

Economic Indicators

Prepared by the Department of Finance • August 2011

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>*

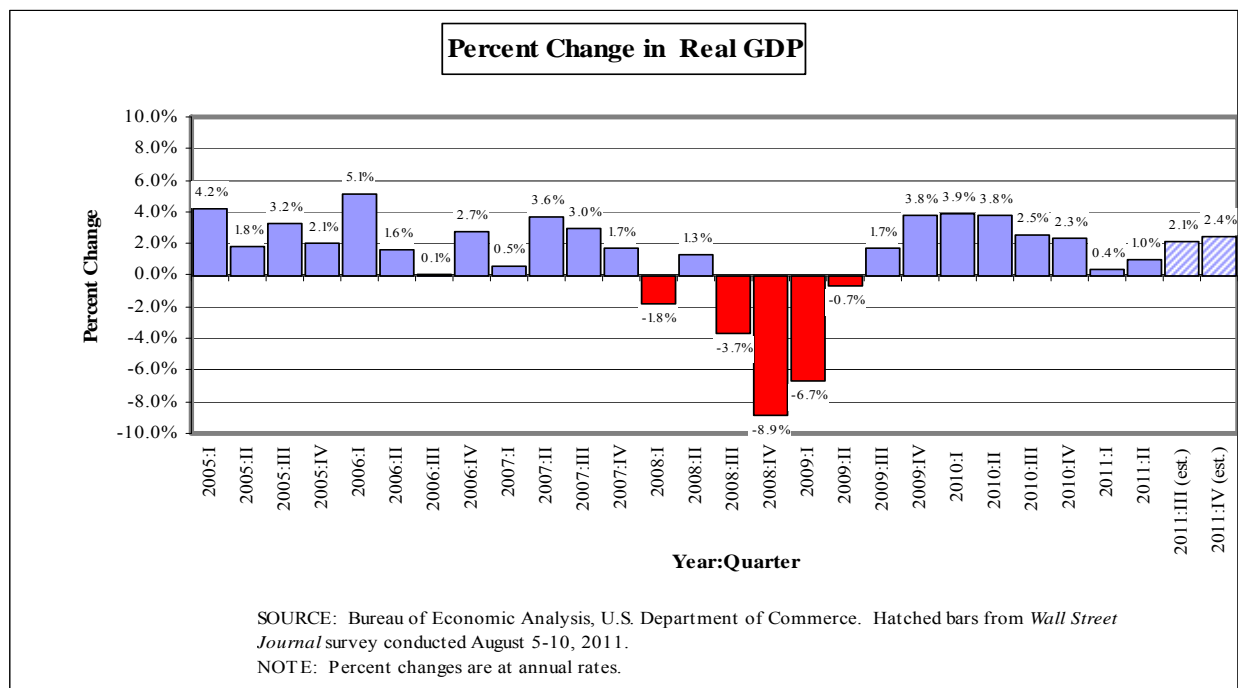
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NATIONAL ECONOMY

According to the revised estimate from the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, gross domestic product (GDP) increased at a 1.0 percent seasonally adjusted annual rate during the second quarter – the eighth consecutive increase since the second quarter of 2009 but below economists prediction of 1.9 percent surveyed by the *Wall Street Journal* (WSJ) in early July. That increase followed a revised 0.4 percent increase during the first quarter of this year and a revised 2.3 percent increase during the fourth quarter of last year. Based on the August WSJ survey (August 5 – 10), economists surveyed expect economic growth to increase 2.1 percent, on average, during the third quarter of this year (July to September) – down from the July forecast of 3.1 percent – and increase another 2.4 percent for the fourth quarter – down from the July forecast of 3.1 percent.



Following its meeting on August 9th, the Federal Open Market Committee (Committee) of the Federal Reserve stated in its press release that economic activity so far this year has been considerably slower than the Committee had expected. Factors that contributed to this slowdown were no growth in household spending, weak investment in non-residential structures, and a depressed housing sector. The only activity that experienced growth was investment in equipment and software.

Specific data released by BEA for the second quarter showed that the modest increase in GDP was attributed to an increase in exports (↑3.1%), non-residential fixed investment (↑9.9%) due to purchases of equipment and software (↑7.9%), and federal government spending (↑2.0%). Growth in *real* personal consumption increased a meager 0.4 percent compared to 2.1 in the first

quarter. Purchases of durable goods fell by 5.1 percent during the second quarter compared to an increase of 11.7 percent in the first quarter. Residential investment increased 3.4 percent.

