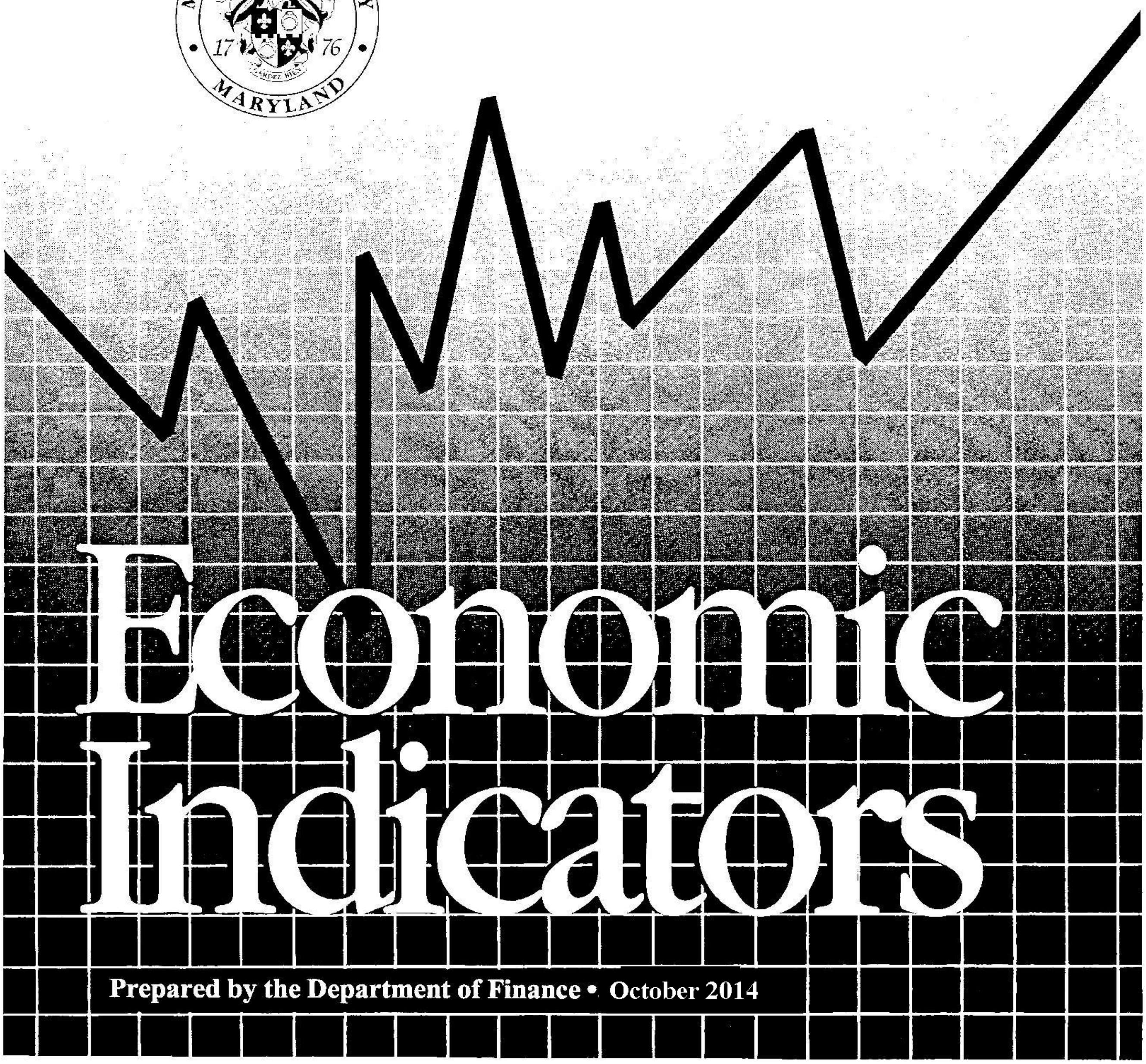
Economic
Indicators
Prepared by the Department of Finance • October 2014

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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INTRODUCTION

This quarterly report provides an analysis of national, regional, and Montgomery County economic indicators for the third quarter of 2014. The data presented in this report are not seasonally adjusted to insure comparability among the national, regional and Montgomery County economic indicators. Since the data are not seasonally adjusted, the comparative periods for the quarterly data are the third quarter of this calendar year and the third quarter of calendar year 2013. 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 3.5 percent seasonally adjusted annual rate during the third quarter of 2014. That increase followed an increase of 4.6 percent during the second quarter. Based on the October *Wall Street Journal (WSJ)* survey of fifty economists, the average of the responses expect economic growth to increase 3.0 percent during the current fourth quarter, and 2.8 percent during each of the four quarters in 2015. The survey of economists expects the jobless rate to be at 5.8 percent by December, down from the rate in September of 5.9 percent (seasonally adjusted), 5.4 percent by December 2015, and 5.1 percent by December 2016. The result of the survey of economists also shows that inflation, as measured by the consumer price index (CPI), will increase to 2.0 percent by December 2015 and increase gradually to 2.3 percent by December 2016.

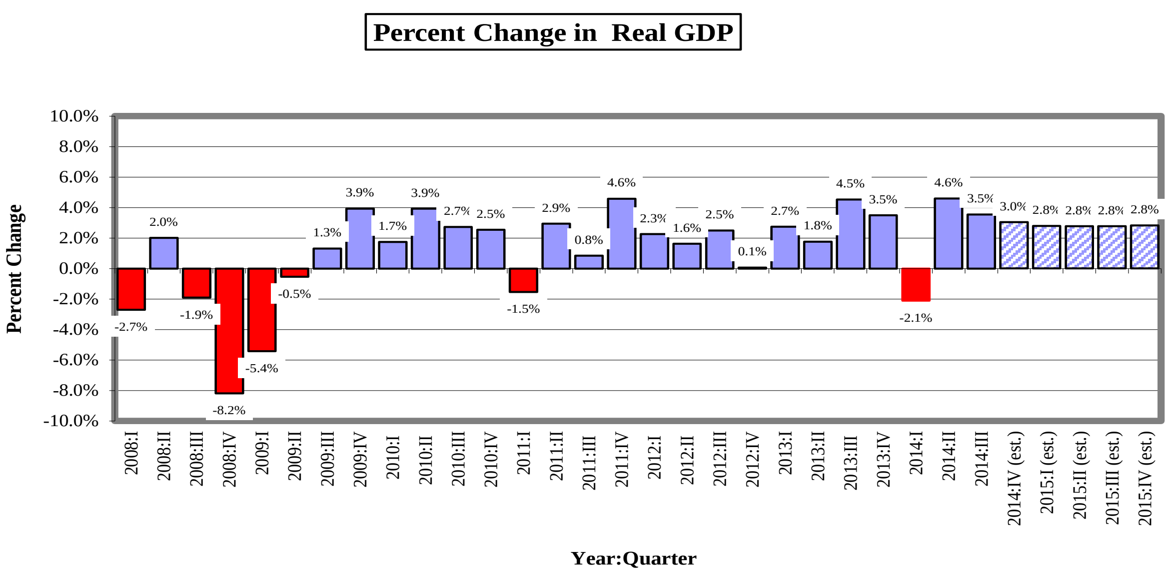
Subsequent to its October 28-29 meeting of the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System, the Committee stated that "economic activity is expanding at a moderate pace. Labor market conditions improved with solid gains and lower unemployment rate, household spending is rising, and business fixed investment is advancing." The Committee also stated that inflation is likely to be held down attributed to lower energy prices. The Committee also stated that it "is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities and of rolling over maturing Treasury securities at auction."

