MONTGOMERY COUNTY MARYLAND

Economic Indicators

Prepared by the Department of Finance • January 2015

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/finance/economic.html

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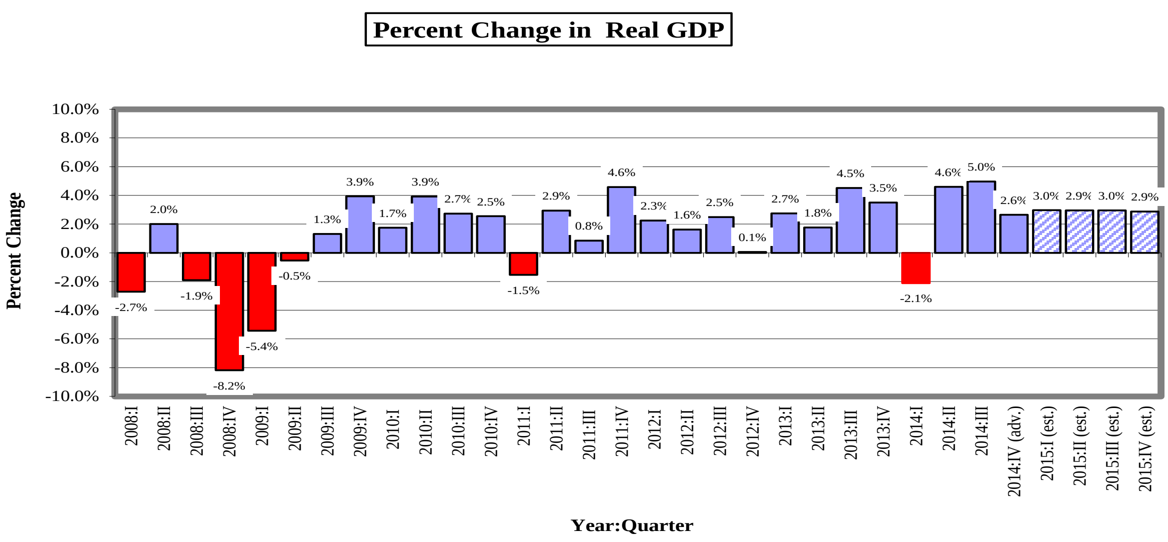
INTRODUCTION

This quarterly report provides an analysis of national, regional, and Montgomery County economic indicators for the calendar year 2014. Quarterly data presented in this report are seasonally adjusted, but monthly data are not seasonally adjusted.

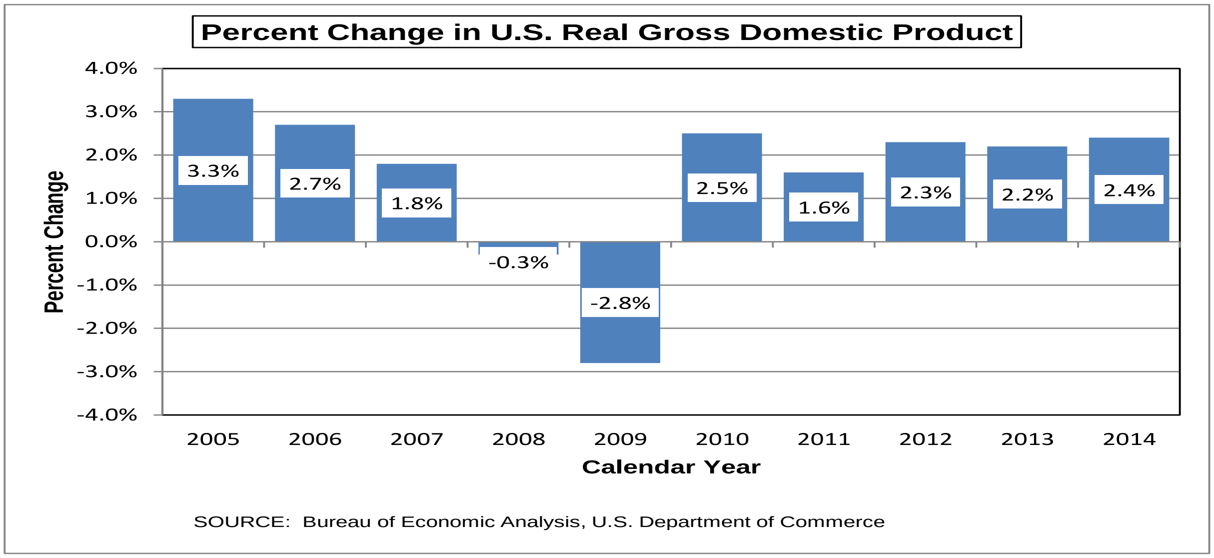
NATIONAL ECONOMY

According to the advance estimate by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, real gross domestic product (GDP) increased at a 2.6 percent seasonally adjusted annual rate during the fourth quarter of 2014. That increase followed an increase of 5.0 percent during the third quarter. However, the fourth quarter increase was below the expected increase of 3.0 percent based on the January *Wall Street Journal (WSJ)* survey of fifty economists. Data released by BEA for the fourth quarter showed that the increase in real GDP was attributed to an increase in personal consumption expenditures (↑4.3%) and residential fixed investment (↑7.1%). However, growth was subdued because government spending declined 2.2 percent and attributed to the decrease in federal spending (↓7.5%) led by the drop in national defense spending (↓12.5%). Growth in real exports also decelerated from 4.5 percent during the third quarter to 2.8 percent in the fourth quarter. Real final sales of domestic product (real GDP less the change in private inventories) increased 1.8 percent in the fourth quarter compared to an increase of 5.0 percent during the third quarter. Based on the WSJ survey of fifty economists, the average of the responses expect economic growth to increase 3.0 percent during the first quarter of 2015, and 2.9 – 3.0 percent during the remaining three quarters in 2015.



SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Hatched bars from *Wall Street Journal* survey conducted January 2015.
NOTE: Percent changes are at annual rates.

On a calendar year basis, real GDP increased 2.4 percent in 2014. That followed increases of 2.3 percent and 2.2 percent in 2012 and 2013, respectively. Since the end of the great recession in June 2009, the average annual increase in real GDP was 2.2 percent.



The survey of economists expects the jobless rate to be at 5.2 percent by December of this year, down from the rate in December 2014 of 5.6 percent (seasonally adjusted). The result of the survey of economists also shows that inflation, as measured by the consumer price index (CPI), will increase a modest 0.5 percent in June, increase 1.6 percent by December 2015 and increase gradually to 2.3 percent by December 2016.