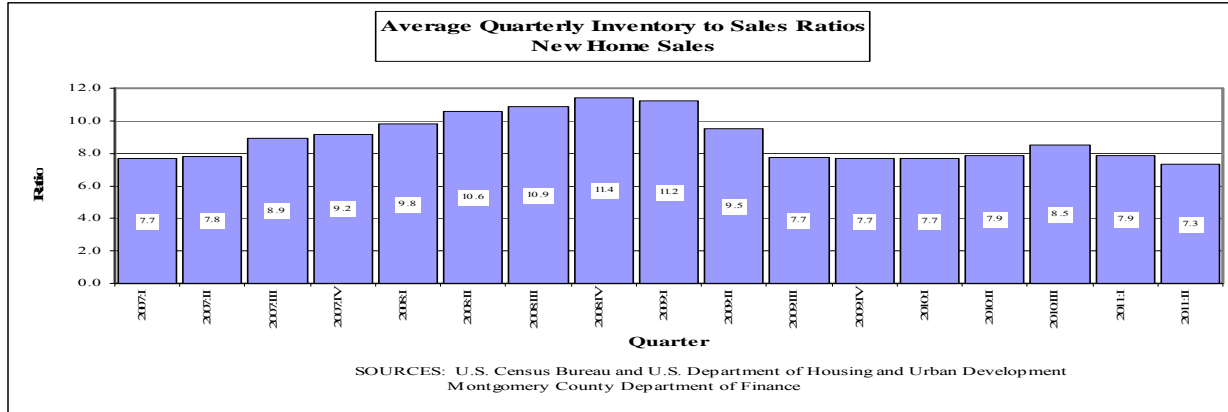
Real final sales of domestic product, which measures aggregate demand and is GDP less the change in real private inventories, increased a modest 1.2 percent during the second quarter compared to no change in the first quarter. Real final sales are a good measure of future production. If the growth rate 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. However, over the past two quarters ending in June, the percent change in real final sales of domestic product was lower than the percent change in real GDP. Therefore, based on this relationship, the economy may not experience strong demand in the near term. In fact, the FOMC stated in its press release that the “Committee now expects a somewhat slower pace of recovery over the coming quarters than it did at the time of the previous meeting (*June 21 and 22*).”

According to economic analysts, business spending usually increases before consumer spending and residential construction as the economy recovers. New orders for non-defense capital goods excluding aircraft increased at a seasonally adjusted rate of 4.5 percent during the second quarter. During the first half of this year, business spending increased 11.4 percent. Consumer spending as measured by personal consumption expenditures (PCE), *and not adjusted for inflation*, increased by 4.6 percent during the first half of this year. The difference between the growth rates during this period suggests that business spending rather than consumer spending has been the economic driver during the first half of this year.

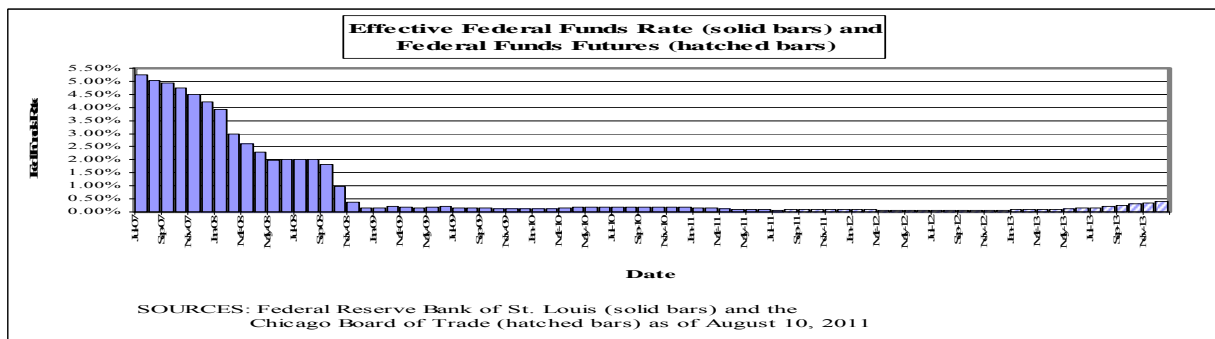
The quarterly increase in residential construction ($\uparrow 3.4\%$) was the third such increase over the past five quarters. The inventory-to-sales ratio for new homes for sale was 7.3 during the second quarter and has remained relatively constant for the past seven quarters. However, data from the National Association of Realtors (Realtors) show that the inventory-to-sales ratio for existing homes increased slightly from 8.1 during the first quarter of this year to 9.5 in the second quarter.

Sales of existing homes declined 3.5 percent from June to July but increased 21.0 percent over July of last year. However, home prices for existing homes decreased in July over June for first time since February. Median prices decreased 0.9 percent and average prices decreased 0.8 percent over June.

The inventory of new homes for sale declined from 7.9 months during the first quarter of 2011 to 7.3 months during the second quarter. For the past seven quarters, inventory of new homes for sale average 7.8 months down significantly from the peak of 11.4 months during the fourth quarter of 2008.



