



Economic Indicators

Prepared by the Department of Finance • July 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>*

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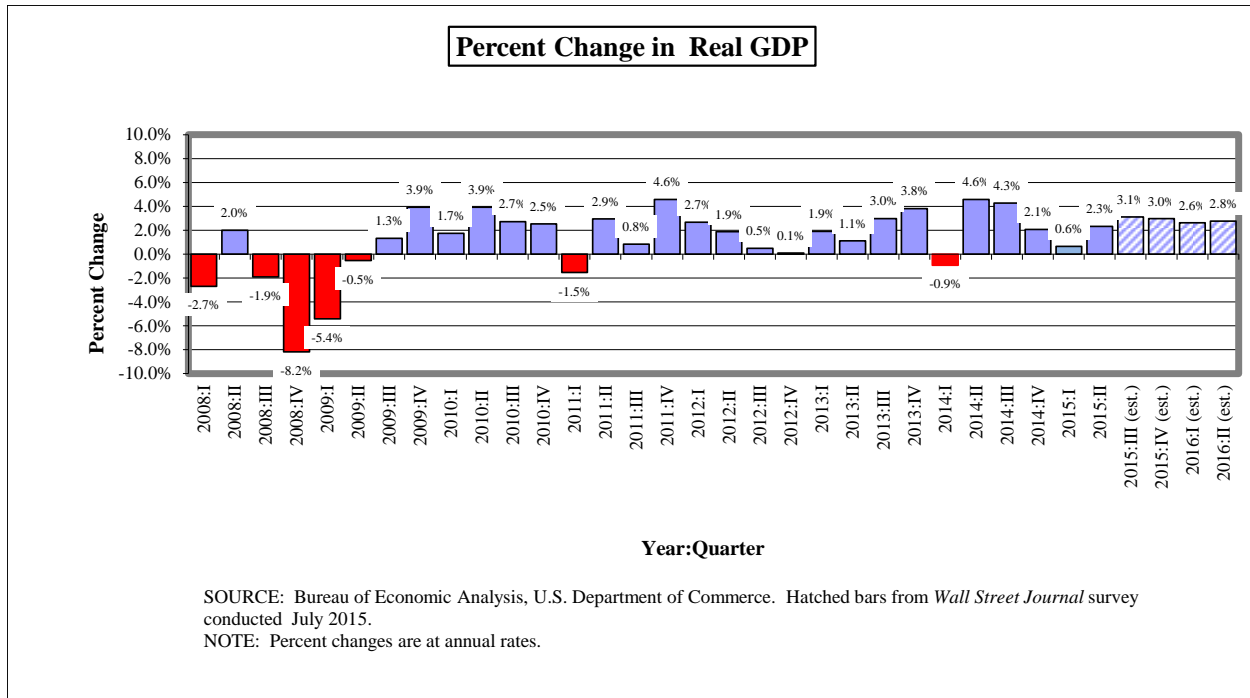
INTRODUCTION

This quarterly report provides an analysis of national, state, regional, and Montgomery County economic indicators for the second quarter of calendar year (CY) 2015 and completed fiscal year (FY) 2015. For this report, the fiscal year covers the July to June period. The data presented in this report are not seasonally adjusted to insure comparability among the national, state, regional and Montgomery County economic indicators. Since the data are not seasonally adjusted, the comparative periods for the quarterly data are the second quarter of this calendar year and the second quarter of calendar year 2014. The only data that are seasonally adjusted are the national real gross domestic product (GDP) and its components and the employment cost index (ECI).

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 2.3 percent seasonally adjusted annual rate during the second quarter of 2015. That increase followed an increase of 0.6 percent during the first quarter. The previous estimate for the first quarter was a 0.2 percent contraction. That revision to the first quarter estimate reflects the results of the annual revision by BEA of the national income and product accounts for the recent three years, i.e., CY2011 to CY2014. Based on the *Wall Street Journal* (WSJ) July survey of sixty economists, the average of the responses expect economic growth to increase 3.1 percent during the current third quarter, and 3.0 percent during the fourth quarter of this year. The survey of economists by *The Wall Street Journal* estimates that real GDP will increase 2.2 percent in 2015 and 2.7 percent in 2016. Following its June meeting, the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System released its latest economic projections from 2015 to 2017. Real GDP is expected to increase between 1.8 and 2.0 percent in 2015, between 2.4 and 2.7 percent in 2016, and between 2.1 and 2.5 percent in 2017. However, both the FOMC projections and the *WSJ* survey were done before the second quarter real GDP was released by the BEA on July 30th which was slightly below market expectations of 2.5 percent.

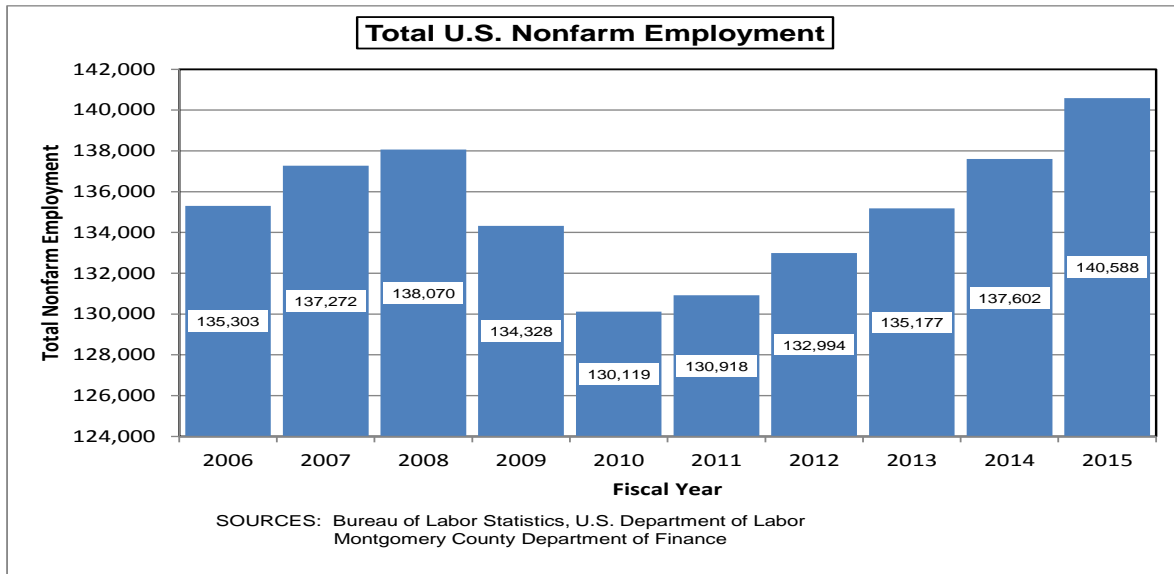
Data released by BEA for the second quarter showed that the increase in real GDP was attributed to an increase in personal consumption expenditures (↑2.9% - up from the ↑1.8% during the first quarter). However, real non-residential fixed investment decreased 0.6 percent compared to a 1.6 percent increase during the first quarter. Residential real estate continued to improve during the second quarter with residential fixed investment increasing 6.6 percent which followed increases of 10.0 percent and 10.1 percent during the fourth quarter of 2014 and the first quarter, respectively.



Real final sales of domestic product (real GDP less the change in private inventories) increased 2.4 percent in the second quarter compared to a decrease of 0.2 percent during the first 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. For the second quarter, the percent increase in real final sales (2.4%) was slightly greater than the percent increase in real GDP (2.3%) which suggests that future growth in real GDP through the remainder of 2015 may continue to increase.