According to the *Barron's* weekly (November 3), the FOMC expressed a more "upbeat" assessment on labor-market conditions fueling speculation in the markets that the next federal funds rate hike could occur as early as June of next year. However, the lone dissenter vote among the FOMC came from the president of the Federal Reserve Bank of Minneapolis. His dissent was based on the "need to reduce possible downside risk to the credibility of its 2 percent inflation target by taking more purposeful steps to move inflation back up to 2 percent." He sees no evidence that inflation will move back towards its objective over the medium term once the Federal Reserve began its reduction in asset purchases in December 2013. The focus by the financial markets on the FOMC's view on inflation, according to *Barron's*, will be on the October meeting minutes scheduled for release on November 19.

Following its September meeting, the FOMC released its latest economic projections from 2014 to 2017 (the next scheduled release of its economic projections in December). Real GDP is expected to increase between 2.0 and 2.2 percent in 2014, between 2.6 and 3.0 percent in 2015, between 2.6 and 2.9 percent in 2016, and between 2.3 percent and 2.5 percent in 2017. The October survey of economists by the *Wall Street Journal* estimates that real GDP will increase 3.0 percent by the fourth quarter of 2014 and 2.8 percent by the fourth quarter of 2015. However, both the FOMC projections and the *WSJ* survey were done before the higher than expected third quarter real GDP was released by the BEA on October 30.

Both the *WSJ* October survey of economists and the economic projections by the FOMC in September suggest that unemployment will gradually decrease to 5.1-5.4 percent by the end of 2016. Inflation, as measured by the personal consumption expenditure (PCE) index, the preferred measure of inflation by the FOMC, will increase slightly between 1.7 and 2.0 percent by 2016, However, the survey of economists by the *WSJ* suggest that inflation, as measured by the consumer price index (CPI), will increase to 2.3 percent by December 2016.

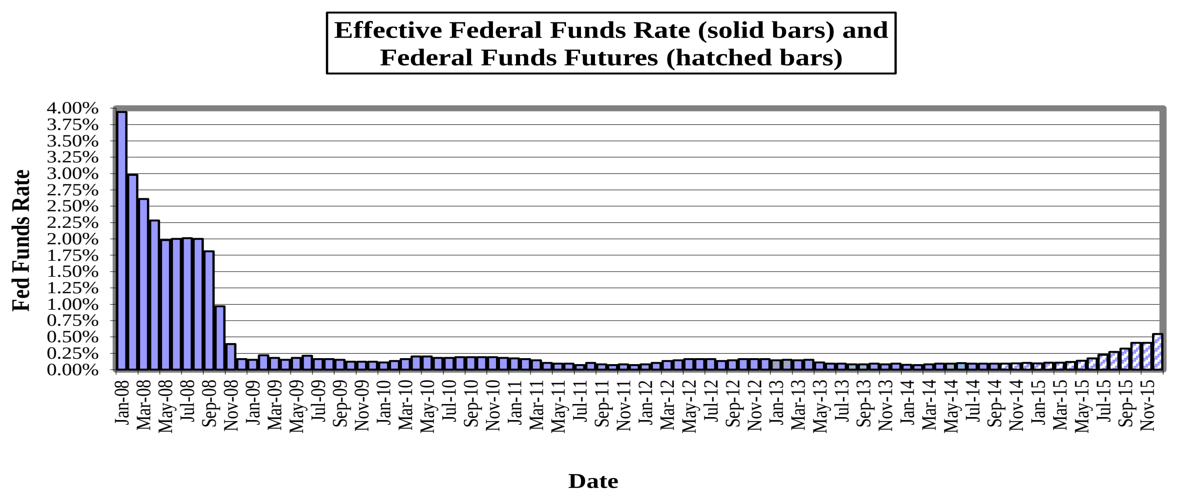
Data released by BEA for the third quarter showed that the increase in real GDP was attributed to an increase in personal consumption expenditures, exports, real non-residential fixed investment, and federal and state and local government spending. The deceleration in GDP from 4.6 percent in the second quarter to 3.5 percent reflected a decline in private inventory investment, and decelerations in personal consumption expenditure, nonresidential fixed investment, exports, state and local government spending, and residential fixed investment.



SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Hatched bars from *Wall Street Journal* survey conducted October 2014.
NOTE: Percent changes are at annual rates.

Real final sales of domestic product (real GDP less the change in private inventories) increased 4.2 percent in the third quarter compared to an increase of 4.8 percent during the second 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 third quarter, the percent increase in real final sales (4.5%) was greater than the percent increase in real GDP (3.5%) which suggests that future growth in real GDP through the remainder of 2014 may remain strong during the final quarter of 2014 as projected in the *WSJ* October survey.

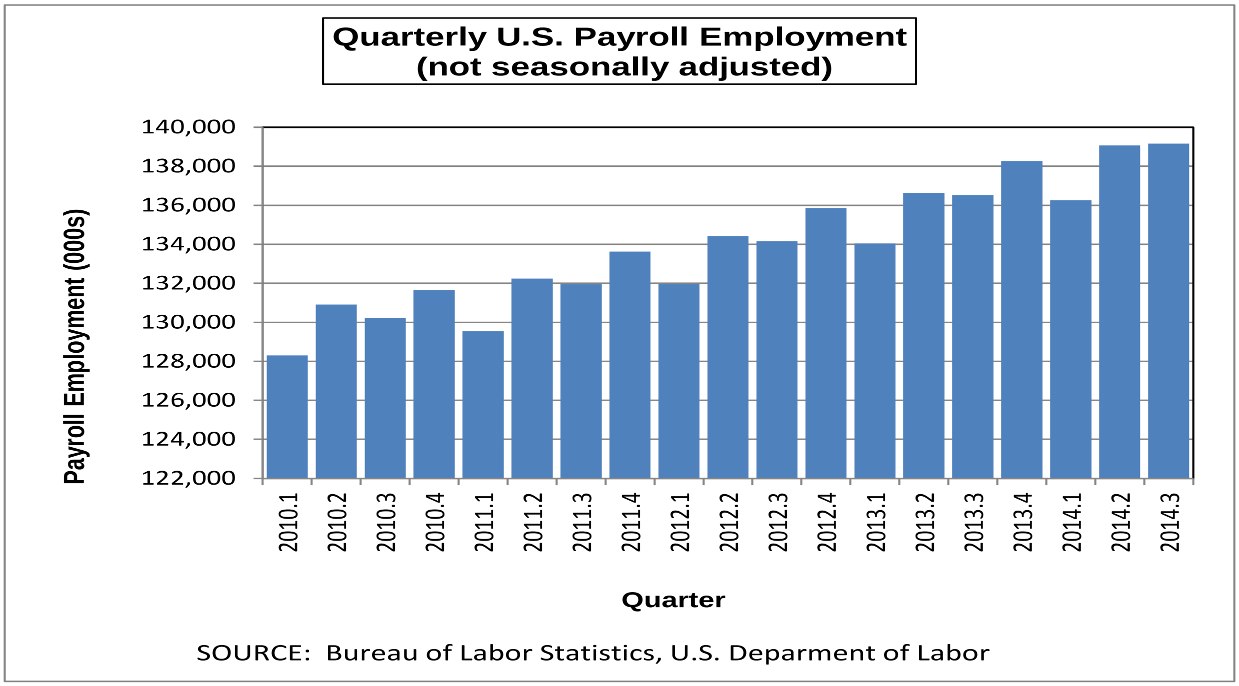
Following the meeting of the FOMC, the futures market for the 30-day federal funds rate remains at or below the 0.25 percent level through 2015. After that date, the futures market expects the rate to gradually increase from its current effective rate of 0.09 percent to 0.64 percent in January 2016, while the October *WSJ* survey of 50 economists project on average that the federal funds rate could reach 1.09 percent by December 2015. Following its September meeting, the FOMC released its latest economic projections through 2016. The average of responses from four members of the Board of Governors and fourteen presidents of the Federal Reserve Banks indicated increasing the target federal funds rate to 1.23 percent in 2015 and 2.70 percent in 2016. 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 2.875 percent while the vast majority of responses ranged between 0.125 percent and 1.875 percent.