Because of the turmoil in the stock market and indications of slower economic growth, the FOMC kept the target range for the federal funds at 0 to 1/4 percent at its August meeting. The FOMC also “anticipates that economic conditions – including low rates of resource utilization and a subdued outlook for inflation over the medium run – are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.” However, this policy statement was not approved unanimously. Three members of the Committee did not vote for the language “at least through mid-2013” and rather preferred “for an extended period.” The futures market for 30-day federal funds anticipates that the FOMC will hold to its current target range through the remainder of the 2011 and through 2012 with a rate increase during fourth quarter of 2013.

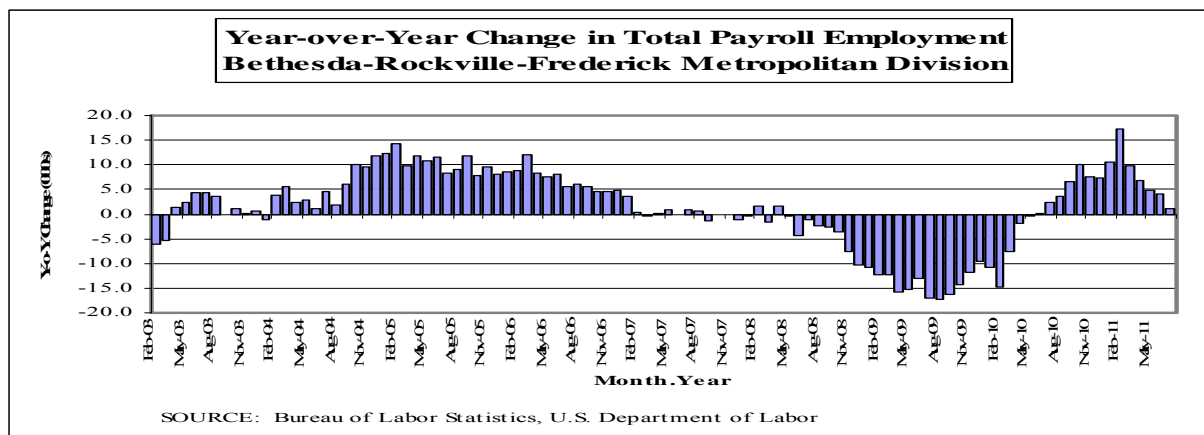


The stock market experienced significant volatility during the first three weeks of August. Four market indicators – Dow Jones Industrial Average (DJIA), Standard & Poor’s 500 Index (S&P 500), NASDAQ, and the Russell 2000 index – all experienced double-digit declines through August 19. If these declines hold for the remainder of the month, the stock market will have declined four consecutive months. Because of these declines, the stock market has declined for the year to date – DJIA (↓6.6%), S&P 500 (↓10.7%), NASDAQ (↓11.7%), and the Russell 2000 (↓16.8%). The significant volatility in the stock market is reflected in the Chicago Board of Options Exchange’s Market Volatility Index (VIX) known as the “fear index.” The index is one measure of the market’s expectation of stock volatility. On April 28, the index closed at 14.62 – the lowest close since early July 2007 and well below the peak close after the Lehman Brothers bankruptcy – an intraday high of 89.53 on October 24, 2008. Since April of this year, the VIX closed at a recent high of 43.05 on August 19 suggesting that the stock markets will continue to experience volatility over the next 30-day period.

