



Economic Indicators

Prepared by the Department of Finance • April 2008

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>*

For questions regarding this report, please contact:

*David Platt
Chief Economist
Montgomery County Department of Finance
255 Rockville Pike, Suite L-15
Rockville, Maryland 20850*

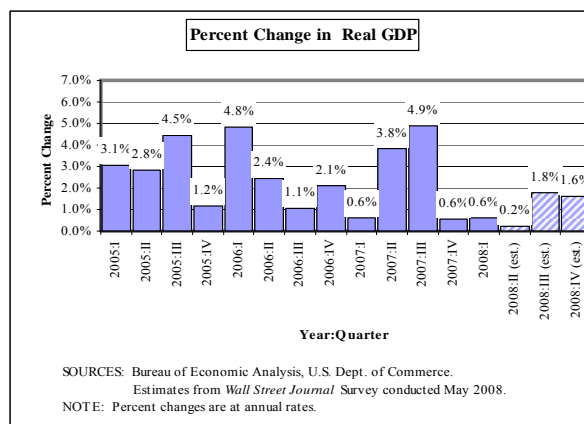
*Phone: (240) 777-8866
Fax: (240) 777-8954
Email: David.Platt@montgomerycountymd.gov*

NATIONAL ECONOMY

According to the advance estimate from the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, the U.S. economy grew at a 0.6 percent seasonally adjusted annual rate as during the first quarter – the same rate during the fourth quarter of 2007. However, those growth rates followed rates of 3.8 percent and 4.9 percent for the second and third quarters of 2007, respectively. Based on the recent *Wall Street Journal* survey of fifty economists conducted in May, economic growth during the second, third, and fourth quarters of this year are expected to be 0.2 percent, 1.8 percent, and 1.6 percent respectively. The economists surveyed also put the odds of a recession at 62.7 percent down from the 70.9 percent probability in the April survey and 64.5 percent probability in the January survey. Data obtained from the New York Federal Reserve Bank puts the probability of a recession at 29.8 percent in May, down from 35.3 percent in April. The probability obtained by the New York Fed is based on the spread between the 10-year Treasury bond and the 3-month Treasury bill rates.

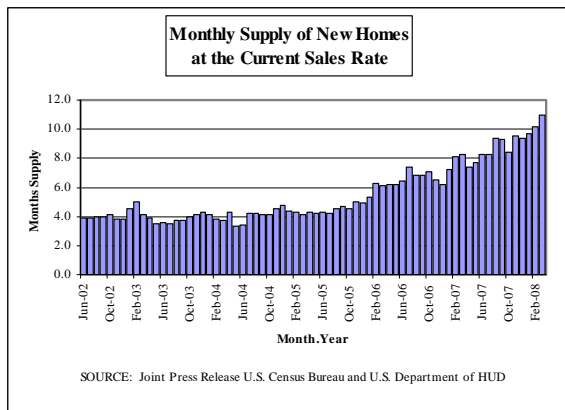
However, the National Bureau of Economic Research’s (NBER) Business Dating Committee is responsible for maintaining the chronology of the national business cycle. As such, the committee determines when a recession begins and ends by placing particular emphasis on four variables: real personal income less transfer payments, payroll employment, industrial production, and the volume of sales of the manufacturing and wholesale retail sectors adjusted for price changes. Since January, only one variable – payroll – experienced consistent declines, but industrial production, personal income, and volume of sales have not declined. However, based on

quarterly data from the BEA, real final sales to domestic purchasers declined in the first quarter (↓0.4%) – the first such decline since the fourth quarter of 1991. That decline suggests that the first quarter growth in the gross domestic product (GDP) is largely attributed to a buildup of inventories and not final demand.



Homebuilding continued to contract for the ninth consecutive quarter and at the greatest rate (↓26.6%) compared to the previous eight quarters. According to the most recent forecast by the National Home Builders Association, the decline in residential construction is expected to continue through the remainder of this calendar year.

The continued decline in residential construction is reflected in the historically high inventories of both existing and new homes for sale. According to the latest data from the National Association of Realtors, total housing inventory of existing homes for sale increased 1 percent in March to nearly a 10-month supply. According to the Census Bureau and the U.S. Department of Housing and Urban Development, the inventory of new homes for sale represented a supply of 11 months at the rate of current sales – a twenty-five year high.