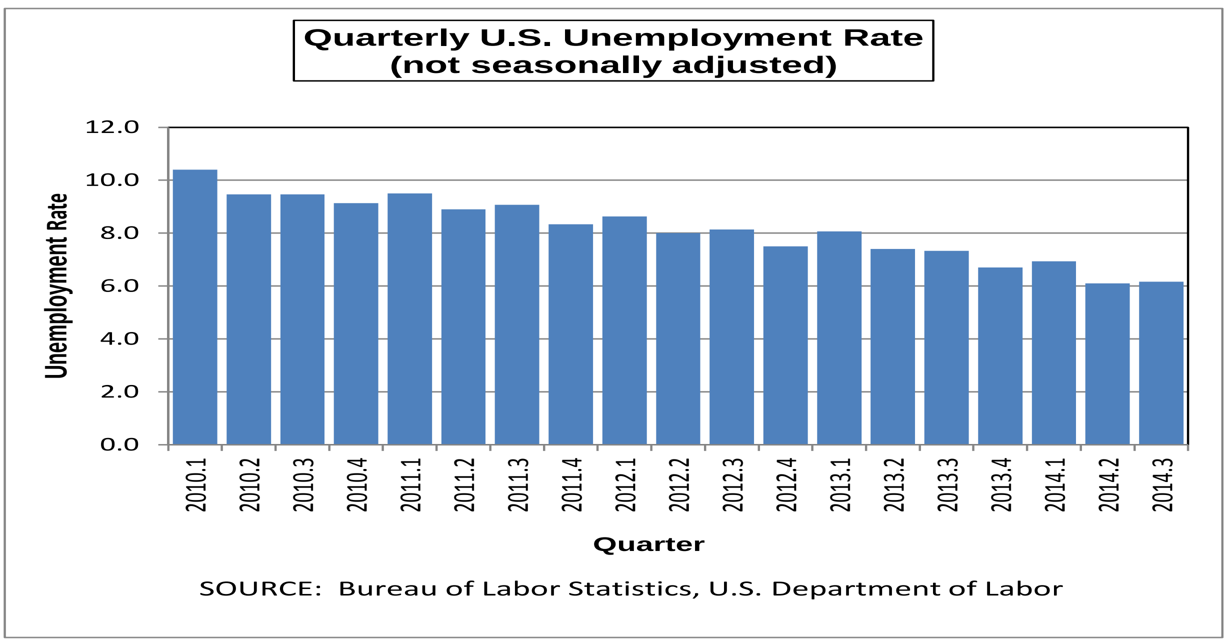


SOURCES: Federal Reserve Bank of Saint Louis (solid bars) and the Chicago Board of Trade (hatched bars) as of October 30, 2014

Sales of existing homes decreased 3.8 percent during the third quarter compared to the third quarter of 2013, and it is the third consecutive quarterly decline. Median home prices for existing homes increased 4.7 percent during the third quarter of 2014 compared to a 12.6 percent increase during the same period in 2013. The inventory level increased 5.4 percent during the third quarter compared to the same quarter in 2013 and was the highest inventory level since the second quarter of 2012. All of these factors indicate a significant slowdown in real estate markets.

Monthly national employment, as measured by the survey of establishments (Current Employment Statistics), averaged 139.2 million (not seasonally adjusted) during the third quarter of this year – an increase of over 2.6 million or 1.9 percent from the third quarter of 2013. The unemployment rate during the third quarter stood at 6.2 percent (not seasonally adjusted) and a significant decline from the 7.3 percent in the third quarter of 2013.



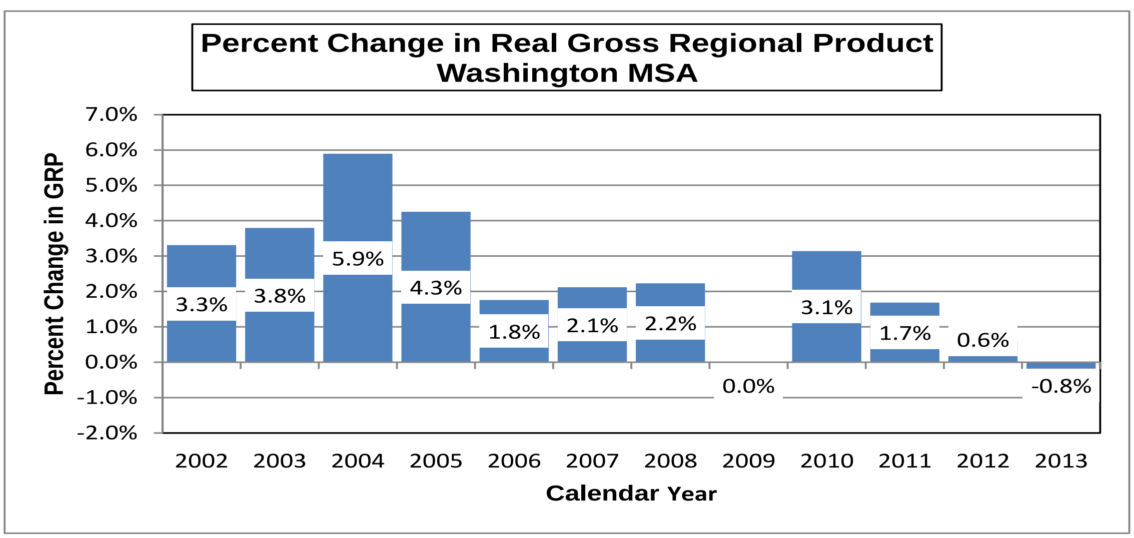


After experiencing positive returns during the second quarter of 2014, the stock market experienced mixed returns during the third quarter with a strong August performance offsetting negative returns in July and September. Even with strong August returns, three of four stock market indices: the Dow-Jones Industrial Average (↑1.3%); the Standard & Poor's 500 (↑0.6%); and the NASDAQ (↑1.9%) experienced modest growth and, in the case of the Russell 2000 a decline of 7.65 percent. However, for the first nine months of 2014, two indices – NASDAQ (↑7.6%) and the S&P 500 (↑6.7%) – had increased by over 6.5 percent while the DJIA increased a modest 2.8 percent. The Russell 2000, representing the small capitalization stocks, had declined 5.2 percent through September. That decline was attributed to the decline in the third quarter.

