed Fairfax County's economy from a residentially based to an externally driven economy, this same transformation was also occurring in

the metropolitan area economy. That this emerging economic pattern was in motion throughout the broader region facilitated Fairfax County's ascendancy to its dominant position among the region's sub-economies and has set up its future growth pattern.

Fairfax County's Economy in 2020

By 2000, Fairfax County's economy had achieved a scale and quality that set it apart from other suburban jurisdictions. It had become a destination for non-resident workers. Its job to population ratio increased from .45 to .74 (7 jobs per 10 residents) describes an urban economy whose growth was no longer dependent on residential growth. Where it had gained a net of 33 percent of its income from its residents commuting out to work, its net income gain in 2000 from commuting was less than 8 percent. Its job structure had shifted, too, from lower paying to higher paying jobs and from jobs in residentially based activities to jobs in export-based businesses.

This economic base is projected to continue evolving over the next twenty years but it will not experience a level of fundamental change similar to what it did during the previous twenty years. The County's economy in 2000 was much more similar in structure to its projected economy in 2020 than to the 1980 economy. As a result, the rates of gain are projected to slow although these will still outpace the gains achieved at the metropolitan level and economic gains will also outpace population growth confirming the economy's external market orientation.

Population is projected to increase 35 percent between 2000 and 2020 while the job base will grow by 63 percent. More jobs will be generated than new residents, as was the case during the 1980-2000 period. This will increase the jobs to population ratio to 0.9 (9 jobs for every 10 residents). It will also make the County's economy increasingly dependent on external sources of labor. This growing dependency is seen in the residential area adjustment for income earned externally to the County. Where in the past, the County's economy had benefited from net inflow of earnings, by 2020 non-residents will be taking more income out of the County economy than residents working outside the County will bring back. This net outflow of income will only represent 3.3 percent of total earnings but this percentage will continue to increase (it is projected to first turn negative in 2013) each year going forward.

The Fairfax County economy will add 474,100 new jobs between 2000 and 2020. While its Gross County Product is projected to grow to \$128.4 billion (in 2004\$), its rate of growth will slow to just less than 100 percent (it increased almost 300% between 1980 and 2000). By 2020, Fairfax County will account for 21 percent of the metropolitan area population (marginally up from 20.4% in 2000), 25 percent of its jobs, and 27 percent of the region's output. While still outperforming its population base, the Fairfax County economy will have achieved some maturity (in size and structure) relative to some of the younger and smaller economies in the area's third tier counties. It will not capture a disproportional share of the best new jobs as the County did during the 1980's and 1990's. As a result, while its mean salary will increase to \$70,120 (in 2004\$), up 25

percent, the mean salary gain within the Washington area will be larger (30%) although its dollar value will still lag Fairfax County.

Job growth will continue to favor the service sector with gains of 95 percent (335,100 new jobs). The only other sector to grow faster than the average for all sectors will be transport and communications. In 2000 it accounted for 5.8 percent of Fairfax County jobs; by 2020, its jobs base is projected to have expanded by 122 percent and account for 7.87 percent. All other sectors gained jobs but at below-average rates. Retail, which had accounted for 18 percent of the County's job base in 1980 will only account for 8.5 percent of total County jobs by 2020. These trends are compared for all three reference years in Table 1.

Economic Specialization in Fairfax County

Comparing the County's distribution of jobs with the distribution of jobs across their respective sectors of the metropolitan area economy reveals the shifts in economic orientation that took place in Fairfax County's economy between 1980 and 2000 and the continuing evolution of the 2000 economy over the ensuing two decades. The ratio of percentages, known as Location Quotients, sector by sector, year-by-year are presented in Table 2.

During the period of rapid growth (1980), the construction sector was substantially oversized in Fairfax County. As the economy shifted away from residentially based growth, the construction job base become less specialized and, as the economy become more mature, the construction sector will become underspecialized. The retail sector experienced the same pattern. Sectors experiencing some increase in specialization in the future include: manufacturing, transport and communications, and services. Manufacturing and transport/communications are not large enough to influence the economy's long-term growth.

