# Economic Indicators

Prepared by the Department of Finance • October 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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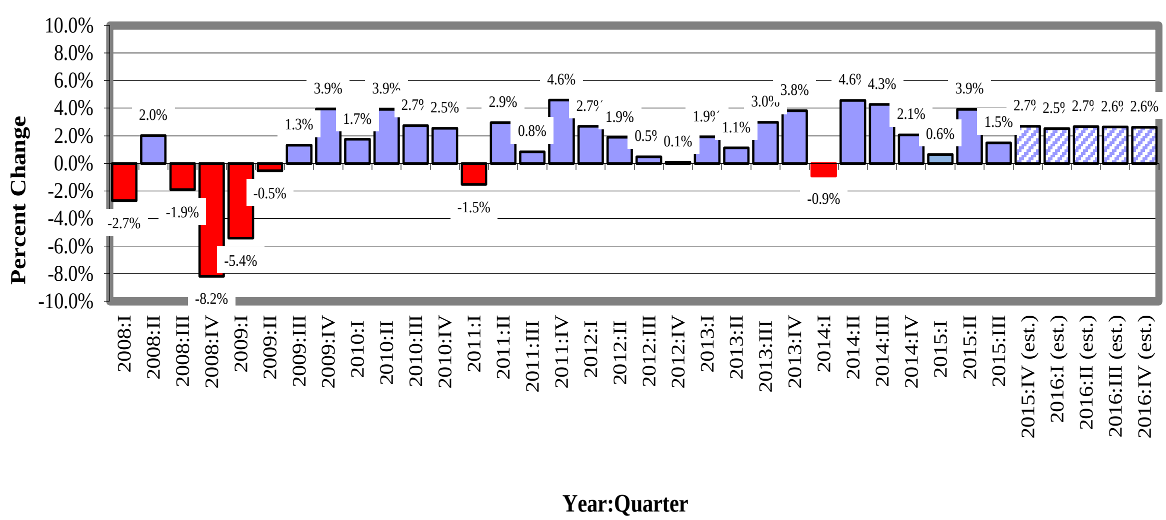
## INTRODUCTION

**This quarterly report provides an analysis of national, regional, and Montgomery County economic indicators for the third quarter of 2015. 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 2014. 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 1.5 percent seasonally adjusted annual rate during the third quarter of 2015. That increase followed an increase of 3.9 percent during the second quarter. Based on the October 2015 *Wall Street Journal (WSJ)* survey of fifty economists, the average of the responses expect economic growth to increase 2.7 percent during the current fourth quarter, and an average of 2.6 percent for the four quarters in 2016. Following its September 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 2018 (the next scheduled release of its economic projections is in December). Real GDP is expected to increase between 2.2 and 2.6 percent in 2016, between 2.0 and 2.4 percent in 2017, and between 1.8 and 2.2 percent in 2018.

**Percent Change in Real GDP**




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

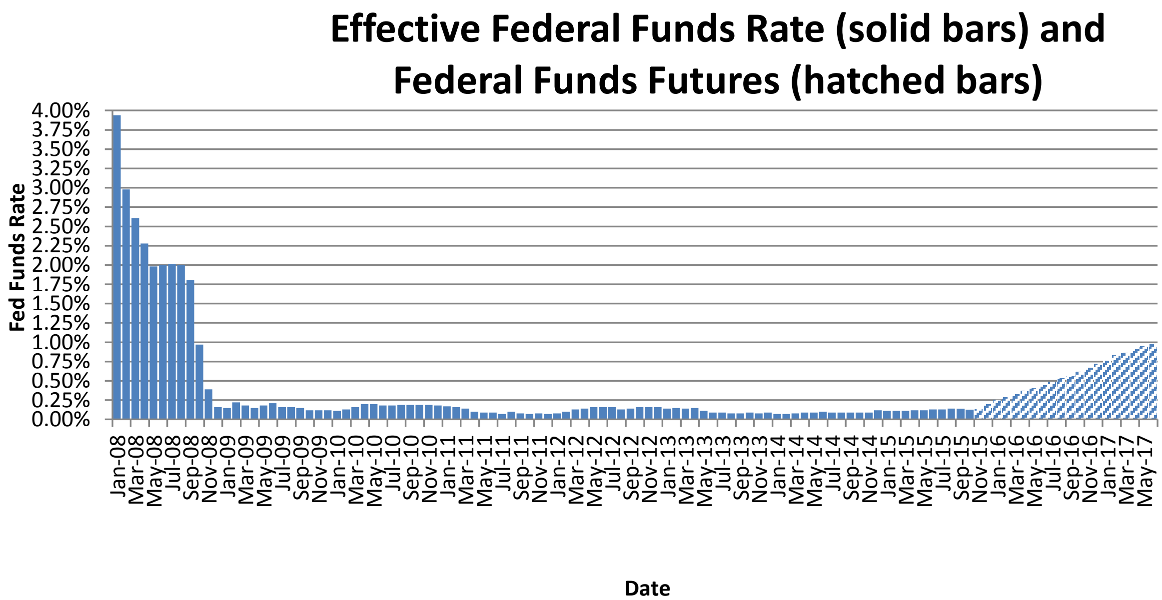
Data released by BEA for the third quarter showed that the increase in real GDP was attributed to an increase in personal consumption expenditures, residential and non-residential fixed investment, and federal and state and local government spending. However, the deceleration in GDP from 3.9 percent in the second quarter to 1.5 percent reflected a decline in private inventory investment, and decelerations in personal consumption expenditure, residential and nonresidential fixed investment, exports, and state and local government spending.

Real final sales of domestic product (real GDP less the change in private inventories) increased 4.3 percent in the third quarter compared to an increase of 6.2 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 (4.3%) was greater than the percent increase in real GDP (1.5%) which suggests that future growth in real GDP during the fourth quarter of 2015 and increase to 2.6 percent in 2016 as projected in the *WSJ* October survey.

The survey of economists expects the jobless rate to be at 5.0 percent by December down to 4.7 percent by December 2016, and down further to 4.6 percent by December 2017. Projections by the FOMC in September suggest that unemployment will gradually decrease to 4.7-4.9 percent by the end of 2016. Finally, the October *WSJ* survey of economists also shows that inflation, as measured by the consumer price index (CPI), will increase a meager 0.8 percent in December, increase to 2.1 percent by December 2016, and increase to 2.3 percent by December 2017. Inflation, as measured by the personal consumption expenditure (PCE) index, the preferred measure of inflation by the FOMC, will increase slightly between 1.5 and 1.8 percent by 2016.

Subsequent to its October 27-28 meeting of the FOMC, the Committee stated that “economic activity has been expanding at a moderate pace. Household spending and business fixed investment have been increasing at solid rates in recent months and the housing sector has improved further.” However, the FOMC also noted that net exports were weak and growth in payroll employment slowed, while the unemployment rate did not improve. The FOMC stated further that “inflation has continued to run below the Committee’s longer-fund objective.” 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” and voted to keep the target federal funds rate at between 0.00 and 0.25 percent to “support continued progress toward maximum employment and price stability.”