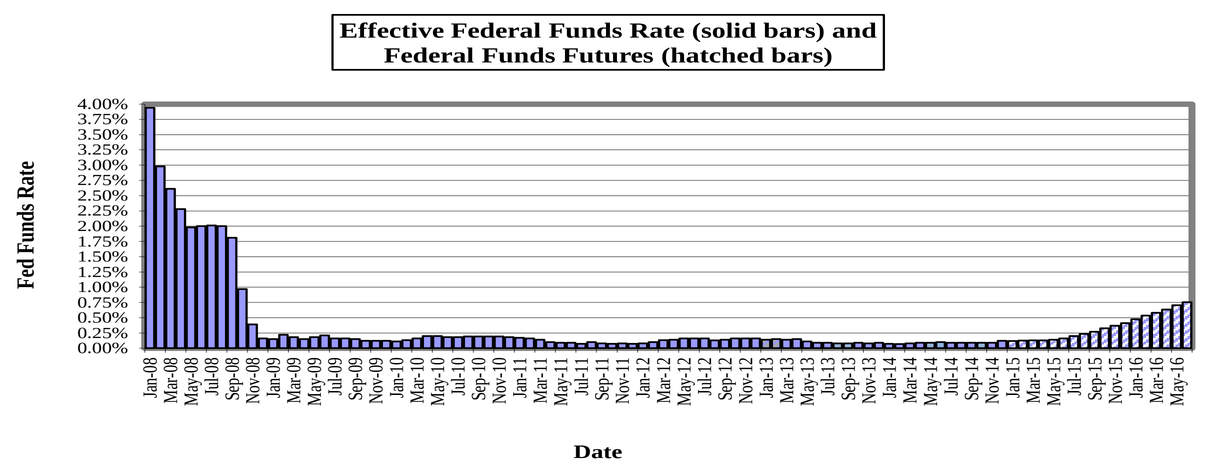
Subsequent to its January 27-28 meeting of the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System, the Committee stated that "with appropriate policy of accommodation, economic activity will expand at a moderate pace, with labor market indicators continuing to move toward levels the Committee judges consistent with its dual mandate" to foster maximum employment and price stability. Labor market conditions improved with solid gains and lower unemployment rate. Inflation has declined further below the Committee's objective of 2.0 percent largely reflecting declines in energy prices. According to the Committee's press release, "market-based measures of inflation compensation have declined substantially in recent months and survey-based measures of longer-run inflation expectations have remained stable." Based on its continuing support toward its dual mandate, the Committee stated that the current 0.00 to 0.25 percent target range for the federal funds rate is appropriate.

Following its December 2014 meeting, the FOMC released its latest economic projections from 2015 to 2017 (the next scheduled release of its economic projections is in March). Real GDP is expected to increase between 2.6 and 3.0 percent in 2015, between 2.5 and 3.0 percent in 2016, and between 2.3 and 2.5 percent in 2017. The January survey of economists by the *Wall Street Journal* estimates that real GDP will increase 2.9 – 3.0 percent in 2015. However, both the FOMC projections and the *WSJ* survey were done before the release of the fourth quarter real GDP by the BEA on January 30.

Both the *WSJ* January survey of economists and the economic projections by the FOMC in December suggest that unemployment will gradually decrease to 5.2 percent by the end of 2015.

"Core" inflation, as measured by the personal consumption expenditure (PCE) index excluding food and energy and the preferred measure of inflation by the FOMC, will increase modestly between 1.0 and 1.6 percent in 2015 and between 1.7 and 2.0 percent by 2016. However, the survey of economists by the *WSJ* suggests that inflation, as measured by the consumer price index (CPI), will increase to 2.3 percent by December 2016.

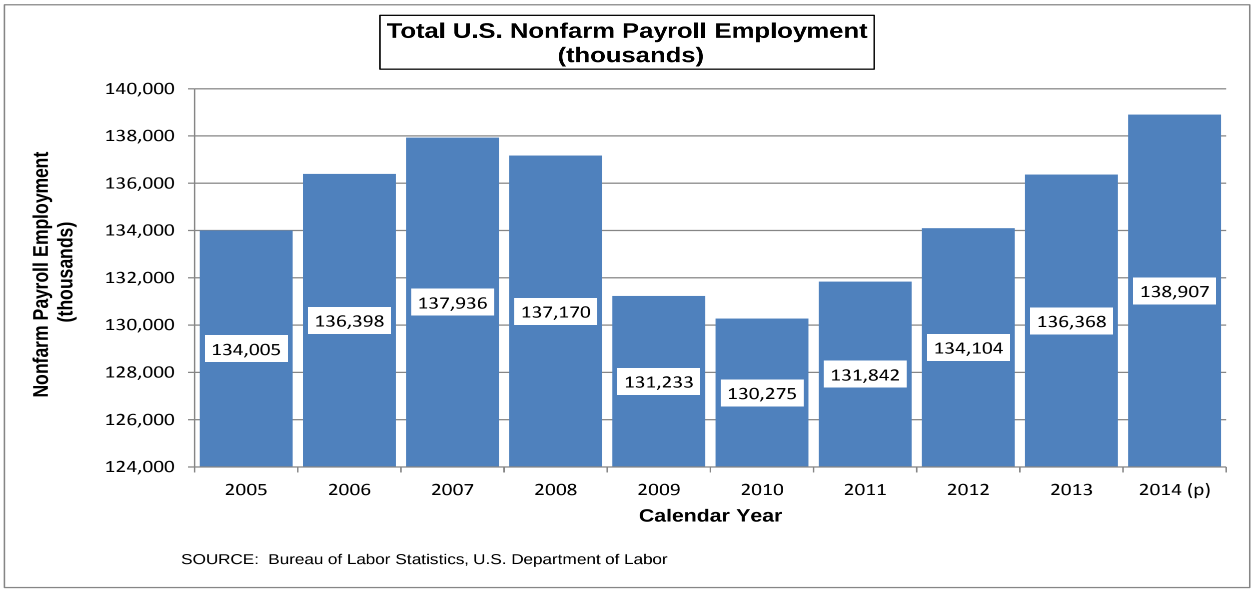
Following the meeting of the FOMC, the futures market for the 30-day federal funds rate remains at or below the 0.25 percent level through the third quarter of 2015. After that date, the futures market expects the rate to gradually increase from the effective rate of 0.12 percent in December 2014 to 0.75 percent by June 2016, while the January *WSJ* survey of 50 economists project on average that the federal funds rate could reach 1.69 percent by June 2016. Following its December meeting, the FOMC released its latest economic projections through 2016. The average of responses from seventeen participants indicated increasing the target federal funds rate to 1.13 percent in 2015, 2.55 percent in 2016, and 3.50 percent in 2017. While the increase in 2015 exceeds that of the federal funds futures market, it should be noted that all of the responses ranged from 0.125 percent to 1.875 percent while the vast majority of responses ranged between 0.875 percent and 1.875 percent.



SOURCES: Federal Reserve Bank of Saint Louis (solid bars) and the Chicago Board of Trade (hatched bars) as of January 30, 2015

National sales of existing homes decreased 3.1 percent in 2014 but the second highest level of sales following 2013 in seven years. Median home prices for existing homes increased 5.8 percent in 2014 and the average sales price increased 4.0 percent. The inventory level decreased 0.5 percent in 2014 and was the second lowest inventory level in over fifteen years. With the exception of the percent decline, the other factors indicate an improvement in the national real estate market.

National employment, as measured by the survey of establishments (Current Employment Statistics), was 138.9 million in 2014 – an increase of over 2.5 million or 1.9 percent.