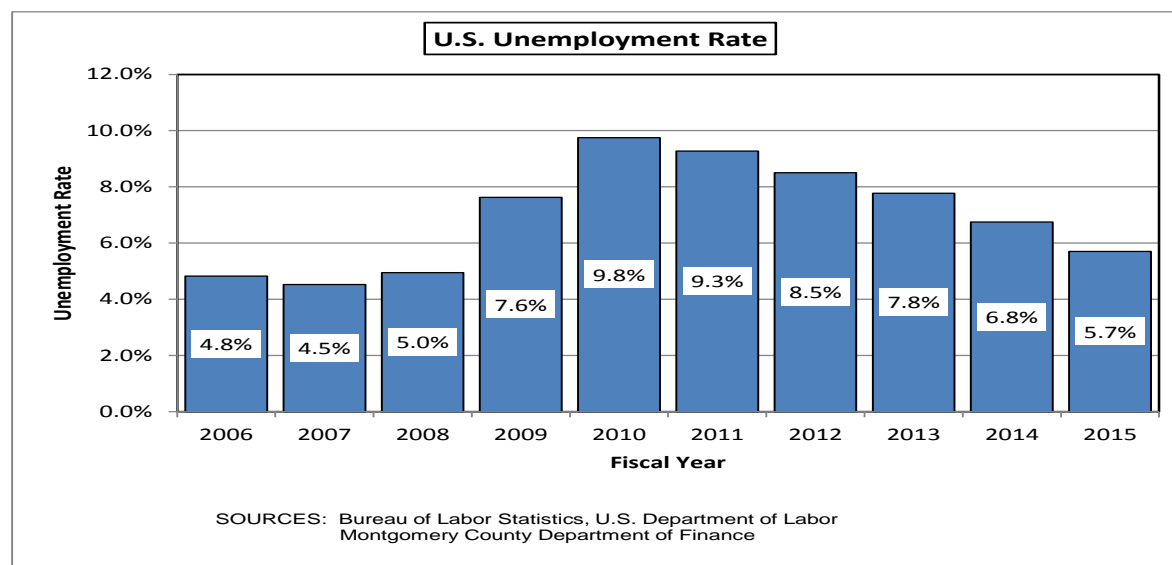
Sales of existing homes increased 8.5 percent during the second quarter compared to the second quarter of 2014. That increase was the highest since the third quarter 2013 and the third consecutive quarterly increase. Median home prices for existing homes increased 7.6 percent during the second quarter of 2015 compared to a 4.4 percent increase during the same period in 2014. While the inventory level increased a meager 0.4 percent during the second quarter compared to the same quarter in 2014, it was the second largest level over the past twelve quarters. With home sales increasing and a meager increase in inventory during the second quarter, the national real estate market continues to show signs of improvement. Both the National Association of Realtors (NAR) and the Mortgage Bankers Association (MBA) forecast that sales of existing homes will increase between 6.0 percent and 6.7 percent in 2015 and between 4.1 percent and 5.2 percent in 2016. Thirty-year fixed rate mortgages will average 4.0 percent in CY2015 and 4.9 percent in 2016.

Monthly national employment, as measured by the survey of establishments (Current Employment Statistics), averaged 142.2 million (not seasonally adjusted) during the second quarter of this year – an increase of nearly 3.1 million or nearly 2.2 percent from the second quarter of 2014. Employment reached nearly 140.6 million in fiscal year 2015 – an increase of nearly 3.0 million or 2.2 percent from fiscal year 2014 – and the largest gain in over nine years.



The unemployment rate during the second quarter stood at 5.3 percent (not seasonally adjusted) and a significant improvement from the 6.1 percent in the second quarter of 2014. For fiscal year 2015, the unemployment rate declined 1.1 percentage points from 6.8 percent in fiscal year 2013 to 5.7 percent in fiscal year 2015. The July survey of economists by *The Wall Street Journal* expects the jobless rate to be at 5.1 percent by December and 4.8 percent by December 2016. Both the *WSJ* July survey of economists and the economic projections by the FOMC in June suggest that the unemployment rate will gradually decrease to 4.8-5.1 percent by the end of 2016.

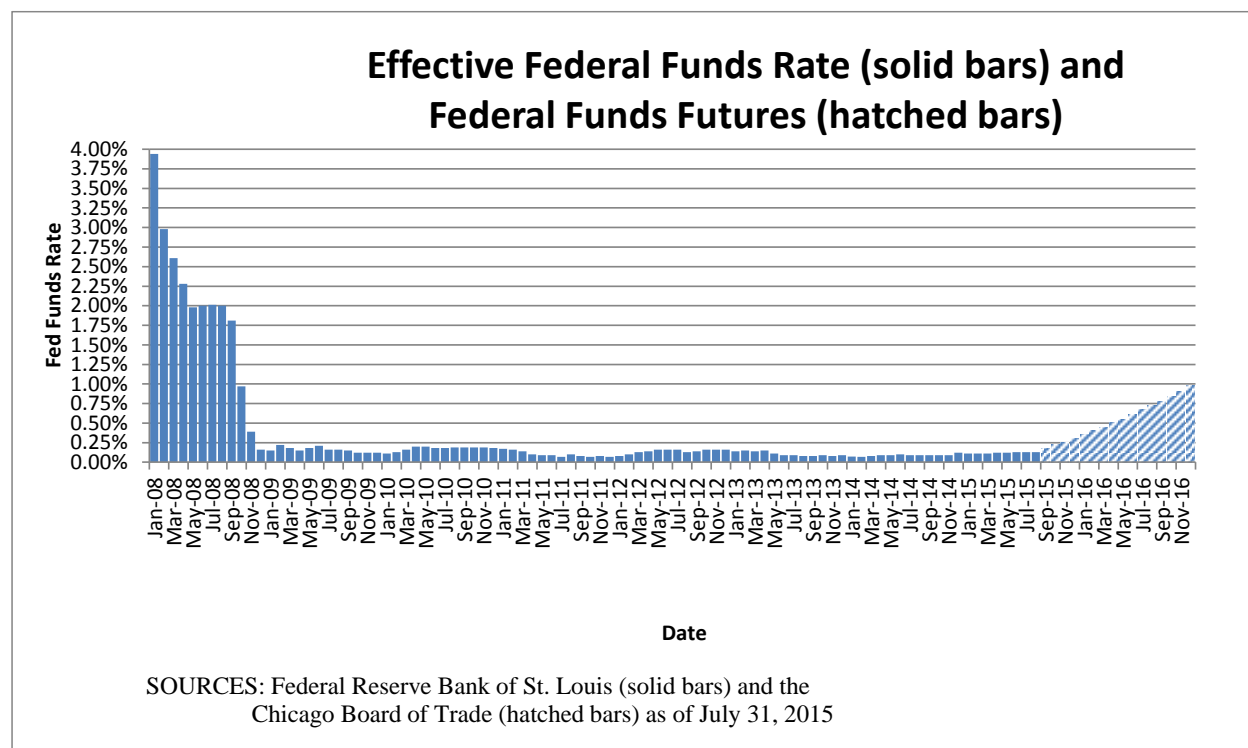
Since the July meeting of the FOMC, the Bureau of Labor Statistics, U.S. Department of Labor released the second quarter employment cost index (ECI). The index increased a meager 0.2 percent on a seasonally adjusted basis from the first quarter and underscores the concern by many economist and policymakers that, despite consistent economic growth, there is very little wage growth for most employees. Since the second quarter of 2001, that increase was the smallest. According to *The Wall Street Journal*, that increase “fueled doubts among some investors and traders that the Fed will increase short-term benchmark interest rate in September.”



