Economic Indicators

Prepared by the Department of Finance • July 2017

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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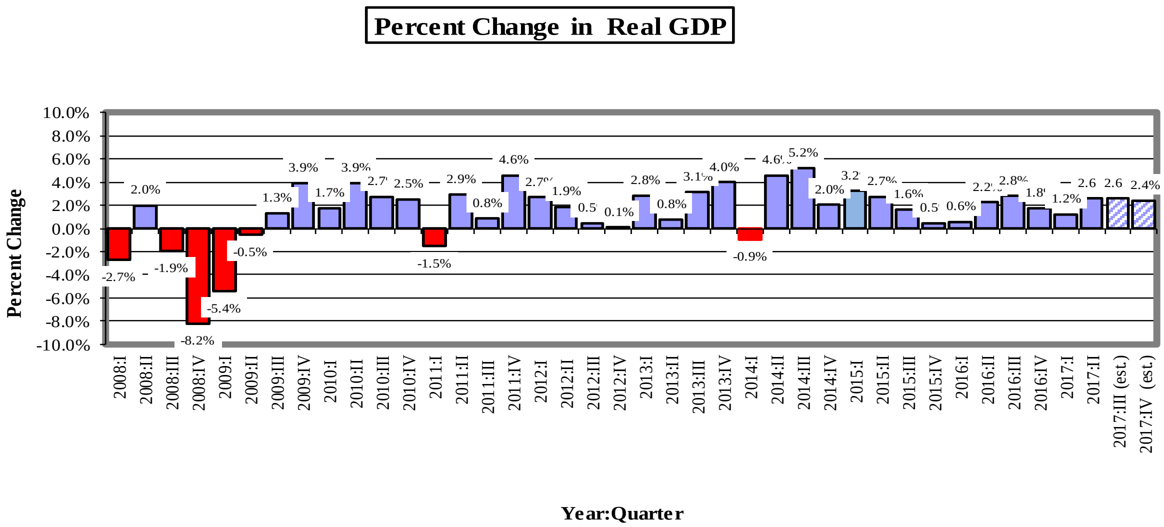
INTRODUCTION

This quarterly report provides an analysis of national, state, regional, and Montgomery County economic indicators for the month of July, the second quarter of calendar year 2017, and completed fiscal year 2017. For this report, data for the second quarter cover the April to June period of the calendar year, and data for the fiscal year cover the July 2016 to June 2017 period. The data presented in this report are not seasonally adjusted to ensure 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 2016. The only data that are seasonally adjusted are the national real gross domestic product (GDP) and its components.

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 second quarter of 2017. That increase followed an increase of 1.2 percent during the first quarter. Based on the *Wall Street Journal (WSJ)* July survey of sixty economists, the average of the responses expects economic growth to increase 2.6 percent during the current third quarter, and 2.4 percent during the fourth quarter of this year. Based on the forecast for the next two quarters of 2017, the survey of economists by *The Wall Street Journal* estimates that real GDP will increase 2.3 percent in 2017. The results of the survey also forecast an increase of 2.4 percent in 2018 and 1.9 percent in 2019. Following its June 2017 meeting, the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System released its latest economic projections from 2017 to 2019. Real GDP is expected to increase 2.2 percent in 2017, 2.1 percent in 2018, and 1.9 percent in 2019. However, both the FOMC projections and the *WSJ* survey were done before the second quarter real GDP was released by the BEA on July 28th which was below economists' average forecast of 2.7 percent.

Data released by BEA for the second quarter showed that the increase in real GDP was largely attributed to an increase in personal consumption expenditures (↑2.8% - compared to an increase of 1.9% during the first quarter). Purchases of nondurable goods increased 3.8 percent and purchases of durable goods were up 6.3 percent. Real non-residential fixed investment increased 5.2 percent which followed a 7.2 percent increase during the first quarter. However, residential real estate decreased during the second quarter with residential fixed investment decreasing 6.8 percent which followed increases of 11.1 percent in the first quarter and 7.1 percent during the fourth quarter of 2016.

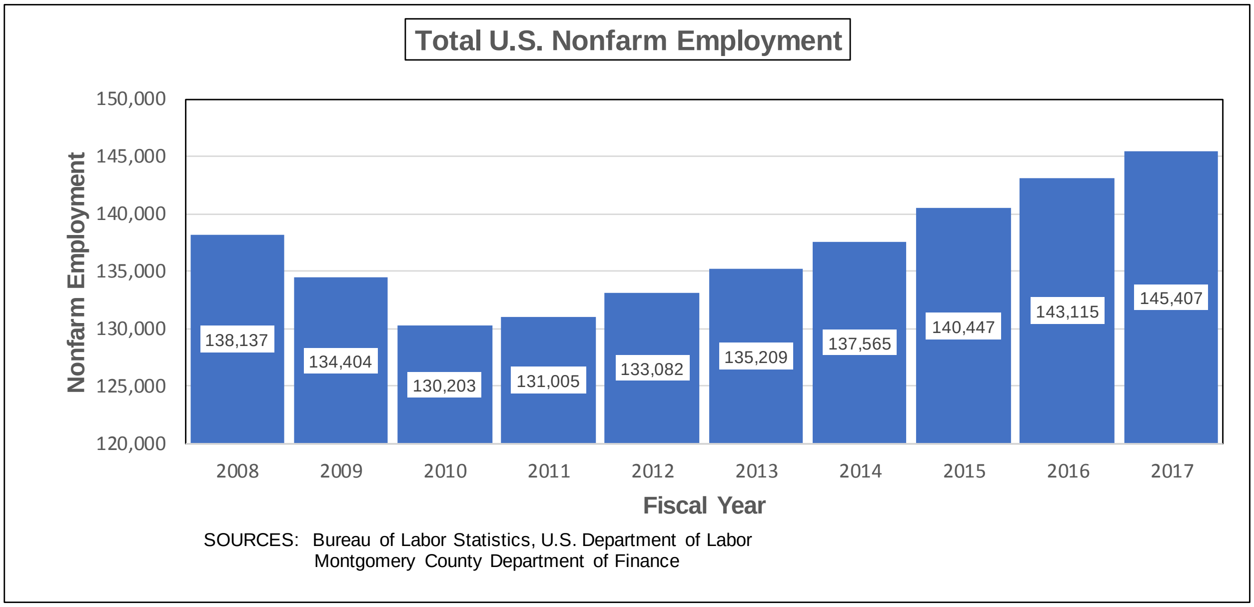


SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Hatched bars from *Wall Street Journal* survey conducted July 2017.
NOTE: Percent changes are at annual rates.