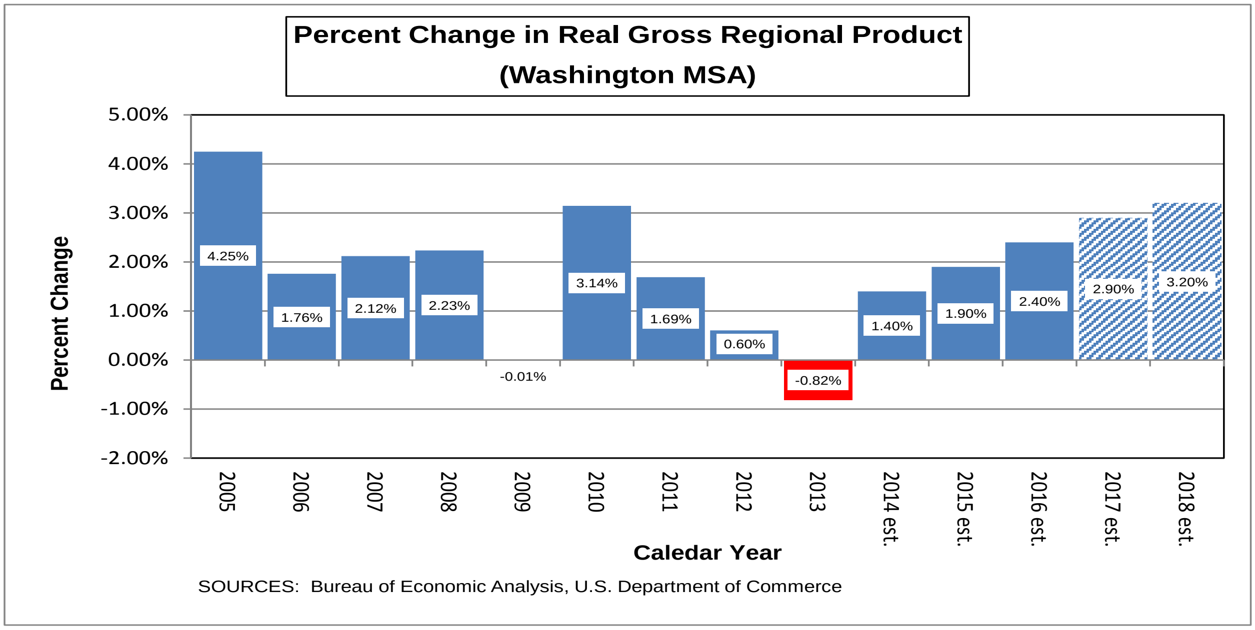


Following a very strong performance in 2013, the growth in the stock market moderated in 2014. The Dow Jones Industrial Average (DJIA) increased 7.52 percent in 2014 which followed a 26.50 percent jump in 2013. The Standard and Poor's 500 Index (S&P 500) increased 11.39 percent in 2014 following a 29.60 percent increase in 2014. The NASDAQ, which outperformed the other three indices in 2013 (↑38.32%) and 2014, increased 13.40 percent in 2014. The lowest growth in 2014 was experienced by the Russell 2000 index. After increasing 37.00 percent in 2013, the index decelerated dramatically in 2014 and increased a modest 3.53 percent.

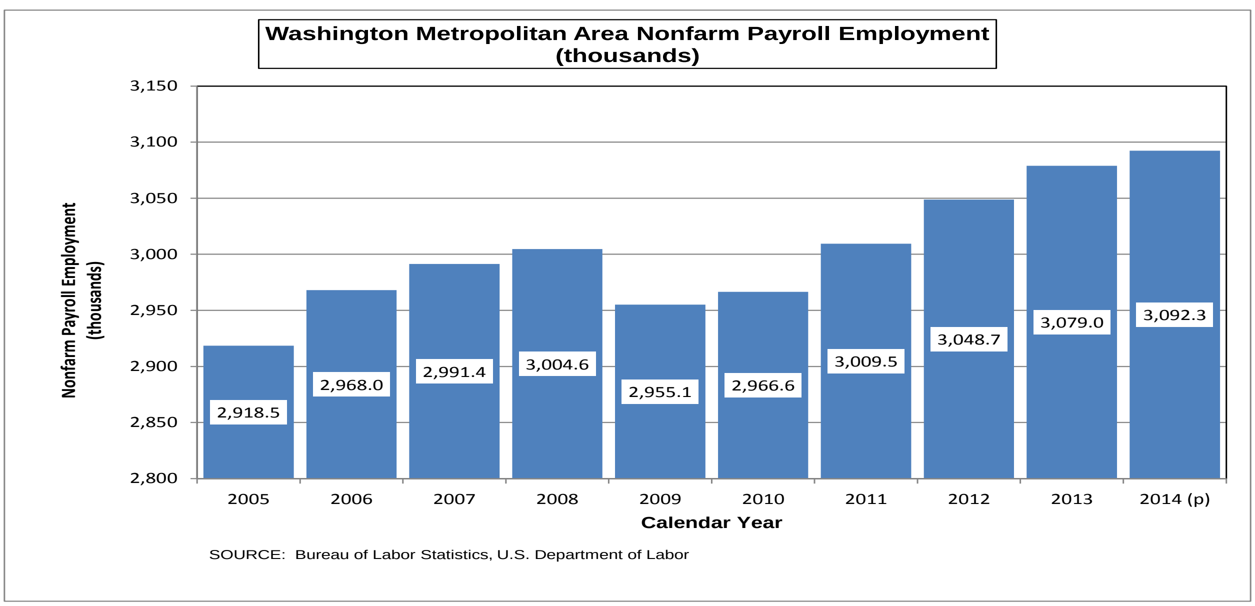
Since the Federal Reserve began its three "quantitative easing" programs in March 2009, their effect on stock market returns has been significant. For example, starting with the first "quantitative easing" program in March 2009, the DJIA increased over 71 percent until its suspension in April 2010. Starting with the second "quantitative easing" program, the DJIA increased over 24 percent between August 2010 and June 2011. Therefore, as the Federal Reserve continued to reduce its asset purchasing program with its conclusion in October of last year, and the uncertain geopolitical and global financial and economic crises, the stock market may continue to experience periods of volatility from month to month during calendar year 2015. Since the end of the QE program at the end of October, the stock market experienced declines in the DJIA (↓1.30%), S&P 500 (↓1.14%), and the Russell 2000 (↓0.69%). Only the NASDAQ experienced an increase albeit at a very modest rate (↑0.10%). The largest declines during the November-January period occurred in January when all four indices declined between 2.13 percent (NASDAQ) and 3.69 percent (DJIA).