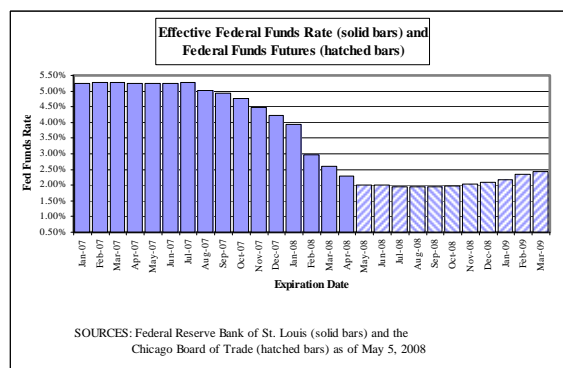


Not surprisingly fewer homes are being built which will adjust this excess inventory. Housing permits were down 5.8 percent in March, at a seasonally adjusted annual rate, from the previous month and 40.9 percent below March 2007. The month-over-month decline was the tenth consecutive monthly decline. Housing starts also continued to decline with the number of starts down 11.9 percent in March, at a seasonally adjusted annual rate, from the previous month and down 36.5 percent since March 2007.

Sales of existing homes dropped to a 4.93 million unit annual rate in March, which was 2 percent below February sales and 19.3 percent below March 2007 sales. However, the median price for an existing home increased 2.6 percent in March over the previous month but was 7.7 percent below the same month last year. The average price increased 2.4 percent in March after declining three months in a row but was down 6.6 percent compared to March 2007.

Because of the turmoil in the housing market, particularly with the subprime mortgage crisis creating a credit crisis that started last summer, the Federal Open Market Committee (FOMC) of the Federal Reserve (Fed) began aggressive rate cuts last September. Since that time, the FOMC has cut the target rate on federal funds from 5.25

percent to 2.00 with most of those cuts (125 basis points (bps)) coming within an eight day period in January, followed by a 75 basis-point cut in March, and a 25 basis-point cut in April. While some economists expect further easing by the FOMC through the remainder of the year, the futures market for 30-day federal funds does not. The federal funds futures market anticipates that the FOMC has ended its rate cutting policy at 2 percent. The anticipated pause is attributed to two factors: the uncertainty with the inflation outlook due to high energy and commodity prices and possibly an easing but not necessarily the end of the credit crisis. Thirty-six percent of the economists surveyed in May by the *Wall Street Journal* believe that the credit crisis is over, while sixty-two percent say it is nearly half-finished.



However, the FOMC statement on April 30 reiterated concern that the financial markets remain under considerable stress because of tight credit conditions. Regardless of the futures market outlook about the credit crisis, the FOMC's concern about tight credit conditions is reflected in the spread between the three-month London Interbank Offered Rate (LIBOR) and the effective federal funds rate. Since the Bear Stearns buyout offer from JP Morgan Chase on March 17, the average spread between LIBOR and the effective federal funds rate has been 50 bps (ending May 2). That

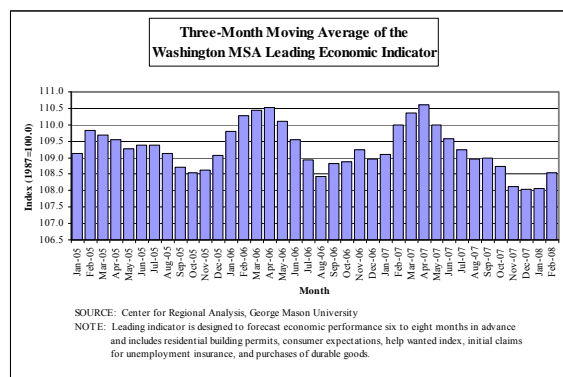
average was 40 bps above the pre-August 2007 average of 10 bps. The difference in the spread indicates that banks remain very conservative, i.e., risk adverse, in their lending policies.