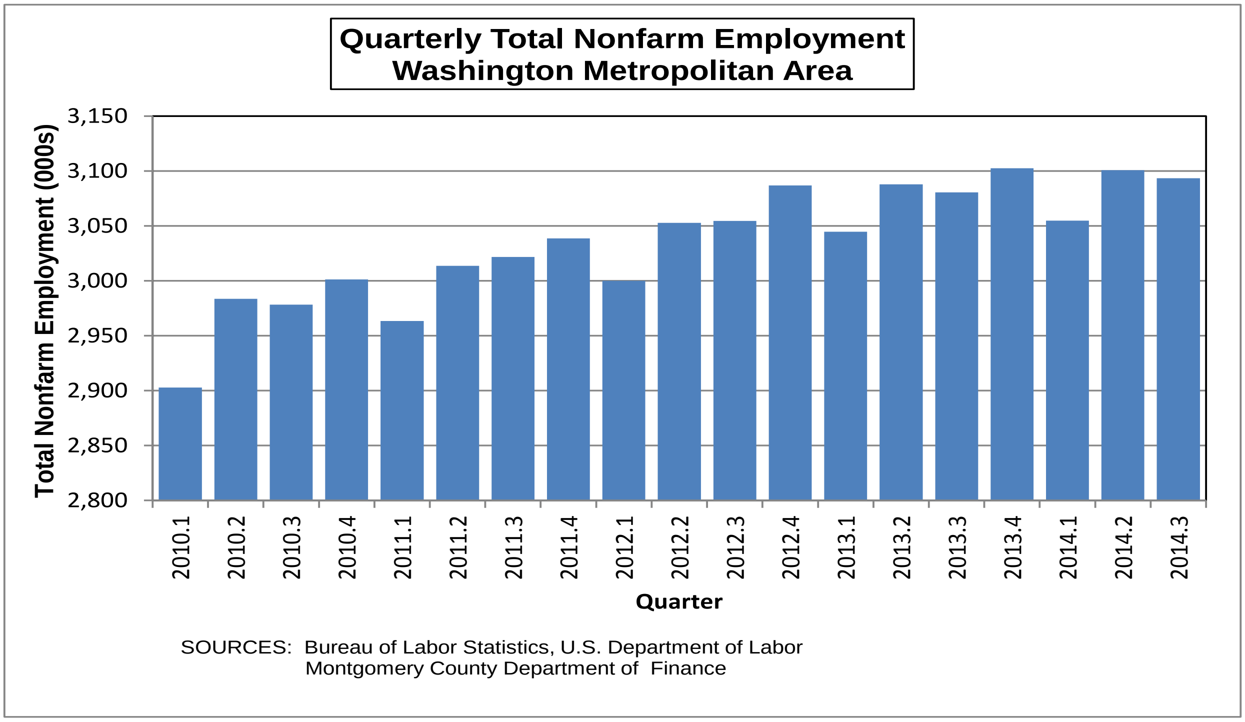
However, with the weak performance in the third quarter, the strength of the stock market since its nadir in March 2009 has been attributed in part to the policies of the Federal Reserve and its asset purchasing program. Since the Federal Reserve began its three "quantitative easing" programs in March 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 this 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 the remainder of the calendar year.

REGIONAL ECONOMY

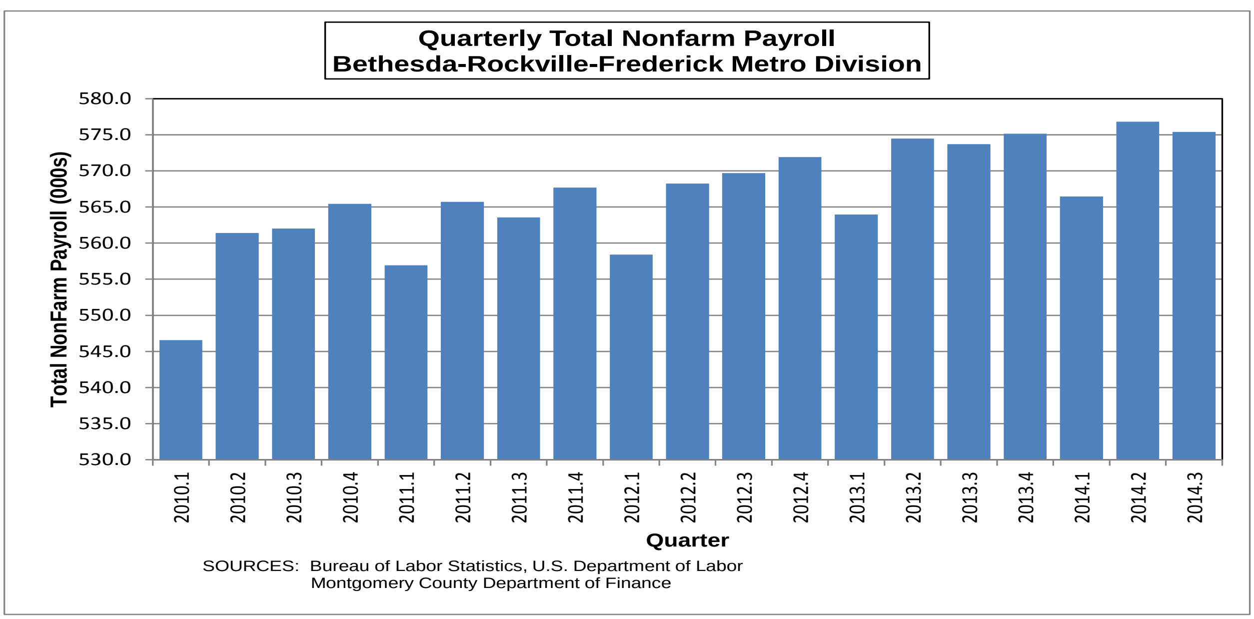
According to BEA, the region's economy contracted for the first time since the end of the national recession in 2009. As measured by the gross regional product by MSA, the regional economy declined 0.8 percent in 2013. This is the first decline since 2009 (↓0.01%). The sectors that contributed to the 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."



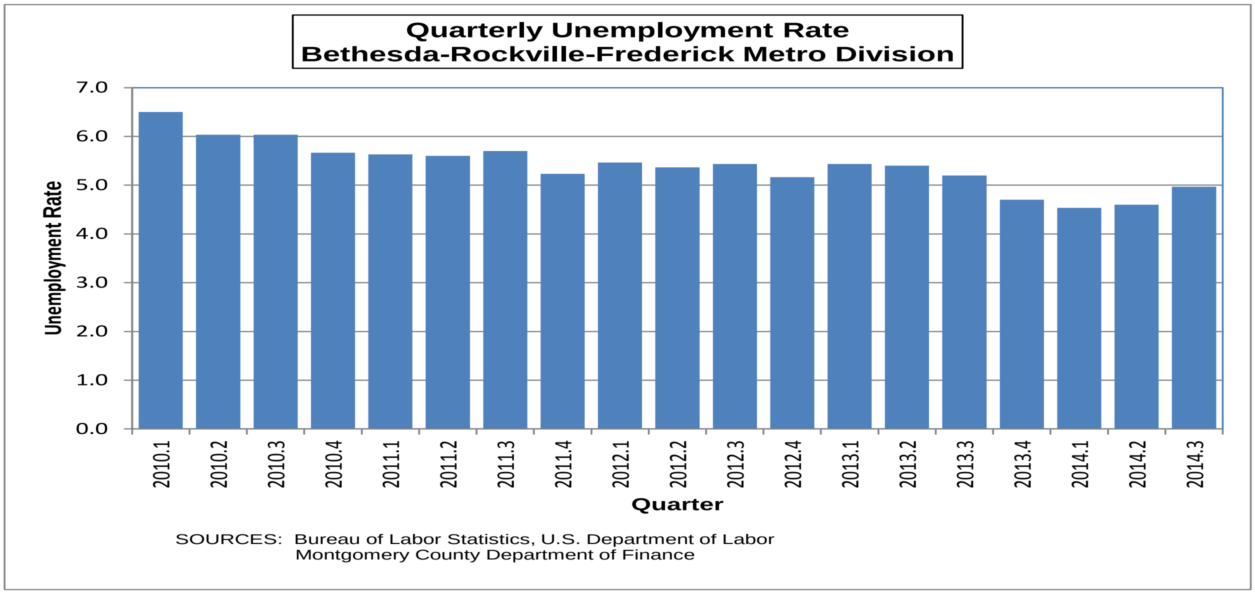
According to payroll employment data from the Bureau of Labor Statistics, U.S. Department of Labor and based on the survey of establishments, monthly employment in the Washington area averaged 3,093,600 during the third quarter of 2014 – an increase of 0.42 percent from the third quarter of 2013. In fiscal year 2014, employment in the Washington area reached 3,084,800 and increased 0.53 percent from fiscal year 2013.