Inflation, as measured by the personal consumption expenditure (PCE) index, the preferred measure of inflation used by the FOMC, will increase by slightly less than 2.0 percent by 2016. However, the survey of economists by *The Wall Street Journal* suggests that inflation, as measured by the consumer price index (CPI), will increase to 2.2 percent by December 2016.

Subsequent to the July 28-29 meeting of the FOMC, they stated that “information received since the FOMC met in June indicates that economic activity has been expanding moderately in recent months. On balance, a range of labor market indicators suggests that underutilization of labor resources has diminished since early this year. Inflation continued to run below the Committee’s long-run objective, partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports.” The Committee also stated that it “expects inflation to rise gradually toward 2 percent over the medium term as labor market improves further and the transitory effects of earlier declines in energy and import prices dissipate. Based on the review of the outlook for the economic activity and the labor market, the Committee voted to maintain the targeted federal funds rate at the current 0 to 1/4 percent range.”

Following its June meeting, the FOMC released its latest forecast of rate increases - the “dot plot”. The average of responses indicated increasing the target federal funds rate to 0.57 percent in 2015, 1.75 percent in 2016, 3.00 percent in 2017, and 3.60 percent thereafter. 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 0.875 percent and the majority of responses ranged between 0.625 percent and 0.875 percent. However, since the more recent meeting of the FOMC in July, the futures market for the 30-day federal funds rate remains at or below the 0.25 percent level through September 2015. According to the Chicago Mercantile Exchange’s implied probability data, the first rate increase could occur at the December meeting of the FOMC (55% implied probability) or in January of next year (71% implied probability). After those dates, the futures market expects the rate to gradually increase to nearly 1.00 percent by the end of 2016. However, the July *WSJ* survey projects on average that the federal funds rate will reach 0.54 percent by December 2015 and 1.74 percent by December 2016. The survey also reported that the average of the responses expect the first rate increase is in September 2015.



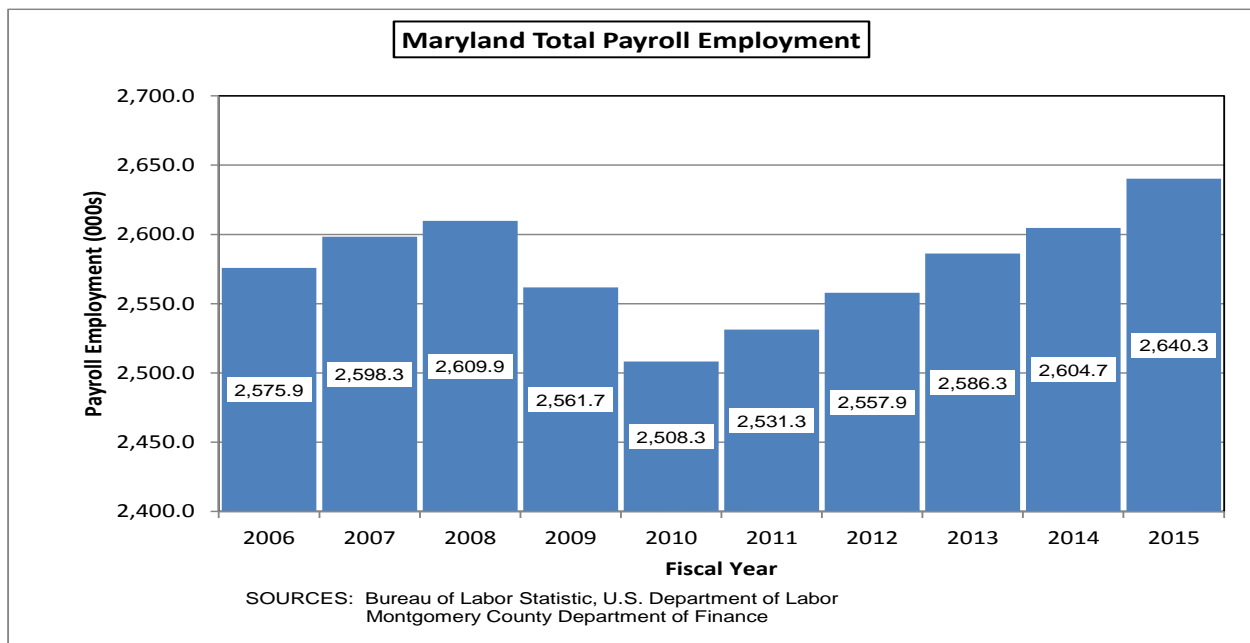
After experiencing modest growth during the first quarter of 2015, the returns in stock market were lower in the second quarter compared to the first quarter. All four stock market indices: the Dow-Jones Industrial Average (↓0.88% compared to ↓0.26% in the first quarter); the Standard & Poor’s 500 (↓0.23% compared to ↑0.44% during the first quarter); the NASDAQ (↑1.75% compared to ↑3.48% during the first quarter); and the Russell 2000 (↑0.09% compared to ↑3.99% during the first quarter) experienced weak performance and, in the case of the DJIA a second consecutive quarterly decline. However, during July, three of the four stock market indices experienced positive returns with the DJIA up 0.40 percent, the NASDAQ up 2.84 percent, and the S&P 500 up 1.97 percent. Only the Russell 2000 was down 1.22 percent in July. Based on a 252-day trading period and on an annualized rate, three of the four indices would experience a December-over-December increase in 2015: NASDAQ (↑14.72%), S&P 500 (↑3.80%), and the Russell 2000 (↑4.92%). The DJIA, however, would experience a decline during 2015 (↓1.29%).

STATE AND REGIONAL ECONOMY

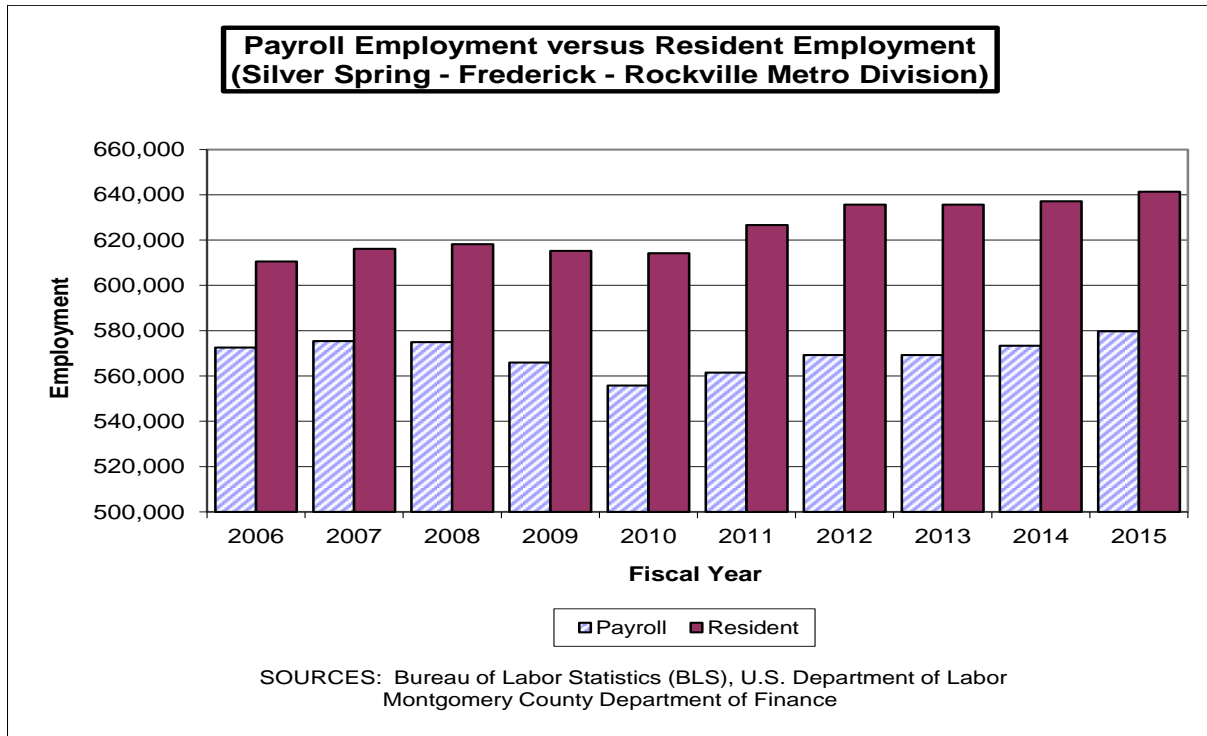
Each month, the Federal Reserve Bank of Richmond (Baltimore Branch) provides the results of the Maryland Survey of Business Activity. According to the latest survey results, “business activity in Maryland advanced solidly for a third consecutive month in July.” According to the survey:

“Labor market conditions remained positive as the employment index continued to indicate significant hiring for a third consecutive month. Business spending increased at a moderate pace, while expenditures on equipment rose soundly for a fifth consecutive month.”

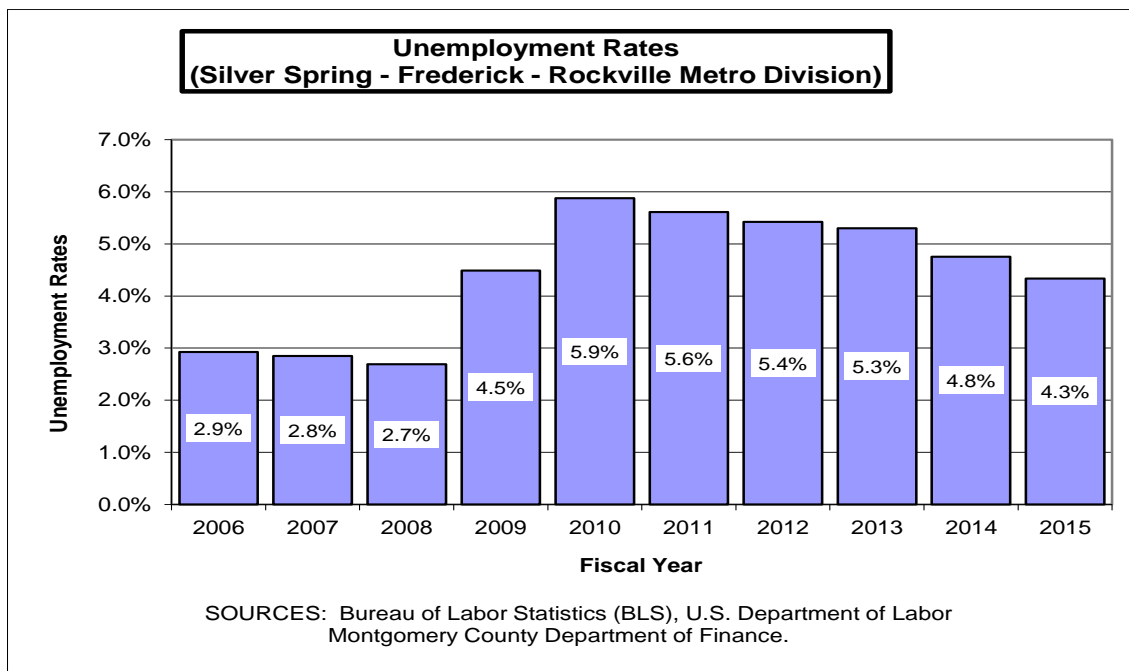
According to the payroll employment data from the Bureau of Labor Statistics, U.S. Department of Labor and based on the survey of establishments, monthly payroll employment in the State of Maryland averaged 2.679 million during the second quarter of 2015 – an increase of 1.7 percent from the second quarter of 2014. In fiscal year 2015, payroll employment in Maryland reached 2.640 million - an increase of 1.4 percent from fiscal year 2014. The State’s unemployment rate declined from 5.8 percent in the second quarter of 2014 to 5.3 percent in the second quarter of this year. On a fiscal year basis, the unemployment rate declined from 6.2 percent in FY2014 to 5.5 percent in FY2015.



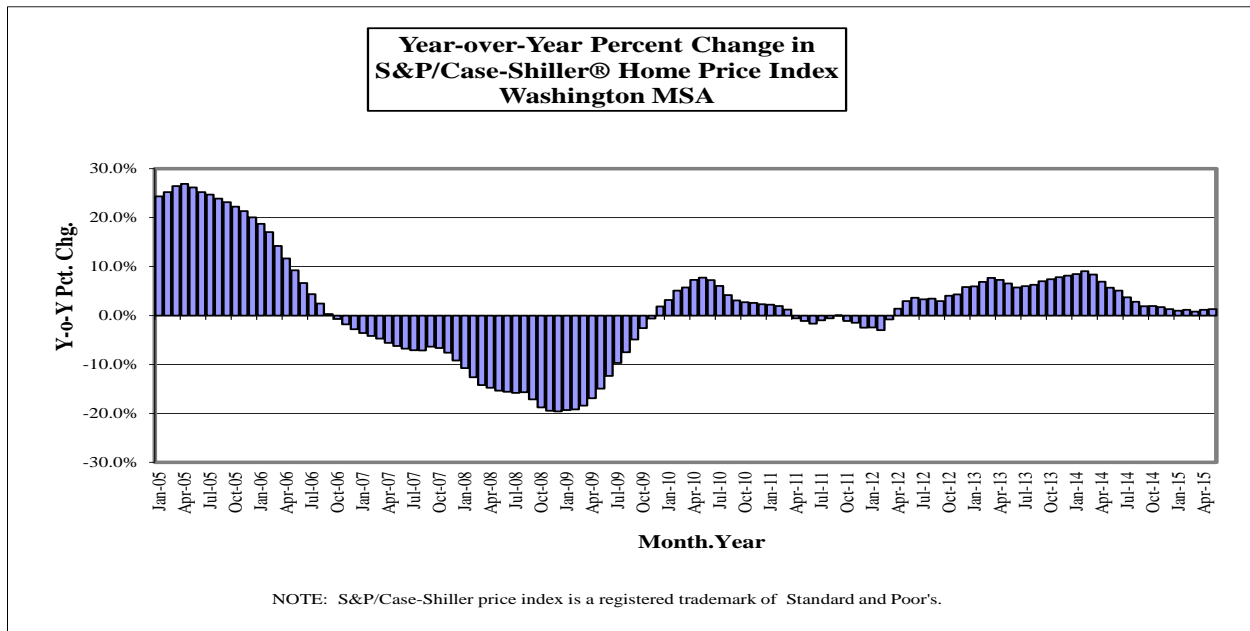
Monthly payroll employment for the Silver Spring-Frederick-Rockville (SSFR) metropolitan division averaged 589,000 during the second quarter and was above employment in the second quarter of 2014 (↑1.66%). That rate of growth was slightly below the second quarter growth rate for the State (↑1.69%). On a fiscal year basis, payroll employment increased 1.1 percent over FY2014 to 579,900. Resident employment, as measured by the household survey, averaged slightly over 646,500 during the second quarter – an increase of 1.4 percent over the second quarter of 2014. On a fiscal year basis, resident employment was nearly 641,400 in FY2015 – an increase of 0.7 percent.