REGIONAL ECONOMY

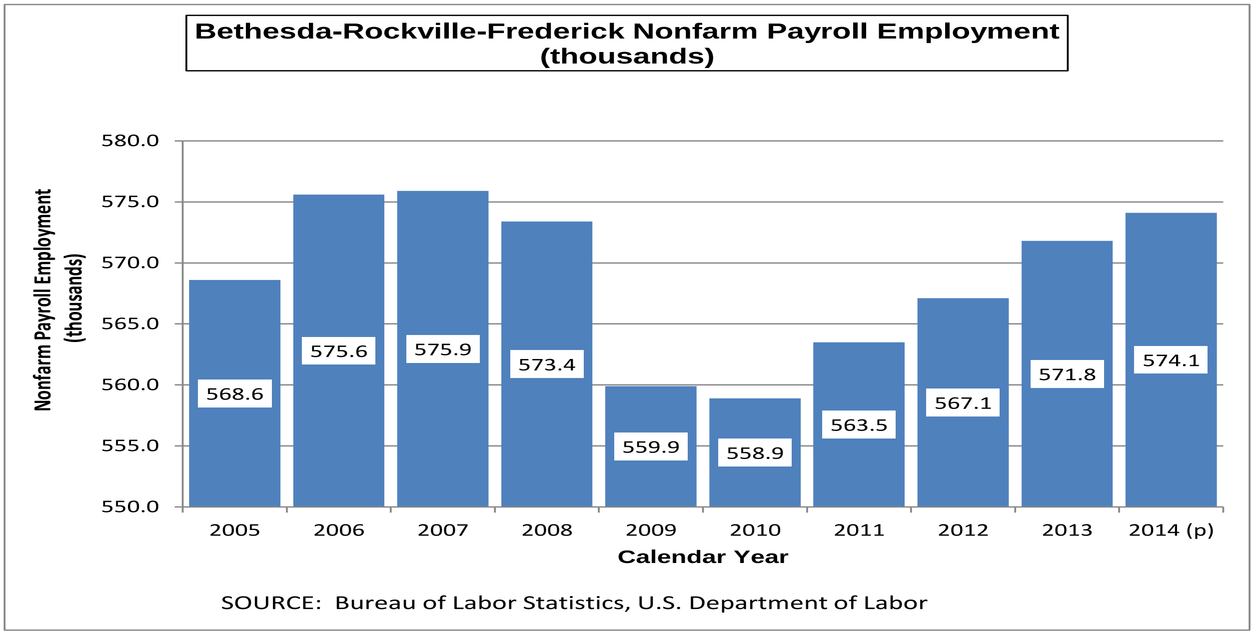
According to BEA, the region's economy contracted in 2013 for the first time since the end of the national recession in 2009. As measured by the gross regional product by MSA, the regional economy declined 0.8 percent in 2013. This is the first decline since 2009 (↓0.01%). The sectors that contributed to the decline were professional and business services (↓0.27%) and government (↓0.41%). According to the Center for Regional Analysis (CRA), George Mason University, the decline "was driven by federal spending reductions, both in contracting and wages that resulted from the military and stimulus drawdowns, sequestration, and the federal shutdown." CRA estimates that the gross regional product increased from a modest 1.40 percent in 2014 (below the 2.4 percent national rate) to 3.2 percent in 2018.



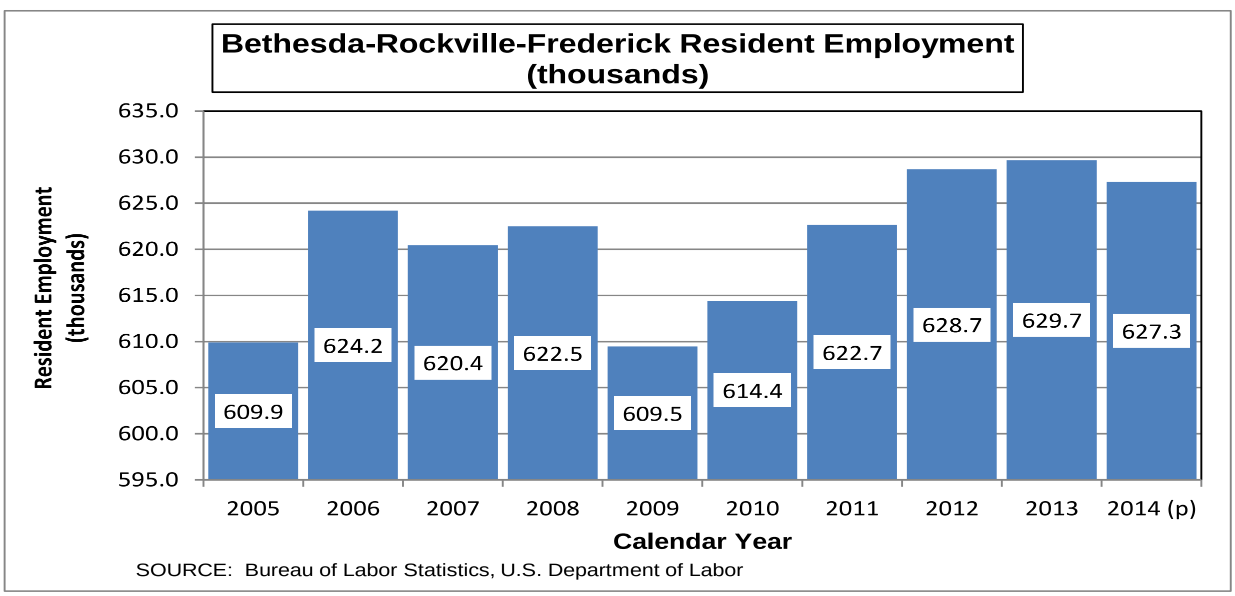
According to payroll employment data from the Bureau of Labor Statistics, U.S. Department of Labor and based on the survey of establishments, employment in the Washington area was 3,092,300 in 2014 – an increase of 0.43 percent from 2013.



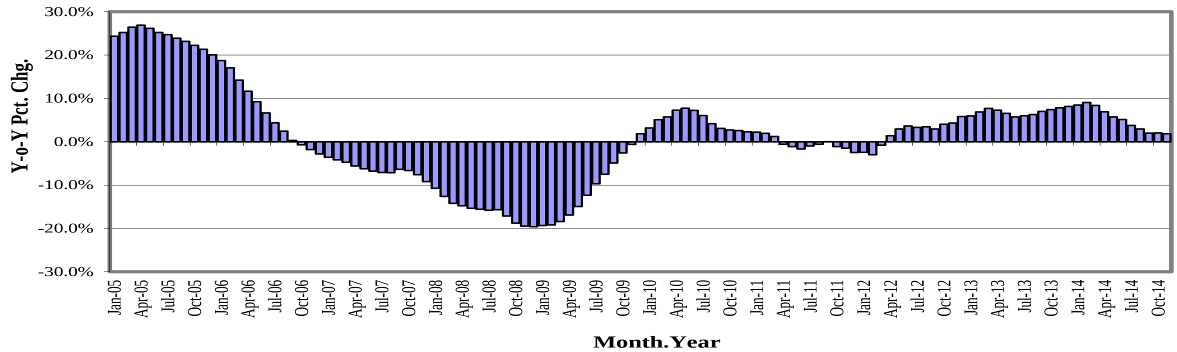
Payroll employment for the Bethesda-Rockville-Frederick (BRF) metropolitan division was 574,100 in 2014 and 0.40 percent above 2013. The increase in 2014 was slightly below the rate for the entire metropolitan region (↑0.43%).