Evidence that the credit crisis has entered the broad economy is reflected in the April 2008 Senior Loan Officer Opinion Survey conducted by the Fed. In that survey, domestic and foreign institutions reported having further tightened their lending standards and terms across a broad range of loan categories. According to the Fed’s press release, the number of banks that tightened lending standards increased significantly for consumer, and commercial and industrial (C&I) loans. Demand for bank loans from both businesses and households reportedly weakened further since the January survey. In fact, 55 percent of domestic banks – up from 30 percent in January – reported tightening lending standards on C&I loans to large and mid-sized firms. About 70 percent of banks surveyed indicated that they had increased spreads of loan rates over their cost of funds.

Since the start of the year, the stock market has been a tale of two tapes. Up to March 10, the S&P 500 index declined 13.3 percent. Since that time, the index has increased 8.8 percent for the week ending on May 2nd. That trend is also reflected in the Dow Jones Industrial Average (↓11.5% versus ↑9.2%), the NASDAQ (↓18.2% versus ↑11.2%), and the Russell 2000 (↓15.9% versus ↑11.2%). Although the rebound is attributed to a strong performance in April (the first month since October that the indices were positive), the fact remains that all four indices still remain below their December 31st levels (as of May 2nd) and down significantly from their October record highs.

REGIONAL ECONOMY

According to the latest report from the Center for Regional Analysis (CRA), George Mason University, the Washington Leading Index, which forecasts the performance of the regional economy six to eight months ahead, increased 0.13 percent in February. This was the second monthly increase in three months since declining eight of the previous nine months. Two of the index’s five components contributed to its increase: durable goods retail sales (↑12.9% over January) and a decrease in initial claims for unemployment insurance (↓29.9% over January). On a three-month moving average basis, the index has increased the past two months after steadily declining since May 2007. According to CRA, this performance of the index suggests that the Washington area economy “will grow slowly through the year’s first eight or nine months.” The key to the region’s economy is consumer spending. The stimulus checks should help support consumer spending during the third quarter and boost the area’s economy for a short period. However, analysts are uncertain of what portion of the stimulus will be used for spending.



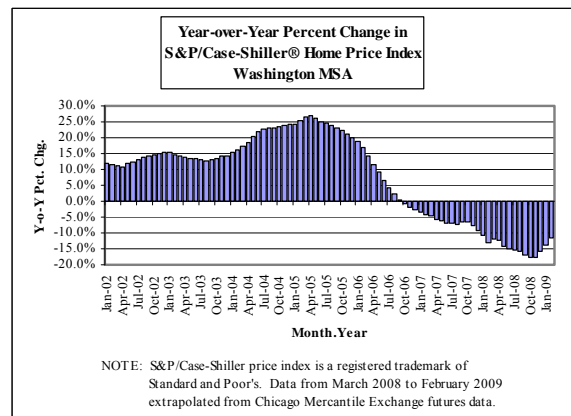
The coincident index, which measures the current state of the region’s economy, increased 0.78 percent in February, which

followed the small gain in January (↑0.04%). Like the trend in the leading index, the two consecutive monthly increases in January and February followed a downward trend that started in mid-2007. The February gains were attributed to retail spending and a stable labor market. Payroll employment increased 0.8 percent, or 22,500 jobs, in March compared to March 2007. Since the beginning of the year, the region’s economy added an average of nearly 25,000 jobs compared to the first quarter of 2007.

The Washington metropolitan area continues to have one of the lowest unemployment rates in the country. Of the 49 metropolitan areas with a population of more than one million in 2000, the Washington region had one of the lowest unemployment rates of 3.4 percent and just behind Oklahoma City’s 3.3 percent.

Bethesda-Gaithersburg-Frederick metro division continued to report the lowest jobless rate of 2.7 percent among the 34 metropolitan divisions. However, that low unemployment rate did not translate into job growth. In fact, during the April 2007 – March 2008 period, average payroll employment stood at 576,617 compared to an average of 576,500 during the same twelve month period the prior year. Essentially there was no job growth over the past year in Montgomery and Frederick counties.

Home prices in the region continue to weaken since May 2006. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, monthly prices have steadily declined such that the February index, the latest available to date, was 13.0 percent below February 2007 and 17.5 percent below the May 2006 peak. According to futures traded on the Chicago Mercantile Exchange, regional home prices may decline an additional 11.6 percent by February of next year.