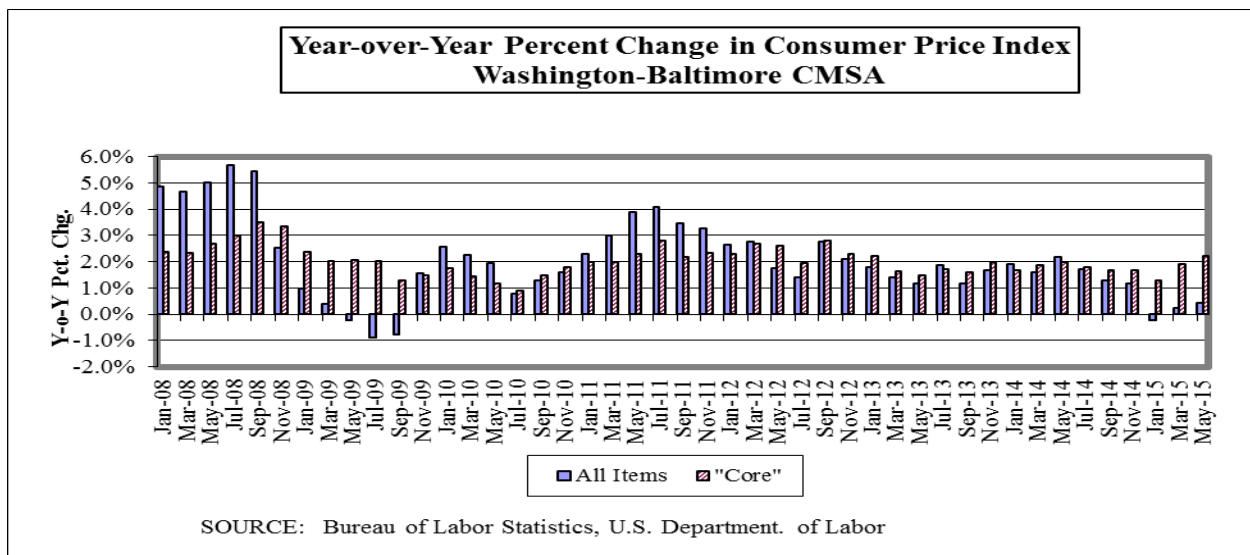
The unemployment rate for the division is either the lowest or one of the lowest among the 34 national metropolitan divisions and the monthly average was 4.2 percent during the second quarter of 2015 – a decrease from the rate of 4.5 percent during the second quarter of 2014. For fiscal year 2015, the unemployment rate was 4.3 percent compared to 4.8 percent in fiscal year 2014. Both the unemployment rates for the second quarter and the fiscal year were below the State’s unemployment rates by at least a full percentage point.



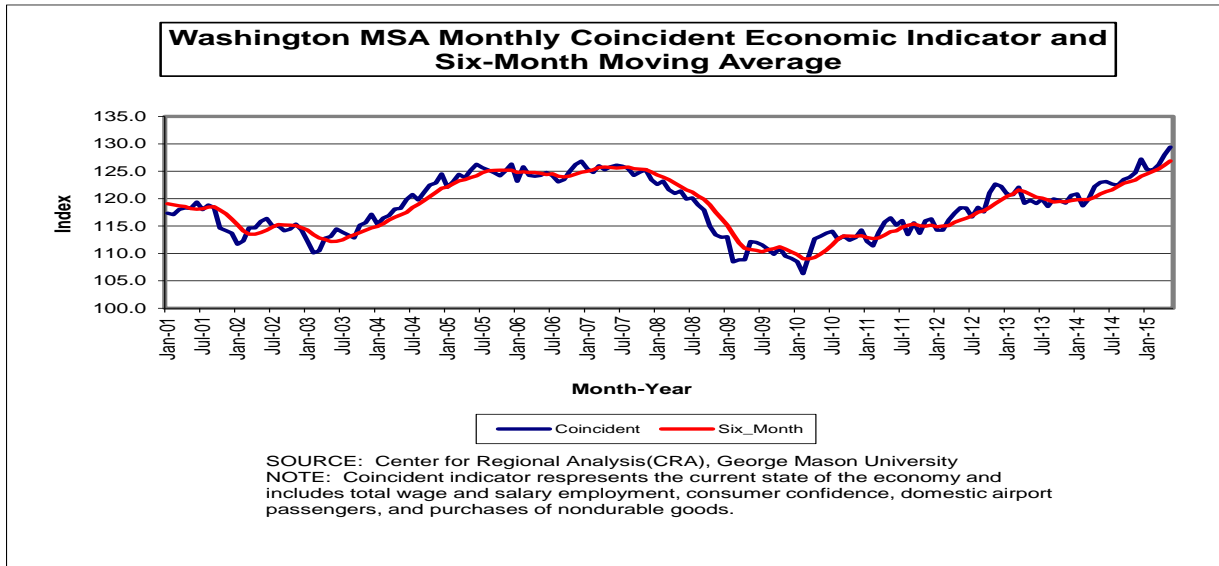
The resale housing market across the region experienced growth in prices, on a year-over-year basis, between May 2014 and May of this calendar year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in May increased 1.3 percent over the twelve-month period.



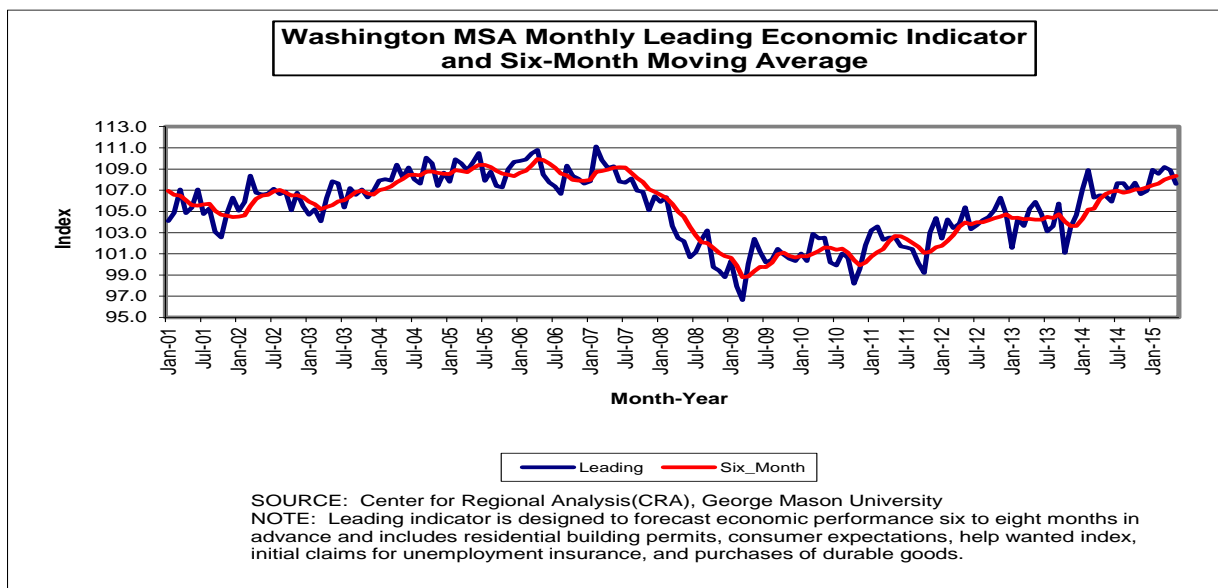
As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased 0.4 percent on a year-over-year basis in May of this year over May 2014. Consumer prices excluding food and energy purchases were up 2.2 percent in the region (on the same year-over-year basis).



According to the Center for Regional Analysis (CRA) at George Mason University, the monthly coincident economic indicator for the Washington metropolitan region increased 1.1 percent from April to May and increased 5.2 percent over May of 2014. The coincident index measures the current performance of the region’s economy. Since reaching its lowest point in February 2010, the index increased 19.3 percent through May.



