



Economic Indicators

Prepared by the Department of Finance • February 2014

*The purpose of this report is to keep policy makers apprised of changes in
the national and local economies that
the Montgomery County Department of Finance
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet
on the Montgomery County Web Page:
<http://www.montgomerycountymd.gov>*

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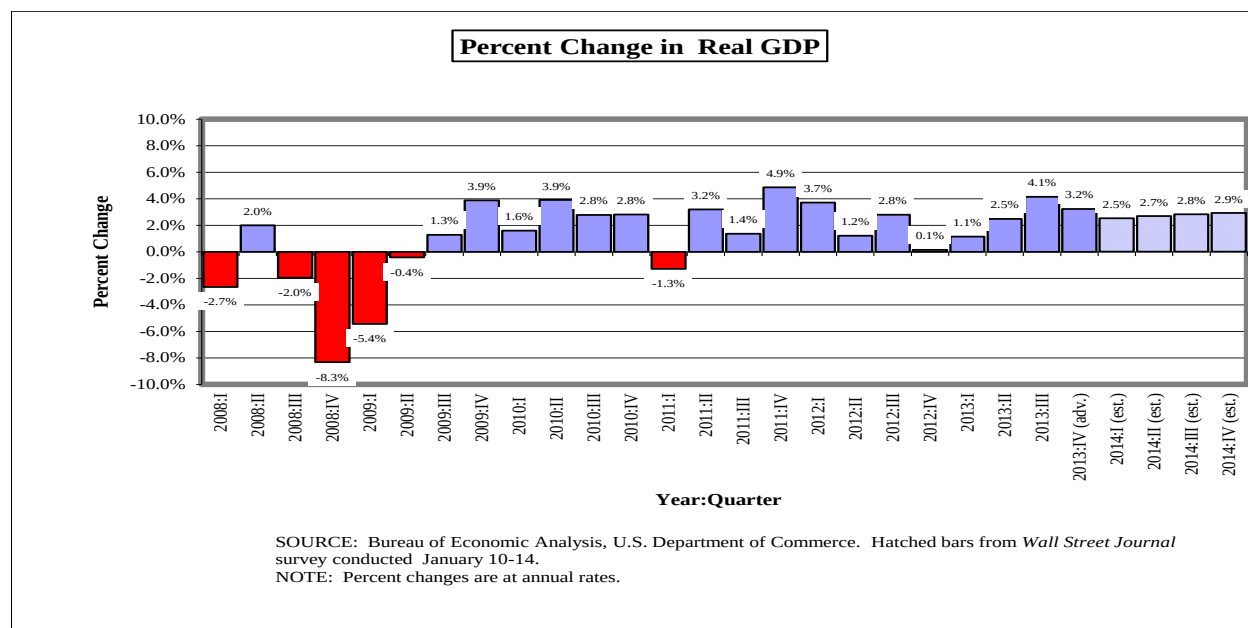
NATIONAL ECONOMY

According to the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, gross domestic product (GDP) increased at 3.2 percent seasonally adjusted annual rate during the fourth quarter of 2013. That increase follows sixteen out of seventeen quarters of growth since the end of the recession in June 2009. Based on the January *Wall Street Journal* (WSJ) survey (January 10 -14), fifty economists surveyed expect economic growth to increase 2.8 percent for calendar year 2014 and 2.9 percent for calendar year 2015. The survey of economists expects the jobless rate to be at 6.6 percent by June, 6.3 percent at the end of 2014, and 5.5 at the end of 2016. The result of the survey of economists shows that inflation pressures, as measured by the consumer price index (CPI), will remain below 2.0 percent throughout 2014, and gradually increase to 2.3 percent by December 2016.

Subsequent to the January 28-29 meeting of the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System, the Committee “expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate.”

Both the WSJ January survey of economists and the economic projection by the FOMC in December suggest that the unemployment will gradually decrease to 5.5 percent by the end of 2016 and inflation, as measured by either the CPI or the PCE indices, will increase slightly to 2.3 percent (CPI) or 2.0 percent (PCE). In either case, inflation will remain subdued over the next three years while unemployment will decrease.

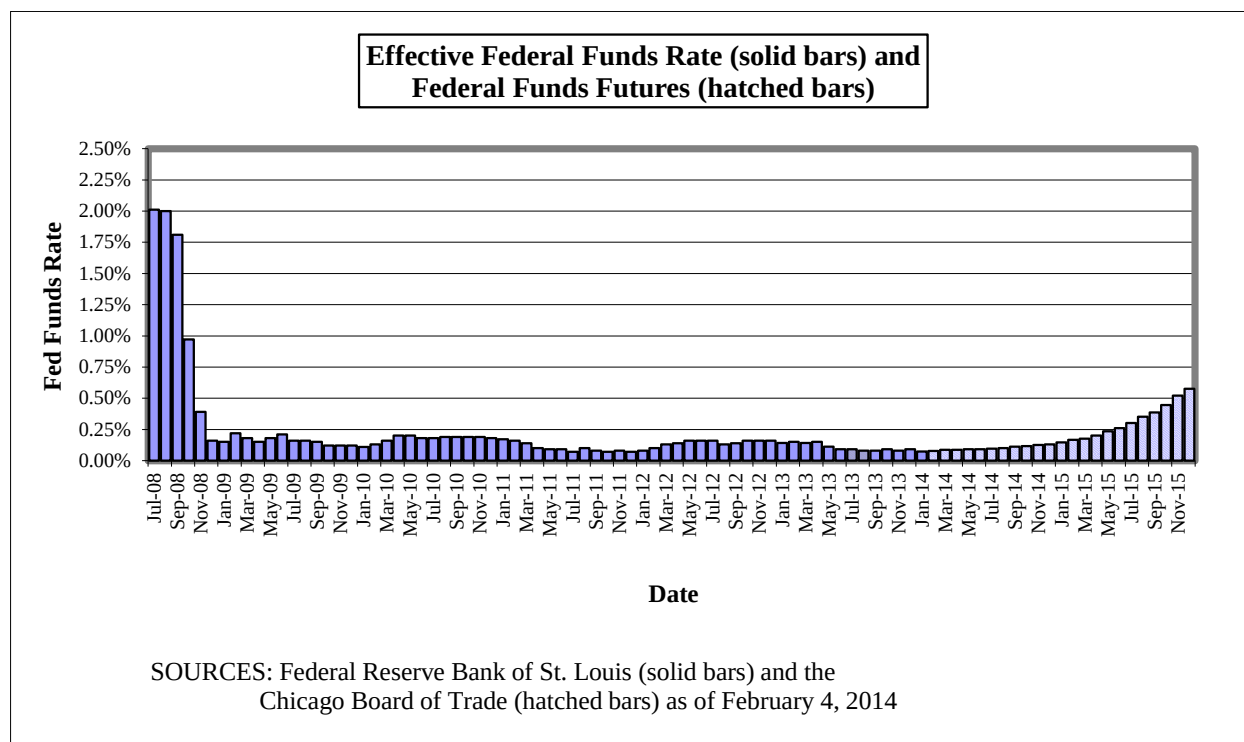
Data released by BEA for the fourth quarter showed that the increase in real GDP was largely attributed to an increase in personal consumption expenditures (↑3.3% - up from the 2.0% during the third quarter of last year), exports (↑11.4% - up from the 3.9% during the third quarter), nonresidential fixed investment (↑3.8% compared to 4.8% during the third quarter). The deceleration in the fourth quarter reflected a deceleration in private inventory investment which added 0.42 percent point to the fourth-quarter change in real GDP after adding 1.67 percentage points to the third-quarter change of 4.1 percent.