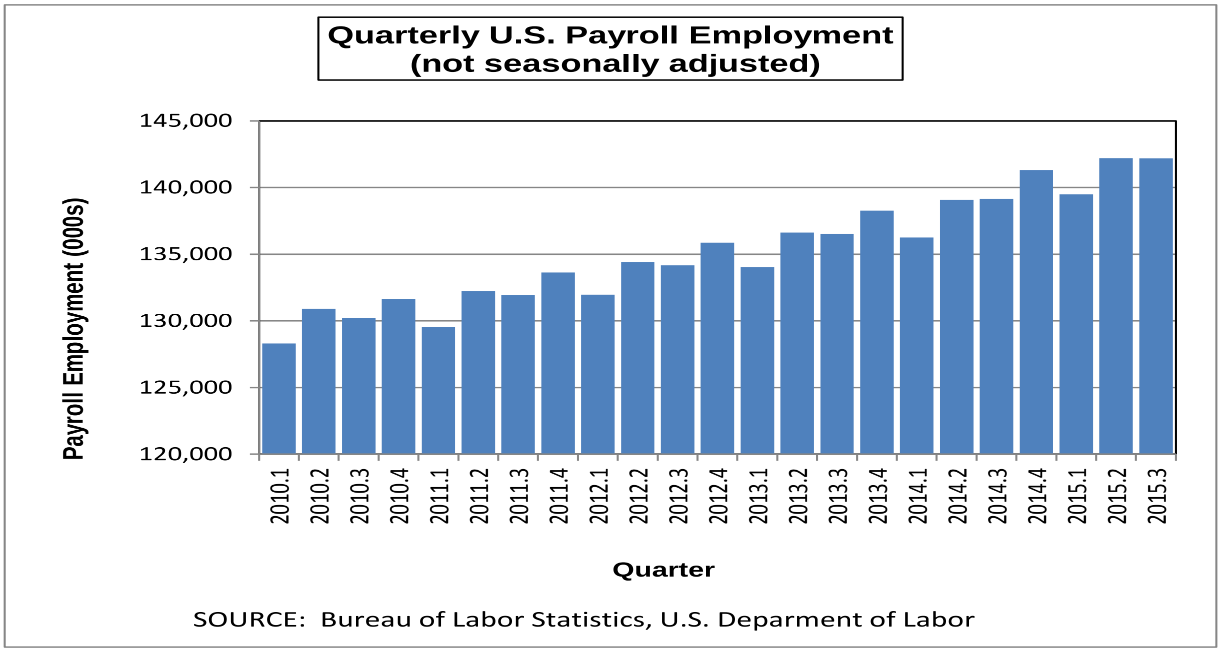
Following the meeting of the FOMC, the financial press reported that investors believe that there is a 50-50 percent chance of a rate increase in December. The federal funds futures market has a 47 percent probability of a rate hike in December and a 55 percent probability in January. The futures market for the 30-day federal funds rate remains at or below the targeted 0.25 percent level through 2015 and into the first half of 2016. After that date, the market expects the rate to gradually increase from its current effective rate of 0.13 percent in October to 0.33 percent in March 2016 and 0.44 percent in June 2016, while the October *WSJ* survey of 50 economists project on average that the federal funds rate could reach 0.32 percent by December 2015 and 0.72 percent in June 2016. With the September release of its economic projections, the FOMC also released the responses from seventeen participants that indicated an average increase in the target federal funds rate to 1.48 percent in 2016 and 2.74 percent in 2017.

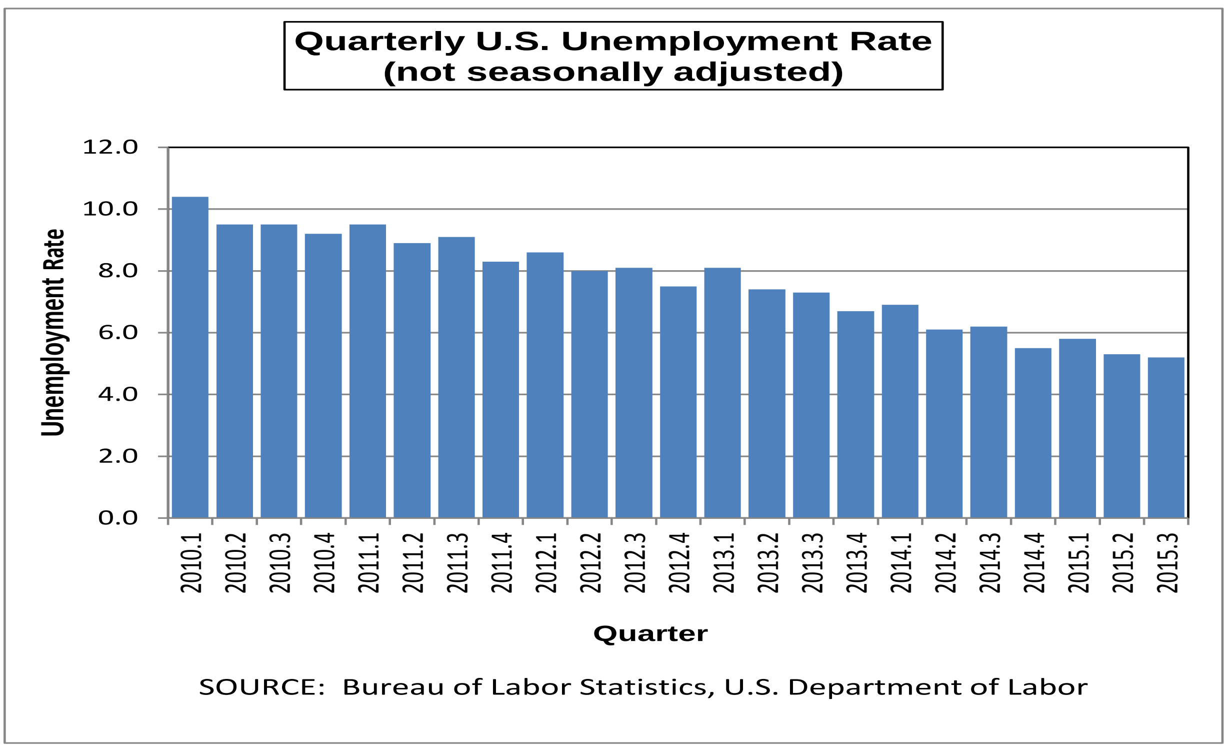



SOURCES: Federal Reserve Bank of St. Louis (solid bars) and the
Chicago Mercantile Exchange (hatched bars) as of October 30, 2015

Sales of existing homes increased 8.1 percent during the third quarter compared to the third quarter of 2014, and it is the fourth consecutive quarterly increase. Median home prices for existing homes increased 5.1 percent during the third quarter of 2015 compared to a 4.6 percent increase during the same period in 2014, and the inventory level decreased 3.2 percent over the same period. All of these factors indicate a strong performance in the national residential real estate market during the third quarter.