However employment for the Bethesda-Rockville-Frederick residents, as measured by the survey of households or resident employment, exhibited a different trend in 2014. Employment as measured by that survey declined 0.38 percent from 629,700 in 2013 to 627,300 in 2014. Since there is a difference in the trend of two separate measures of employment in 2014, that difference suggests that while employers in the BRF metropolitan division continue to hire, employees working in the BRF metropolitan division are residing outside the Montgomery-Frederick counties.

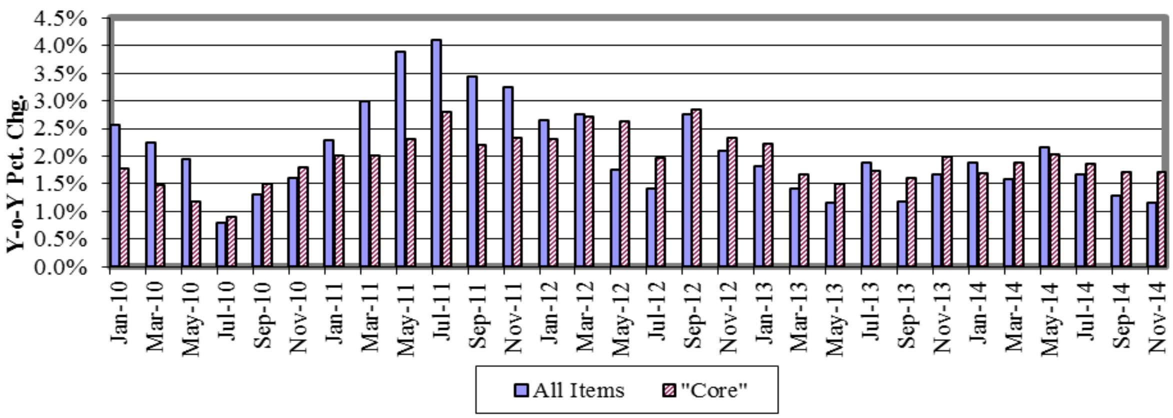


The resale housing market across the region essentially experienced a modest growth of 1.9 percent in prices, on a year-over-year basis, between November 2013 and November 2014. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices through November increased 5.0 for the year.



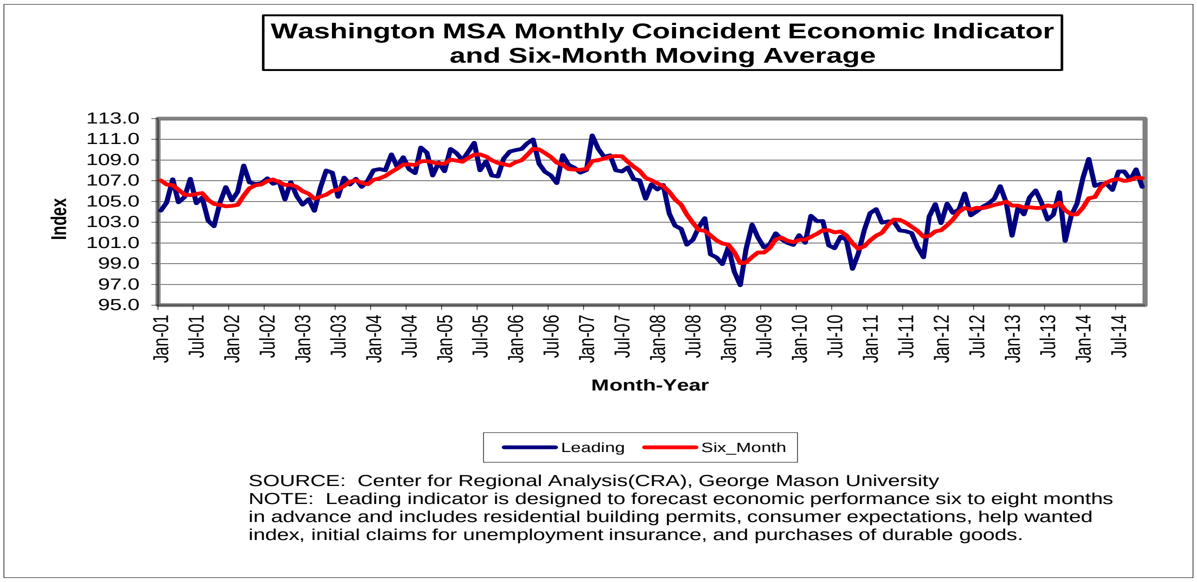
NOTE: S&P/Case-Shiller price index is a registered trademark of Standard and Poor's.

As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased a meager 1.2 percent on a year-over-year basis in November 2014 over November 2013. Consumer prices excluding food and energy purchases were up 1.7 percent in the region (on the same year-over-year basis). Through November 2014, the CPI increased 1.64 percent over the same January-November period in 2013.

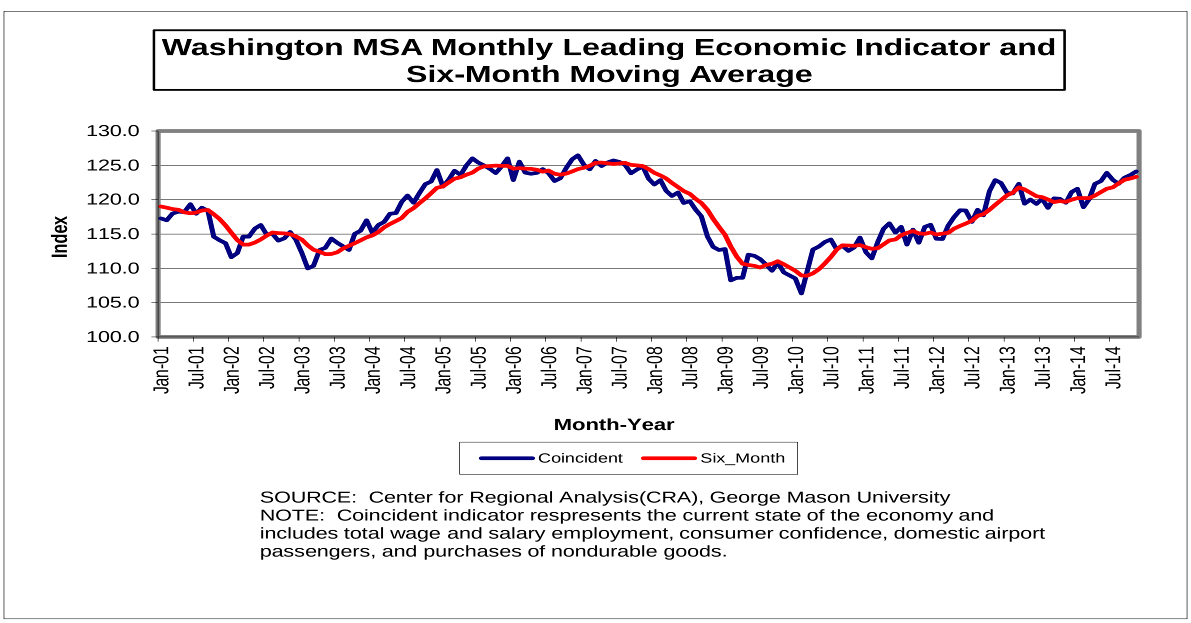


SOURCE: Bureau of Labor Statistics, U.S. Department. of

According to CRA, the monthly coincident economic indicator for the Washington metropolitan region decreased 1.6 percent from October to November 2014 – the latest date for which data are available. The coincident index measures the current performance of the region's economy and now declined in two of the past three months.