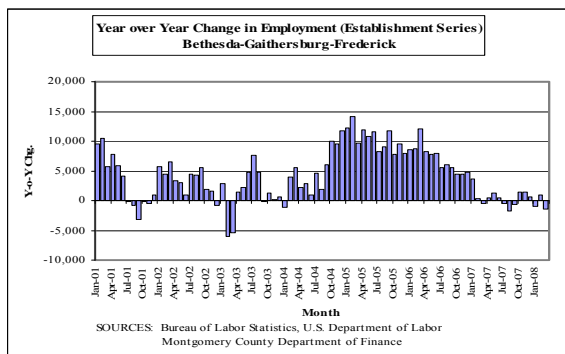


MONTGOMERY COUNTY ECONOMIC INDICATORS

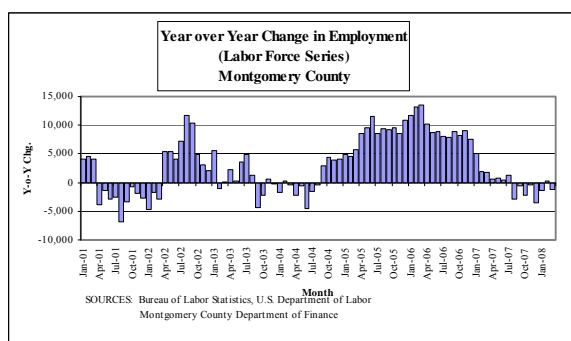
Montgomery County experienced weak economic performance during the first nine months of this fiscal year. The primary reasons for the County’s weak performance were declining employment based on the labor force series, a continuation in the decline of home sales and the buildup of inventory-to-sales ratio, weak construction in residential properties, weak consumer spending particularly for purchases of durable goods, and an increase in consumer prices.

Employment Situation

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor



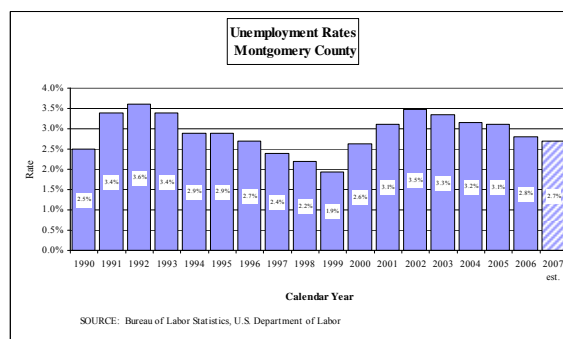
Statistics, (BLS) U.S. Department of Labor, resident employment (labor force series) in Montgomery County declined by nearly 1,200 in March compared to March 2007. Over the twelve month period ending in March, total resident employment averaged 498,100 per month. That average was 0.15 percent below the April 2006 to March 2007 monthly average of 498,800. On a year-over-year basis, monthly resident employment declined an average of 1,400 between August 2007 and March 2008.



Payroll employment is derived by the Department of Finance (Treasury Division) using BLS and DLLR data. The County’s total payroll employment declined by 1,200 (↓0.2%) during the twelve month period ending in March. Throughout fiscal year 2008 to date (July 2007 to March 2008), payroll employment did not increase in the County. It held steady at an average of 480,400 jobs compared to 480,500 jobs during the first nine months of fiscal year 2007. Compared to nine-month periods in the previous two fiscal years (↑1.7% in FY2006; ↑0.7% in FY2007), employment in the County is currently stagnant. With both resident and payroll employment indicating no growth, any increase in income tax revenues during this fiscal year and into next fiscal year will be based on growth in wages and salaries rather than employment.

While the employment situation remains weak in terms of growth, the unemployment

rate of 2.6 percent in March remains one of the lowest in the State (3.7%). Only Howard County, at 2.5 percent, had a lower unemployment rate. Based on preliminary data from BLS, the County’s unemployment rate continued to decline in 2007 to 2.8 percent from a peak of 3.5 percent just after the national recession of 2001.