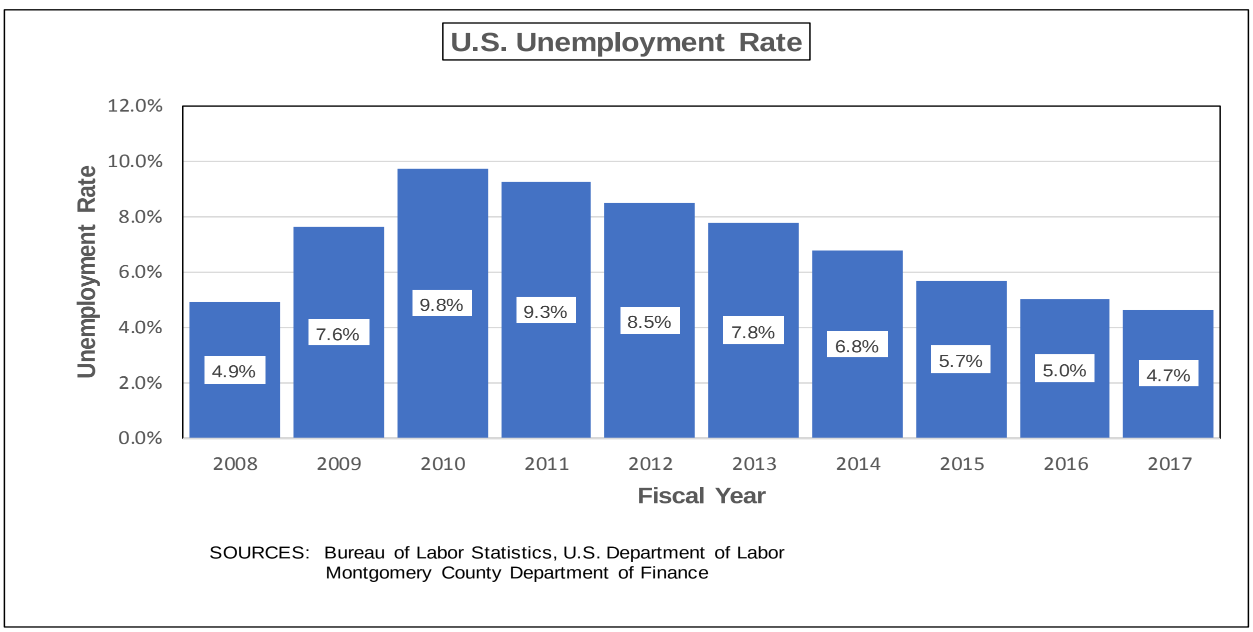
Real final sales of domestic product (real GDP less the change in private inventories) increased 2.6 percent in the second quarter compared to an increase of 2.7 percent during the first quarter. Real final sales are a good measure of future production. If the growth rate in real final sales exceeds 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 (2.6%) was the same as the percent increase in real GDP (2.6%) which suggests that future growth in real GDP through the remainder of 2017 may experience the same growth compared to the second quarter and confirmed by the *WSJ* survey.

Sales of existing homes increased 1.6 percent during the second quarter compared to the second quarter of 2016. Median home prices for existing homes increased 6.1 percent year-over-year during the second quarter of 2017 compared to a 4.9 percent increase during the same period in 2016. The inventory level decreased 8.2 percent during the second quarter compared to the same quarter in 2016. That decline is the ninth consecutive quarterly decrease in inventory levels. With home sales increasing and a decrease 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 3.2 percent and 4.5 percent in 2017 and between 2.5 percent and 6.0 percent in 2018, respectively. Thirty-year fixed rate mortgages are expected to average 4.1-4.2 percent in CY2017 and 4.6-4.9 percent in CY2018, respectively.

Monthly national employment, as measured by the survey of establishments (Current Employment Statistics), averaged 146.7 million (not seasonally adjusted) during the second quarter of this year – an increase of nearly 2.2 million or 1.5 percent from the second quarter of 2016. Employment reached over 145.4 million in fiscal year 2017 – an increase of nearly 2.3 million or 1.6 percent from fiscal year 2016.



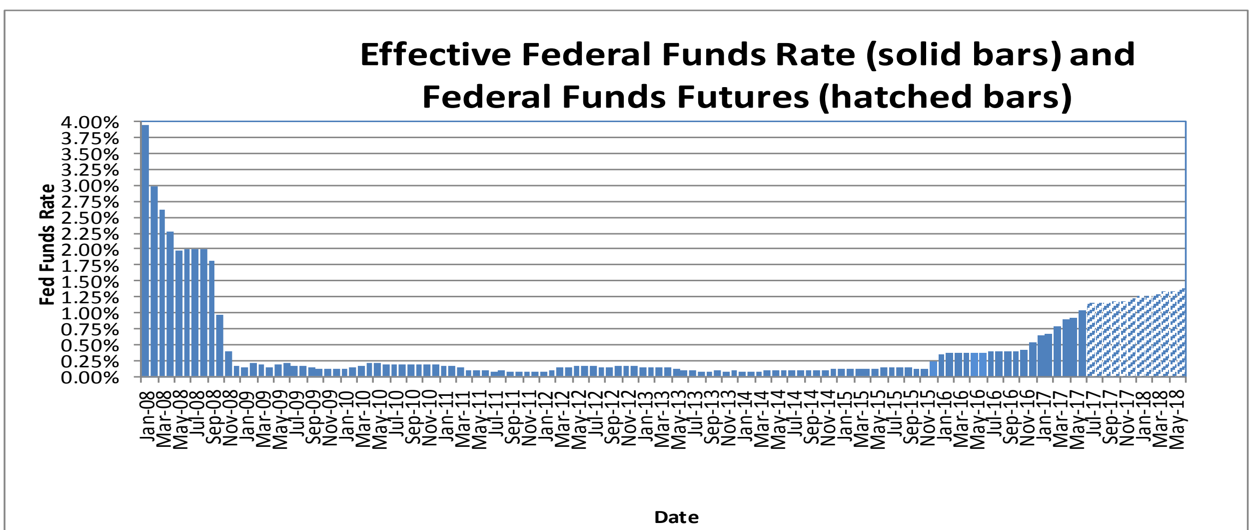
The unemployment rate during the second quarter stood at 4.2 percent (not seasonally adjusted) and was an improvement from the 4.8 percent in the second quarter of 2016. For fiscal year 2017, the unemployment rate declined 0.3 percentage points from 5.0 percent in fiscal year 2016 to 4.7 percent in fiscal year 2017. The July survey of economists by *The Wall Street Journal* expects the jobless rate to be at 4.3 percent by December 2017. 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 4.1-4.2 percent by the end of 2018.



Inflation, as measured by the personal consumption expenditure (PCE) index, the preferred measure of inflation used by the FOMC, will increase from 1.6 percent in 2017 to 2.0 percent by 2018. The survey of economists by *The Wall Street Journal* suggests that inflation, as measured by the consumer price index (CPI), will increase from 1.8 percent by December 2017 to 2.3 percent by December 2018.

Subsequent to the July 25-26 meeting of the FOMC, they stated that “information received since the FOMC met in June indicates that the labor market has continued to strengthen and that economic activity has been rising moderately so far this year. Job gains have been solid, on average, since the beginning of the year, and the unemployment rate has declined. Household spending and business fixed investment have continued to expand. On a twelve-month basis, overall inflation and the measure excluding food and energy prices have declined and are running below 2 percent.” 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 1.00 to 1.25 percent range.

Following its June meeting, the FOMC released its latest forecast of rate increases - the “dot plot”. The median of responses indicated increasing the target federal funds rate to 2.1 percent in 2018, 2.9 percent in 2019, and 3.0 percent thereafter. While the increase in 2018 exceeds that of the federal funds futures market (1.4 percent in June 2018), it should be noted that all of the responses ranged from 1.9 percent to 2.6. However, since the more recent meeting of the FOMC in July and the release of the second quarter GDP by BEA, the futures market for the 30-day federal funds rate remains at 1.22 percent for December 2017. According to the Chicago Mercantile Exchange’s implied probability data, the next rate increase would occur in December at the earliest. The July *WSJ* survey projects on average that the federal funds rate will reach 1.38 percent by December 2017 and 2.11 percent by December 2018. The survey also reported that the average of the responses expects the next rate increase in December 2017 and the Federal Reserve will begin to “shrink its balance sheet” in September 2017.