While the coincident indicator decreased in November, CRA also reported that the leading economic indicator increased 0.4 percent from October to November of last year. The leading index measures the economic performance of the region three to six months ahead. For the three-month period ending in November, the leading index increased each month over that period. This pattern suggests that the region's economy may experience modest growth over the next three to six months. Based on the recent trends in the leading index, it suggests that the region's GDP experienced modest growth in 2014 as estimated by CRA.

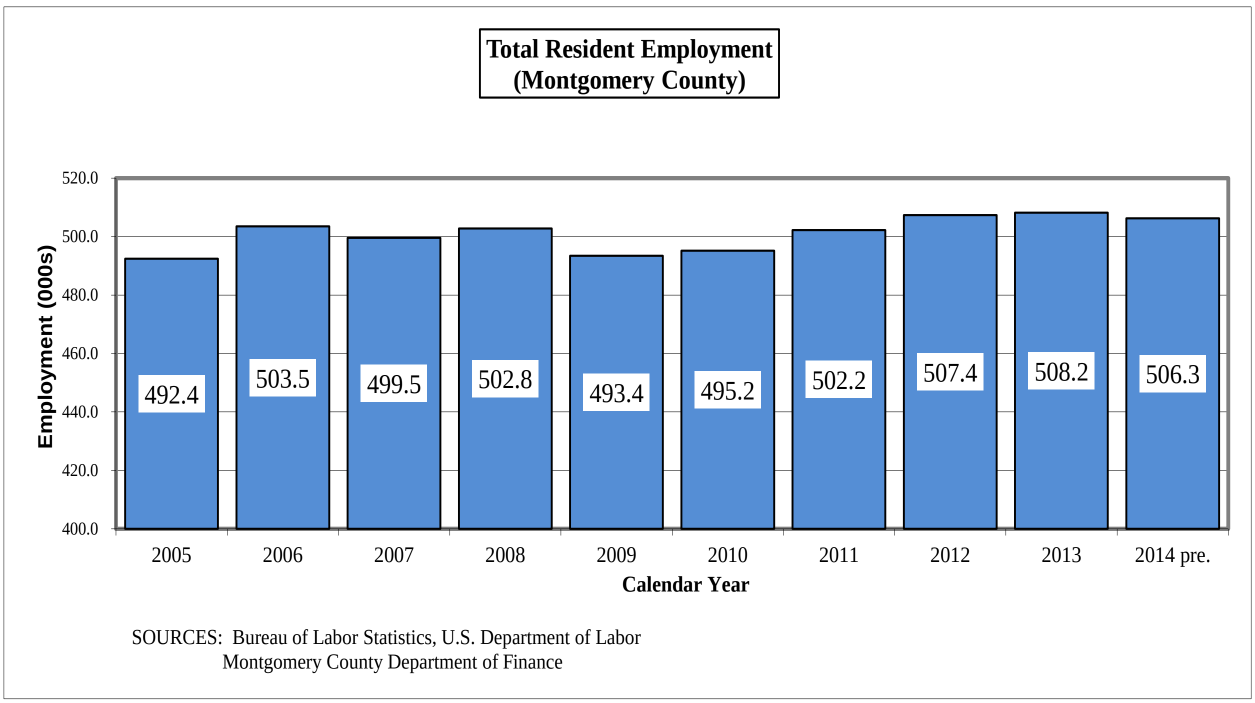


MONTGOMERY COUNTY
ECONOMIC INDICATORS

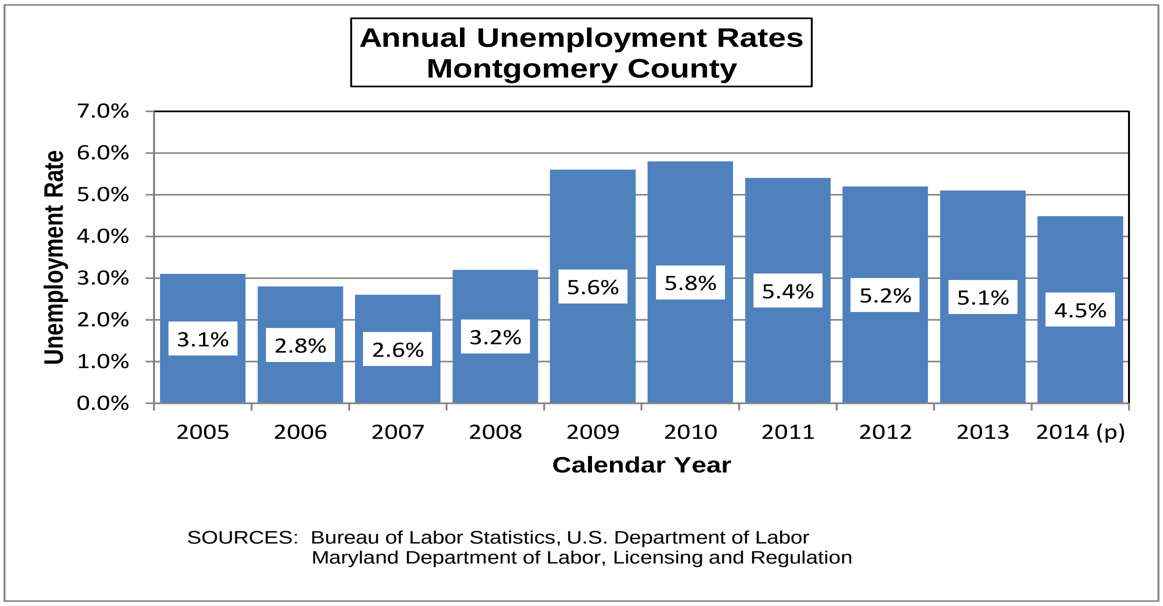
Montgomery County's economy experienced mixed economic performance during 2014. The reasons for a mixed performance include a decline in both residential employment, and sales of existing homes, no increase in the *median* sales price for an existing home, a decline in the construction in the number of new residential units, and a decline in the construction of new office and bank buildings. However, offsetting those declines, the County experienced a decline in the unemployment rate and an increase in the *average* sales price for an existing home.

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, resident employment (labor force series and not seasonally adjusted) in 2014 decreased by nearly 1,920 from 2013 (↓0.38%).