The service sector, with 56 percent of all County jobs by 2020 is the future. This sector is specialized in the County relative to the metropolitan area that itself is specialized (1.20) compared to the national economy. Using the national reference, the service sector would have a location quotient of 1.37 in Fairfax County; that is, the service sector in Fairfax County is projected to have 37 percent greater employment than the service sector in the national economy.

Summary of Findings

The key conclusions of this analysis comparing Fairfax County's economic growth during the 1980-2000 and 2000-2020 periods are:

- The County's economy experienced a significant transformation between 1980- and 2000 shifting from a residentially based to an externally based economy;

- The County's economy will continue to grow and specialize in external-market based services and will become a major employment center for the metropolitan region;
- The County's employment base added more jobs than the County added residents during both the 1980-2000 and 2000-2020 periods;
- By 2020 Fairfax County will account for 21 percent of the region's population, 25 percent of its jobs, and 27 percent of its Gross Regional Product;
- The County's economic performance in 1980 was dependent on its resident commuters; in 2000, a mix of externally and residentially based markets supported the economy's growth; and by 2020, externally based markets will be the dominant source of economic growth;
- With the County's job base projected to exceed its population by 2025 (this date needs to be verified), the residential base will have completed its transformation from suburban to urban as reflected in an age, gender, and ethnic distribution more similar to a central jurisdiction; and,
- As the economy matures in the out years of the forecast (post-2013), its future performance will become increasingly dependent on its ability to attract non-resident workers to satisfy its growing workforce requirements.

Table 1

Fairfax County's Changing Economy: 1980-2020*
(population and jobs in thousands, GCP in billions of 2004\$s)

Indicators	1980	2000	2020
Population	631.4	1007.7	1360.7
% Change		59.6%	35.0%
% Change PMSA**		41.8%	28.4%
Total Employment	303.0	749.6	1223.7
% Change		147.4%	63.2%
% Change PMSA**		64.5%	38.5%
Private Sector Jobs	237.6	656.4	1097.2
% Change		176.2%	67.2%
% Change PMSA**		94.6%	41.5%
Private Sector Jobs as % of All Jobs: Fairfax	78.4%	87.6%	89.7%
Private Sector Jobs as % of All Jobs: PMSA**	67.6%	79.9%	81.7%
Mean Salary, All Jobs	\$33,947	\$56,267	\$70,122
% change		65.7%	24.6%
% Change PMSA**		35.5%	30.0%
Fairfax/PMSA	88.4%	1.08%	1.03%
Gross County Product	\$16.519	\$64.552	\$128.376
% Change		290.8%	98.9%
% Change PMSA**		126.1%	78.6%
% RAD***	33.05%	7.81%	- 3.28%
Jobs/population	.48	.74	.90

Sources: NPA Data Services, Inc., GMU Center for Regional Analysis. *includes the cities of Fairfax and Falls Church.
Washington primary metropolitan statistical area. *residential area adjustment, reflects commuting patterns of persons living in Fairfax County; positive percentage dependence on jobs outside County; negative indicates loss of income to non-residents workers.

Table 2

Changing Structure of the Fairfax County Economy: 1980, 2000, 2020
(location quotients compare % county jobs to % metro area jobs by sector)

Sectors	1980	2000	2020
Construction	1.45	1.05	0.85
Manufacturing	0.86	0.83	1.19
Transport/Utilities	0.98	1.25	1.24
Wholesale Trade	1.30	1.32	1.25
Retail Trade	1.29	0.99	0.99
Financial Services	1.47	1.16	1.14
Services	1.00	1.13	1.14
Government	0.67	0.62	0.56

Source: GMU Center for Regional Analysis. Note: LQ values greater than 1.00 is indicative of sectoral specialization; LQ values of 1 indicate a share equal to the region's distribution; LQ values less than 1.00 indicate sectoral under-specialization.