However, while the coincident indicator increased in May, CRA also reported that the leading economic indicator decreased 1.2 percent from April to May but increased 1.1 percent since May 2014. The leading index measures the economic performance of the region six months ahead. While the index increased 11.3 percent since its lowest level in March 2009, the decrease from April to May was the second consecutive monthly decrease and suggests that the region’s economy will grow at a very modest rate over the second half of this year.

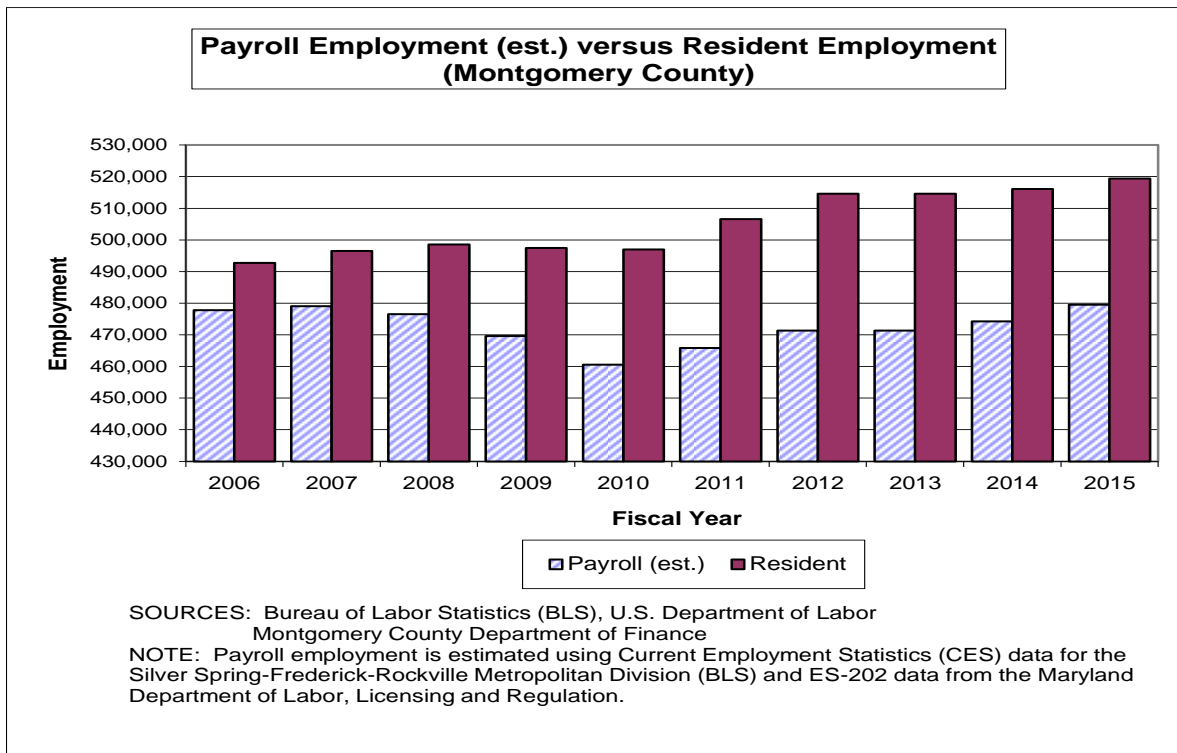


MONTGOMERY COUNTY ECONOMIC INDICATORS

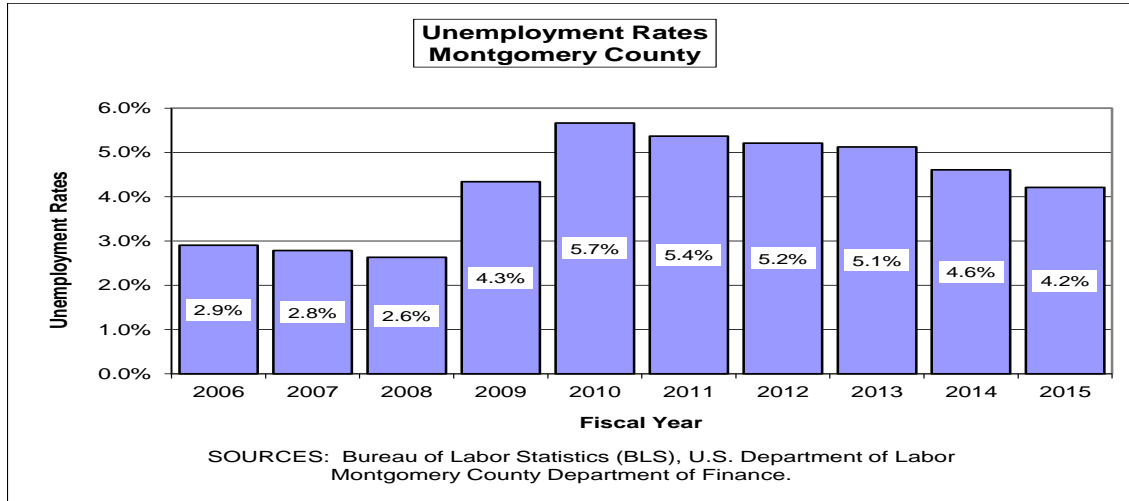
Montgomery County’s economy experienced a mixed economic performance during the second quarter of this year. The reasons for a mixed performance include an increase in both payroll and resident employment, a decline in the unemployment rate, an increase in existing home sales, a decline in median prices for an existing home, and declines in residential and non-residential construction. **Because economic data for the County are not seasonally adjusted, the preferred measure of economic performance for the second quarter is a comparison to the data for the second quarter of 2014 and not the first or previous quarter.**

Employment Situation

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Current Employment Statistics series from the Bureau of Labor Statistics, U.S. Department of Labor, and estimates calculated by the Department of Finance (Finance), average monthly payroll employment for the County increased 1.7 percent in the second quarter compared to the second quarter of 2014. On a fiscal year basis, payroll employment was 479,516 – an increase of 1.1 percent in FY2015. The County’s resident employment for the second quarter increased by slightly over 7,000 from the second quarter of 2014 (↑1.4%). On a fiscal year basis, resident employment stood at 519,416 in fiscal year 2015 compared to 516,083 during the previous fiscal year – an increase of 0.7 percent.