Monthly national employment, as measured by the survey of establishments (Current Employment Statistics), averaged 142.2 million (not seasonally adjusted) during the third quarter of this year – an increase of over 3.0 million or 2.2 percent from the third quarter of 2014. The unemployment rate during the third quarter stood at 5.2 percent (not seasonally adjusted) and a significant decline from the 6.2 percent in the third quarter of 2014.



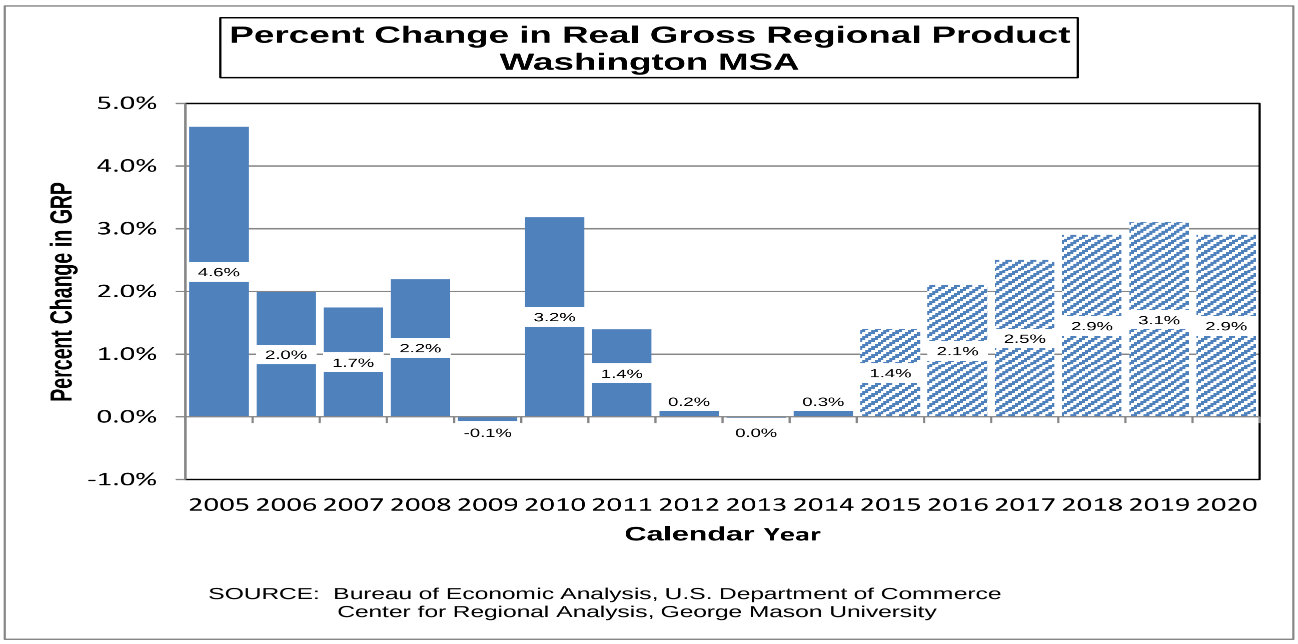




After experiencing mixed returns during the second quarter of 2015, the stock market experienced declines during the third quarter attributed to the negative returns in August and September. All four stock market indices: the Dow-Jones Industrial Average (↓7.6%); the Standard & Poor's 500 (↓6.4%); the NASDAQ (↓7.4%); and the Russell 2000 (↓12.2%)

experienced declines. Through the first three quarters of 2015, all four stock market indices had negative returns for the year: the Dow-Jones Industrial Average (↓8.6%); the Standard & Poor's 500 (↓6.7%); the NASDAQ (↓2.5%); and the Russell 2000 (↓8.6%). After the decline during the third quarter, the stock market increased in October: DJIA (↑8.5%), S&P 500 (↑8.3%), NASDAQ (↑9.4%), and Russell 2000 (↑5.6%).

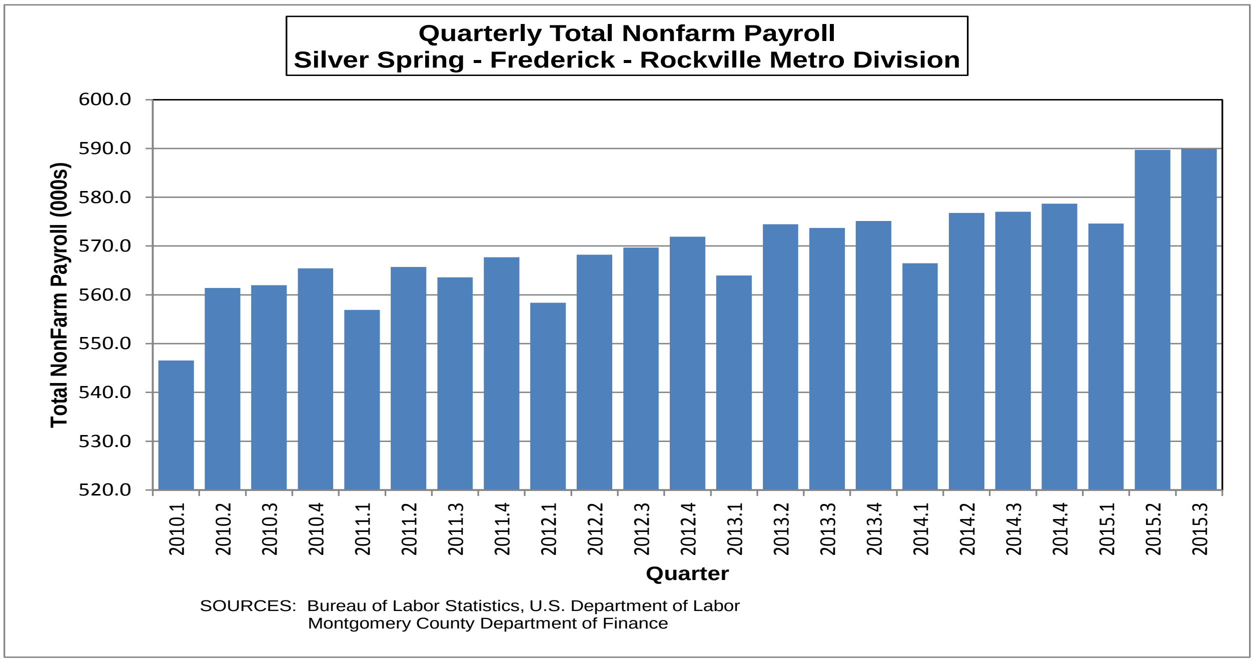
## REGIONAL ECONOMY

According to BEA, the region's economy experienced modest growth in 2014. As measured by the real gross regional product (GRP), the region's economy increased 0.3 percent in 2014. That rate followed no growth in 2013 and a modest increase of 0.2 percent in 2012. The sectors that contributed to the increase were professional and business services (↑0.8%) and retail trade (↑2.0%). According to the Center for Regional Analysis (CRA), George Mason University, the region's economy as measured by real GRP increased 1.4 percent in 2015 and will steadily increase from 2.1 percent in 2016 to 3.1 percent by 2019.