Real final sales of domestic product, which measures aggregate demand and is GDP less the change in real private inventories, increased 2.8 percent during the fourth quarter compared to 2.5 percent during the third quarter. Real final sales are a good measure of future production. If the growth rate in real final sales exceeds the growth rate for GDP over an extended period of time, it indicates strong demand and an expansion of the national economy.

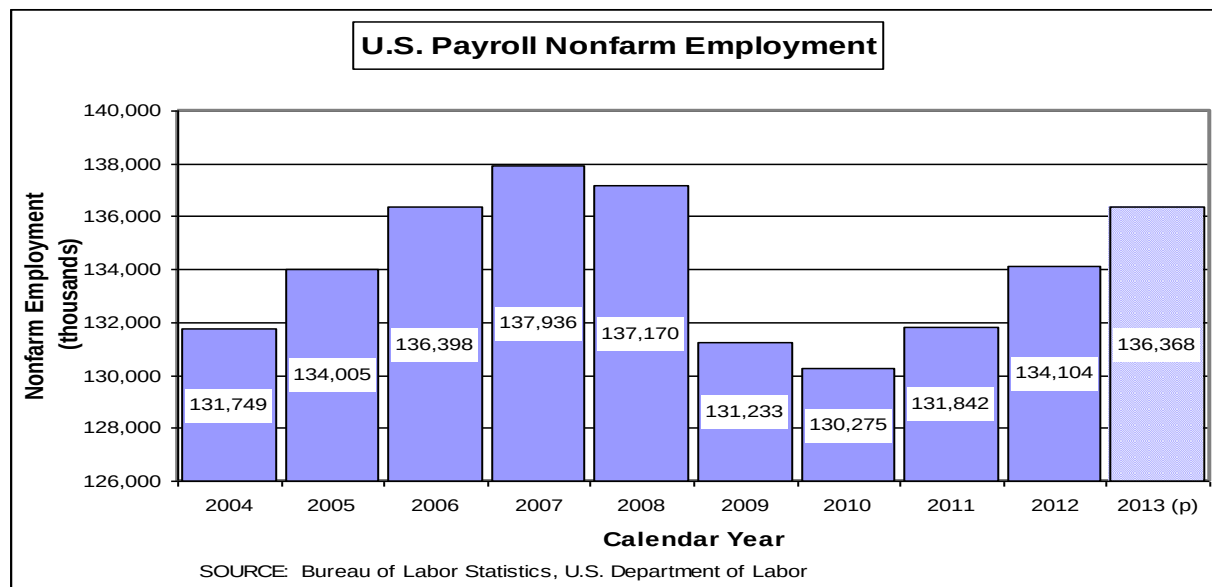
Following its meeting on January 28 and 29, the FOMC stated in its press release that “the Committee continues to see the improvement in economic activity and labor market conditions over that period as consistent with growing underlying strength in the broader economy. In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to make a further measured reduction in the pace of its asset purchases.” The Committee decided to add \$65 billion of asset purchases, down from the previous \$75 billion of asset purchases. The Committee also maintained a target range for the federal funds rate of 0.00 to 0.25 percent.

Since the January meeting of the Federal Open Market Committee, the futures market for the 30-day federal funds rate remains at or below the 0.25 percent level through May 2015. After that date, the futures market expects the rate to gradually increase to nearly 0.60 percent by the end of 2015.

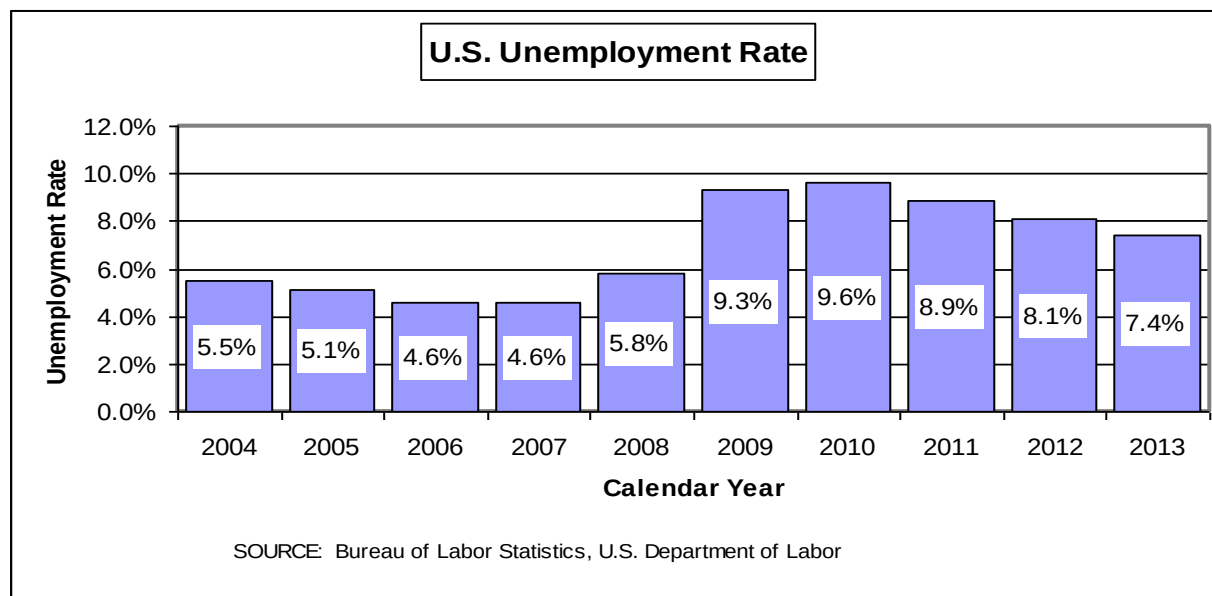


Sales of existing homes increased 9.2 percent in 2013 following a 9.4 percent increase in 2012. Over a two-year period, sales of existing homes increased from 4.3 million units in 2011 to nearly 9.1 million units in 2013. Median home prices for existing homes increased 11.5 percent in 2013 compared to a 6.4 percent increase in 2012. The inventory-to-sales ratio for new homes for sale dropped to a 4.9-month inventory in 2013 from 5.9-month inventory the previous year. The inventory level in 2013 was the lowest since 2005. The improved strength in residential prices is attributed to an improvement in the job market, low mortgage rates, and the decline in foreclosures.