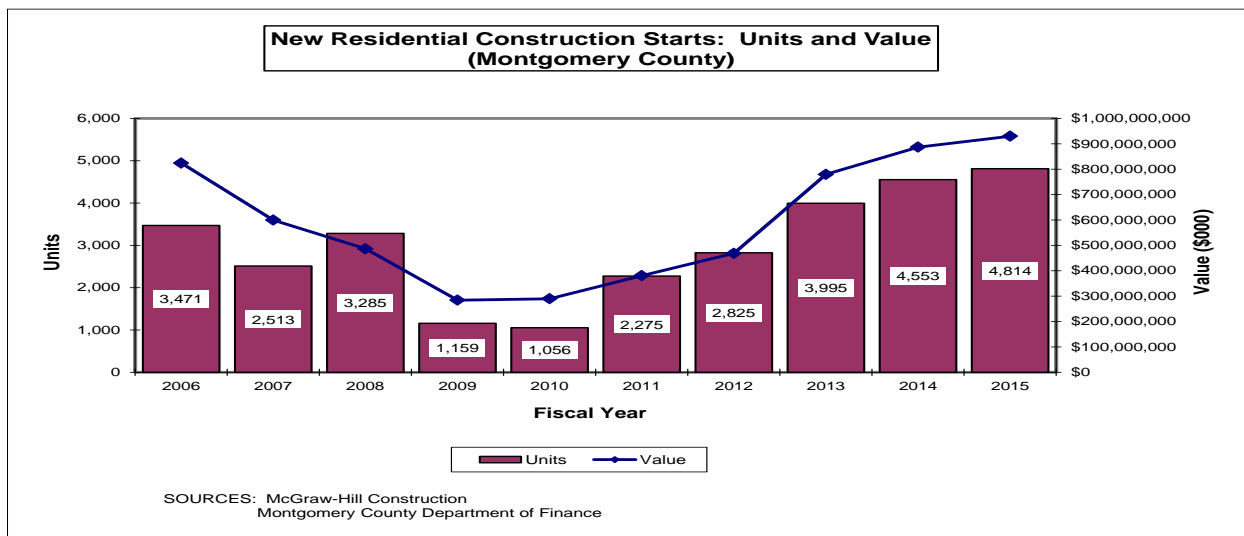


The County’s average monthly unemployment rate during the second quarter declined to 4.1 percent compared to 4.4 percent in the second quarter of 2014 and declined from 4.6 percent in fiscal year 2014 to 4.2 percent in fiscal year 2015. Throughout fiscal year 2015, the County’s unemployment rate remained one of the lowest in the State.



Construction Activity

After experiencing a weak second quarter performance in 2014 over the first quarter of 2013 residential construction continued to experience a decline during the second quarter of 2015 from the second quarter of 2014 (↓11.0%). The decrease was attributed to a decline in multi-family units (↓20.1%). However, construction of single-family homes increased 4.5 percent in the second quarter compared to the same period in 2014. Residential construction starts added a total value of \$233.8 million during the second quarter compared to \$279.8 million during the second quarter of last year (↓16.5%). On a fiscal year basis, the number of new residential construction starts increased 5.7 percent in fiscal year 2015 and added a total value of nearly \$930.0 million which was the highest amount in the last 10 years.

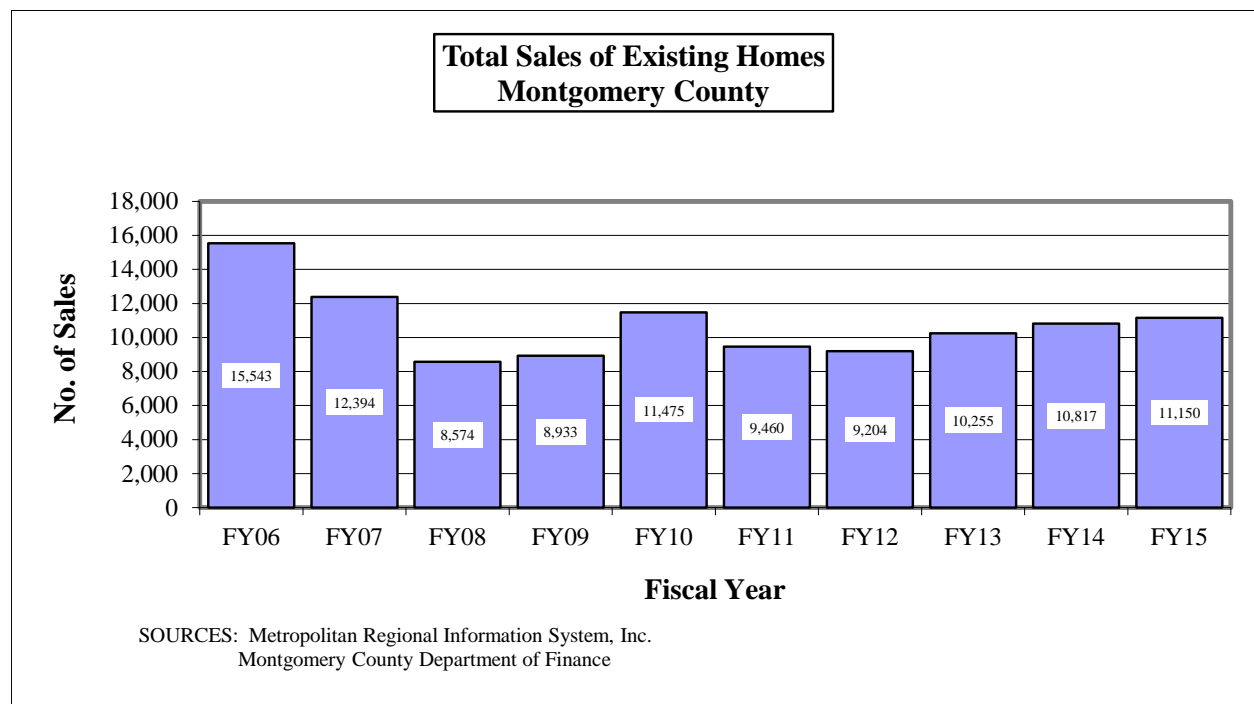


During the second quarter of 2015, the number of non-residential starts (projects) decreased 39.4 percent from the second quarter of 2014 and the total value decreased from \$102.6 million to \$86.8 million (↓15.4%). On a fiscal year basis, the number of non-residential projects increased 18.7 percent but the total added value declined from \$619.1 million to \$566.2 million from fiscal year 2014 to fiscal year 2015 – a decrease of 8.5 percent.

Residential Real Estate

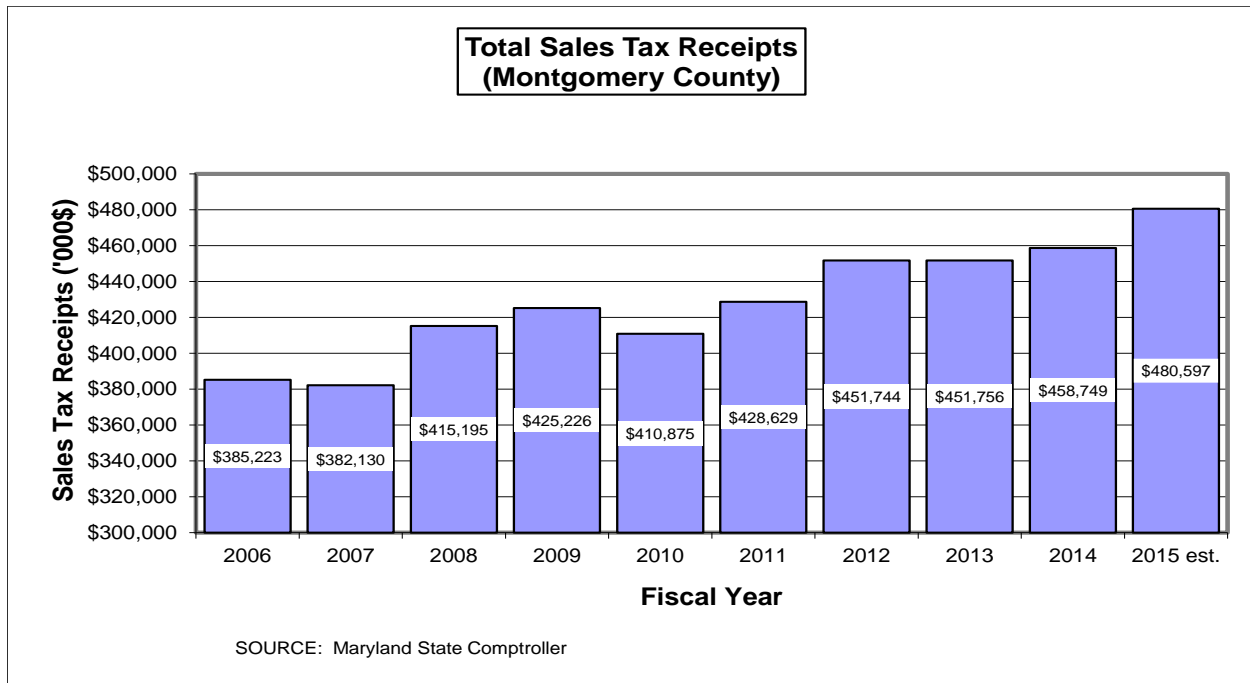
During the second quarter of this calendar year, existing home sales increased 12.1 percent on a year-over-year basis following a decrease of 4.7 percent during the second quarter of 2014, a decrease of 8.9 percent during the third quarter of 2014, an increase of 3.4 percent during the fourth quarter of 2014, and an increase of 8.1 percent during the first quarter of 2014. The consecutive increases during the past three quarters suggest a rebound in the County’s real estate market attributed to low mortgage rates and a positive outlook in employment. Median sales prices for existing homes decreased 0.5 percent during the second quarter following a decrease of 0.5 percent during the second quarter of 2014, an increase of 0.2 percent during the third quarter of 2014, an increase of 1.3 percent during the fourth quarter of 2014, and an increase of 0.3 percent during the first quarter of 2014.