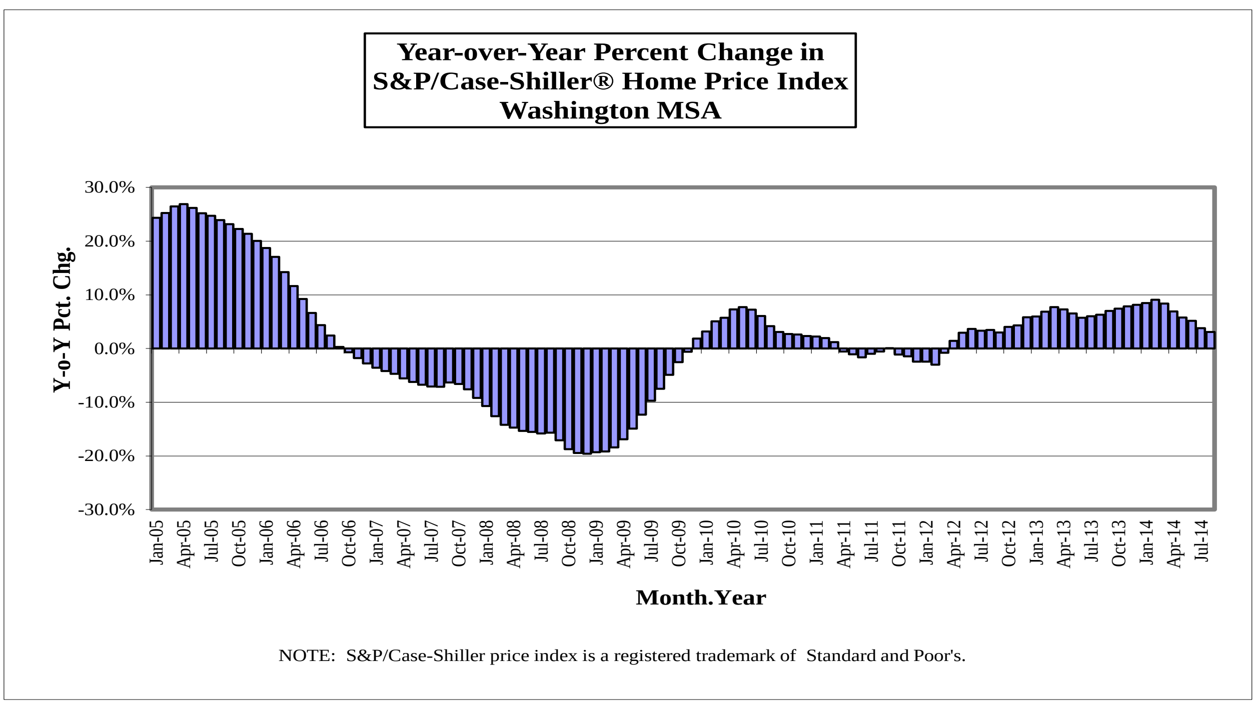
Monthly payroll employment for the Bethesda-Rockville-Frederick (BRF) metropolitan division averaged nearly 575,400 during the third quarter and was marginally above employment in the third quarter of 2013 (↑0.30%) but down from employment during the second quarter of this year (576,800). That rate of growth during the third quarter is below the growth rate for the entire Washington MSA (↑0.42%).



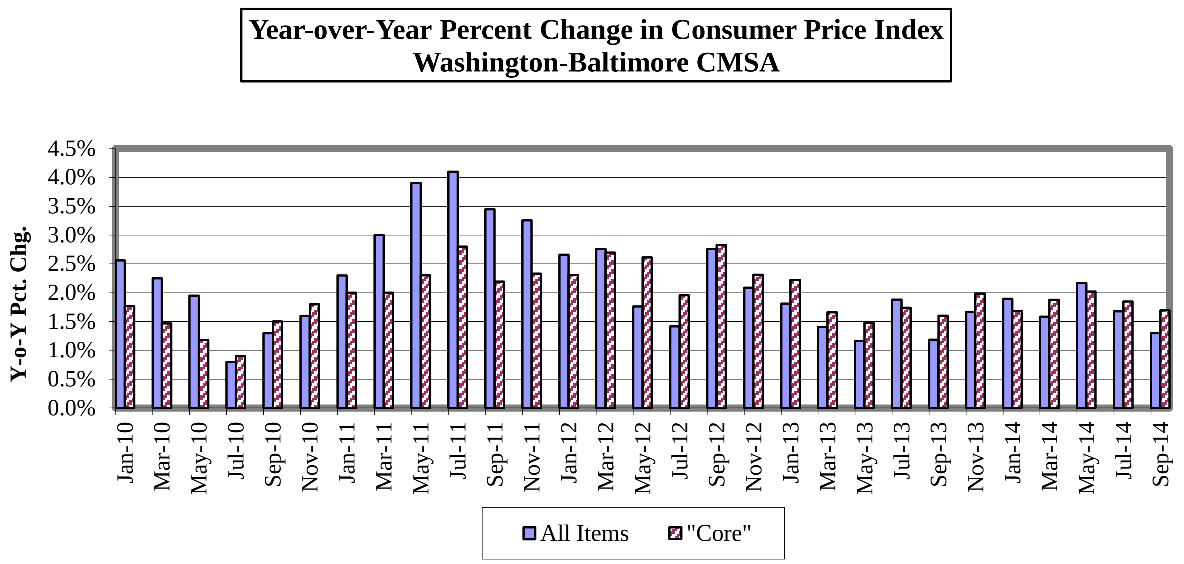
In contrast to employment growth, the unemployment rate for the division is either the lowest or one of the lowest among the 34 national metropolitan divisions and the monthly average was only 5.0 percent during the third quarter of 2014 – a decrease from the rate of 5.2 percent during the third quarter of 2013 – but up from the 4.6 percent during the second quarter of this year.



The resale housing market across the region essentially experienced no growth in prices, on a year-over-year basis, between August 2013 and August of this calendar year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in August increased 3.1 percent over the twelve-month period.