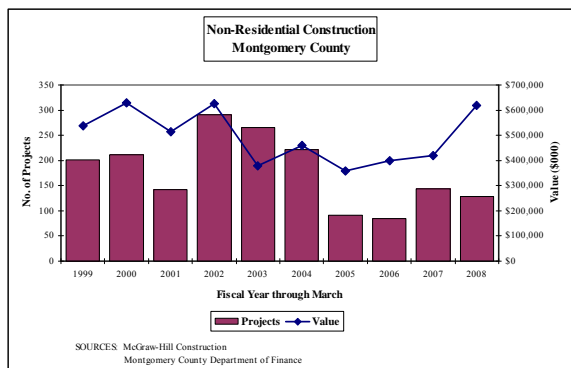


Construction Activity

Construction activity experienced mixed results in the County during the first nine months of fiscal year 2008. While the total number of projects decreased (↓5.0%), the total value added was up significantly (↑16.9%). The large increase in additional value was attributed to non-residential construction (↑45.8%).

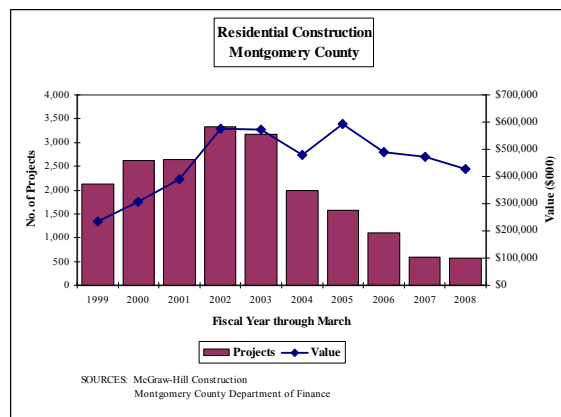
The number of non-residential construction projects was down 10.4 percent during the first nine months compared to the same period last year. While the number of non-residential construction projects decreased during this period, the total amount of additional value increased dramatically. The major contributor to that increase was commercial construction (↑53.7%), led by the food and retail sectors (↑51.1%), warehouses (↑33.5%), and office and bank buildings (↑33.0%). Construction of other non-residential properties experienced dramatic volatility from year to year based on a comparison of July-March activity for the past six years. For example,

year based on a comparison of July-March activity for the past six years. For example, the value of new construction for education and science facilities was up 55.5 percent during the first nine months of this fiscal year. That percent change followed a decline of 62.2 percent the previous year, an increase of 8.8 percent for FY2006 and 10.1 percent for FY2005



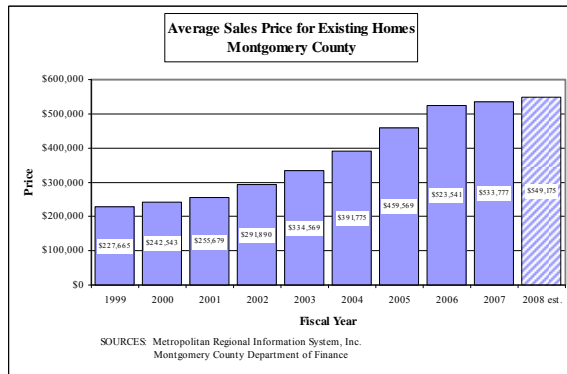
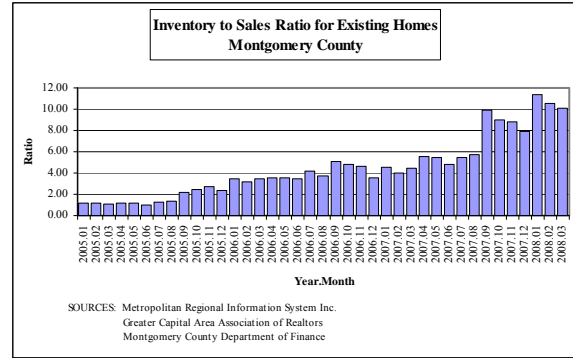
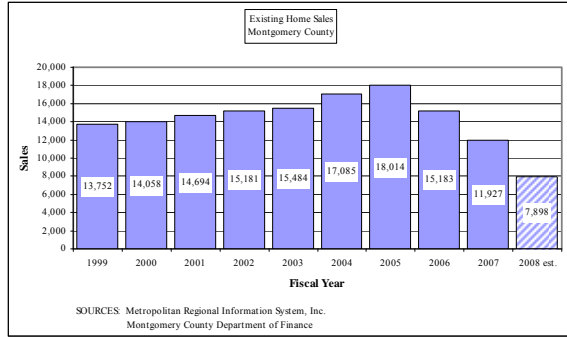
Residential Real Estate