With an improvement in home sales during three consecutive quarters, home sales on a fiscal year basis increased 3.1 percent in fiscal year 2015 and the average of the monthly median sales prices for an existing home increased 40.3 percent in fiscal year 2015.



Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, retail sales increased an estimated 4.8 percent during fiscal year 2015 based on data through May 2015. In the estimate for FY2015, purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 4.5 percent during this period while sales of durable goods were up 5.4 percent. The increase in nondurable goods purchases was largely attributed to the increase in purchases of food and beverage items (↑7.6%) while the increase in purchases of durable goods was primarily attributed to an increase in building and industrial supplies (↑7.4%).



CONCLUSION

The major economic indicators confirm that the County’s economy experienced mixed economic performance during the second quarter of this year compared to the same period in 2014. Employment measured by the survey of households increased 1.4 percent. The unemployment rate declined from 4.4 percent during the second quarter of 2014 to 4.1 percent for the second quarter of this year. However, residential construction was mixed with the construction of single-family homes up 4.5 percent while construction of multi-family units was down 20.1 percent. Sales of existing homes increased 12.1 percent but median prices declined 0.5 percent during the second quarter compared to the second quarter of last year.

While the data for the second quarter suggests a mixed performance in the County’s economy during this period, data on a fiscal year basis, however, suggest that the economy experienced growth from July 2014 to June 2015 particularly in employment and the real estate market.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2014
				2015	2014	
Leading Indicators						
National	June '15	0.6%		n.m.	n.m.	n.m.
Maryland	May '15	2.1%		1.7%	1.4%	1.4%
Washington MSA	May '15	-1.2%		1.5%	2.8%	3.0%
Coincident Indicators						
National	June '15	0.2%		n.m.	n.m.	n.m.
Maryland	May '15	0.3%		2.9%	1.2%	1.8%
Washington MSA	May '15	1.1%		4.9%	0.4%	2.3%
Consumer Confidence Index						
National	July '15	-8.9%		17.4%	17.7%	18.7%
South Atlantic Region	July '15	3.9%		17.0%	19.2%	24.1%
Consumer Sentiment (University of Michigan)	July '15	-3.1%		15.6%	2.3%	6.2%
Consumer Price Index						
<u>All Items (nsa)</u>						
National	June '15	0.1%		-0.1%	1.7%	1.6%
Washington - Baltimore CMSA	May '15	0.4%		0.2%	1.9%	1.5%
<u>Core CPI (nsa)</u>						
National	June '15	1.8%		1.7%	1.8%	1.8%
Washington - Baltimore CMSA	May '15	2.2%		1.8%	1.9%	1.8%
Retail Trade						
National (sales - nsa)	June '15	2.9%		2.0%	3.4%	4.0%
Maryland (sales tax)(1)	May '15	2.9%		4.7%	1.3%	3.6%
Montgomery County (sales tax)(1)	May '15	2.0%		4.6%	-0.3%	2.5%
Employment						
Maryland (labor force data - nsa)	June '15	3,003,615	2,950,193	2,955,455	2,915,572	2,929,977
- Percent Change		1.8%		1.4%		0.4%
Silver Spring-Frederick-Rockville (labor force data)	June '15	649,470	642,119	643,649	636,105	637,558
- Percent Change		1.1%		1.2%		0.2%
Montgomery County (labor force data)	June '15	525,463	520,008	521,227	515,235	516,420
- Percent Change		1.0%		1.2%		0.2%
Montgomery County (QCEW)(2)	Dec. '14	462,656	455,400	455,687	451,869	455,687
- Percent Change		1.6%		0.8%		0.8%
Unemployment						
Maryland (nsa)	June '15	5.6%	6.1%	5.4%	6.0%	5.8%
Silver Spring-Frederick-Rockville (labor force data)	June '15	4.6%	4.9%	4.2%	4.6%	4.5%
Montgomery County (nsa)	June '15	4.5%	4.8%	4.1%	4.5%	4.4%
Construction						
<u>Construction Starts - Montgomery County</u>						
Total (\$ thousands)	June '15	\$141,904	\$111,349	\$573,535	\$597,792	\$1,392,600
- Percent Change		27.4%		-4.1%		-21.0%
Residential (\$ thousands)	June '15	\$72,086	\$85,852	\$298,111	\$443,584	\$935,916
- Percent Change		-16.0%		-32.8%		0.2%
Non-Residential (\$ thousands)	June '15	\$69,818	\$25,497	\$275,424	\$154,208	\$456,684
- Percent Change		173.8%		78.6%		-44.9%
<u>Building Permits (Residential)</u>						
Maryland	June '15	1,981	1,429	8,160	8,223	17,353
- Percent Change		38.6%		-0.8%		-4.3%
Montgomery County (units)	June '15	162	162	734	2,461	3,818
- Percent Change		0.0%		-70.2%		8.7%
<u>Building Permits (Non-Residential)</u>						
Montgomery County	June '15	230	178	935	897	1,886
- Percent Change		29.2%		4.2%		-8.4%
Construction Cost Index	June '15	6,889.85	6,918.40	6,977.33	6,933.06	6,944.95
Baltimore		-0.4%		0.6%		0.2%
Real Estate						
<u>Case-Shiller Home Price Index®(nsa)</u>						
	May '15	212.08	209.32	208.09	205.83	207.67
		1.3%		1.1%		4.7%
<u>Maryland</u>						
Sales	June '15	8,080	6,593	34,072	28,749	65,429
- Percent Change		22.6%		18.5%		2.2%
Median Price	June '15	\$281,030	\$284,618	\$253,546	\$256,321	\$260,899
- Percent Change		-1.3%		-1.1%		-0.2%
<u>Montgomery County</u>						
Sales	June '15	1,393	1,260	5,601	5,063	10,612
- Percent Change		10.6%		10.6%		-4.0%
Average Price	June '15	\$529,011	\$521,323	\$492,594	\$501,103	\$503,956
- Percent Change		1.5%		-1.7%		0.7%
Median Price	June '15	\$425,000	\$415,000	\$394,658	\$395,167	\$400,000
- Percent Change		2.4%		-0.1%		0.0%
Average Days on the Market	June '15	41	38	62	49	50

NOTES:

(n.m.): not meaningful

(nsa): not seasonally adjusted

(1): Data include miscellaneous and assessment collections.

(QCEW): Quarterly Census of Employment and Wages

(2) SOURCE: Bureau of Labor Statistics, U.S. Department of Labor