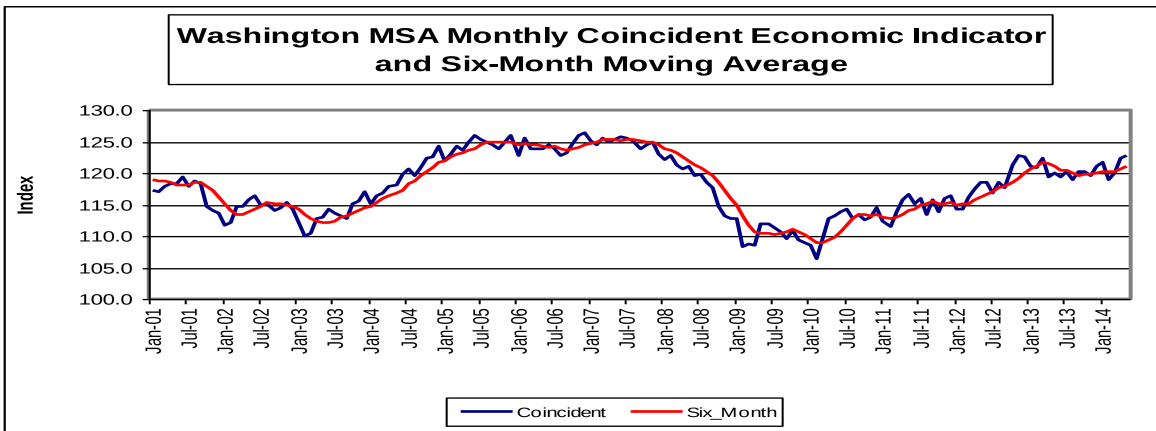


As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased a meager 1.3 percent on a year-over-year basis in September of this year over September 2013. Consumer prices excluding food and energy purchases were up 1.7 percent in the region (on the same year-over-year basis).



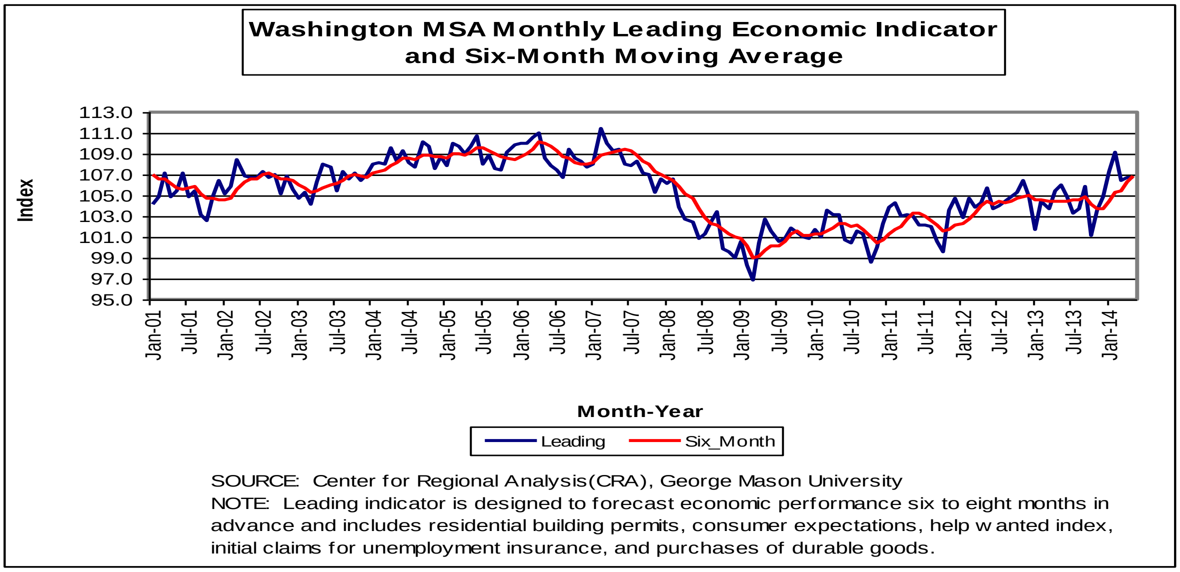
SOURCE: Bureau of Labor Statistics, U.S. Department. of Labor

According to CRA, the monthly coincident economic indicator for the Washington metropolitan region decreased 0.4 percent from July to August. On a year-over-year basis, the index increased 3.0 percent between August 2012 and August 2013. The coincident index measures the current performance of the region's economy and now declined for two consecutive months.



SOURCE: Center for Regional Analysis(CRA), George Mason University
NOTE: Coincident indicator respresents the current state of the economy and includes total w age and salary employment, consumer confidence, domestic airport passengers, and purchases of nondurable goods.

While the coincident indicator decreased again in August, CRA also reported that the leading economic indicator was unchanged from July to August. The leading index measures the economic performance of the region six months ahead. For the six-month period ending in August, the leading index declined two of the six months and was unchanged for two months. This pattern suggests that the region's economy may experience no growth or a very modest slowdown over the next six months. Based on the decline in the gross regional product (GRP) in 2013, both the recent trends in the coincident and leading indices suggest that the region's GDP may experience either no or modest growth in 2014.