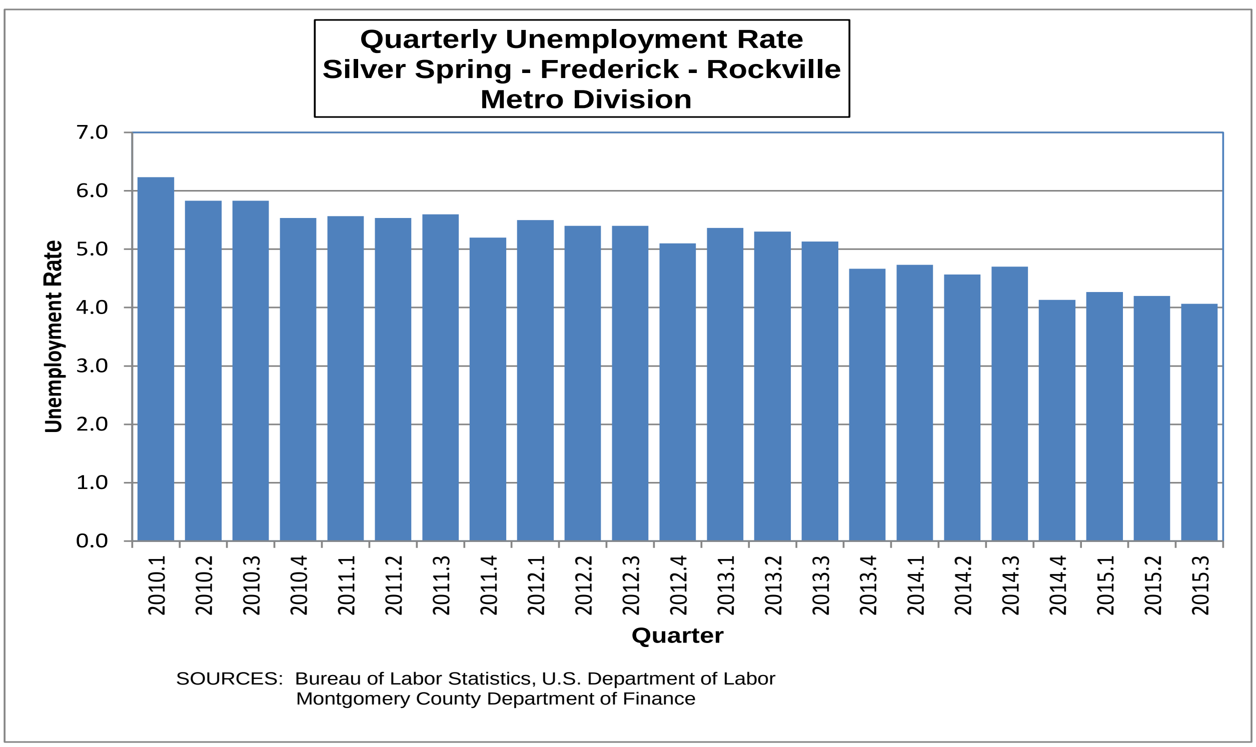



According to payroll employment data from the Bureau of Labor Statistics, U.S. Department of Labor and based on the survey of establishments, monthly employment in the Washington area averaged 3,175,530 during the third quarter of 2015 – an increase of 2.7 percent from the third quarter of 2014.

Monthly payroll employment for the Silver Spring – Frederick – Rockville (SSFR) metropolitan division averaged nearly 590,000 during the third quarter and was 12,900 above employment in the third quarter of 2014 (↑2.2%). That rate of growth during the third quarter is slightly below the growth rate for the entire Washington MSA (↑2.7%).

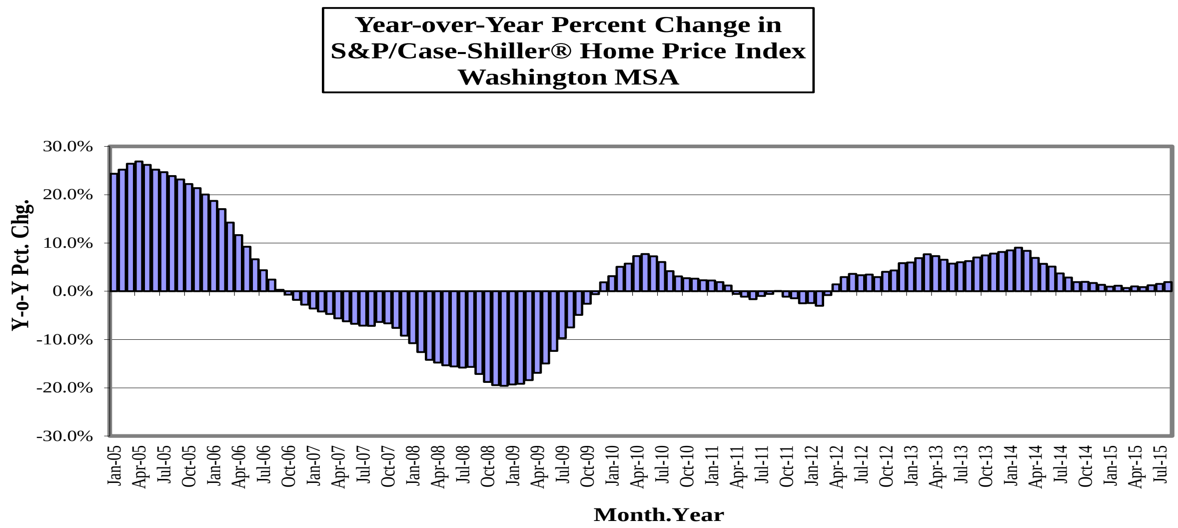



Because of the strength in the growth of payroll employment during the third quarter, the unemployment rate for the division dropped to either the lowest or one of the lowest among the 38 national metropolitan divisions, with a monthly average of 4.1 percent during the third quarter of 2015 – a decrease from the rate of 4.7 percent during the third quarter of 2014.