According to the Bureau of Labor Statistics, U.S. Department of Labor, total nonfarm employment (payroll employment – seasonally adjusted) increased 113,000 in January – less than market analysts expected. Total private employment rose by 142,000 in January. Employment in professional and business services added 36,000 jobs in January and added an average of 55,000 jobs per month in 2013. Construction added 48,000 jobs that more than offset the decrease of 22,000 in December. Increases in construction occurred in both residential and nonresidential structures. Federal government employment lost 12,000 jobs in January with most of the loss was incurred by the U.S. Postal Service (↓9,000 jobs). Total nonfarm employment increased by approximately 2.264 million in calendar year 2013 – an increase of 1.7 percent from calendar year 2012. However, payroll employment in 2013 was still 1.568 million below employment in 2007.



Employment, as measured by the survey of households, increased by 638,000 in January to 145.224 million on a seasonally adjusted basis. Employment reached 143.929 million in calendar year 2013 – an increase of 1.02 percent from calendar year 2012. However, employment in 2013 was 2.118 million below employment in 2007. The unemployment rate in January stood at 6.6 percent (seasonally adjusted). After peaking at 9.6 percent in calendar year 2010, the unemployment rate steadily declined to 7.4 percent in 2013.

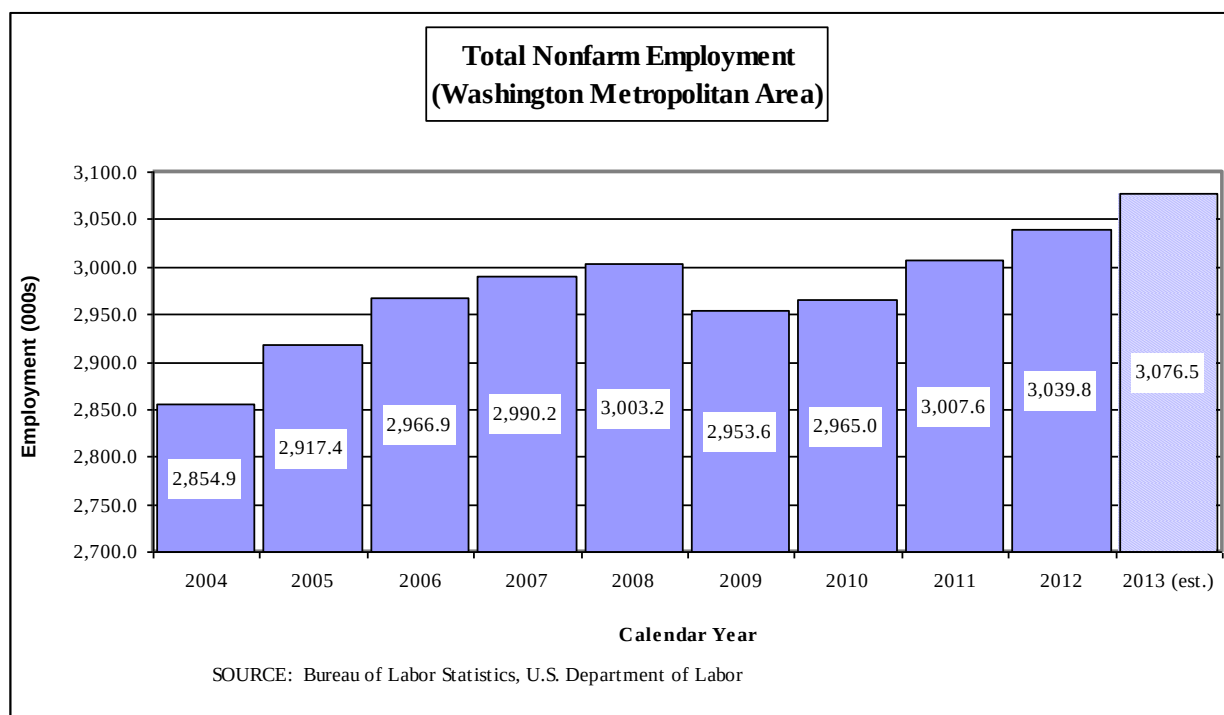


The stock market in calendar year 2013 experienced its strongest performance since 2003. All four stock market indices – the Dow-Jones Industrial Average (↑26.50%), the Standard & Poor's 500 (↑29.60%), the NASDAQ (↑38.32%), and the Russell 2000 (↑37.00%) – experienced dramatic growth. While the four stock indices increased significantly in 2013, the question is

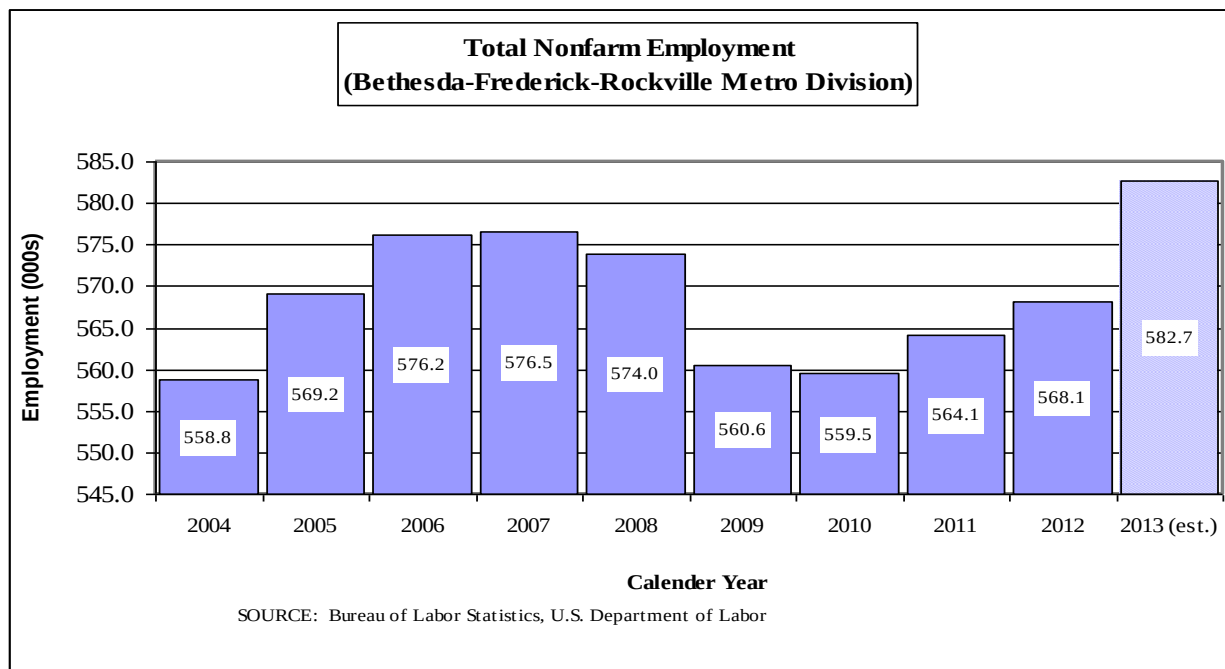
whether that strong performance will continue in calendar 2014. The strength of the stock market has been attributed in part to the policies of the Federal Reserve and its asset purchasing program. Since the Federal Reserve began to “taper” its asset purchasing program in December, the question is how quickly the Federal Reserve will continue to “taper” its purchasing program? The effect of such tapering on the stock market is difficult to assess. However, as of February 7, all four indices experienced modest declines year-to-date with the Dow Jones Industrial Average and the Russell 2000 indices declining by more than 4 percent. The issue is whether the modest correction is attributed to the “tapering” program or the market was due for a correction after its strong performance last year.