SOURCES: Federal Reserve Bank of St. Louis (solid bars) and the Chicago Mercantile Exchange (hatched bars) as of July 28, 2017

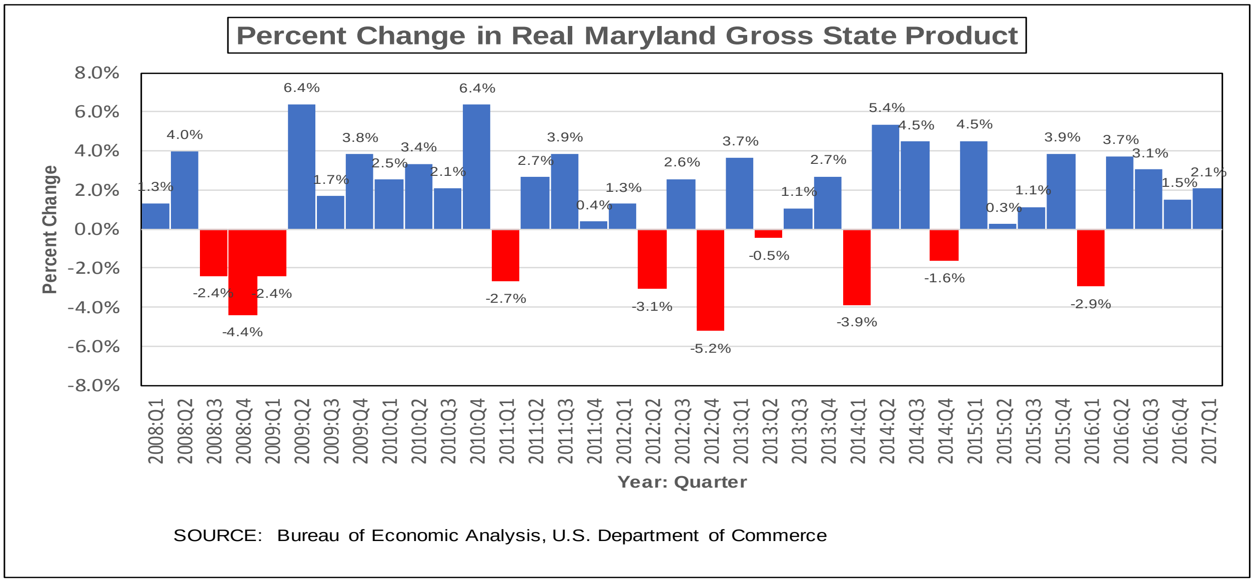
After experiencing a strong performance during the first quarter of 2017, the returns in the stock market moderated during the second quarter. The Dow-Jones Industrial Average (DJIA) was up 3.32 percent in the second quarter compared to 4.56 percent in the first quarter; the Standard & Poor's 500 (S&P 500) increased 2.57 percent compared to a 5.53 percent increase in the first quarter; the NASDAQ also continued to increase in the second quarter with an increase of 3.87 percent compared to an increase of 9.82 percent during the first quarter resulting in an increase of 14.07 percent for the first half of 2017; and the Russell 2000 increased 2.12 percent in the second quarter that followed the same rate of 2.12 percent increase in the first quarter. Overall, all four indices increased during the first half of 2017. Since the end of the second quarter, all four indices continued to increase in July with the DJIA reaching its highest close on July 31 and ending the month up 10.8 percent for the year. The NASDAQ increased 3.4 percent for the month and was up 17.9 percent for the year, the S&P 500 increased nearly 2.0 percent for the month and was up 10.4 percent for the year, and the Russell 2000 increased 0.7 percent for the month and was up 5.0 percent for the year.

STATE AND REGIONAL ECONOMY

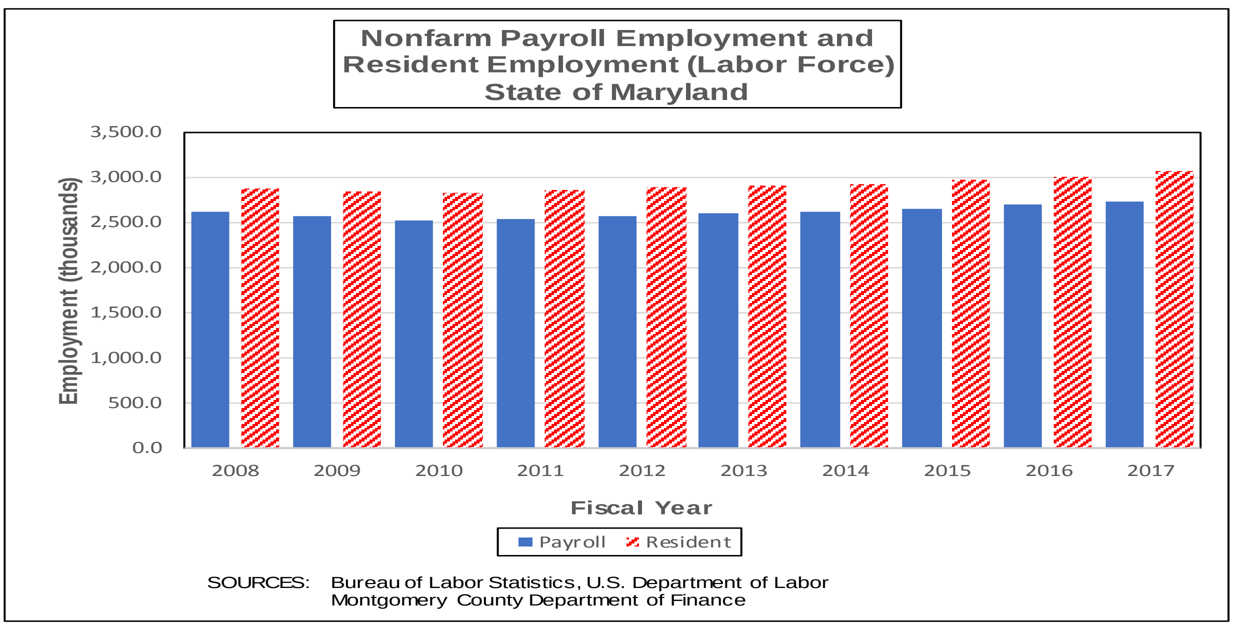
Each month, the Federal Reserve Bank of Richmond (Baltimore Branch) provides the results of the Maryland Survey of Business Activity. According to the latest survey results, "reports from firms in Maryland softened somewhat in July but were generally upbeat and remained positive." According to the survey:

> "Overall business conditions were well above zero at 20 but down from the index in June. Despite some softening in the measures of business activity and sales, indicators of labor market conditions generally improved. Both the employment index and wages index increased from June. Maryland firms also reported that growth in prices paid moderated while the growth in prices received were up."

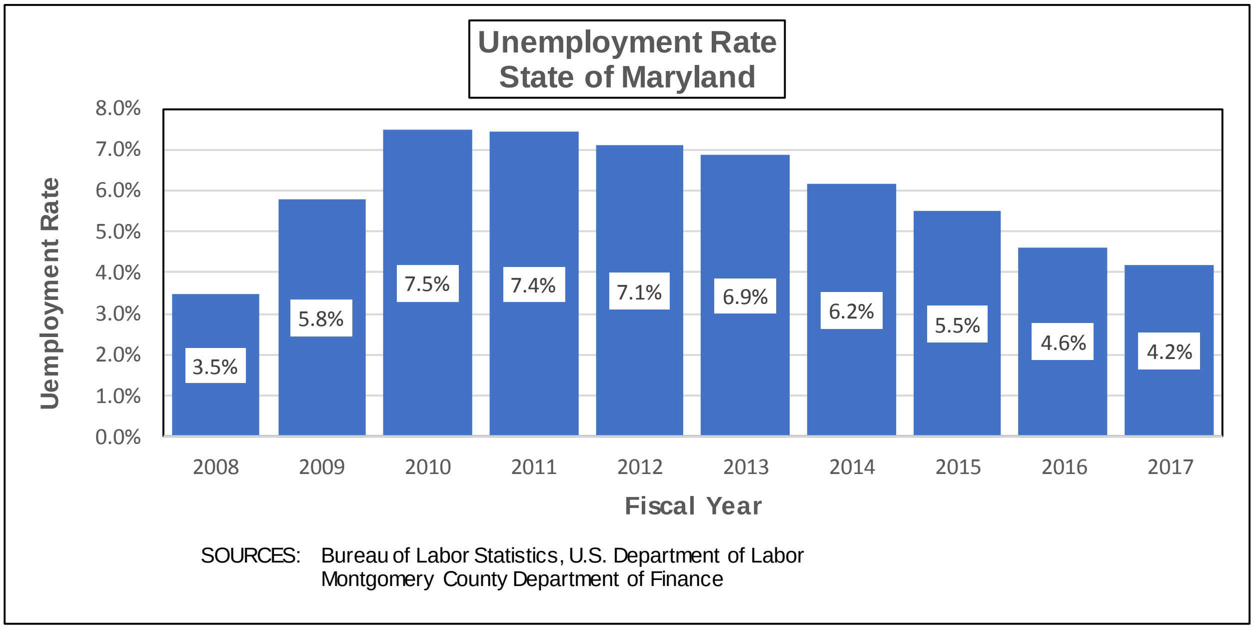
According to the latest data from the Bureau of Economic Analysis, U.S. Department of Commerce, real gross domestic product, or gross state product, for Maryland increased 2.1 percent during the first quarter of this year – an increase from the 1.5 percent during the fourth quarter of last year and an increase from the -2.9 percent during the first quarter of 2016. The increase was attributed to 5.4 percent increase in construction, a 4.9 percent increase in real estate and rental housing, a 4.2 percent increase in government purchases, a 2.6 percent increase in manufacturing, and a 2.3 percent increase in health care and social assistance.