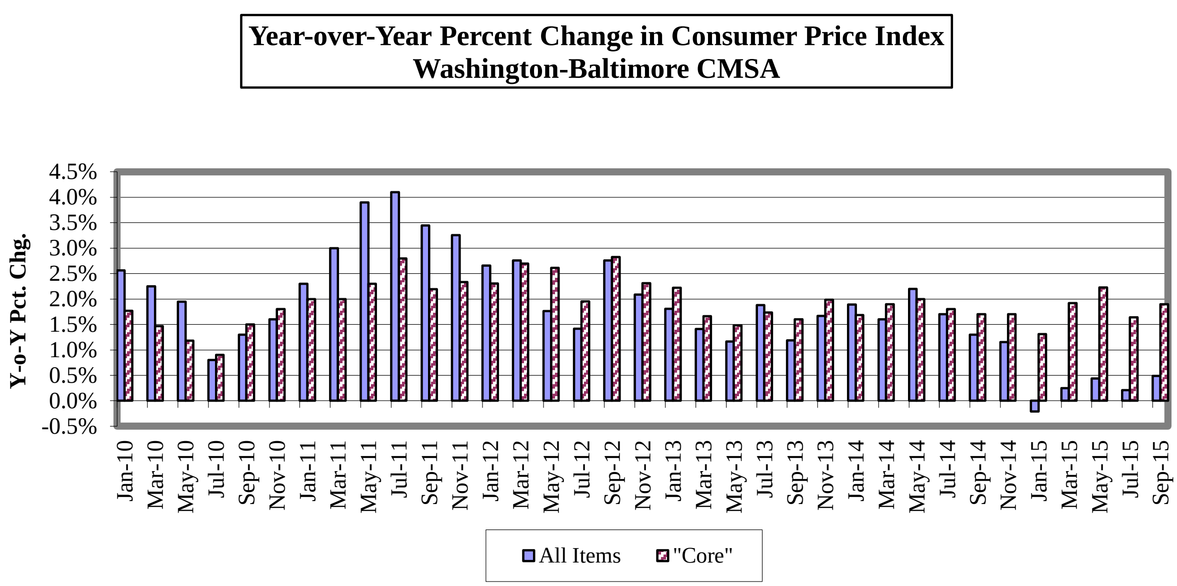

The resale housing market across the region experienced a growth in prices, on a year-over-year basis, between August 2014 and August of this calendar year. Based on the S&P/Case-

Shiller® Home Price Index for the Washington region, prices in August increased 1.9 percent over the twelve-month period.



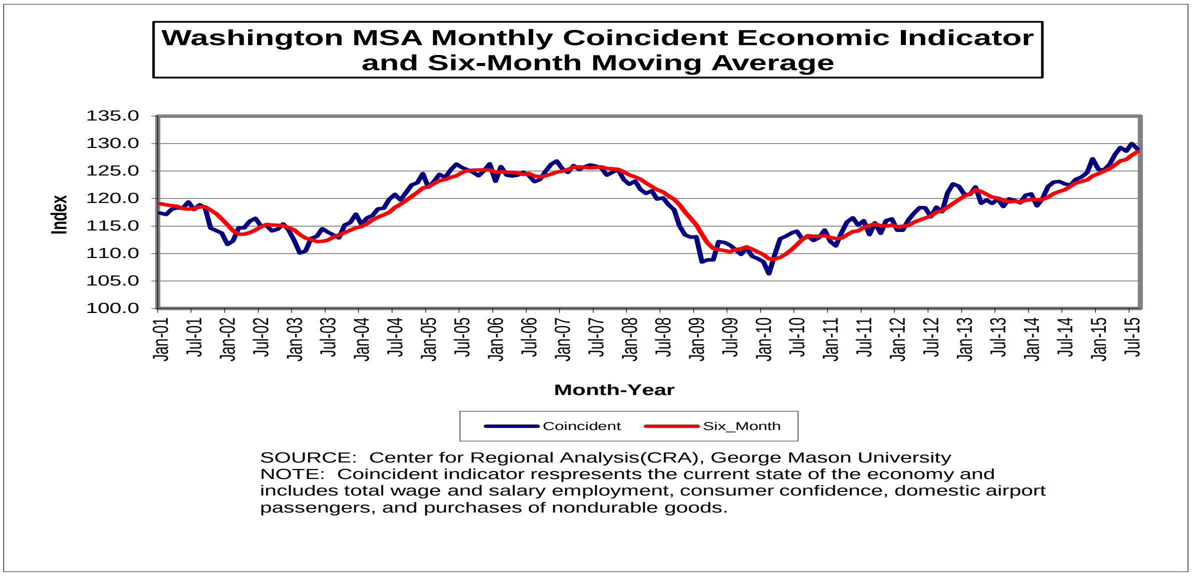

NOTE: S&P/Case-Shiller price index is a registered trademark of Standard and Poor's.

As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased a meager 0.5 percent on a year-over-year basis in September of this year over September 2014. Consumer prices excluding food and energy purchases were up 1.9 percent in the region (on the same year-over-year basis).

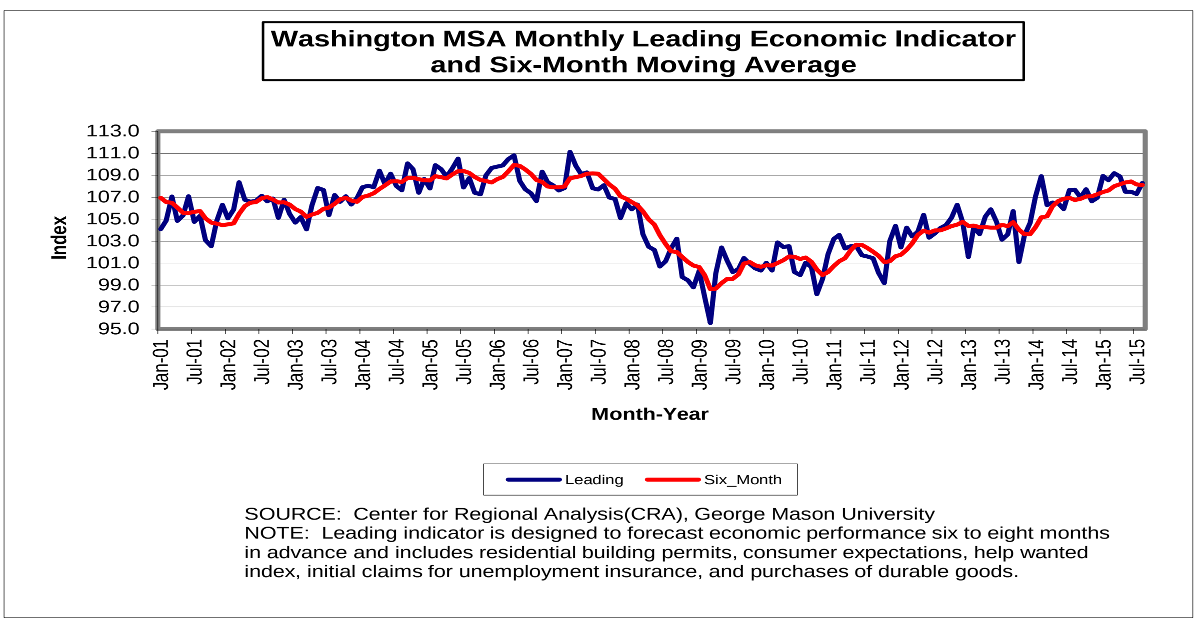



SOURCE: Bureau of Labor Statistics, U.S. Department of Labor

According to CRA, the monthly coincident economic indicator for the Washington metropolitan region decreased 0.8 percent from July to August after increasing 1.1 percent from June to July. On a year-over-year basis, the index increased 5.4 percent between August 2014 and August 2015. The coincident index measures the current performance of the region's economy and has increased 1.4 percent since December 2014.