REGIONAL ECONOMY

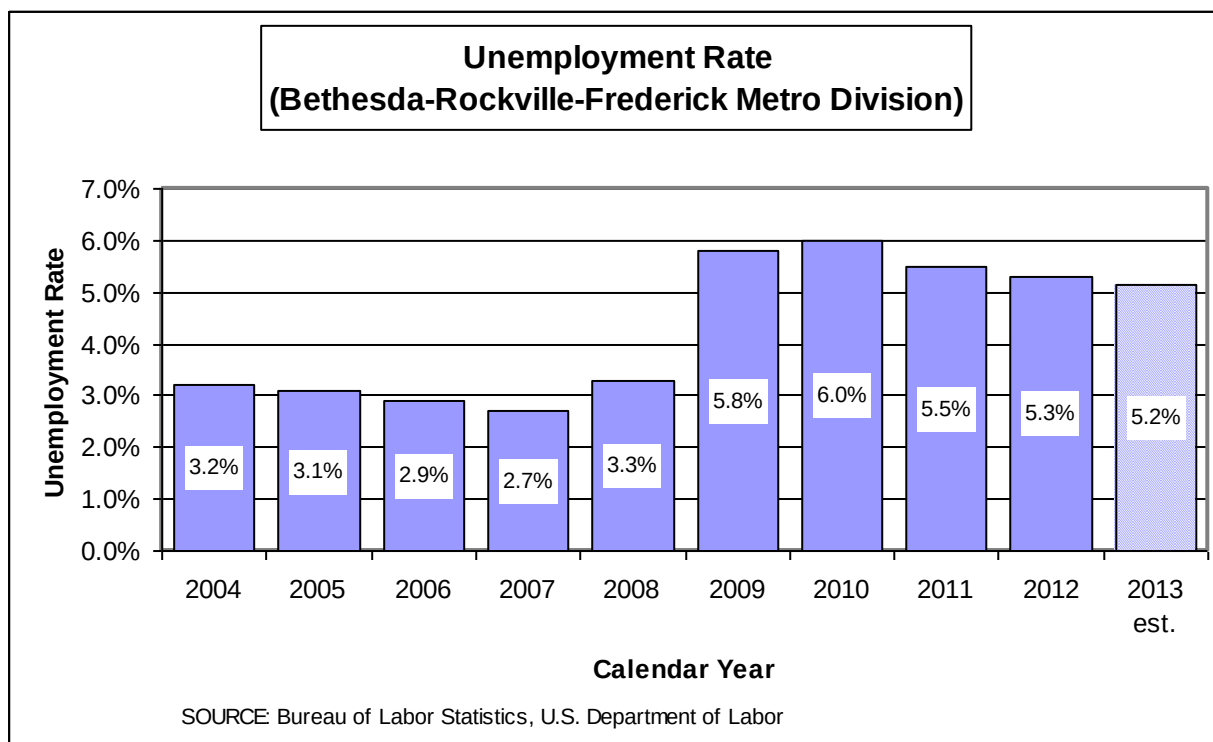
According to the employment data from the Bureau of Labor Statistics, U.S. Department of Labor, the Washington area economy experienced a different employment pattern compared to the national trend. Total payroll employment peaked in calendar 2008 but declined for only one year (2009) before employment began to increase from its 2009 low. By 2013, total payroll employment reached 3.077 million in the Washington metropolitan area and, unlike the national trend, surpassed its previous consecutive highs in 2011 and 2012. Since 2009, total payroll employment increased at an average annual rate of 1.0 percent



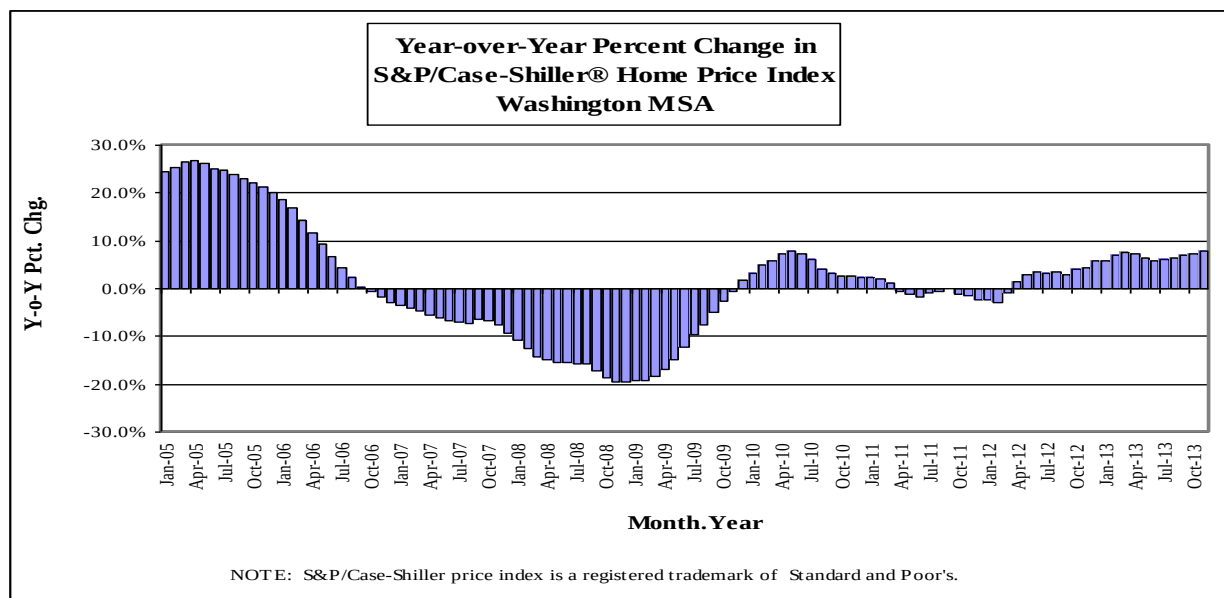
Payroll employment for the Bethesda-Rockville-Frederick (BRF) metropolitan division experienced dramatic growth in calendar year 2013. Total payroll employment stood at approximately 582,700 – an increase of 14,600 over 2012. The payroll employment in 2013 was the highest since the Bureau of Labor Statistics began publishing employment data since 1990.