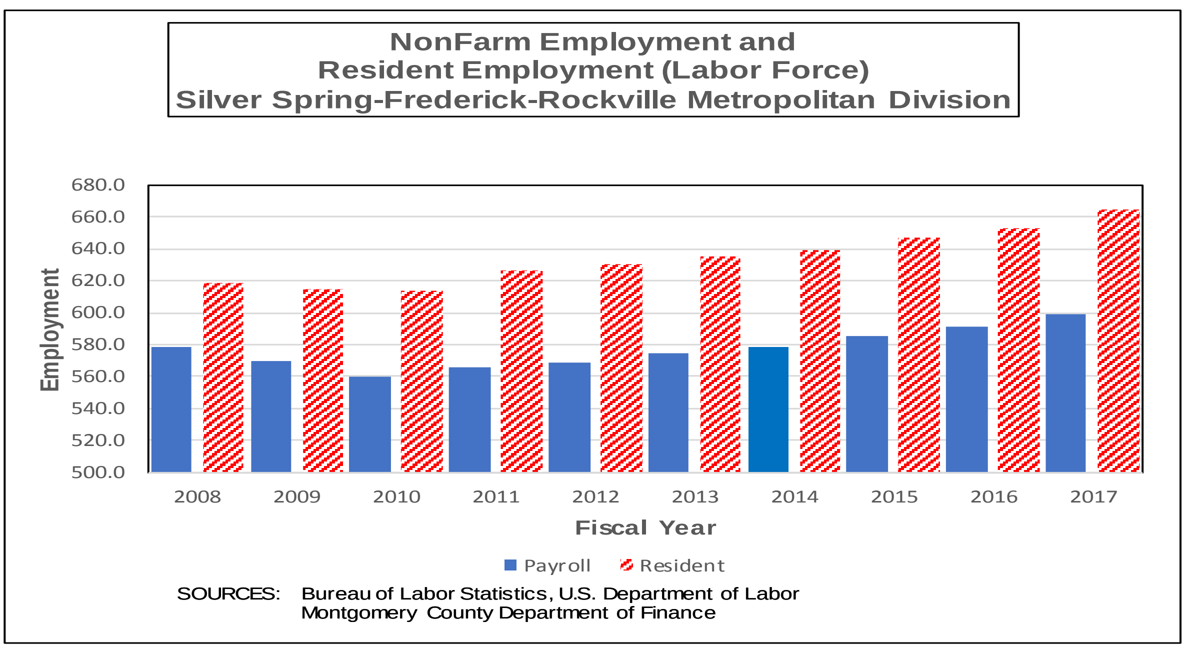
According to the payroll employment data from the Bureau of Labor Statistics, U.S. Department of Labor and based on the survey of establishments, monthly payroll employment in the State of Maryland averaged 2.770 million during the second quarter of 2017 – an increase of 1.9 percent from the second quarter of 2016. In fiscal year 2017, payroll employment in Maryland reached nearly 2.733 million - an increase of 1.5 percent from fiscal year 2016.



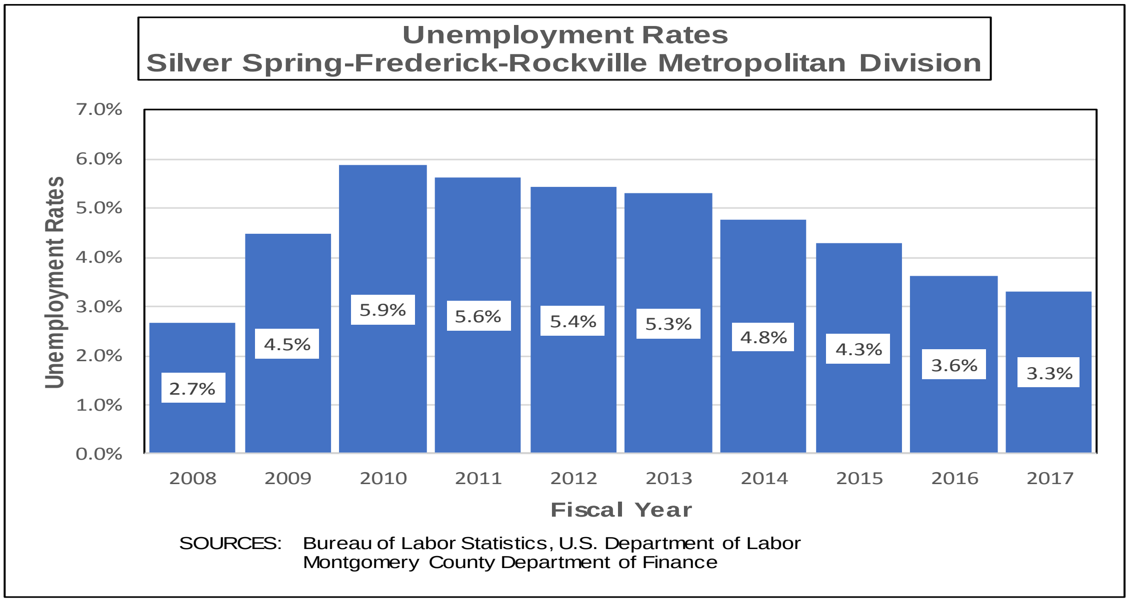
According to the labor force data, the State's resident employment increased 2.0 percent from 3.030 million during the second quarter of 2016 to 3.092 million in the second quarter of this year. The State's unemployment rate declined from 4.2 percent in the second quarter of 2016 to 4.0 percent in the second quarter of this year. On a fiscal year basis, employment increased 1.8 percent and the unemployment rate declined from 4.6 percent in FY2016 to 4.2 percent in FY2017.