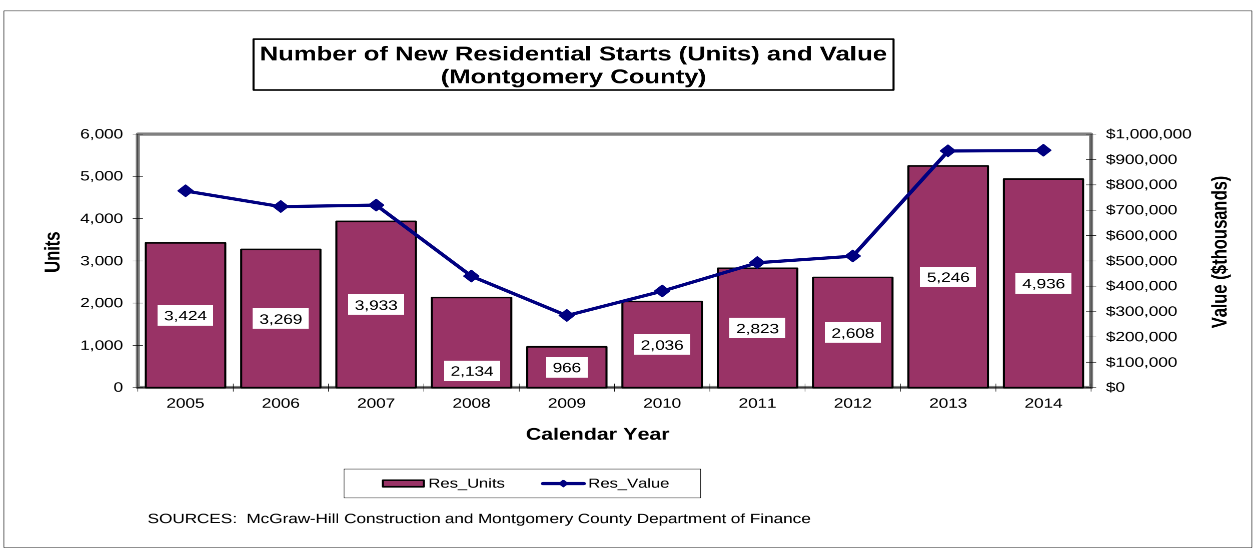


The County's unemployment rate declined to 4.5 percent compared to 5.1 percent in 2013 and is the lowest level in six years. However, the decline in the unemployment rate is attributed to a larger percentage decline in the labor force (↓0.97%) than in resident employment (↓0.38%).



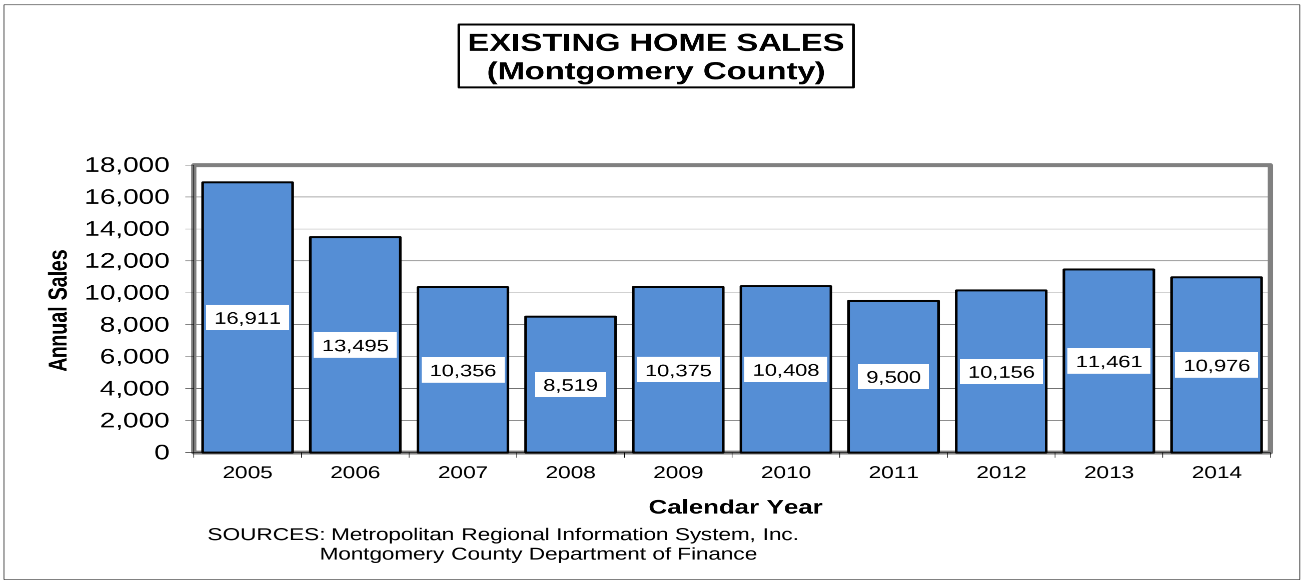
Construction Activity

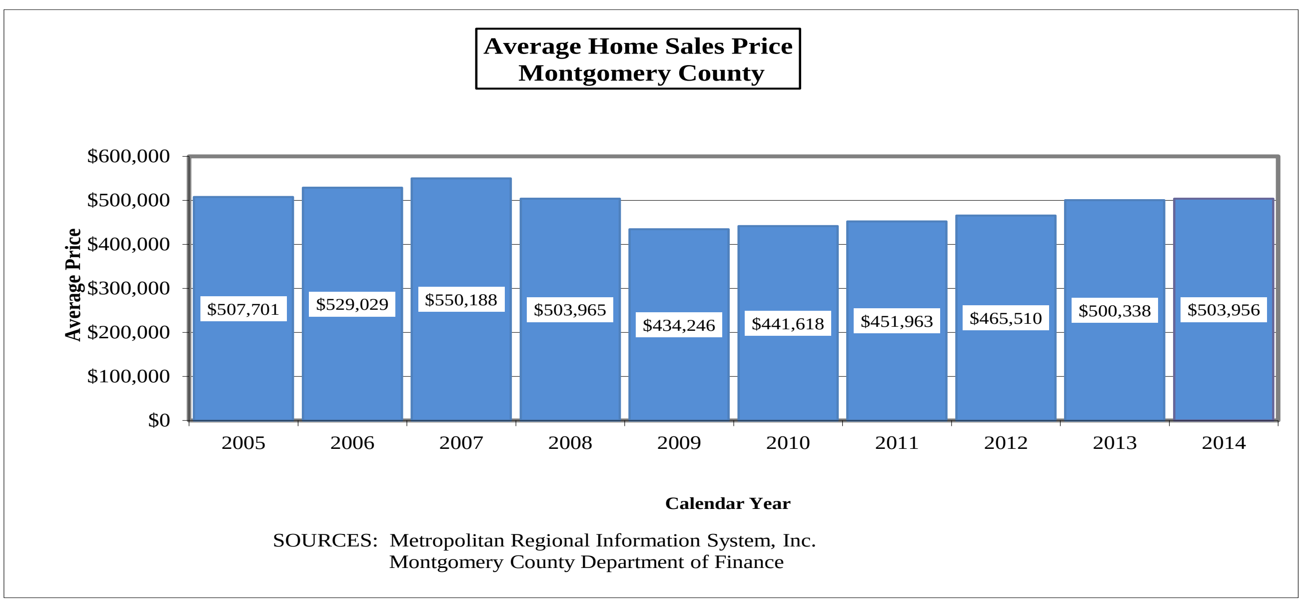
After experiencing an increase of over 100 percent in 2013, the construction of new residential units declined 5.9 percent in 2014. Even with that decline, the number of new residential units constructed in 2014 was the second highest number in ten years. The decrease was attributed to construction of single-family homes (↓10.8%) and multi-family units (↓3.7%). Total value added increased slightly from a total of $933.7 million in 2013 to $935.9 million in 2014 (↑0.2%). While the number of non-residential construction projects increased from 104 projects in 2013 to 152 in 2014 (↑46.2%), the total value added decreased from $829.3 million to $456.7 million (↓44.9%). The difference between the growth in the number of projects and the decline in value added is attributed to the decline in the amount of square footage for the construction of office and bank buildings from 1.735 million square feet in 2013 to less than 0.3 million square feet in 2014 and a decline in value added from $182.2 million to $52.1 million in 2014 (↓72.1%).