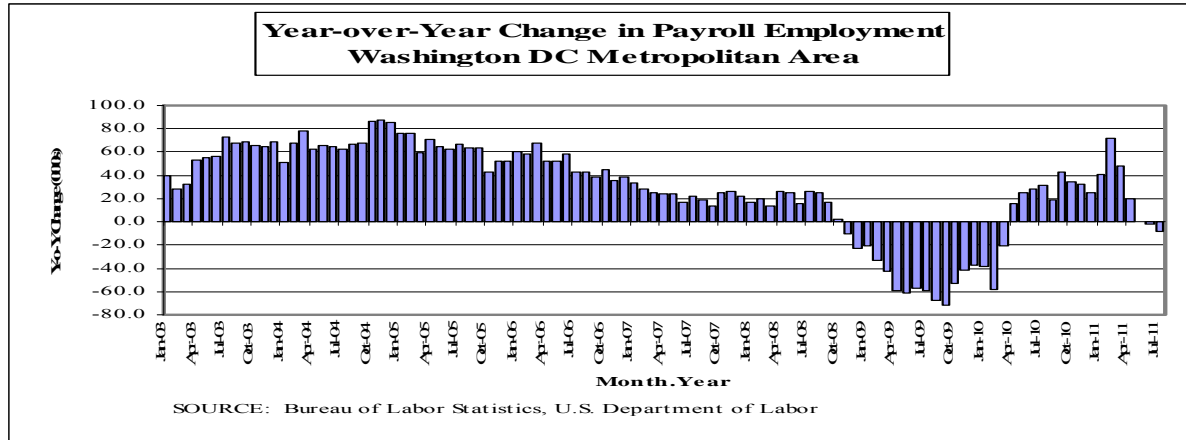
REGIONAL ECONOMY

According to the latest data from the Center for Regional Analysis (CRA), George Mason University, the Washington area economy is experiencing the same pattern of recovery that is being reflected in national trends, although, not as vulnerable to the effects of the recent national recession. Compared to the national unemployment rate at 9.2 percent in June (9.3 percent not seasonally adjusted), the region’s unemployment rate was 6.2 percent (not seasonally adjusted in June) – slightly lower than the rate in June 2010 (6.3%). The decline in payroll employment on a year-over-year basis, that started in earnest in December 2008 and continued through March of 2010, began to improve dramatically over the following thirteen months ending in April of this year. Since then the total payroll employment experienced year-over-year declines in June and July. Total payroll employment stood at 2.992 million (not seasonally adjusted) in July – down from the 3.001 million in July 2010.

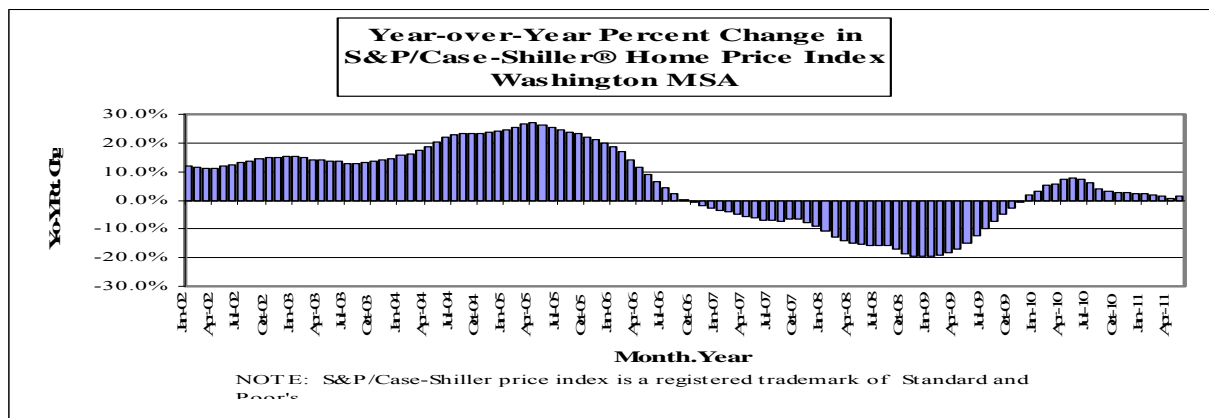
While payroll employment declined in June and July for the entire metropolitan region, payroll employment for the Bethesda-Rockville-Frederick metropolitan division experienced monthly year-over-year increases since June of last year. Total payroll employment stood at 565,200 in July – up slightly from July 2010 (↑1,100).



The region’s unemployment rate has increased on a non-seasonally adjusted basis from 3.8 percent in 2008 to 6.2 percent in June of this year. However, when that rate for the entire region is divided between the Bethesda-Rockville-Frederick metropolitan division and the remaining Washington-Arlington-Alexandria metropolitan division, the unemployment picture varies with the BRF division’s unemployment rate at 5.8 percent (n.s.a.) compared to 6.3 percent (n.s.a.) for the remaining metropolitan area. Even with that variation between the divisions, both have either the lowest or one of the lowest unemployment rates among the 34 national metropolitan divisions.



The resale housing market has stabilized across most of the region with significant price gains since January 2010. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in May increased 1.5 percent over April and 7.4 percent over May of last year.



As noted previously, the Washington metropolitan area continues to have one of the lowest unemployment rates in the country. However it has been rising from 3.8 percent in 2008 to 6.4 percent in June. Of the 34 metropolitan divisions, the Bethesda-Rockville-Frederick metropolitan division still had the second lowest unemployment rate in June at 5.8 percent (Nashua N.H.-Mass. had the lowest at 5.4%).