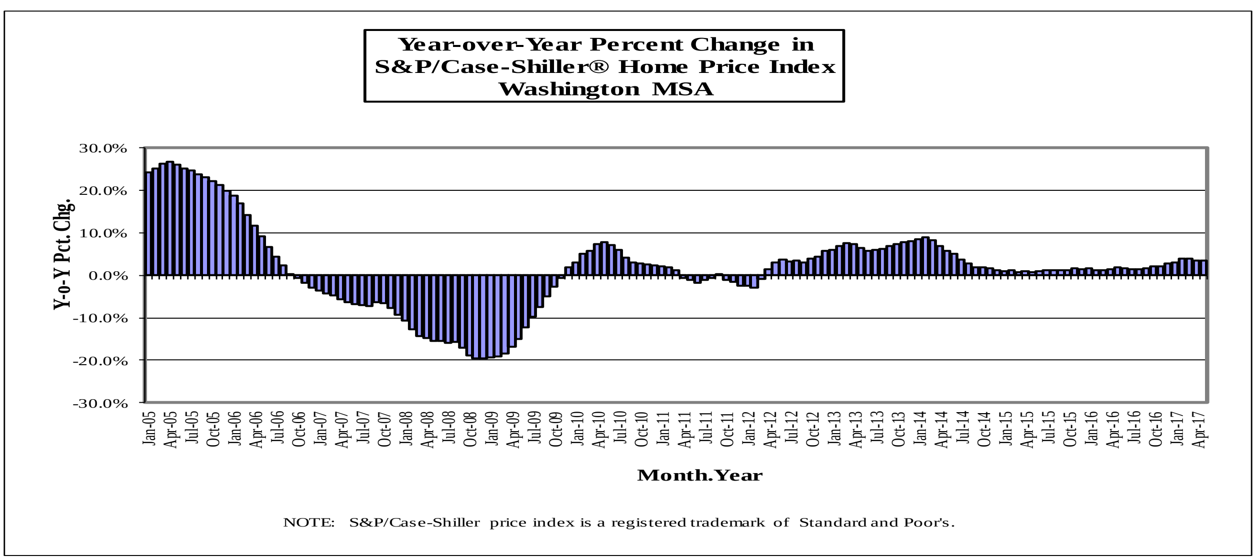
Monthly payroll employment for the Silver Spring-Frederick-Rockville (SSFR) metropolitan division averaged 602,900 during the second quarter and was above employment in the second quarter of 2016 (↑1.7%). That rate of growth was slightly below the second quarter growth rate for the State (↑1.9%). On a fiscal year basis, payroll employment increased 1.4 percent over FY2016 to 599,500. Resident employment, as measured by the household survey, averaged nearly 652,600 during the second quarter – an increase of 0.3 percent over the second quarter of 2016. On a fiscal year basis, resident employment was nearly 653,600 in FY2017 – an increase of 1.0 percent.



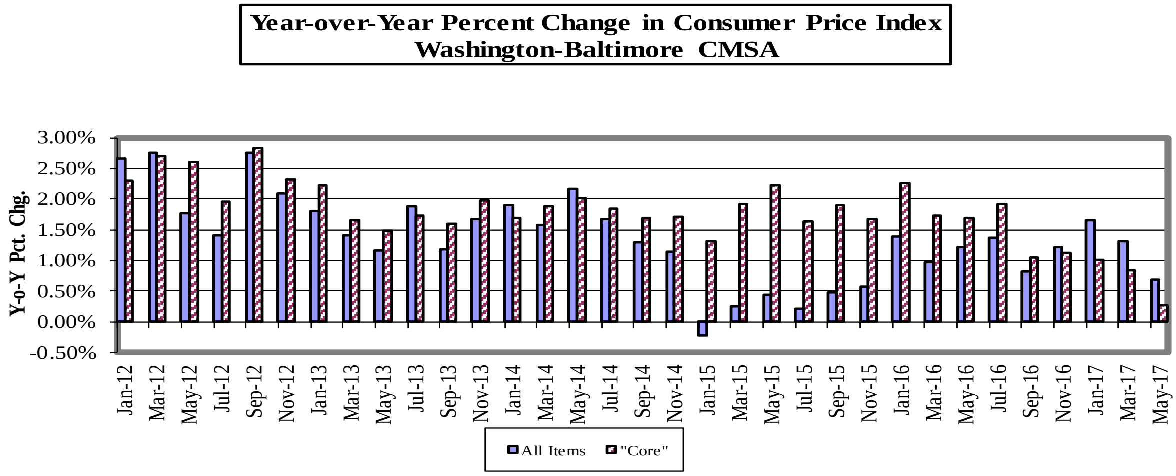
The unemployment rate for the division is either the lowest or one of the lowest among the 34 national metropolitan divisions and the monthly average was 3.3 percent during the second quarter of 2017 – the same rate during the second quarter of 2016. For fiscal year 2017, the unemployment rate was 3.3 percent compared to 3.6 percent in fiscal year 2016. Both the unemployment rates for the second quarter and the fiscal year were below the State's unemployment rates.



The resale housing market across the region experienced growth in prices, on a year-over-year basis, between May 2016 and May of this calendar year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in May increased 3.6 percent over the twelve-month period.



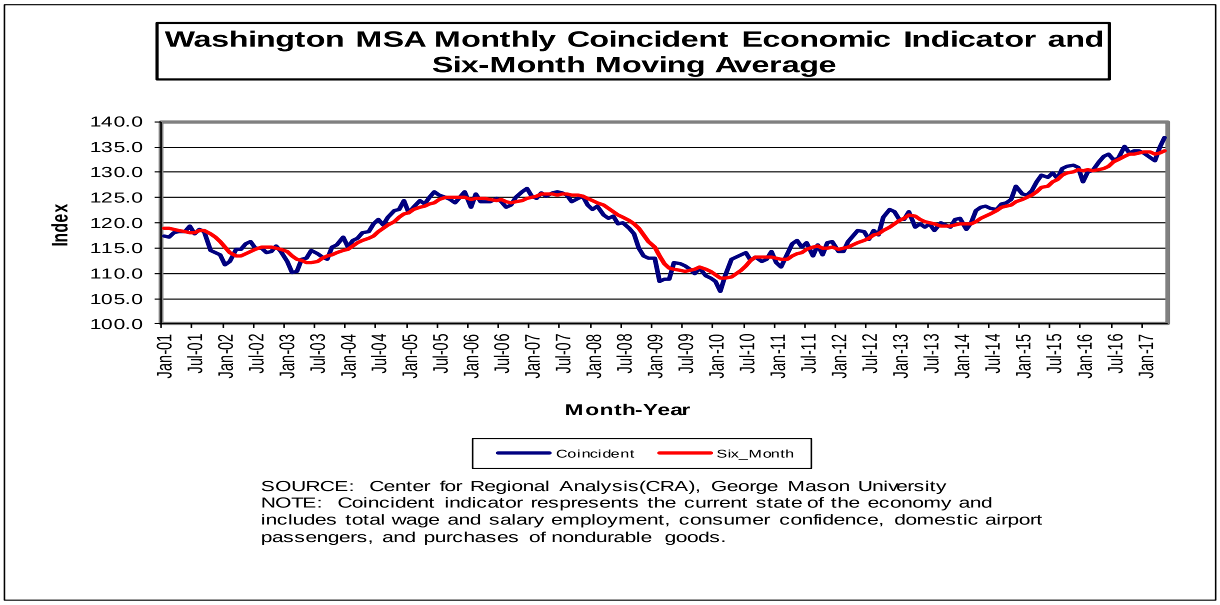
As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased a meager 0.7 percent on a year-over-year basis in May of this year over May 2016. Consumer prices excluding food and energy purchases were up only 0.3 percent in the region (on the same year-over-year basis).