While the coincident indicator decreased in August, CRA also reported that the leading economic indicator increased from July to August. The leading index measures the economic performance of the region six months ahead and increased 0.9 percent and has increased 1.3 percent since December 2014. Based on a modest increase in the region's real GRP in 2014, both the recent trends in the coincident and leading indices since December suggest that real GRP should experience much stronger growth in 2015 (↑1.4%) as estimated by CRA.

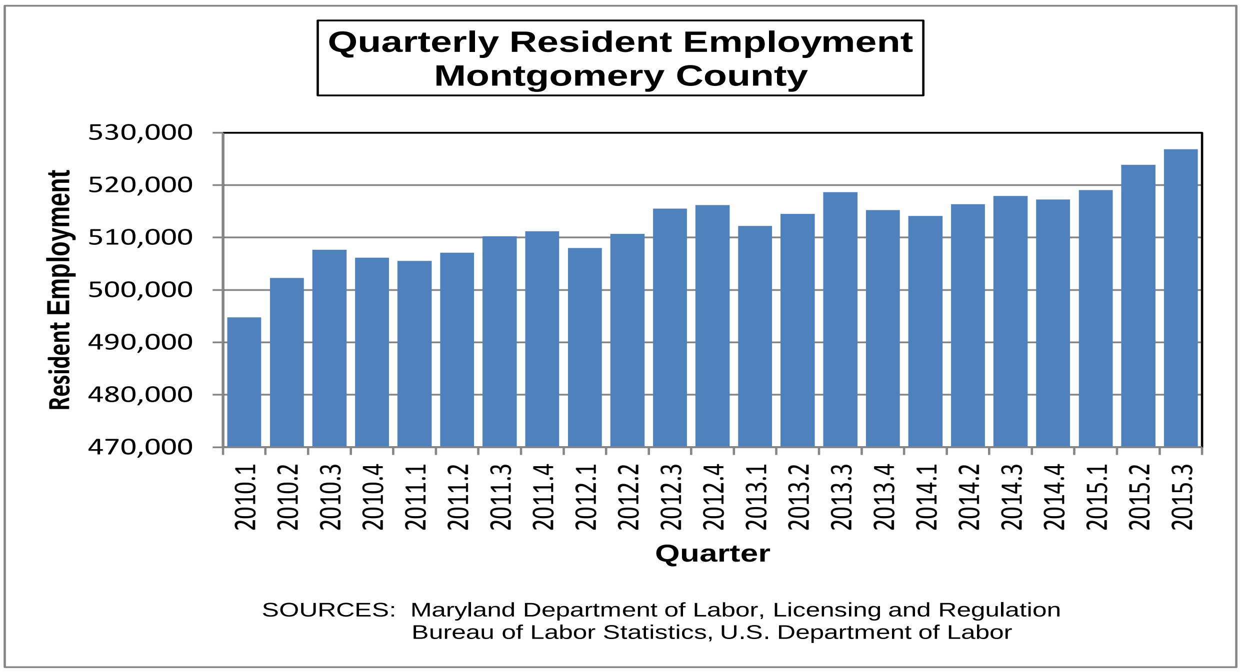


# MONTGOMERY COUNTY ECONOMIC INDICATORS

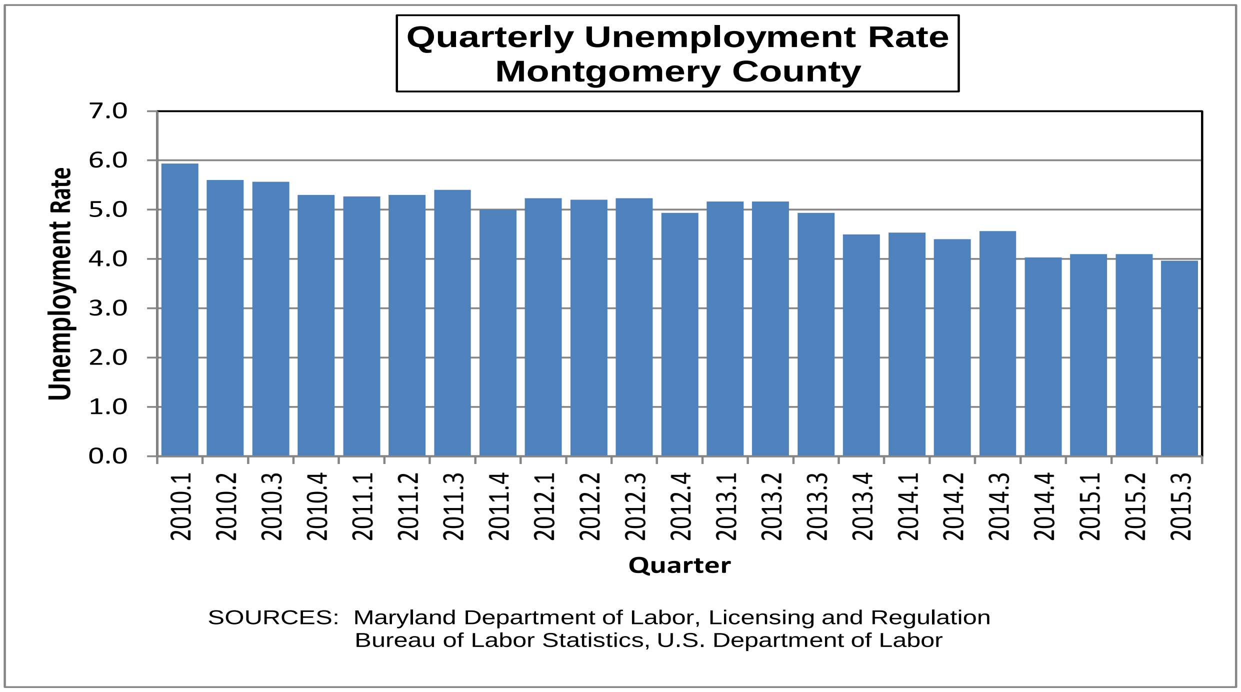
Montgomery County's economy experienced strong economic performance during the third quarter of this year. The reasons for this performance include an increase in existing home sales, an increase in residential employment, a decline in the unemployment rate, and construction of single-family homes. **Because 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 2014 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 increased by nearly 9,000 from the third quarter of 2014 (↑1.7%). The third quarter resident employment count of 526,860 was the highest level on record and nearly 30,000 above the third quarter of 2009 - the end of the national recession