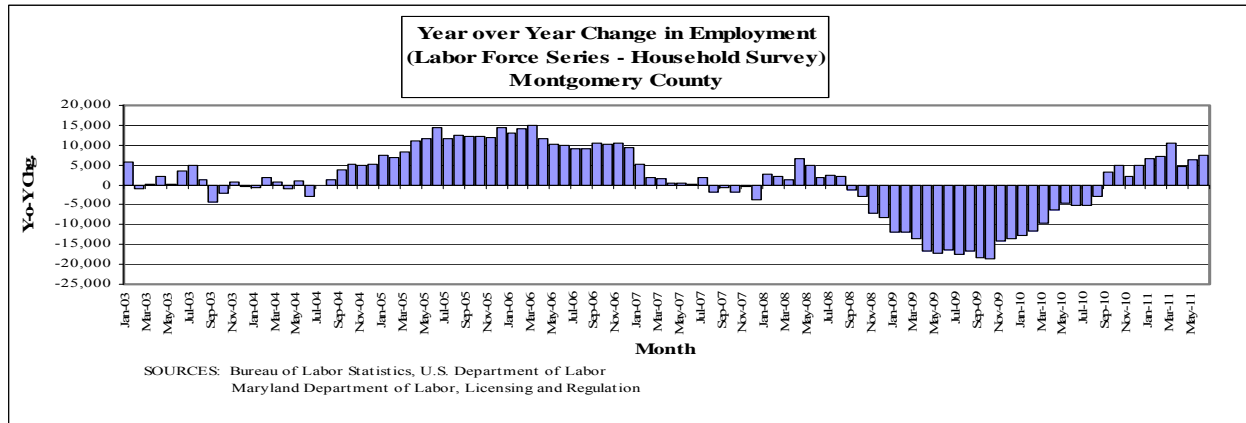
**MONTGOMERY COUNTY
ECONOMIC INDICATORS**

Montgomery County experienced mixed economic performance during fiscal year (FY) 2011. The major reasons for the County’s weak performance was a decrease in sales of existing homes largely attributed to the expiration of the federal first-time homebuyers credit and the average monthly unemployment rate of 5.3 percent. In July, the County’s unemployment rate declined from 5.8 percent in July 2010 (and 5.6 percent in June) to 5.5 percent in July of this year. Positive indicators include an increase in employment – both resident (labor forces series)

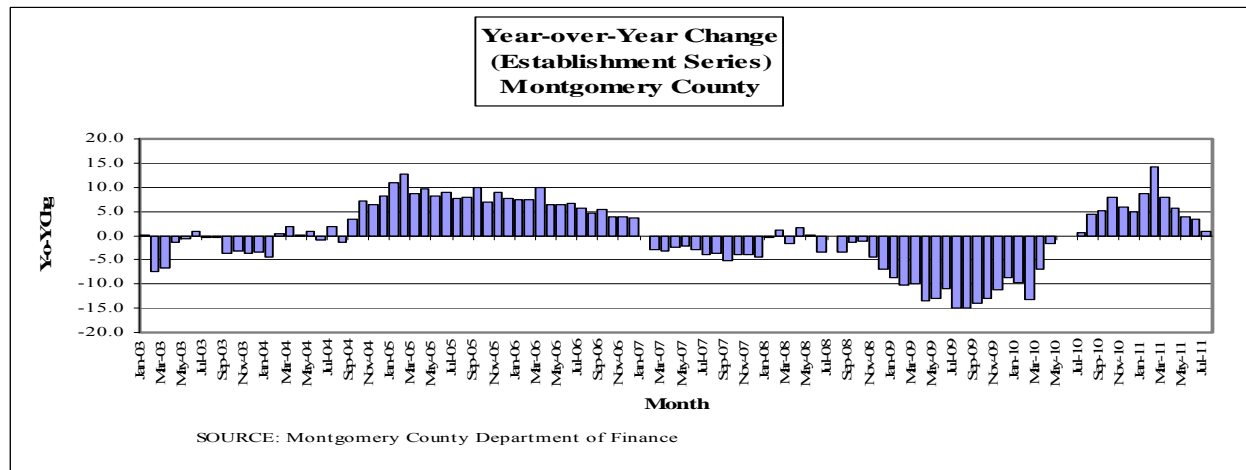
and payroll employment (establishment series) and a rebound in the average sales price for existing homes. Non-residential construction also picked up in FY2011.

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, average monthly resident employment (labor force series and not seasonally adjusted) in Montgomery County increased by 4,150 (↑0.9%) during FY2011 and the first increase since FY2008. Average monthly resident employment stood at 488,600 in FY2011 compared to 484,450 during the previous fiscal year.



The County’s total payroll employment, as derived by the Department of Finance, increased by a monthly average of 6,100 jobs during FY2011. Total payroll employment stood at a monthly average of 467,700 jobs during the fiscal year compared to a monthly average of 461,600 in fiscal year 2010. Both resident and payroll employment experienced increases in FY2011 for the first time since FY2008. If these increases are sustainable through FY2012, they will bode well for income tax withholdings during the remainder of this calendar year and possibly into the first half of next calendar year.