Led by the decline in the building of new single-family units, overall residential construction continued to decrease during the first nine months of fiscal year 2008 in response to the correction in the real estate market that began in the summer of 2005. While the construction of new single-family units declined 2.9 percent, construction of condominium units more than doubled (↑152.3%). Even though construction of condominium units reached 1,700 units in FY2008 to date, the overall added value of new residential construction declined 9.1 percent, attributed to the dramatic decline in the added value of single-family homes (↓34.8%). While the County continues to add residential property to its property tax base, it has been doing so at a decreasing rate since 2005, the peak of the housing boom.



At the same time that the number of total residential construction starts declined during the July to March period, the number of units authorized, i.e., permitted, has decreased 48.1 percent during this period based on data from the Census Bureau. The number of permitted units decreased from 2,200 during the July-March 2007 period to nearly 1,150 units for the same period this fiscal year.

Through the first nine months of the fiscal year, home sales declined 34.3 percent, which followed a 21.3 percent decline during the same period last fiscal year. However, average home prices were up 2.2 percent the past nine months which followed increases of 16.7 percent and 1.2 percent during the same periods in fiscal years 2006 and 2007, respectively. Finance estimates that existing homes sales will decline 33.8 percent for fiscal year 2008 reaching a level of less than 7,900 unit sales. Based on the average sales price to date, average home prices are expected to increase nearly 3 percent this fiscal year.

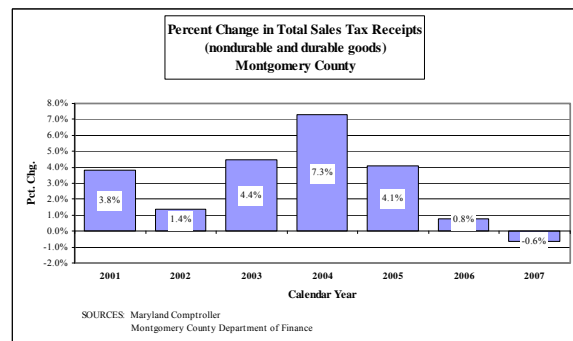


Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, the growth in sales of durable and nondurable goods were up 0.5 percent (adjusted for the rate increase) during the first two months of 2008 compared to the same period in 2007. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 6.0 percent during this period while sales of durable goods were down 10.4 percent.

Purchases of food and beverages (↑8.7%) and general merchandise (↑8.0%) led sales of nondurable goods. Purchases of building and industrial supplies (↓10.2%), furniture and appliances (↓17.6%) and hardware, machinery, and equipment (↓9.2%) also declined, reflecting the weak status of the housing market.

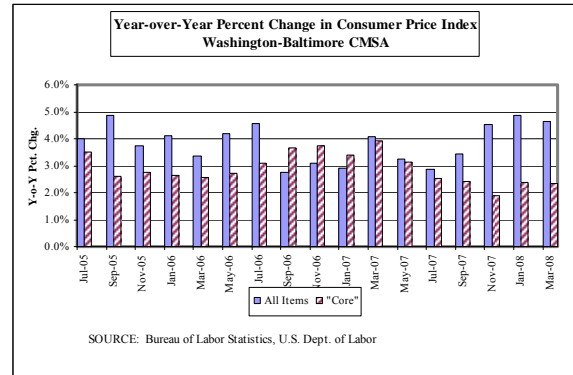
The significant contraction in sales is reflected in the dramatic increase in inventory-to-sales ratio. From June 2005 to March of this year, the ratio steadily increased from 0.98 to 10.1. However, because of the dramatic decline in home sales since September 2007 (less than 600 units), the ratio increased dramatically from 5.69 in August to its current ratio of 10.1. This means that in August for every five to six homes listed on the market, there was one buyer. In March, for every ten homes listed, there was only one buyer. Such a high ratio suggests that buyers are not in a rush to purchase a home and reflects the much tighter lending standards in the mortgage finance industry.



Consumer Prices and Inflation

As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased 4.7 percent over the twelve-month period ending in March. That rate was above the national average of 4.0 and a significant acceleration from July 2007 (2.9 percent). Consumer prices excluding food and energy purchases were also up 2.4 percent in the region, compared

to the same increase for the nation over the same March 2007-to-March 2008 period.