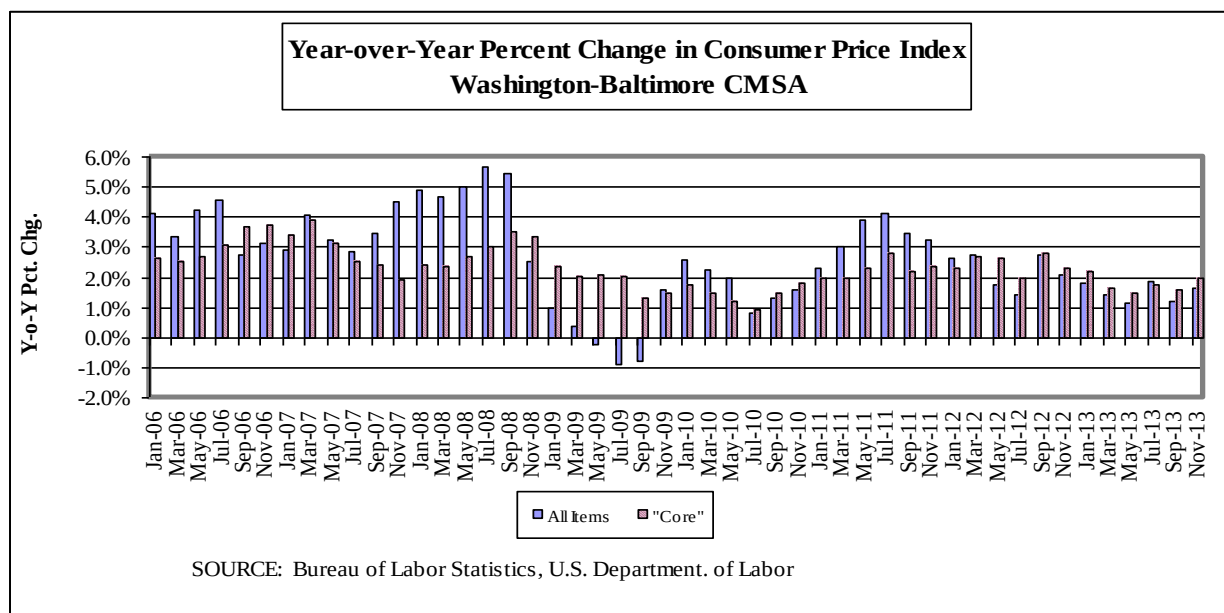
Because payroll employment experienced growth in the past year, the unemployment rate for the BRF metropolitan division continued to decline from its peak of 6.0 percent in 2010 to 5.2 percent in 2013. The unemployment rate for the division continues to remain one of the lowest among the 34 national metropolitan divisions.



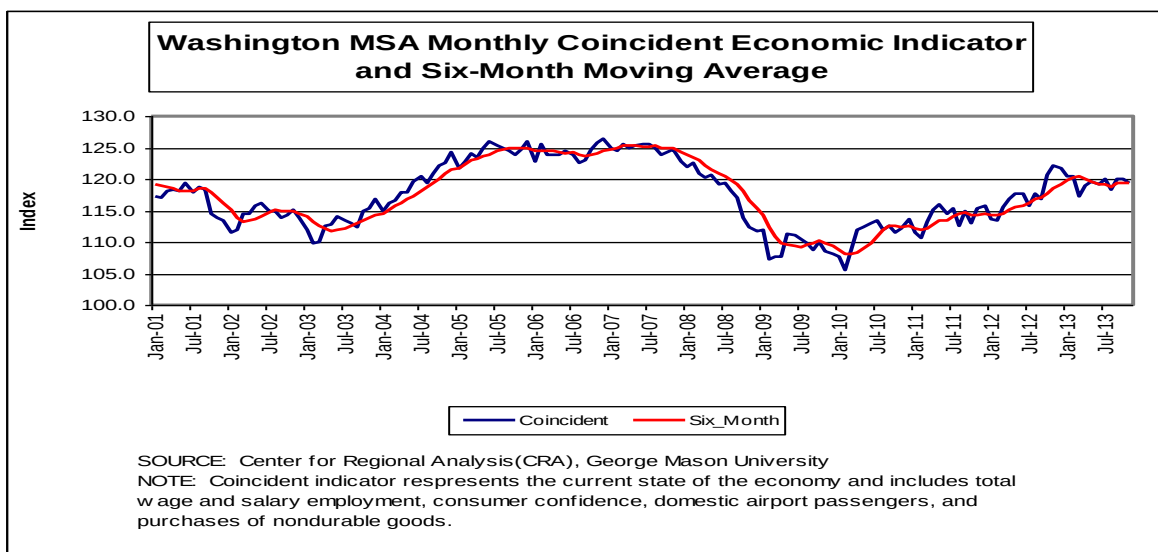
The resale housing market across the region experienced a growth in prices, on a year-over-year basis, between November 2012 and November of last year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in November 2013 increased 7.8 percent over the twelve-month period.



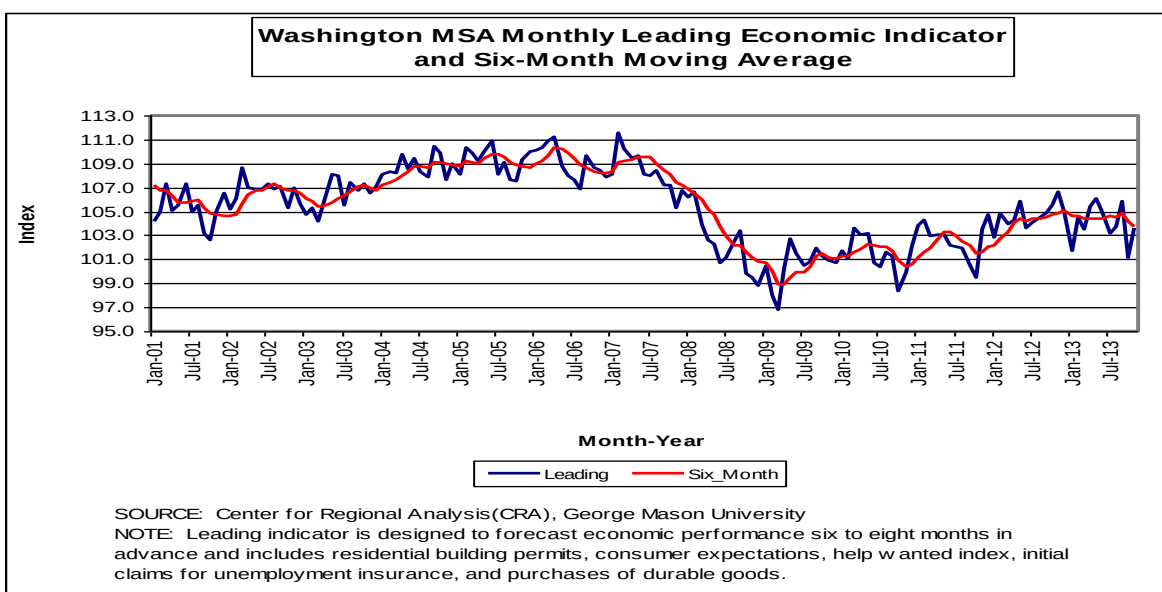
As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased 1.7 percent on a year-over-year basis in November of last year, i.e., November 2013 over November 2012. Consumer prices excluding food and energy purchases were up 2.0 percent in the region (on the same year-over-year basis).



According to the Center for Regional Analysis (CRA) at George Mason University, the monthly coincident economic indicator for the Washington metropolitan region decreased 0.6 percent in November 2013 over October 2013 and 2.2 percent over November of 2012. The coincident index measures the current performance of the region's economy. However, since reaching its lowest point in February 2010, the index increased 13.1 percent through November of last year.



