



# Monthly Economic Update

## May 2005



David Platt, Chief Economist  
Montgomery County Department of Finance

This report is an update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.montgomerycountymd.gov/finance>. For questions, please call (240) 777-8866.

➤ **Economic Conditions.** The national and regional economies experienced mixed results during April and May. Industrial production had its largest monthly gain in May (↑0.4%) since February, single-family housing starts were up 4.7 percent above the April rate, business investment increased 1.7 percent in April, which was the first increase in three months, and the stock market had its best monthly performance in May since the beginning of the year. However, retail sales excluding food were down 0.5 percent, and the national economy added a paltry 78,000 jobs in May.

The regional economy experienced weakness in April with the Washington Coincident Index, which represents the current state of the area's economy, down 1.5 percent. The decrease was attributed to declines in consumer confidence, domestic passenger volume at the region's airports, and purchases of nondurable goods. However, wage and salary employment increased in April and was up 3.8 percent over April 2004. The Washington metropolitan area continues to generate new jobs at a rate that outpaces other major metropolitan areas. Employment in the Bethesda-Frederick-Gaithersburg metropolitan division added 4,100 jobs in May over April and 10,400 (↑1.9%) since May 2004.

➤ **Financial Markets.** While the national economy continued its modest expansion, the stock market recovered in May from its previous two-month decline. As measured by the four major indices – Dow Jones (↑2.7%), NASDAQ (↑7.6%), S&P 500 (↑3.0%), and Russell 2000 (↑6.4%) – the stock market improved from its yearly low in April. Interest rates, especially the long-term rates, were the major issue in May. Since the Federal Open Market Committee (FOMC) raised the federal funds rate by 200 basis points since June of last year, long-term rates *declined* since then. Based on the 10-year constant-yield U.S. Treasury bond, long-term rates dropped nearly 100 basis points from the end of June 2004 to the end of May 2005.

➤ **Construction.** With employment in the County showing signs of solid growth, residential construction in the County outperformed non-residential construction during the first five months of this year. With the dramatic growth in the number of multi-family units in May (↑96.9% over May 2004 and 245.8% for the year), residential construction rebounded dramatically so far this year compared to its negative performance in 2004. However, during the first five months of this year, non-residential construction has declined. The number of starts is off 72.8 percent and total value of new construction is down 29.3 percent compared to the same period last year.

➤ **Home Sales.** Sales of mostly existing homes maintained a brisk pace during the first five months of 2005. Sales were up 7.6 percent in May compared to May of last year and 4.8 percent for the year. At those rates, purchases of homes in 2005 may exceed the rate in 2004 (↑7.4%) assuming mortgage rates remain at their current levels.

Housing prices continued their acceleration in May. The average home price stood at a record \$501,000 in May, up 15.2 percent from May 2004. The median price also reached record levels in May increasing 14.9 percent to \$496,000.