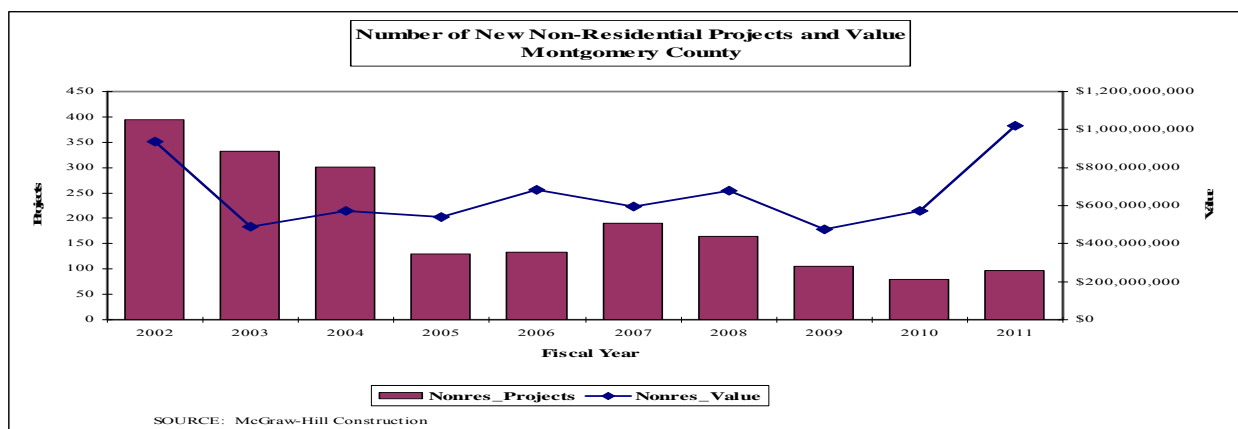


While the County’s employment situation improved in FY2011, as measured by the labor force (resident employment) and establishment (payroll employment) series, the unemployment rate remained at or above the 5.0 percent level for eleven out of the twelve months during the fiscal year. The apparent contradiction between growth in both employment and the unemployment rate is attributed to the increase in the labor force participation during FY2011. Employment growth was overshadowed by strong growth in labor force entrants resulting in a high unemployment rate.

Construction Activity

Construction activity continued to experience improvement during fiscal year 2011. The total number of building permits increased 24.6 percent and the number of total new construction projects (starts) increased 61.8 percent compared to fiscal year 2010. Because of strong non-residential construction activity, the total value added from new construction starts, both residential and non-residential, was up nearly 63.0 percent compared to FY2010. The increase in total additional value was attributed to a significant increase in the value of non-residential construction starts (↑77.7%) and construction of multi-family units (↑218.7%)

The number of non-residential construction starts was up 21.3 percent in fiscal year 2011 compared to the previous fiscal year. Because the number of non-residential construction projects increased during this period, the total amount of additional value increased from \$574.6 million to \$1,021.2 million (↑77.7%).



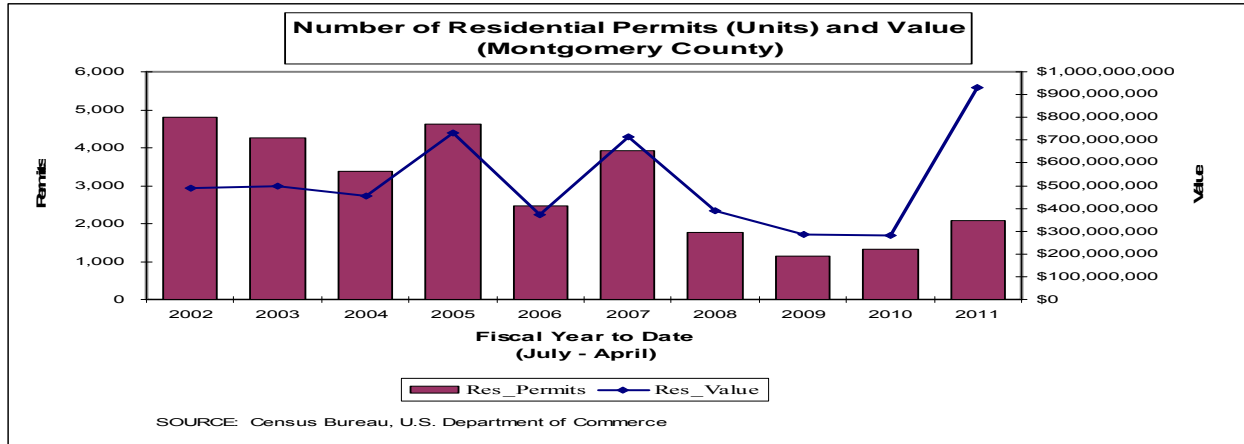
At the same time that the total number of construction starts increased during 2011, construction costs were up 3.9 percent. The construction cost index developed by the *Engineering News Record* (ENR) for the Baltimore area increased 5.3 percent in FY2009 and 4.8 percent in FY2010. Therefore, while construction activity increased in fiscal year 2011, that increase was also supported by inflation in construction costs thereby yielding a dramatic increase in values.