CRA also reports that the leading economic indicator increased 2.4 percent in November 2013 over October 2013 but declined 2.0 percent since November 2012. The leading index measures the economic performance of the region six months ahead. While the index increased 7.1 percent since its lowest level in March 2009, the decline over the one-year period ending in November suggests that the region's economy will not increase or, at most, a very modest rate over the first half of this year.

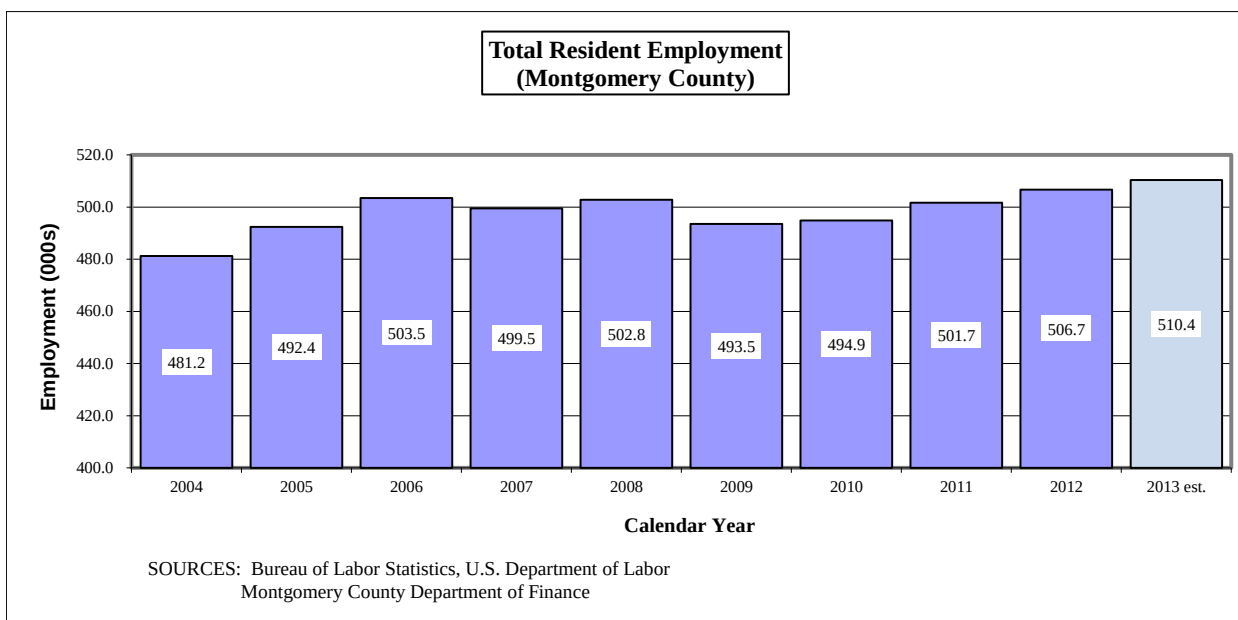


MONTGOMERY COUNTY ECONOMIC INDICATORS

Montgomery County's economic performance improved during calendar year (CY) 2013. The major reasons for the improvement were, an increase in employment – both resident (labor force series) and payroll employment (establishment series), an increase in existing home sales, an increase in the median sales price for existing homes, and strong residential construction growth. The unemployment rate declined from 5.1 percent in CY2012 to an estimated 5.0 percent in CY2013.

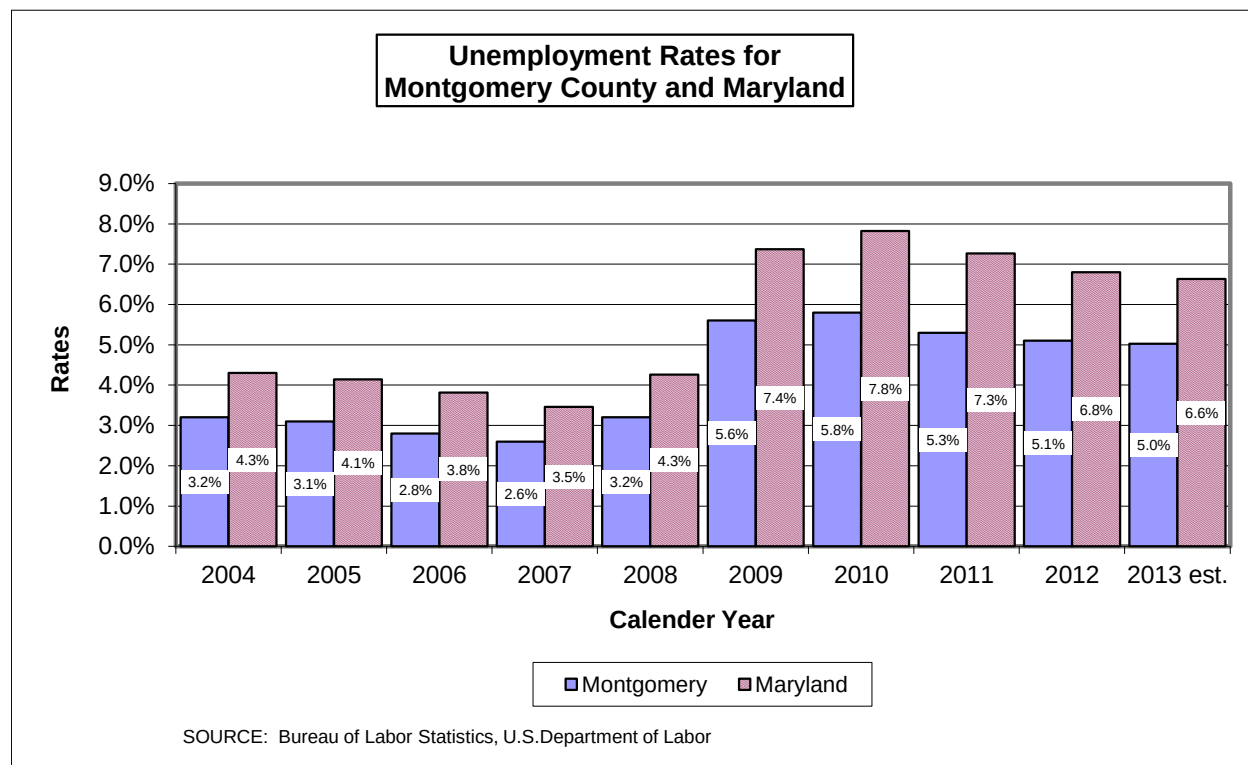
Employment Situation

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics, U.S. Department of Labor, average monthly resident employment (labor force series and not seasonally adjusted) in Montgomery County increased by an estimated 3,690 (↑0.7%) during 2013. Average monthly resident employment stood at an estimated 510,400 in 2013 compared to 506,700 during the previous year.



However, the County's total payroll employment, as derived by the Department of Finance incorporating the establishment series from the Bureau of Labor Statistics (BLS), U.S. Department of Labor, for the Bethesda-Rockville-Frederick metropolitan division increased by approximately 6,130 jobs (↑1.3%) during 2013. Total payroll employment stood at an estimated monthly average of 481,430 jobs during calendar year 2013 compared to a monthly average of 475,300 in 2012. The modest discrepancy between the series (6,130 versus 3,690) is attributed to the sources of employment data. The labor force-resident employment is derived from the survey of households while payroll employment is derived from a survey of establishments.