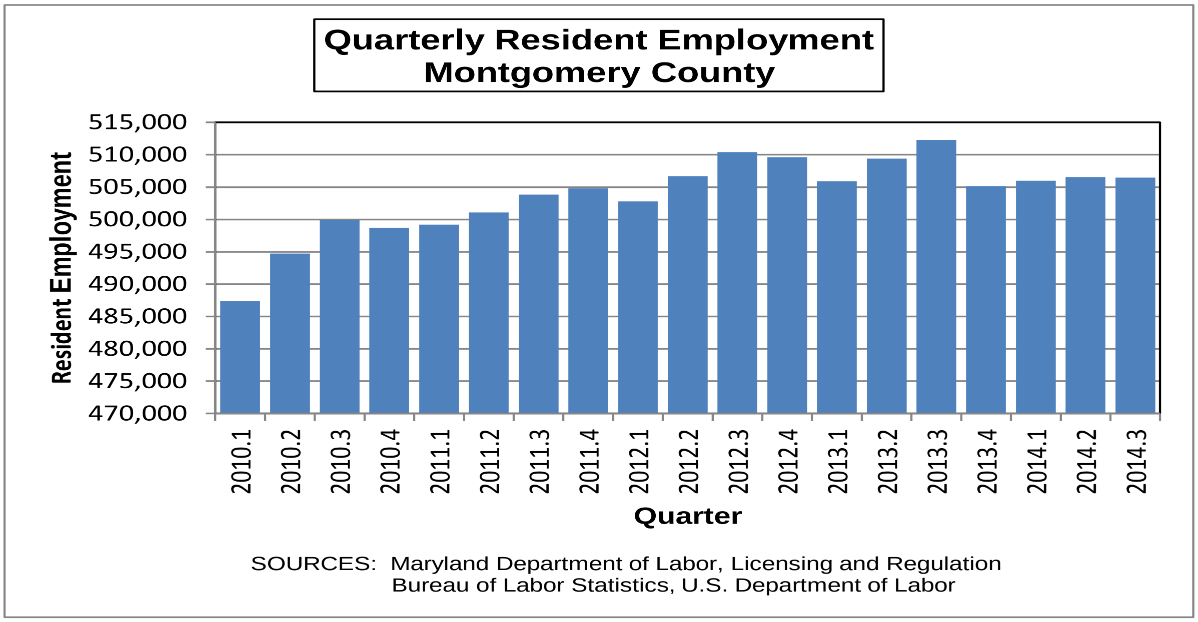


MONTGOMERY COUNTY ECONOMIC INDICATORS

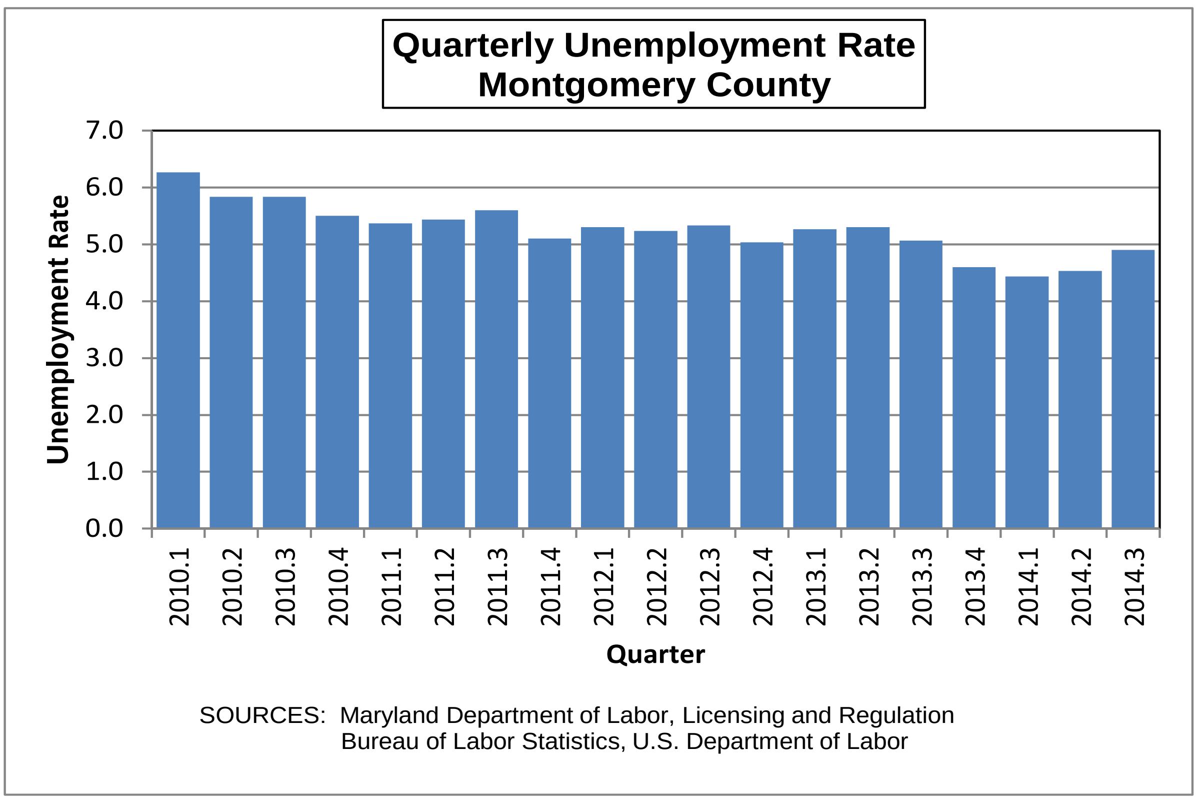
Montgomery County's economy experienced mixed economic performance during the third quarter of this year. The reasons for a mixed performance include a decline in existing home sales and a decline in the value added for non-residential construction, and a decline in residential employment. However, the County experienced a decline in the unemployment rate, an increase in the median sales price for an existing home, and an increase in residential construction starts both in the number of units and in the value added. **Because economic data for the County are not seasonally adjusted, the preferred measure of economic performance for the third quarter is a comparison to the data for the third quarter of 2013 and not the second or previous quarter.**

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) for the third quarter in Montgomery County decreased nearly 5,830 from the third quarter of 2013 (↓1.1%).

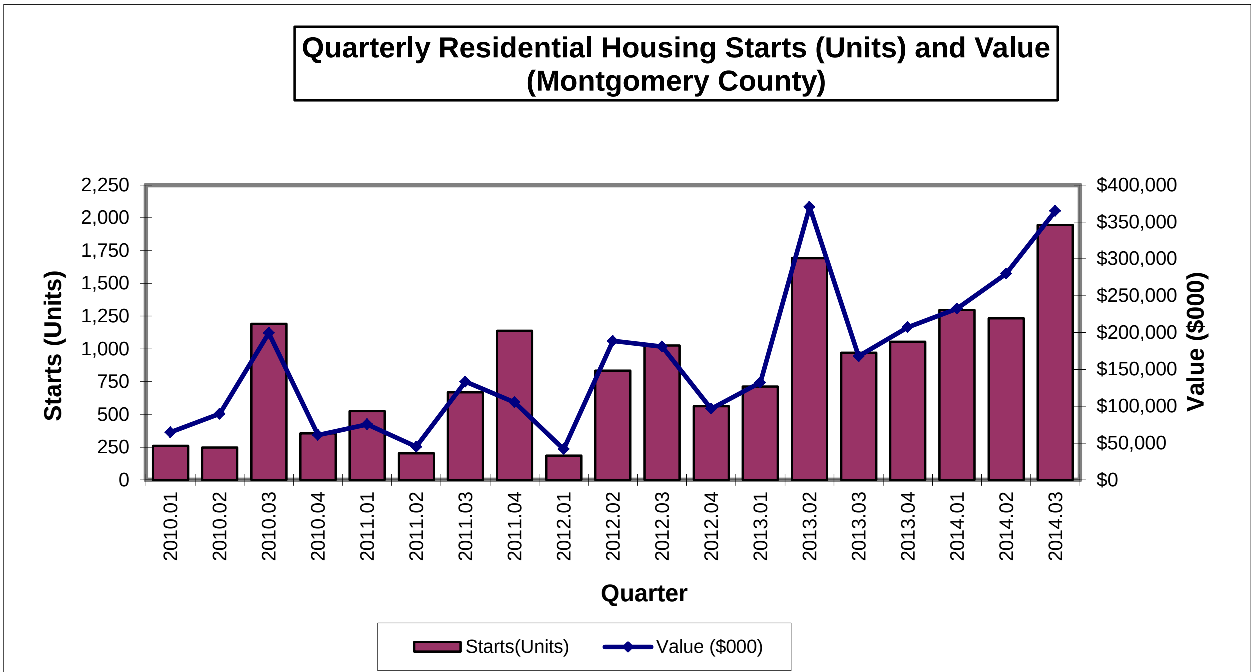


The County's average monthly unemployment rate during the third quarter declined to 4.9 percent compared to 5.1 percent in the third quarter of 2013. However, the decline in the unemployment rate is attributed to a drop in the labor force from 539,740 in the third quarter of 2013 to 523,500 in the third quarter of this year (↓1.3%) and not necessarily due to improved labor market conditions.