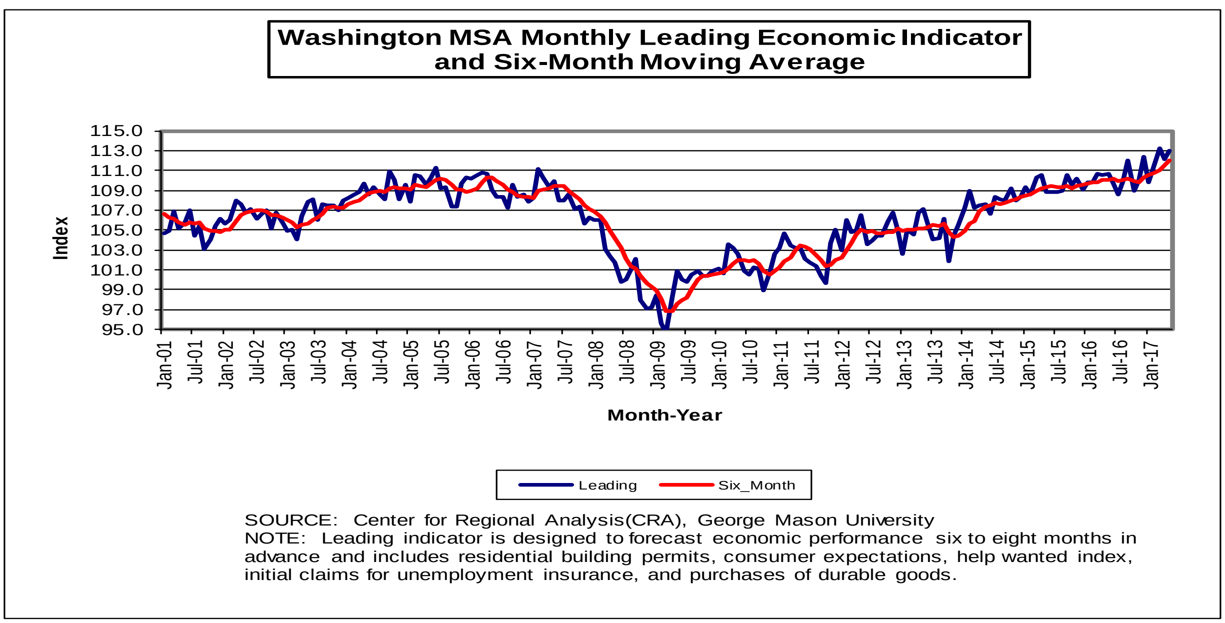
SOURCE: Bureau of Labor Statistics, U.S. Department of Labor

According to the Stephen S. Fuller Institute (Institute), "the Washington Leading and Coincident Indices were stronger in May than in April and together point to a better performance in 2017 than in 2016." The Institute further states that "while the region's economy appears to be gaining strength in spite of threatened federal spending reductions and continuing uncertainty regarding the federal budget, its future performance remains strongly tied to changes in federal payroll and procurement spending."

The Washington Coincident Index, that represents the current state of the metropolitan area economy, increased for a second consecutive month in May with all four components of the index higher. Wage and salary employment increased 1.5 percent between May 2016 to May 2017. Consumer confidence increased 19.5 percent from May 2016, sales of non-durable goods increased 2.5 percent over the May 2016 to May 2017 period, and domestic passenger value at the local (Virginia) airports increased 2.8 percent between May 2016 and May 2017.



According to the Institute, "the Washington Leading Index, which is designed to forecast the performance of the metropolitan area economy six to eight months in advance, increased in May gaining 2.08 percent from May 2016. The Index has now achieved five strong increases over the past six months." The strong gain in the index is reflected in the increase in retail sales of durable goods of 10.1 percent from May 2016 to May 2017, and an increase in consumer expectations of 30.4 percent. However, there was a decline in residential building permits and an increase in initial claims for unemployment insurance reflecting a growing weakness in the Washington area labor market.

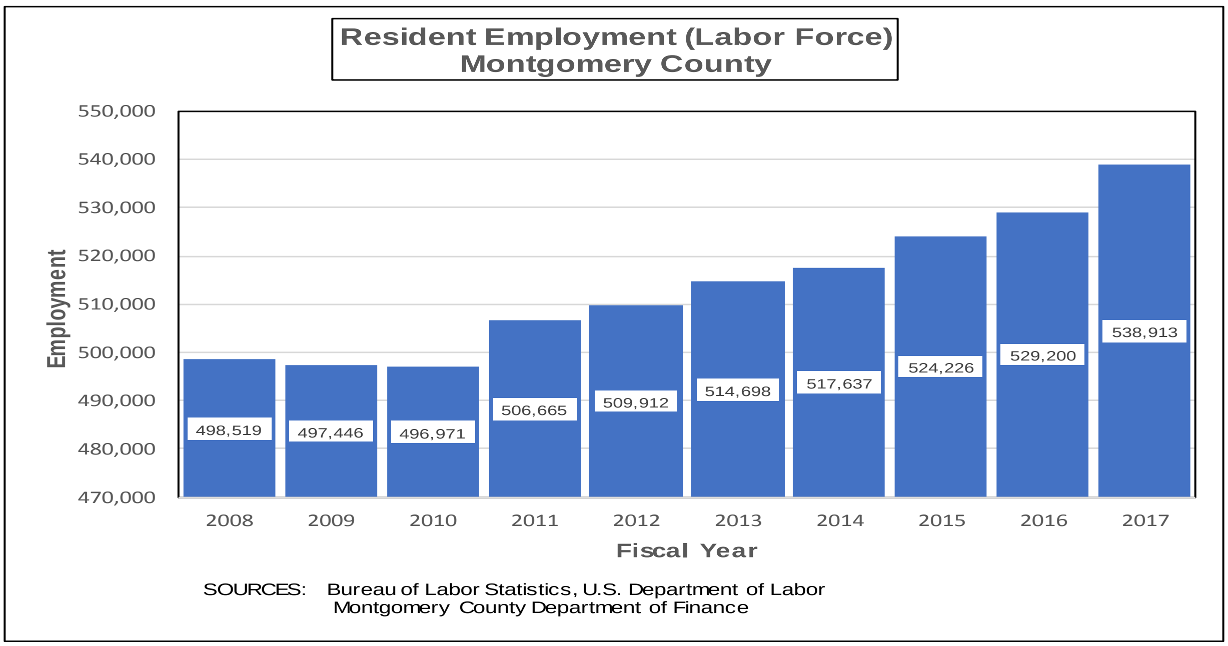


MONTGOMERY COUNTY
ECONOMIC INDICATORS

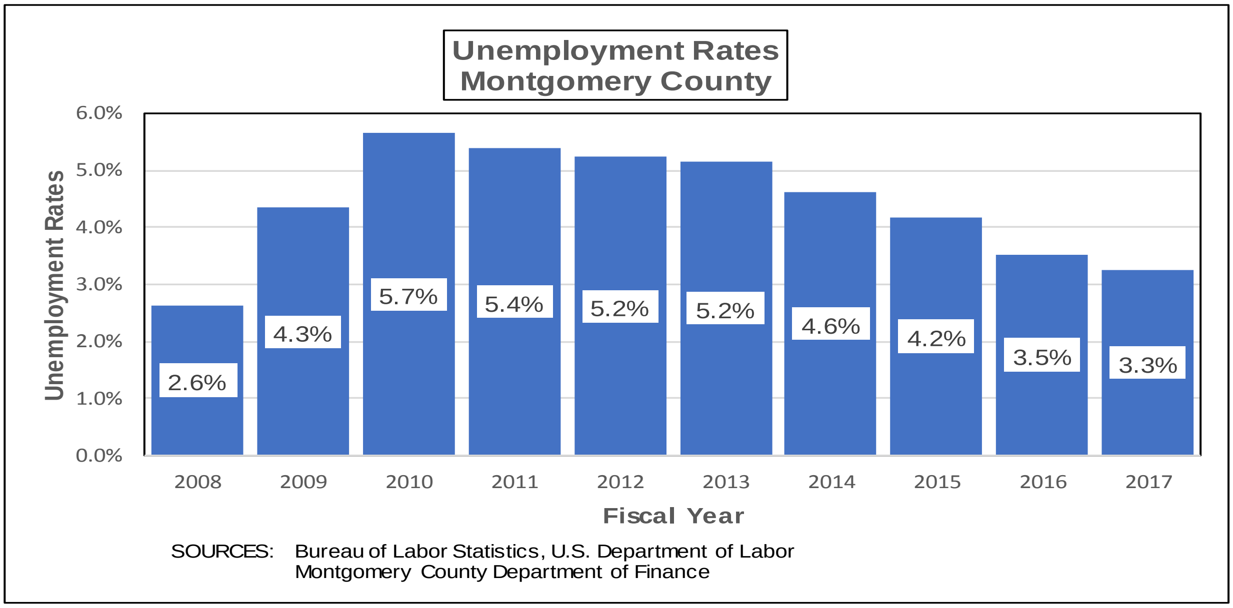
Montgomery County's economy experienced a mixed economic performance during the second quarter of this year. The reasons for a mixed performance include an increase in resident employment, no change in the unemployment rate, a decrease in existing home sales, and an increase in median prices for an existing home. However, residential construction experienced an increase in single-family homes (↑10.0%) but a significant decline in multi-family units (↓32.2%). Construction in the number of non-residential projects decreased (↓21.1%) but the value of added non-residential increased to nearly $1.1 billion.