Residential Real Estate

During calendar year 2014, existing home sales decreased 4.2 percent from 2013. Average sales prices for existing homes increased 0.7 percent in 2014 but the median sales price did not change and remained at $400,000 in 2014. Even with low mortgage rates, the real estate market in the County was weak with declining home sales and weak price increases. Such a weakness can be attributed to the weak employment situation during 2014 when resident employment declined 0.38 percent. Unless the employment outlook improves in the County, home sales will likely remain weak. Another factor is that the number of new listings for home sales, a measure of inventory-to-sales ratio, has remained at or below three-months of sales. At that level, average or median sales prices should increase at a greater rate than experienced in 2014.





Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, retail sales, including assessment collections, increased an estimated 3.0 percent during the first eleven months of 2014. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 4.3 percent during this period while sales of durable goods were up 3.4 percent. The increase in nondurable goods purchases was largely attributed to the increase in food and beverage items (↑5.6%) and utilities and transportation (↑5.4%), while the increase in purchases of durable goods was solely attributed to an increase in automobile sales and products (↑4.6%) and furniture and appliances (↑3.9%). Given the decline in home sales during 2014, the increase in sales of furniture and appliances is a conundrum given the historical relationship between home sales and sales of furniture and appliances.

CONCLUSION

The major economic indicators confirm that the County's economy experienced mixed performance during 2014. The reasons for a mixed performance include a decline in existing home sales and a decline in the value added for non-residential construction and a decline in resident employment. However, positive economic indicators show that the County experienced a decline in the unemployment rate and an increase in the average sales price for an existing home.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date 2014	Year To-Date 2013	Annual 2013
Leading Indicators						
National	Dec. '14	0.5%		n.m.	n.m.	n.m.
Washington MSA	Nov. '14	-1.6%		3.1%	-0.5%	-0.5%
Coincident Indicators						
National	Dec. '14	0.2%		n.m.	n.m.	n.m.
Washington MSA	Nov. '14	0.4%		1.7%	2.0%	1.7%
Consumer Confidence Index						
National	Jan. '15	10.5%		18.6%	9.2%	9.2%
South Atlantic Region	Jan. '15	-3.5%		24.0%	7.3%	7.3%
Consumer Sentiment (University of Michigan)	Jan. '15	4.9%		6.2%	3.5%	3.5%
Consumer Price Index						
All Items (nsa)						
National	Dec. '14	0.8%		1.6%	1.5%	1.5%
Washington - Baltimore CMSA	Nov. '14	1.2%		1.6%	1.5%	1.5%
Core CPI (nsa)						
National	Dec. '14	1.6%		1.8%	1.8%	1.8%
Washington - Baltimore CMSA	Nov. '14	1.7%		1.8%	1.8%	1.8%
Retail Trade						
National (sales - nsa)	Dec. '14	4.6%		4.0%	3.8%	3.8%
Maryland (sales tax)(1)	Nov. '14	23.6%		4.4%	0.5%	1.8%
Montgomery County (sales tax)(1)	Nov. '14	15.9%		3.0%	-0.6%	0.2%
Employment						
Maryland (labor force data - nsa)	Dec. '14	2,913,050	2,916,727	2,924,783	2,921,931	2,921,931
- Percent Change		-0.1%		0.1%		0.4%
Bethesda-Frederick-Gaithersburg (labor force data)	Dec. '14	623,271	625,397	627,315	629,684	629,684
- Percent Change		-0.3%		-0.4%		0.2%
Montgomery County (labor force data)	Dec. '14	503,014	504,730	506,261	508,190	508,190
- Percent Change		-0.3%		-0.4%		0.2%
Montgomery County (QCEW)	June '14	462,344	458,065	453,250	450,725	451,809
- Percent Change		0.9%		0.6%		0.2%
Unemployment						
Maryland (nsa)	Dec. '14	5.3%	5.6%	5.8%	6.6%	6.6%
Bethesda-Frederick-Gaithersburg (nsa)	Dec. '14	4.1%	4.3%	4.6%	5.2%	5.2%
Montgomery County (nsa)	Dec. '14	4.0%	4.1%	4.5%	5.1%	5.1%
Construction						
Construction Starts - Montgomery County						
Total ($ thousands)	Dec. '14	$103,018	$76,094	$1,392,600	$1,762,947	$1,762,947
- Percent Change		35.4%		-21.0%		32.9%
Residential ($ thousands)	Dec. '14	$28,321	$66,744	$935,916	$933,688	$933,688
- Percent Change		-57.6%		0.2%		80.1%
Non-Residential ($ thousands)	Dec. '14	$74,697	$9,350	$456,684	$829,259	$829,259
- Percent Change		698.9%		-44.9%		2.6%
Building Permits (Residential)						
Maryland	Dec. '14	1,068	1,173	17,353	18,138	18,138
- Percent Change		-9.0%		-4.3%		23.8%
Montgomery County (units)	Dec. '14	96	254	3,818	3,514	3,514
- Percent Change		-62.2%		8.7%		-10.9%
Building Permits (Non-Residential)						
Montgomery County	Dec. '14	181	157	1,886	2,060	2,060
- Percent Change		15.3%		-8.4%		-6.3%
Construction Cost Index	Jan. '15	7,052.64	6,925.31	6,944.95	6,931.27	6,931.27
Baltimore		1.8%		0.2%		5.2%
Real Estate						
Case-Shiller Home Price Index®(nsa)	Nov. '14	207.48	203.71	207.82	197.88	198.40
		1.9%		5.0%		6.9%
Maryland						
Sales	Dec. '14	5,832	4,855	62,791	63,556	63,556
- Percent Change		20.1%		-1.2%		12.4%
Median Price	Dec. '14	$250,482	$255,138	$258,494	$261,153	$261,153
- Percent Change		-1.8%		-1.0%		6.6%
Montgomery County						
Sales	Dec. '14	960	832	10,976	11,461	11,461
- Percent Change		15.4%		-4.2%		12.9%
Average Price	Dec. '14	$491,031	$502,889	$503,956	$500,338	$500,338
- Percent Change		-2.4%		0.7%		7.5%
Median Price	Dec. '14	$397,000	$386,000	$400,000	$400,000	$400,000
- Percent Change		2.8%		0.0%		8.7%
Average Days on the Market	Dec. '14	69	53	50	47	47

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