Construction Activity

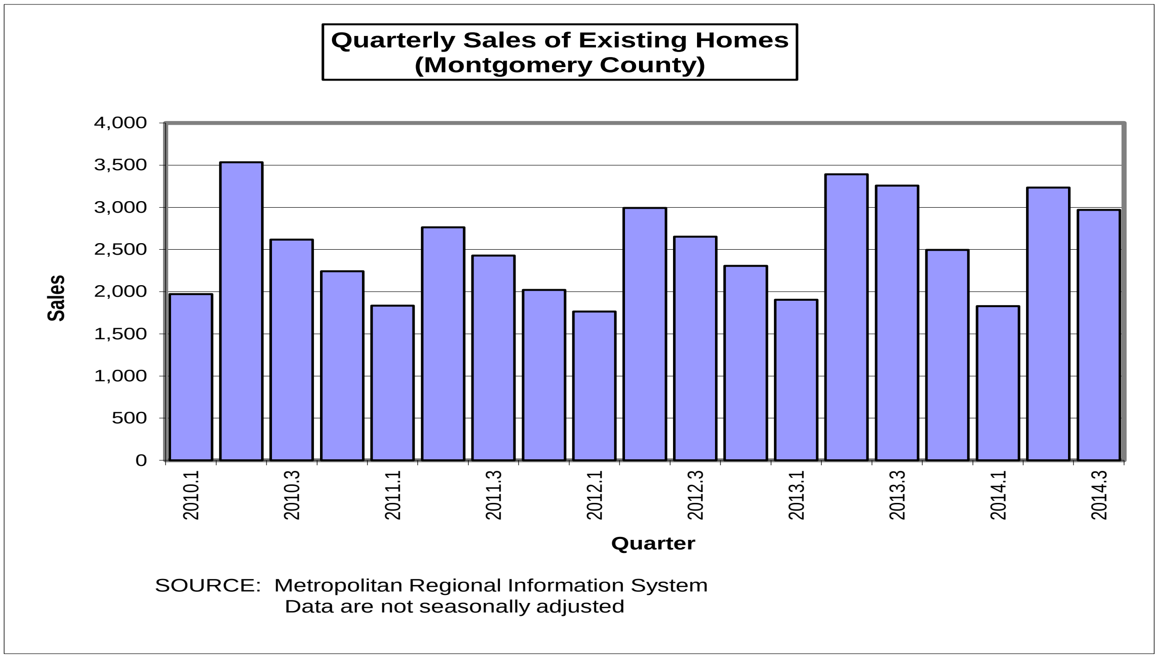
After experiencing a decline during the second quarter of 2014 over the second quarter of 2013, residential construction had a strong performance during the third quarter from the third quarter of 2013 (↑58.0% in new units and ↑100.4% in value added). The increase was attributed to construction of single-family homes (↑9.5%) and multi-family units (↑172.2%). Total value added increased from $167.8 million in the third quarter of 2013 to $364.8 million during the third quarter of this year (↑117.4%). While the number of non-residential construction projects increased nearly 240.0 percent in the third quarter over the third quarter of 2013, total value added declined from $158.9 million to $132.9 million (↓16.4%). Even with the decline in the total value for non-residential construction, total value of new construction starts increased overall in the County by nearly 52.4 percent during the third quarter compared to the third quarter of 2013.



SOURCE: McGraw-Hill Construction and Montgomery County Department of Finance

Residential Real Estate

During the third quarter of this year, existing home sales decreased 8.9 percent from the third quarter of 2013. The consecutive quarterly year-over-year decreases during 2014 to date after strong growth throughout 2013 can be attributed to rising mortgage interest rates and increases in home prices. Median sales prices for existing homes increased 0.2 percent during the third quarter compared to the third quarter of last year. Excluding the slight decline in the second quarter of this year, median sales prices increased the previous seven quarters within a range between 3.4% and 10.4%.



Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, retail sales increased an estimated 1.7 percent during the first eight months of this year. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 3.1 percent during this period while sales of durable goods were up 2.5 percent. The increase in nondurable goods purchases was largely attributed to the increase in utilities and transportation (↑5.4%) while the increase in purchases of durable goods was solely attributed to an increase in automobile sales and products (↑4.2%) and furniture and appliances (↑4.9%). Given the decline in home sales during 2014 to date, 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 the third quarter of this year compared to the same period in 2013. 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, an increase in the median sales price for an existing home, and an increase in residential construction starts both in the number of units and in the value added.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date 2014	Year To-Date 2013	Annual 2013
Leading Indicators						
National	Sept. '14	0.8%		6.5%	1.5%	2.6%
Washington MSA	Aug. '14	0.0%		3.0%	-0.1%	-0.5%
Coincident Indicators						
National	Sept. '14	0.4%		2.8%	1.9%	2.1%
Washington MSA	Aug. '14	-0.4%		1.3%	3.0%	1.7%
Consumer Confidence Index						
National	Oct. '14	6.1%		17.9%	9.4%	9.2%
South Atlantic Region	Oct. '14	22.2%		20.6%	8.7%	7.3%
Consumer Sentiment (University of Michigan)	Oct. '14	2.1%		4.2%	3.9%	3.5%
Consumer Price Index						
All Items (nsa)						
National	Sept. '14	1.7%		1.7%	1.5%	1.5%
Washington - Baltimore CMSA	Sept. '14	1.3%		1.7%	1.5%	1.5%
Core CPI (nsa)						
National	Sept. '14	1.7%		1.8%	1.8%	1.8%
Washington - Baltimore CMSA	Sept. '14	1.7%		1.8%	1.7%	1.8%
Retail Trade						
National (sales - nsa)	Sept. '14	5.8%		3.9%	3.9%	3.3%
Maryland (sales tax)(1)	Aug. '14	3.8%		2.3%	1.2%	1.8%
Montgomery County (sales tax)(1)	Aug. '14	2.3%		1.7%	-0.3%	0.2%
Employment						
Maryland (labor force data - nsa)	Sept. '14	2,925,329	2,929,566	2,924,033	2,922,810	2,921,931
- Percent Change		-0.1%		0.0%		0.4%
Bethesda-Frederick-Gaithersburg (labor force data)	Sept. '14	626,124	630,944	627,399	630,929	629,684
- Percent Change		-0.8%		-0.6%		0.2%
Montgomery County (labor force data)	Sept. '14	505,317	509,207	506,323	509,195	508,190
- Percent Change		-0.8%		-0.6%		0.2%
Montgomery County (QCEW)	Mar. '14	450,489	448,213	448,595	446,510	451,809
- Percent Change		0.5%		0.5%		0.2%
Unemployment						
Maryland (nsa)	Sept. '14	5.6%	6.2%	6.0%	6.8%	6.6%
Bethesda-Frederick-Gaithersburg (nsa)	Sept. '14	4.5%	5.0%	4.7%	5.3%	5.2%
Montgomery County (nsa)	Sept. '14	4.5%	4.9%	4.6%	5.2%	5.1%
Construction						
Construction Starts - Montgomery County						
Total ($ thousands)	Sept. '14	$113,594	$64,093	$1,100,486	$1,232,994	$1,595,054
- Percent Change		77.2%		-10.7%		20.2%
Residential ($ thousands)	Sept. '14	$73,344	$51,198	$811,464	$679,240	$823,039
- Percent Change		43.3%		19.5%		58.7%
Non-Residential ($ thousands)	Sept. '14	$40,250	$12,895	$289,022	$553,754	$772,015
- Percent Change		212.1%		-47.8%		-4.5%
Building Permits (Residential)						
Maryland	Sept. '14	1,966	2,321	13,447	13,876	18,138
- Percent Change		-15.3%		-3.1%		23.8%
Montgomery County (units)	Sept. '14	495	690	3,534	2,554	3,514
- Percent Change		-28.3%		38.4%		-10.9%
Building Permits (Non-Residential)						
Montgomery County	Sept. '14	162	147	1,434	1,581	2,060
- Percent Change		10.2%		-9.3%		-6.3%
Construction Cost Index	Aug. '14	6,969.11	6,860.40	6,926.32	6,941.37	6,935.72
Baltimore		1.6%		-0.2%		5.2%
Real Estate						
Case-Shiller Home Price Index®(nsa)	Aug. '14	210.68	204.44	207.64	195.42	198.40
		3.1%		6.3%		6.9%
Maryland						
Sales	Sept. '14	5,524	5,249	46,636	46,795	63,556
- Percent Change		5.2%		-0.3%		12.4%
Median Price	Sept. '14	$257,575	$256,672	$260,659	$257,937	$261,153
- Percent Change		0.4%		1.1%		6.6%
Montgomery County						
Sales	Sept. '14	884	871	8,033	8,556	11,406
- Percent Change		1.5%		-6.1%		13.0%
Average Price	Sept. '14	$496,193	$476,910	$506,023	$493,703	$500,316
- Percent Change		4.0%		2.5%		7.5%
Median Price	Sept. '14	$390,000	$379,000	$400,544	$396,894	$400,000
- Percent Change		2.9%		0.9%		9.0%
Average Days on the Market	Sept. '14	53	44	48	48	46

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