METROPOLITAN AREA OFFICE MARKET

Office Vacancy Rate by Jurisdiction and Class, 2008:1Q

Jurisdiction	Class A	Class B	Class C	Total
Loudoun	20.71%	12.60%	5.01%	16.51%
Fairfax	11.48%	14.06%	7.10%	12.23%
Frederick	2.08%	13.83%	8.71%	9.37%
Alexandria/Arlington	8.30%	6.53%	6.86%	7.50%
Montgomery	8.41%	8.53%	9.13%	8.53%
District of Columbia	7.56%	5.67%	4.36%	6.64%
Prince George's	24.60%	13.13%	7.72%	16.37%
<i>Metropolitan Area</i>	10.00%	9.33%	6.54%	9.48%

Vacant Office Space Inventory by Jurisdiction and Class (sq.ft.)

Jurisdiction	Class A	Class B	Class C	Total
Loudoun	1,537,882	793,251	28,600	2,359,733
Fairfax	7,368,693	4,826,850	200,732	12,396,275
Frederick	41,812	475,044	81,366	598,222
Alexandria/Arlington	2,514,066	1,382,492	362,637	4,259,195
Montgomery	2,538,986	2,334,525	560,197	5,433,708
District of Columbia	5,650,335	2,499,300	495,098	8,644,733
Prince George's	2,083,522	1,547,171	282,256	3,912,949
<i>Region</i>	21,735,296	13,858,633	2,010,886	37,604,815

Office Space Inventory by Jurisdiction and Class (sq.ft.)

Jurisdiction	Class A	Class B	Class C	Total
Loudoun	7,426,600	6,297,142	571,374	14,295,116
Fairfax	64,200,209	34,335,319	2,827,181	101,362,709
Frederick	2,011,734	3,435,477	934,482	6,381,693
Alexandria/Arlington	30,306,047	21,159,290	5,287,205	56,752,542
Montgomery	30,198,385	27,379,790	6,136,747	63,714,922
District of Columbia	74,785,033	44,080,147	11,354,210	130,219,390
Prince George's	8,467,976	11,784,885	3,655,300	23,908,161
<i>Region</i>	217,395,984	148,472,050	30,766,499	396,634,533

Share of Office Space Inventory by Jurisdiction and Class

Jurisdiction	Class A	Class B	Class C	Total
Loudoun	52.0%	44.1%	4.0%	100.0%
Fairfax	63.3%	33.9%	2.8%	100.0%
Frederick	31.5%	53.8%	14.6%	100.0%
Alexandria/Arlington	53.4%	37.3%	9.3%	100.0%
Montgomery	47.4%	43.0%	9.6%	100.0%
District of Columbia	57.4%	33.9%	8.7%	100.0%
Prince George's	35.4%	49.3%	15.3%	100.0%
<i>Metropolitan Area</i>	54.8%	37.4%	7.8%	100.0%