Employment Situation

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR), the Bureau of Labor Statistics, U.S. Department of Labor, and estimates calculated by the Department of Finance (Finance), the County's resident employment for the second quarter increased by nearly 12,000 from the second quarter of 2016 (↑2.2%). On a fiscal year basis, resident employment stood at nearly 539,000 in fiscal year 2017 compared to 529,200 during the previous fiscal year – an increase of 1.8 percent.

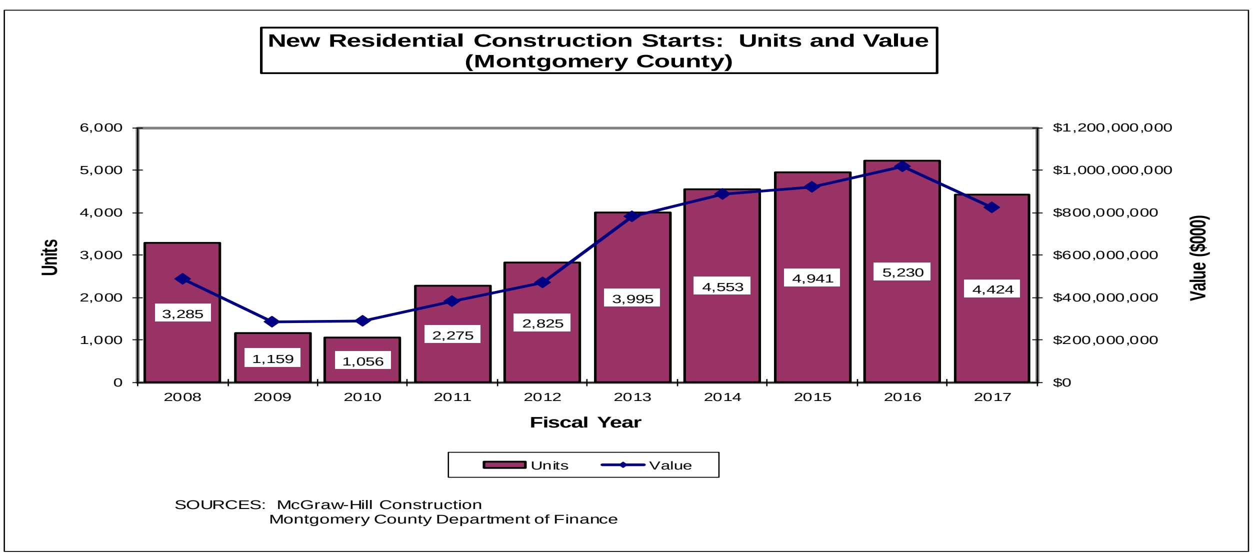


The County's average monthly unemployment rate during the second quarter was 3.2 percent and was the same rate during the second quarter of 2016. The rate declined from 3.5 percent in fiscal year 2016 to 3.3 percent in fiscal year 2017. Throughout fiscal year 2017, the County's unemployment rate remained one of the lowest in the State.



Construction Activity

After experiencing a weak second quarter performance in 2016 construction of residential units experienced a mixed performance during the second quarter of 2017. Construction of single-family homes increased 10.0 percent while construction of multi-family units decreased 32.2 percent. Residential construction starts added a total value of $191.6 million during the second quarter compared to $182.5 million during the second quarter of last year (↑5.0%). On a fiscal year basis, the number of new residential construction starts decreased 15.4 percent in fiscal year 2017 largely attributed to the decline in multi-family units (↓20.4%) and the total value added was $825.6 million which was 18.9 percent below FY2016.

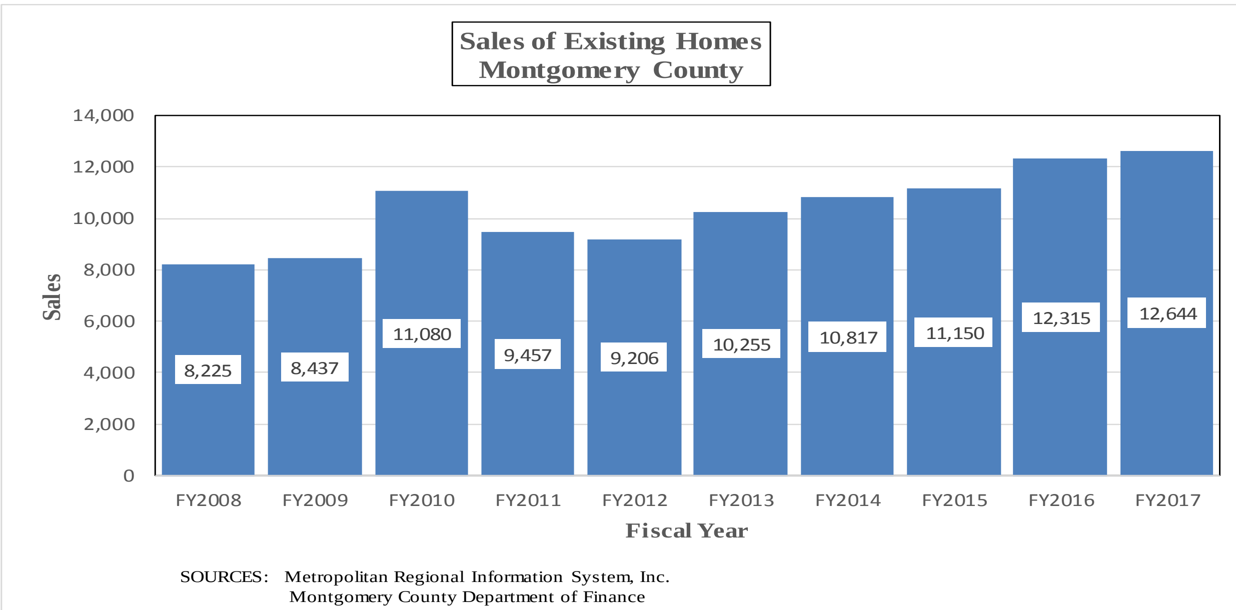


During the second quarter of 2017, the number of non-residential starts (projects) decreased 75.0 percent from the second quarter of 2016. However, the total value increased from $109.0

million to $157.3 million (↑44.3%). On a fiscal year basis, the number of non-residential projects decreased 21.1 percent but the total added value increased from $653.2 million to $1.075 billion from fiscal year 2016 to fiscal year 2017 – an increase of 64.6 percent.