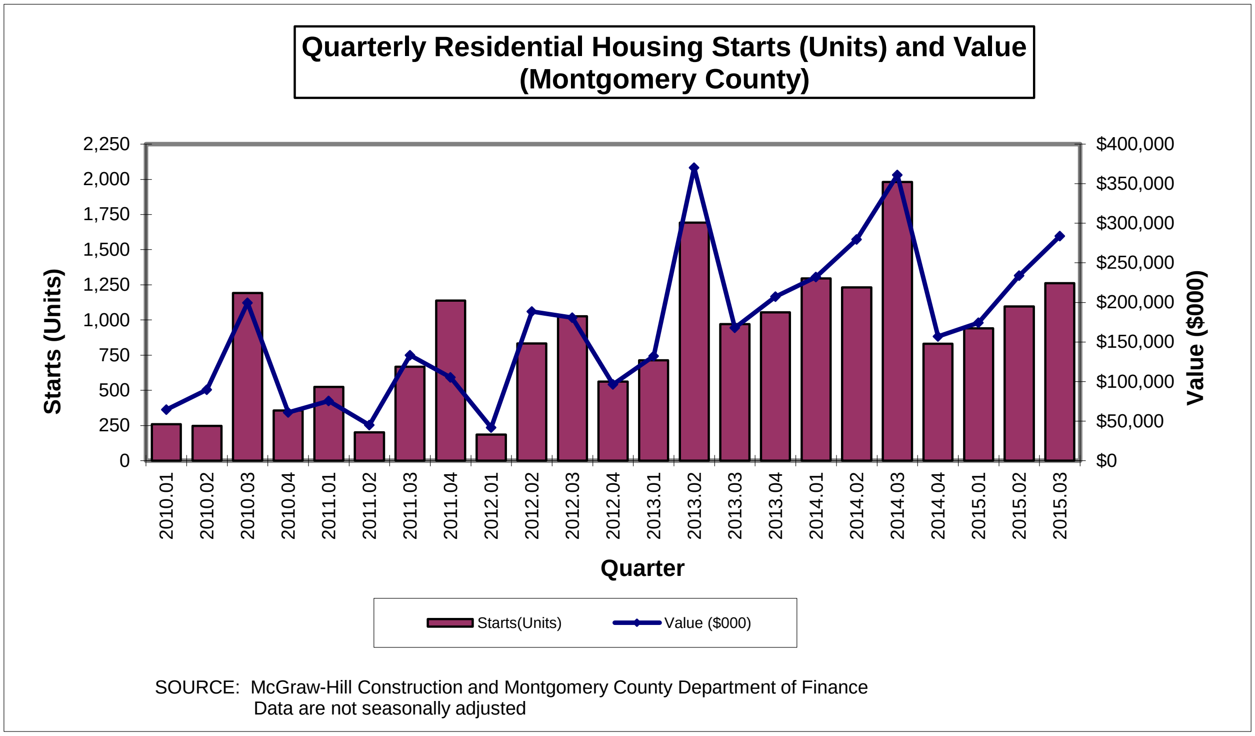



The County's average monthly unemployment rate during the third quarter declined to 4.0 percent compared to 4.6 percent in the third quarter of 2014. The decline in the unemployment rate is attributed to a greater increase in resident employment (+9,000) compared to the increase in the labor force (+5,900).



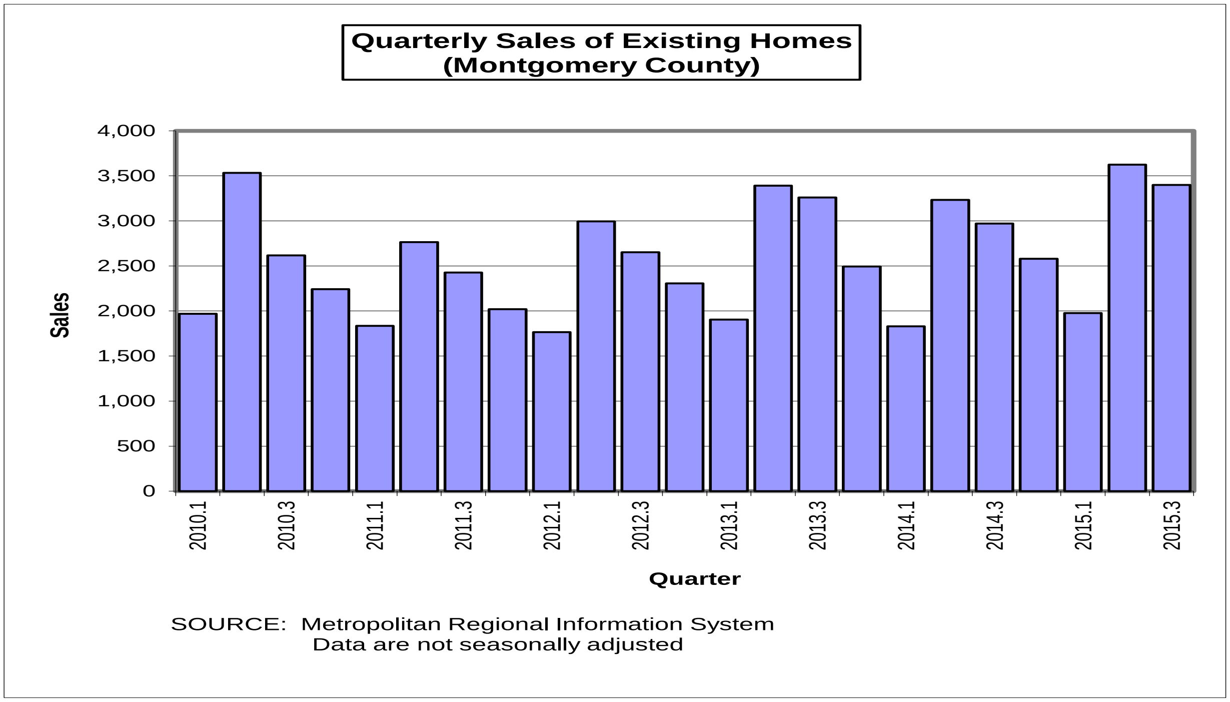

### ***Construction Activity***

After experiencing very strong growth in residential construction during the third quarter of 2014 attributed to a jump in the number of multi-family construction starts in August 2014, residential construction declined during the third quarter from the third quarter of 2014 (↓36.4% in new units and ↓21.4% in value added). The decrease was solely attributed to the decline in the construction of multi-family units (↓51.2%) while the construction of single-family homes increased 15.8 percent during the third quarter compared to the third quarter of 2014. While the total value added for residential construction decreased from $361.1 million in the third quarter of 2014 to $283.9 million during the third quarter of this year (↓21.4%), that decrease was also attributed to a decline in the value of new construction for multi-family units (↓43.8%). During the third quarter, the number of non-residential construction projects decreased 78.3 percent over the third quarter of 2014, and the total value added declined from $158.5 million to $96.5 million (↓39.1%). Because of the decline in the construction of both multi-family units and non-residential projects, the total value of new construction starts decreased in the County by 26.8 percent during the third quarter compared to the third quarter of 2014.




### *Residential Real Estate*

During the third quarter of this year, sales for existing homes increased 14.4 percent from the third quarter of 2014. This is the third consecutive quarterly year-over-year increase during 2015 to date. Median sales prices for existing homes decreased 1.5 percent during the third quarter compared to the third quarter of last year. The increases in sales can be attributed to continued low mortgage interest rates and a decrease in median sales price for an existing home.




### *Retail Sales*

Using sales tax receipts as a measure of retail sales activity in the County, retail sales increased 4.5 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 4.2 percent during this period while sales of durable goods were up 4.9 percent. The increase in nondurable goods purchases was largely attributed to the increase in sales of food and beverage (↑7.6%) while the increase in purchases of durable goods was solely attributed to an increase in building and industrial supplies (↑8.8%) and hardware, machinery, and equipment (↑4.9%).