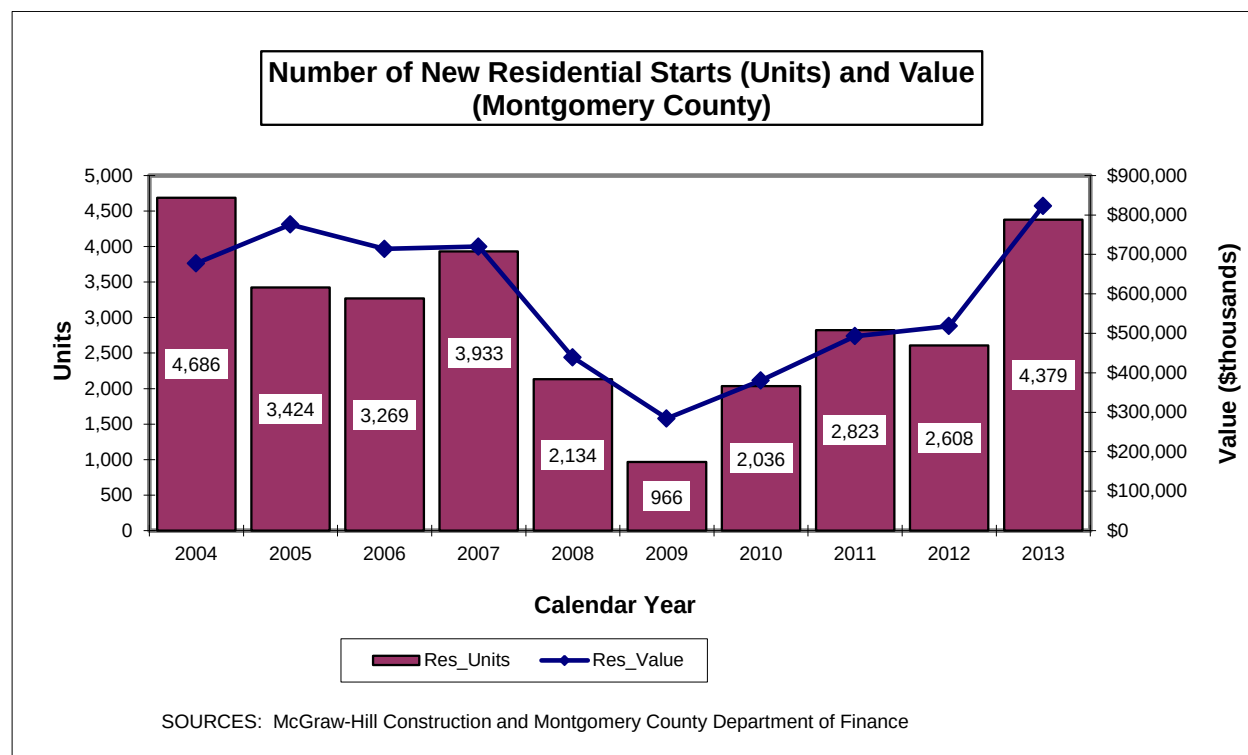
The County's average monthly unemployment rate declined to an estimated 5.0 percent in 2013 compared to the annual rate of 5.1 percent in 2012. However, throughout the calendar year 2013, the County's unemployment rate remained one of the lowest in the State and averaged 1.6 percentage points below the State's average in 2013.



While the unemployment rate has remained at or above the 5.0 percent level for the past five calendar years, it has declined steadily since its peak in 2010. The decline has been attributed to an increase in resident employment and a decline in the number of unemployed during the past two calendar years. Employment grew by over 8,700 over the two-year period while the number of unemployed declined by nearly 1,000 over the same period.

Construction Activity

Residential construction experienced strong performance during calendar year 2013. The total number of new construction starts (residential units) increased 67.9 percent compared to calendar year 2012. Strong residential construction starts attributed to multifamily and single-family units added a total value \$823.1 million – an increase of 58.7 percent over 2012.



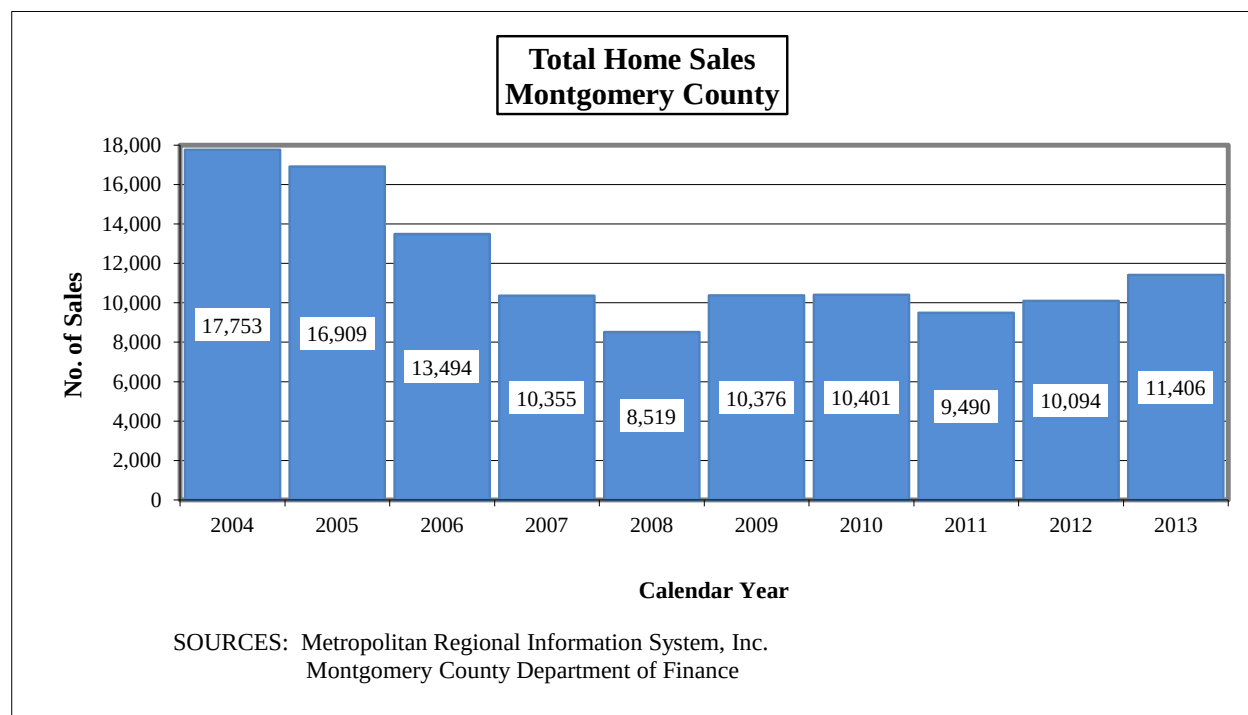
However, the number of non-residential starts (projects) decreased 38.4 percent in 2013, and the total value decreased from \$808.3 million to \$772.0 million (↓4.5%). Overall, construction starts added a total value of \$1.595 billion to the property tax base with 51.6 percent attributed to residential construction.