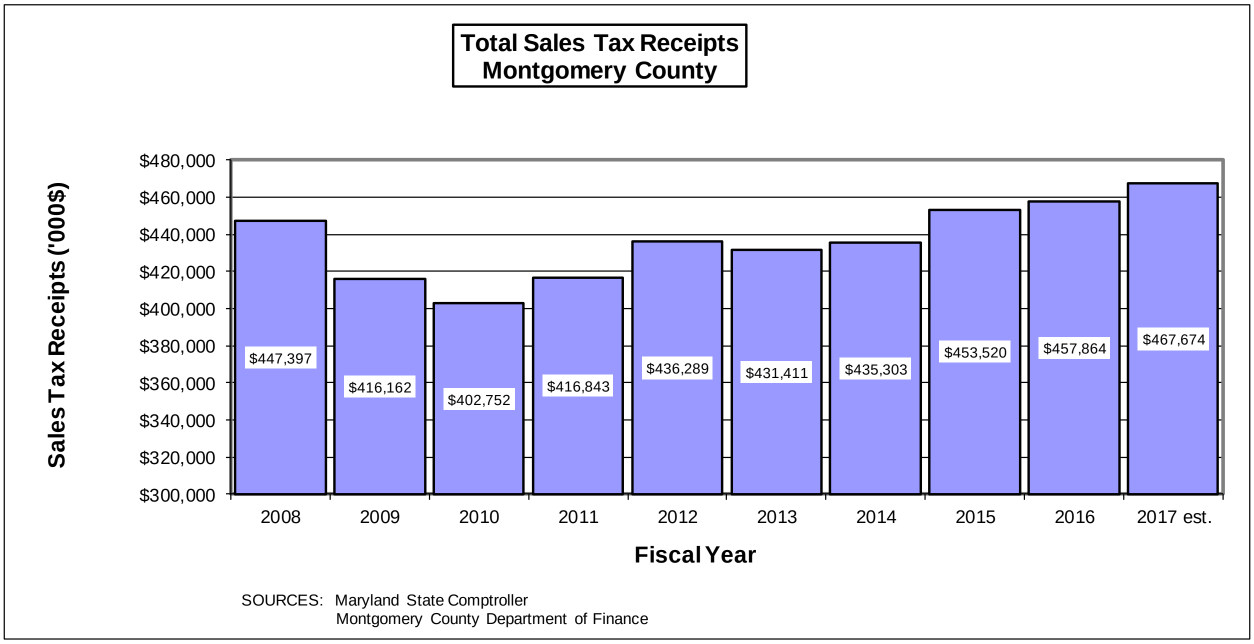
Residential Real Estate

During the second quarter of this calendar year, existing home sales decreased 2.5 percent on a year-over-year basis following an increase of 9.9 percent during the second quarter of 2016. Median sales prices for existing homes increased 3.9 percent during the second quarter 2017 following an increase of 2.6 percent during the second quarter of 2016. On a fiscal year basis, sales of existing homes increased 2.7 percent and median prices increased 3.8 percent.



Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, retail sales increased an estimated 2.1 percent during fiscal year 2017 based on data through May 2017. In the estimate for FY2017, purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 3.6 percent during this period while sales of durable goods were down 0.2 percent. The increase in nondurable goods purchases was largely attributed to the increase in purchases of apparel (↑19.7%) and utilities/transportation (↑6.8%), while the decrease in purchases of durable goods was solely attributed to a decrease in furniture and appliances (↓4.9%).



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 2016. Employment measured by the survey of households increased 2.2 percent, but the unemployment rate at 3.3 percent remained unchanged from the second quarter of 2016. However, residential construction was mixed with a decrease in the construction of multi-family homes down 32.2 percent but the construction of single-family units was up 10.0 percent. Sales of existing homes declined 2.5 percent but median prices were up 3.9 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 in the period July 2016 to June 2017 particularly in employment, home sales, and median prices.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date 2017	Year To-Date 2016	Annual 2016
Leading Indicators						
National	June '17	0.6%		2.7%	1.0%	0.8%
Maryland (1)	June '17	3.0%		1.5%	2.2%	1.8%
Washington MSA (2)	May '17	0.7%		1.5%	0.7%	0.7%
Coincident Indicators						
National	June '17	0.2%		1.5%	1.3%	1.2%
Maryland (1)	June '17	0.7%		3.3%	5.7%	5.3%
Washington MSA (2)	May '17	1.5%		2.6%	3.0%	3.0%
Consumer Confidence Index						
National	July '17	3.2%		23.7%	-2.1%	1.9%
South Atlantic Region	July '17	6.4%		24.5%	2.8%	6.0%
Consumer Sentiment (University of Michigan)	July '17	-1.8%		5.0%	-3.1%	-1.2%
Consumer Price Index						
All Items (nsa)						
National	June '17	1.6%		2.2%	1.1%	1.3%
Washington - Baltimore CMSA	May '17	0.7%		1.2%	1.2%	1.2%
Core CPI (nsa)						
National	June '17	1.7%		2.0%	2.2%	2.2%
Washington - Baltimore CMSA	May '17	0.3%		0.7%	1.9%	1.6%
Retail Trade						
National (sales - nsa)	June '17	3.2%		3.9%	3.3%	3.3%
Maryland (sales tax)(1)	June '17	4.0%		1.9%	1.9%	2.1%
Montgomery County (sales tax)(3)	June '17	1.7%		1.5%	-1.1%	1.1%
Employment						
Maryland (labor force data - nsa)	June '17	3,119,781	3,047,294	3,072,774	3,013,131	3,034,131
- Percent Change		2.4%		2.0%		1.6%
Silver Spring-Frederick-Rockville (labor force data - nsa)	June '17	676,447	657,838	667,919	653,783	657,787
- Percent Change		2.8%		2.2%		1.2%
Montgomery County (labor force data - nsa)	June '17	548,151	532,761	541,210	529,785	533,201
- Percent Change		2.9%		2.2%		1.2%
Montgomery County (QCEW)(4)	Dec. '16	471,721	467,083	463,836	459,667	459,667
- Percent Change		1.0%		0.9%		0.8%
Unemployment Rates						
Maryland (nsa)	June '17	4.2%	4.5%	4.2%	4.4%	4.3%
Silver Spring-Frederick-Rockville (nsa)	June '17	3.3%	3.5%	3.5%	3.7%	3.4%
Montgomery County (nsa)	June '17	3.5%	3.1%	3.6%	3.4%	3.3%
Construction						
Construction Starts - Montgomery County						
Total ($ thousands)	May '17	$49,468	$90,683	$663,782	$610,024	$1,742,699
- Percent Change		-45.4%		8.8%		6.1%
Residential ($ thousands)	May '17	$37,868	$68,445	$433,705	$356,387	$634,077
- Percent Change		-44.7%		21.7%		-30.6%
Non-Residential ($ thousands)	May '17	$11,600	$22,238	$230,077	$253,637	$1,108,622
- Percent Change		-47.8%		-9.3%		51.9%
Building Permits (Residential)						
Maryland	May '17	1,565	1,590	8,496	8,376	16,925
- Percent Change		-1.6%		1.4%		4.8%
Montgomery County (units)	June '17	110	137	953	1,565	2,170
- Percent Change		-19.7%		-39.1%		7.2%
Building Permits (Non-Residential)						
Montgomery County	June '17	195	194	942	1,016	2,109
- Percent Change		0.5%		-7.3%		4.5%
Construction Cost Index	July '17	8,273.40	7,300.98	7,544.60	7,133.86	7,189.54
Baltimore		13.3%		5.8%		3.4%
Real Estate						
Case-Shiller Home Price Index®(nsa)	May '17	222.48	214.77	218.42	210.78	213.70
		3.6%		3.6%		1.8%
Maryland						
Sales	June '17	9,291	8,944	40,790	38,584	79,959
- Percent Change		3.9%		5.7%		9.5%
Average Price	June '17	$346,353	$340,079	$320,565	$304,576	$309,502
- Percent Change		1.8%		5.2%		2.6%
Montgomery County						
Sales	June '17	1,519	1,532	6,300	6,127	12,896
- Percent Change		-0.8%		2.8%		5.8%
Average Price	June '17	$545,893	$546,394	$524,221	$501,290	$505,285
- Percent Change		-0.1%		4.6%		0.8%
Median Price	June '17	$440,000	$435,000	$418,567	$397,833	$409,700
- Percent Change		1.1%		5.2%		2.4%
Average Days on the Market	June '17	34	44	51	62	55

NOTES:

(nsa): not seasonally adjusted
(1) Philadelphia FRB
(2) Stephen Fuller Institute
(3): Data include miscellaneous and assessment collections.
(QCEW): Quarterly Census of Employment and Wages
(4) SOURCE: Bureau of Labor Statistics, U.S. Department of Labor: Year to Date for 2016 and 2015, annual data for 2015