## CONCLUSION

The major economic indicators confirm that the County's economy experienced strong performance during the third quarter of this year compared to the same period in 2014. The reasons for a strong performance include an increase in existing home sales, an increase in the construction of single-family homes and an increase in the value added for construction of single-family homes. Positive economic indicators also show that the County experienced a decline in the unemployment rate and an increase in resident employment.

| SELECTED ECONOMIC INDICATORS | Reporting Period | Current Period | Prior Year's Period | Year To-Date 2015 | Year To-Date 2014 | Annual 2014 |
|---|---|---|---|---|---|---|
| **Leading Indicators** | | | | | | |
| National | Sept. '15 | -0.2% | | n.m. | n.m. | n.m. |
| Maryland | Sept. '15 | 1.7% | | 2.0% | 1.6% | 1.7% |
| Washington MSA | Aug. '15 | 0.9% | | 1.1% | 2.9% | 3.0% |
| **Coincident Indicators** | | | | | | |
| National | Sept. '15 | 0.2% | | n.m. | n.m. | n.m. |
| Maryland | Sept. '15 | 0.2% | | 3.7% | 2.1% | 1.8% |
| Washington MSA | Aug. '15 | -0.8% | | 5.0% | 1.3% | 2.3% |
| **Consumer Confidence Index** | | | | | | |
| National | Oct. '15 | -4.8% | | 14.7% | 17.8% | 18.7% |
| South Atlantic Region | Oct. '15 | -9.0% | | 15.5% | 20.5% | 24.1% |
| Consumer Sentiment (University of Michigan) | Oct. '15 | 3.2% | | 12.6% | 4.3% | 6.2% |
| **Consumer Price Index** | | | | | | |
| All Items (nsa) | | | | | | |
| National | Sept. '15 | 0.0% | | 0.0% | 1.7% | 1.6% |
| Washington - Baltimore CMSA | Sept. '15 | 0.5% | | 0.2% | 1.7% | 1.5% |
| Core CPI (nsa) | | | | | | |
| National | Sept. '15 | 1.9% | | 1.8% | 1.8% | 1.8% |
| Washington - Baltimore CMSA | Sept. '15 | 1.9% | | 1.8% | 1.8% | 1.8% |
| **Retail Trade** | | | | | | |
| National (sales - nsa) | Sept. '15 | 1.0% | | 2.1% | 3.8% | 4.0% |
| Maryland (sales tax)(1) | Aug. '15 | 5.8% | | 4.8% | 2.3% | 3.6% |
| Montgomery County (sales tax)(1) | Aug. '15 | 4.9% | | 4.5% | 1.7% | 2.5% |
| **Employment** | | | | | | |
| Maryland (labor force data - nsa) | Sept. '15 | 2,979,657 | 2,934,271 | 2,970,935 | 2,926,770 | 2,929,977 |
| - Percent Change | | 1.5% | | 1.5% | | 0.4% |
| Silver Spring-Frederick-Rockville (labor force data) | Sept. '15 | 645,571 | 634,892 | 646,251 | 637,333 | 637,558 |
| - Percent Change | | 1.7% | | 1.4% | | 0.2% |
| Montgomery County (labor force data) | Sept. '15 | 522,387 | 513,816 | 523,264 | 516,133 | 516,420 |
| - Percent Change | | 1.7% | | 1.4% | | 0.2% |
| Montgomery County (QCEW)(2) | Mar. '15 | 453,967 | 450,359 | 453,578 | 448,536 | 455,820 |
| - Percent Change | | 0.8% | | 1.1% | | 0.9% |
| **Unemployment** | | | | | | |
| Maryland (nsa) | Sept. '15 | 5.0% | 6.0% | 5.4% | 6.0% | 5.8% |
| Silver Spring-Frederick-Rockville (labor force data) | Sept. '15 | 4.1% | 4.5% | 4.2% | 4.6% | 4.5% |
| Montgomery County (nsa) | Sept. '15 | 4.0% | 4.4% | 4.1% | 4.5% | 4.4% |
| **Construction** | | | | | | |
| Construction Starts - Montgomery County | | | | | | |
| Total ($ thousands) | Sept. '15 | $94,949 | $112,970 | $890,048 | $1,109,005 | $1,392,600 |
| - Percent Change | | -16.0% | | -19.7% | | -21.0% |
| Residential ($ thousands) | Sept. '15 | $94,660 | $72,720 | $518,026 | $796,310 | $935,916 |
| - Percent Change | | 30.2% | | -34.9% | | 0.2% |
| Non-Residential ($ thousands) | Sept. '15 | $289 | $40,250 | $372,022 | $312,695 | $456,684 |
| - Percent Change | | -99.3% | | 19.0% | | -44.9% |
| Building Permits (Residential) | | | | | | |
| Maryland | Sept. '15 | 1,459 | 1,966 | 12,636 | 13,447 | 17,353 |
| - Percent Change | | -25.8% | | -6.0% | | -4.3% |
| Montgomery County (units) | Sept. '15 | 672 | 495 | 1,654 | 3,534 | 3,818 |
| - Percent Change | | 35.8% | | -53.2% | | 8.7% |
| Building Permits (Non-Residential) | | | | | | |
| Montgomery County | Sept. '15 | 151 | 162 | 1,447 | 1,434 | 1,886 |
| - Percent Change | | -6.8% | | 0.9% | | -8.4% |
| Construction Cost Index | Aug. '15 | 6,914.39 | 6,969.11 | 6,945.18 | 6,929.58 | 6,944.95 |
| Baltimore | | -0.8% | | 0.2% | | 0.2% |
| **Real Estate** | | | | | | |
| Case-Shiller Home Price Index®(nsa) | Aug. '15 | 214.21 | 210.22 | 209.96 | 207.52 | 207.67 |
| | | 1.9% | | 1.2% | | 4.7% |
| Maryland | | | | | | |
| Sales | Sept. '15 | 6,407 | 5,527 | 55,059 | 46,646 | 65,429 |
| - Percent Change | | 15.9% | | 18.0% | | 2.2% |
| Median Price | Sept. '15 | $260,126 | $260,348 | $259,385 | $261,745 | $260,899 |
| - Percent Change | | -0.1% | | -0.9% | | -0.2% |
| Montgomery County | | | | | | |
| Sales | Sept. '15 | 1,012 | 884 | 9,000 | 8,033 | 10,612 |
| - Percent Change | | 14.5% | | 12.0% | | -4.0% |
| Average Price | Sept. '15 | $504,686 | $496,193 | $501,843 | $506,023 | $503,956 |
| - Percent Change | | 1.7% | | -0.8% | | 0.7% |
| Median Price | Sept. '15 | $395,000 | $390,000 | $398,094 | $400,544 | $400,000 |
| - Percent Change | | 1.3% | | -0.6% | | 0.0% |
| Average Days on the Market | Sept. '15 | 58 | 53 | 58 | 48 | 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**