Residential Real Estate

Led by a dramatic increase in the building of new multi-family units (↑159.8%), total residential construction increased in fiscal year 2011. However, while total residential

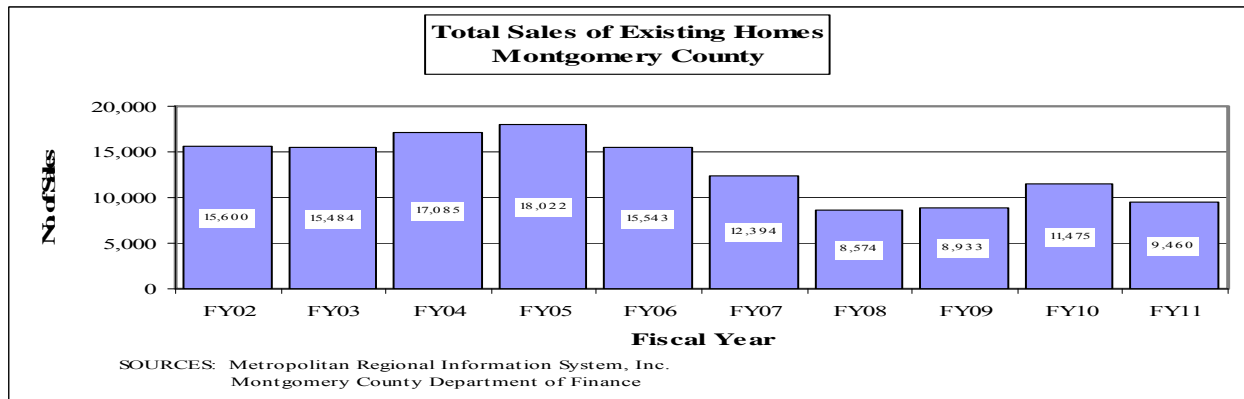
construction increased, the number of new single-family units decreased 14.5 percent over fiscal year 2011 (753 single-family units in FY2010 to 644 units in FY2011) – the lowest number of starts in ten years. The overall added value of new residential construction starts increased 33.4 percent.

At the same time that the number of total residential construction starts increased during fiscal year 2011, the number of permitted units increased from 1,332 units in fiscal year 2010 to 2,083 units in fiscal year 2011 (↑56.4%). Even with the double-digit growth in 2011, the number of residential permits was one of the lowest over the past ten years.



With the total additional value of residential and non-residential properties of approximately \$1,407.6 million in fiscal year 2011, the amount of new construction added to the property tax base in future fiscal years *may* achieve levels ranging between \$1.2 billion and \$1.5 billion per year experienced during the FY2003 and FY2008 period.

During fiscal year 2011, home sales declined 17.6 percent following a dramatic 28.5 percent growth in FY2010. Average sales prices for existing homes increased 6.1 percent during the fiscal year and followed declines of 16.2 percent and 5.4 percent during FY2009 and FY2010, respectively.

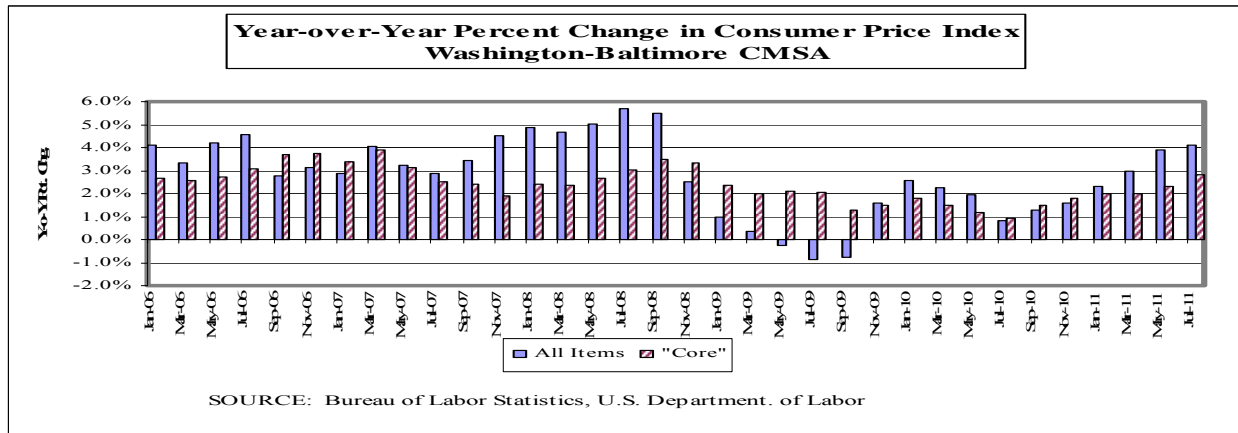


Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, the growth in sales of durable and nondurable goods, excluding miscellaneous and assessment collections, increased 4.3 percent during FY2011 compared to FY2010. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 2.3 percent during this period while sales of durable goods were up 9.5 percent. The increase in nondurable good purchases was attributed to food and beverage sales (↑7.2%). The increase in durable goods was attributed to strong sales of furniture and appliances (↑19.2%) and building and industrial supplies (↑8.7%).