Share of Total Regional Vacant Office Space by Jurisdiction and Class

Jurisdiction	Class A	Class B	Class C	Total
Loudoun	7.1%	5.7%	1.4%	6.3%
Fairfax	33.9%	34.8%	10.0%	33.0%
Frederick	0.2%	3.4%	4.0%	1.6%
Alexandria/Arlington	11.6%	10.0%	18.0%	11.3%
Montgomery	11.7%	16.8%	27.9%	14.4%
District of Columbia	26.0%	18.0%	24.6%	23.0%
Prince George's	9.6%	11.2%	14.0%	10.4%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2007
				2008	2007	
Leading Indicators						
National	Mar. '08	0.1%		-1.8%		-1.7%
Washington MSA (1)	Feb. '08	0.2%		-1.8%		-0.4%
Coincident Indicators						
National	Mar. '08	0.1%		0.9%		1.1%
Washington MSA (1)	Feb. '08	0.8%		-5.1%		-4.8%
Consumer Confidence Index						
National	Apr. '08	-5.5%		-33.0%		-17.6%
South Atlantic Region	Apr. '08	-5.6%		-36.2%		-29.9%
Consumer Sentiment (University of Michigan)	Apr. '08	-9.9%		-22.7%		-17.7%
Consumer Price Index						
<u>All Items (nsa)</u>						
National	Mar. '08	4.0%		4.1%		2.8%
Washington - Baltimore CMSA	Mar. '08	4.7%		4.8%		3.6%
<u>Core CPI (nsa)</u>						
National	Mar. '08	2.4%		2.4%		2.3%
Washington - Baltimore CMSA	Mar. '08	2.4%		2.4%		2.8%
Retail Trade						
National (sales - nsa)	Mar. '08	3.8%		3.8%		4.1%
Washington MSA (sales - nsa)	Feb. '08	7.6%		6.0%		3.9%
Maryland (sales tax)(2)	Jan. '08	3.4%		-1.1%		1.6%
Montgomery County (sales tax)(2)	Feb. '08	3.5%		-1.1%		0.1%
Employment						
National (labor force data - nsa)	Mar. '08	145,921,000	145,297,000	145,046,500	144,843,500	146,047,000
- Percent Change		0.4%		0.1%		1.1%
Bethesda-Federick-Gaithersburg (establish.)	Mar. '08	570,900	572,300	568,900	569,400	576,700
- Percent Change		-0.2%		-0.1%		0.1%
Montgomery County (labor force data)	Mar. '08	496,300	497,498	495,355	495,867	498,279
- Percent Change		-0.2%		-0.1%		0.0%
Montgomery County (QCEW)(1)	Sept. '07	461,012	467,103	457,612	462,994	464,833
- Percent Change		-1.3%		-1.2%		1.3%
Unemployment						
National (nsa)	Mar. '08	4.8%	4.5%	5.2%	4.7%	4.6%
Maryland (nsa)	Mar. '08	3.7%	3.5%	3.8%	4.0%	3.6%
Montgomery County (nsa)	Mar. '08	2.6%	2.5%	2.8%	2.9%	2.7%
Construction						
<u>Construction Starts - Montgomery County</u>						
Total (\$ thousands)	Mar. '08	\$91,612	\$84,052	\$344,493	\$280,010	\$1,343,352
- Percent Change		9.0%		23.0%		-6.2%
Residential (\$ thousands)	Mar. '08	\$63,508	\$46,455	\$128,520	\$189,865	\$668,329
- Percent Change		36.7%		-32.3%		-6.8%
Non-Residential (\$ thousands)	Mar. '08	\$28,104	\$37,597	\$215,973	\$90,145	\$675,023
- Percent Change		-25.2%		139.6%		-5.5%
<u>Building Permits (Residential)</u>						
National	Mar. '08	77,385	139,222	230,879	363,218	1,380,470
- Percent Change		-44.4%		-36.4%		-24.9%
Maryland	Mar. '08	1,311	2,366	4,174	5,508	19,940
- Percent Change		-44.6%		-24.2%		-14.3%
Montgomery County	Mar. '08	107	397	228	805	3,459
- Percent Change		-73.0%		-71.7%		14.1%
<u>Building Permits (Non-Residential)</u>						
Montgomery County	Mar. '08	175	151	451	377	1,661
- Percent Change		15.9%		19.6%		-6.4%
Real Estate						
<u>National</u>						
Sales (saar)	Mar. '08	4,930,000	6,110,000	4,950,000	6,863,300	5,652,000
- Percent Change		-19.3%		-27.9%		-12.8%
Median Price	Mar. '08	\$200,700	\$217,400	\$198,700	\$213,900	\$219,000
- Percent Change		-7.7%		-7.1%		-1.3%
<u>Montgomery County</u>						
Sales	Mar. '08	562	924	1,471	2,516	10,360
- Percent Change		-39.2%		-41.5%		-23.4%
Average Price	Mar. '08	\$511,525	\$520,684	\$524,124	\$526,724	\$550,210
- Percent Change		-1.8%		-0.5%		3.9%
Median Price	Mar. '08	\$402,500	\$430,000	\$408,833	\$431,583	\$444,000
- Percent Change		-6.4%		-5.3%		1.1%
Average Days on the Market	Mar. '08	106	93	116	94	84

NOTES:

- (nsa): not seasonally adjusted
- (p): preliminary
- (1): Annual data are for 2006
- (2): Data adjusted for rate increase