At the same time that the total number of construction starts increased during 2013, construction costs were up 5.2 percent. The construction cost index developed by the *Engineering News Record* (ENR) for the Baltimore area increased 5.1 percent in 2010, 3.0 percent in 2011, and 3.5 percent in 2012. Therefore, while construction activity increased in 2013, that increase was in part due to inflation in construction costs.

Residential Real Estate

Total construction of new residential units increased 67.9 percent from 2012 to 2013. The number of new single-family units increased 54.3 percent from 1,002 single-family units in 2012 to 1,546 units in 2013. Construction of single-family units in 2013 was the highest number since 2005 – the peak of the recent housing boom. At the same time that the number of total new residential construction starts increased during 2013, the number of permitted units decreased 10.9 percent in 2013 compared to 2012 attributed to a decrease in planned multi-family construction (↓30.6%).

During 2013, home sales increased 13.0 percent following an increase of 6.4 percent in 2012 and a decrease of 8.8 percent in 2011. Median sales prices for existing homes increased nearly 9.0 percent which followed an increase of 4.9 percent in 2012 but no increase in 2011.



Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, the growth in sales of durable and nondurable goods, excluding miscellaneous and assessment collections, decreased 0.1 percent through November 2013 compared to the same eleven-month period in 2012. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, decreased 0.7 percent during this period while sales of durable goods were up 1.6 percent. The decrease in nondurable good purchases was solely attributed to the decline in general merchandise (↓6.6%). The increase in purchases of durable goods was attributed to growth in sales of hardware, machinery, and equipment (↑3.0%) and building and industrial supplies (↑7.5%).

CONCLUSION

The major economic indicators confirm that the County's economy improved during calendar year 2013. The average monthly unemployment rate declined to 5.0 percent from the peak of 5.8 percent in 2010. Employment measured either by the survey of establishments or households increased in 2013 causing a decline in the unemployment rate to 5.0 percent. Residential construction improved with the construction of single-family homes up 54.9 percent and multi-family units up 79.8 percent. Sales of existing homes increased and median sales prices also improved during the calendar year. The overall inflation rate in the region remained subdued and retail sales, particularly for purchases of durable goods, were up.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2012
				2013	2012	
Leading Indicators						
National	Dec. '13	0.1%		2.6%		n.m.
Washington MSA	Nov. '13	2.4%		-0.6%	2.1%	1.9%
Coincident Indicators						
National	Dec. '13	0.2%		2.1%		n.m.
Washington MSA	Nov. '13	-0.6%		1.9%	2.9%	3.1%
Consumer Confidence Index						
National	Jan. '14	4.1%		9.3%	15.3%	15.3%
South Atlantic Region	Jan. '14	19.7%		7.5%	14.0%	14.0%
Consumer Sentiment (University of Michigan)	Jan. '14	-1.6%		3.5%	13.6%	13.6%
Consumer Price Index						
All Items (nsa)						
National	Dec. '13	1.5%		1.5%	2.1%	2.1%
Washington - Baltimore CMSA	Nov. '13	1.7%		1.5%	2.2%	2.2%
Core CPI (nsa)						
National	Dec. '13	1.7%		1.8%	2.1%	2.1%
Washington - Baltimore CMSA	Nov. '13	2.0%		1.8%	2.5%	2.4%
Retail Trade						
National (sales - nsa)	Dec. '13	4.3%		3.4%		5.1%
Maryland (sales tax)(1)	Nov. '13	-8.8%		0.5%		2.8%
Montgomery County (sales tax)(1)	Nov. '13	-6.1%		-0.6%		1.2%
Employment						
Maryland (labor force data - nsa)	Dec. '13	2,915,715	2,921,910	2,916,589	2,909,571	2,909,571
- Percent Change		-0.2%		0.2%		1.4%
Bethesda-Federick-Gaithersburg (labor force data)	Dec. '13	630,304	629,365	632,437	628,245	628,245
- Percent Change		0.1%		0.7%		1.0%
Montgomery County (labor force data)	Dec. '13	508,391	507,633	510,400	506,730	506,730
- Percent Change		0.1%		0.7%		1.0%
Montgomery County (QCEW)	June '13	458,065	455,754	450,725	447,998	450,880
- Percent Change		0.5%		0.6%		0.7%
Unemployment						
Maryland (nsa)	Dec. '13	5.7%	6.6%	6.6%	6.8%	6.8%
Bethesda-Federick-Gaithersburg (nsa)	Dec. '13	4.3%	5.0%	5.2%	5.3%	5.3%
Montgomery County (nsa)	Dec. '13	4.1%	4.9%	5.0%	5.1%	5.1%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousands)	Dec. '13	\$78,274	\$121,482	\$1,595,054	\$1,326,854	\$1,326,854
- Percent Change		-35.6%		20.2%		-5.6%
Residential (\$ thousands)	Dec. '13	\$66,744	\$60,527	\$823,039	\$518,508	\$518,508
- Percent Change		10.3%		58.7%		5.2%
Non-Residential (\$ thousands)	Dec. '13	\$11,530	\$60,955	\$772,015	\$808,346	\$808,346
- Percent Change		-81.1%		-4.5%		-11.4%
Building Permits (Residential)						
Maryland	Dec. '13	1,173	1,391	18,138	14,646	14,646
- Percent Change		-15.7%		23.8%		20.1%
Montgomery County (units)	Dec. '13	254	473	3,514	3,946	3,946
- Percent Change		-46.3%		-10.9%		55.9%
Building Permits (Non-Residential)						
Montgomery County	Dec. '13	157	118	2,060	2,198	2,198
- Percent Change		33.1%		-6.3%		13.5%
Construction Cost Index						
Baltimore	Feb. '14	6,929.69	6,943.18	6,935.72	6,616.13	6,616.13
		-0.2%		4.8%		3.5%
Real Estate						
Case-Shiller Home Price Index®	Nov. '13	203.71	188.93	197.88	184.47	185.62
		7.8%		7.3%		2.1%
Maryland						
Sales	Dec. '13	4,854	4,398	61,073	54,068	54,068
- Percent Change		10.4%		13.0%		4.7%
Median Price	Dec. '13	\$255,183	\$243,741	\$257,546	\$243,863	\$243,863
- Percent Change		4.7%		5.6%		7.1%
Montgomery County						
Sales	Jan. '14	578	521	11,406	10,094	10,094
- Percent Change		10.9%		13.0%		6.4%
Average Price	Jan. '14	\$474,158	\$451,677	\$500,316	\$465,597	\$465,597
- Percent Change		5.0%		7.5%		3.1%
Median Price	Jan. '14	\$375,000	\$365,500	\$400,000	\$367,125	\$367,125
- Percent Change		2.6%		9.0%		4.9%
Average Days on the Market	Jan. '14	57	69	46	67	67

NOTES:

(nsa): not seasonally adjusted

(QCEW): Quarterly Census of Employment and Wages

(saar): seasonally adjusted at annual rate

(1): Data include miscellaneous and assessment collections.

(n.m.): not meaningful