Consumer Prices and Inflation

As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased 4.1 percent on a year-over-year basis in July, i.e., July 2011 over July 2010. That increase was the sixth consecutive accelerated increase since July of last year. Consumer prices excluding food and energy purchases were up 2.8 percent in the region (on a year-over-year basis), which was significantly above the increase for the nation (↑1.8%) over the same July 2010-to-July 2011 period.



SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2010
				2011	2010	
Leading Indicators						
National	July '11	0.5%		4.9%		5.0%
Washington MSA	June '11	-0.9%		1.2%		1.6%
Coincident Indicators						
National	July '11	0.3%		2.0%		2.2%
Washington MSA	June '11	-0.9%		2.2%		3.3%
Consumer Confidence Index						
National	July '11	3.3%		16.9%		18.2%
South Atlantic Region	July '11	-9.9%		10.8%		25.9%
Consumer Sentiment (University of Michigan)	Aug. '11	-13.8%		-4.6%		2.8%
Consumer Price Index						
<u>All Items (nsa)</u>						
National	July '11	3.6%		2.9%		1.6%
Washington - Baltimore CMSA	July '11	4.1%		3.3%		1.7%
<u>Core CPI (nsa)</u>						
National	July '11	1.8%		1.4%		1.0%
Washington - Baltimore CMSA	July '11	2.8%		2.2%		1.4%
Retail Trade						
National (sales - nsa)	June '11	8.4%		8.1%		6.6%
Washington MSA (sales - nsa)	Mar. '11	N.A.		N.A.		N.A.
Maryland (sales tax)(1)	June '11	2.9%		3.2%		2.7%
Montgomery County (sales tax)(1)	June '11	4.9%		4.0%		1.4%
Employment						
Maryland (labor force data - nsa)	June '11	2,793,888	2,775,652	2,764,433	2,746,613	2,758,219
- Percent Change		0.7%		0.6%		-1.0%
Bethesda-Federick-Gaithersburg (labor force data)	June '11	609,450	600,187	604,361	595,583	599,157
- Percent Change		1.5%		1.5%		-0.7%
Montgomery County (labor force data)	June '11	493,383	485,884	489,263	482,156	485,050
- Percent Change		1.5%		1.5%		-0.7%
Montgomery County (QCEW)	Dec. '10	451,541	446,914	N.A.	N.A.	441,583
- Percent Change		1.0%				-0.4%
Unemployment						
Maryland (nsa)	June '11	7.4%	7.4%	7.1%	7.6%	7.5%
Bethesda-Federick-Gaithersburg (nsa)	June '11	5.8%	5.9%	5.4%	6.0%	5.6%
Montgomery County (nsa)	June '11	5.6%	5.7%	5.2%	5.8%	5.5%
Construction						
<u>Construction Starts - Montgomery County</u>						
Total (\$ thousands)	June '11	\$60,022	\$37,107	\$609,641	\$517,140	\$1,422,096
- Percent Change		61.8%		17.9%		113.7%
Residential (\$ thousands)	June '11	\$20,360	\$14,010	\$147,742	\$136,365	\$392,407
- Percent Change		45.3%		8.3%		38.1%
Non-Residential (\$ thousands)	June '11	\$39,662	\$23,097	\$461,899	\$380,775	\$1,029,689
- Percent Change		71.7%		21.3%		170.1%
<u>Building Permits (Residential)</u>						
National	June '11	62,436	58,862	295,831	314,065	598,033
- Percent Change		6.1%		-5.8%		4.5%
Maryland	June '11	751	1,074	5,166	6,601	12,183
- Percent Change		-30.1%		-21.7%		9.9%
Montgomery County	June '11	111	285	1,162	877	1,895
- Percent Change		-61.1%		32.5%		119.8%
<u>Building Permits (Non-Residential)</u>						
Montgomery County	June '11	178	198	940	852	1,674
- Percent Change		-10.1%		10.3%		4.3%
Real Estate						
<u>National</u>						
Sales (saar)	July '11	4,670,000	3,860,000	4,961,400	5,160,000	4,907,000
- Percent Change		21.0%		-3.8%		-4.8%
Median Price	June '11	\$174,000	\$182,100	\$164,800	\$173,000	\$172,900
- Percent Change		-4.4%		-4.7%		0.2%
<u>Montgomery County</u>						
Sales	July '11	907	914	5,508	6,456	10,401
- Percent Change		-0.8%		-14.7%		0.2%
Average Price	July '11	\$492,617	\$484,503	\$451,858	\$428,782	\$441,492
- Percent Change		1.7%		5.4%		1.7%
Median Price	July '11	\$385,000	\$376,750	\$349,121	\$344,500	\$350,000
- Percent Change		2.2%		1.3%		2.9%
Average Days on the Market	July '11	73	57	79	64	65

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.