➤ **Inflation.** Primarily due to the rapid growth in home prices, the Consumer Price Index (CPI) for the metropolitan region increased 4.0 percent in May over May 2004. That is the largest twelve-month increase since the U.S. Bureau of Labor Statistics has been publishing the index. The “core” CPI increased 3.8 percent over the same period, also the largest twelve-month change since 1996. Compared to the twelve-month change in the national “core” CPI (↑2.2%), the spread between the regional and the national index is also the largest since 1996 and is 1.4 percentage points above the historical average.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		2004
				2005	2004	
<b>Leading Indicators</b>						
National	Apr	-0.2%		-0.2%		1.3%
Washington MSA	Apr	-0.8%		1.0%		2.1%
<b>Coincident Indicators</b>						
National	Apr	0.2%		2.6%		3.5%
Washington MSA	Apr	-1.5%		7.1%		7.1%
<b>Consumer Confidence Index</b>						
National	Apr	-5.1%		11.6%		8.3%
South Atlantic Region	Apr	-9.5%		10.4%		11.4%
<b>Consumer Price Index</b>						
<u>All Items (nsa)</u>						
National	May	2.8%		3.1%		2.7%
Washington - Baltimore CMSA	May	4.0%		3.8%		2.8%
<u>Core CPI (nsa)</u>						
National	May	2.2%		2.3%		1.7%
Washington - Baltimore CMSA	May	3.8%		3.5%		1.8%
<b>Retail Trade</b>						
National (sales - nsa)	Apr	7.2%		6.5%		7.6%
Washington MSA (sales - nsa)	Mar	8.1%		6.7%		7.4%
Maryland (sales tax)	Mar	5.5%		6.3%		9.1%
Montgomery County (sales tax)	Mar	5.6%		5.4%		6.7%
<b>Employment</b>						
National (labor force data - nsa)	May	141,591,000	138,867,000	140,014,000	137,858,000	139,252,000
- Percent Change		2.0%		1.6%		1.1%
Bethesda-Federick-Gaithersburg (establish.)	May	568,400	558,000	560,600	550,100	557,700
- Percent Change		1.9%		1.9%		0.7%
Montgomery County (labor force data)	Mar	494,916		(See footnote to the table below)		
- Percent Change						1.1%
Montgomery County (payroll)*	Sept. '04(adjusted)	450,550	445,098	444,591	442,850	442,850
- Percent Change		1.2%		0.4%		0.5%
<b>Unemployment</b>						
National (nsa)	May	4.9%	5.3%	5.3%	537.0%	6.0%
Maryland (nsa)	May	4.1%	4.1%	(See footnote to the table below)		
Bethesda-Federick-Gaithersburg (nsa)	Mar	3.3%		(See footnote to the table below)		
Montgomery County (nsa)	Mar	3.3%		(See footnote to the table below)		
<b>Construction</b>						
<u>Construction Starts - Montgomery County</u>						
Total (\$ thousand)	May	\$162,324	\$69,806	\$563,949	\$493,398	\$1,134,582
- Percent Change		132.5%		14.3%		-31.6%
Residential (\$ thousand)	May	\$104,975	\$30,877	\$337,422	\$173,179	\$676,613
- Percent Change		240.0%		94.8%		-15.7%
Non-Residential (\$ thousand)	May	\$57,349	\$38,929	\$226,527	\$320,219	\$457,969
- Percent Change		47.3%		-29.3%		-46.5%
<u>Building Permits (Residential)</u>						
National	Apr	192,245	186,704	669,742	631,750	2,024,211
- Percent Change		3.0%		6.0%		8.7%
Maryland	Apr	2,785	2,746	10,688	8,815	28,384
- Percent Change		1.4%		21.2%		-5.8%
Montgomery County	Apr	345	565	1,648	1,473	3,798
- Percent Change		-38.9%		11.9%		-17.3%
<u>Building Permits (Non-Residential)</u>						
Montgomery County	May	234	129	1,042	773	1,966
- Percent Change		81.4%		34.8%		9.3%
<b>Real Estate</b>						
<u>National</u>						
Sales (saar)	Apr	7,180,000	6,790,000	6,920,000	6,440,000	6,784,000
- Percent Change		5.7%		7.5%		9.7%
Median Price	Apr	\$206,000	\$179,000	\$194,250	\$174,250	\$185,200
- Percent Change		15.1%		11.5%		9.3%
<u>Montgomery County</u>						
Sales	May	1,660	1,543	6,228	5,941	17,753
- Percent Change		7.6%		4.8%		7.4%
Average Price	May	\$500,857	\$434,633	\$472,586	\$401,995	\$429,480
- Percent Change		15.2%		17.6%		18.3%
Median Price	May	\$495,978	\$431,519	\$394,655	\$330,018	\$355,000
- Percent Change		14.9%		19.6%		20.1%

**NOTES:**

(nsa): not seasonally adjusted. (saar): seasonally adjusted at an annual rate.

(rev.): Starting with January 2005, the Bureau of Labor Statistics, U.S. Department of Labor, instituted a new method of calculating employment and unemployment. Therefore, data for previous years are not meaningful.

(adjusted): ES-202 series adjusted for noneconomic coding revisions by DLLR

\*Payroll data under 2005 and 2004 pertain to 2004 and 2003 respectively