

# Economic Indicators

Prepared by the Department of Finance • January 2013

*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:  
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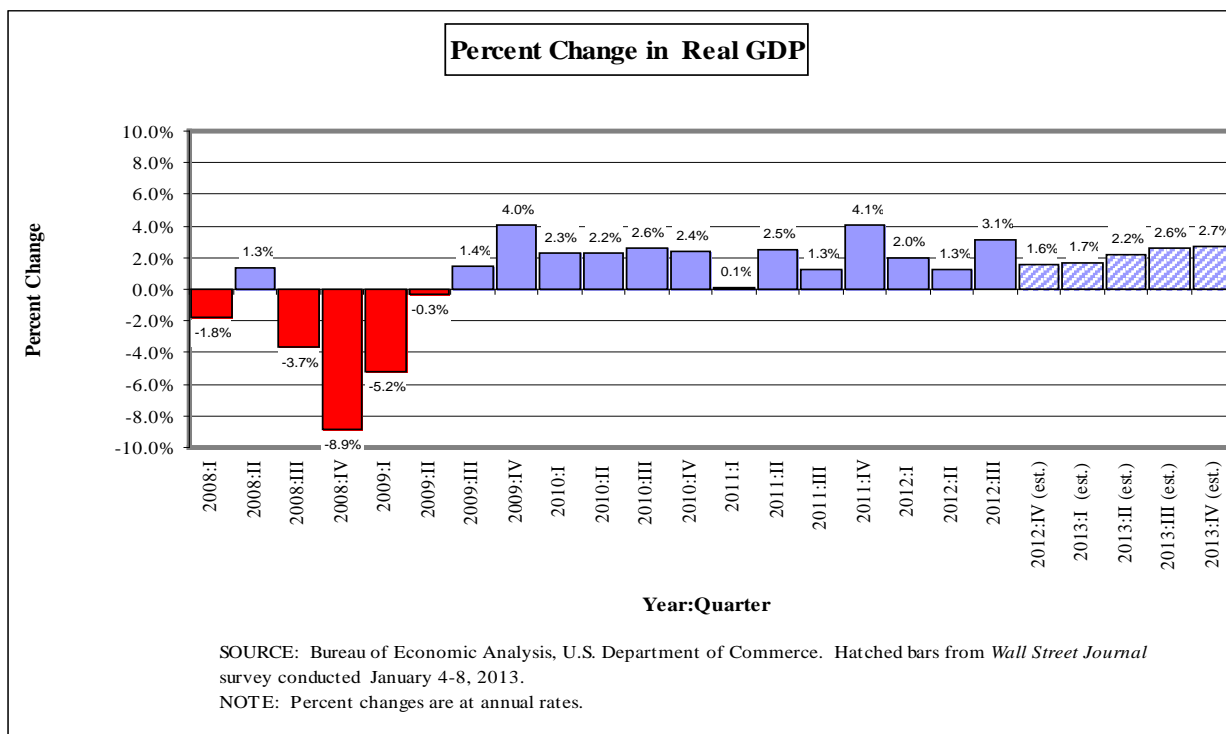
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### NATIONAL ECONOMY

According to the revised estimate from the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, gross domestic product (GDP) increased at a 3.1 percent seasonally adjusted annual rate during the third quarter of 2012. That increase follows twelve consecutive quarters of growth since the end of the recession in June 2009. Based on the December *WSJ* survey (January 4 – 8), fifty economists surveyed expect economic growth to increase 1.6 percent, on average, during the fourth quarter of 2012 (October to December) – up slightly from the December forecast of 1.3 percent – and increase another 1.7 percent for the first quarter of this year – down slightly from the November forecast of 1.9 percent. The survey of economists expect the jobless rate to be at 7.0 percent at the end of 2014 and that inflation pressures will remain subdued into 2014.



Following its meeting on December 11 and 12, the Federal Open Market Committee (Committee - FOMC) of the Federal Reserve stated in its press release that economic activity and employment “have continued to expand at a moderate pace in recent months. Although the unemployment rate has declined somewhat since the summer, it remains elevated.” The December unemployment rate remained at 7.8 percent – the same rate as in November. The FOMC continued to state that “household spending has continued to advance” (real personal consumption expenditures increased 1.6 percent during the third quarter) “and the housing sector has shown further signs of improvement” (residential investment increased 13.5 percent during the third quarter, the sixth consecutive increase). However, the Committee “remains concerned that, without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial market continue to pose significant downside risks to the economic outlook.”

Data released by BEA for the third quarter showed that the modest increase in real GDP was attributed to an increase in personal consumption expenditures (↑1.6% - up from the 1.5% during the second quarter, exports (↑1.9% - down from the 5.3% during the second quarter), residential fixed investment (↑13.5% - up from the 8.5% during the second quarter) and federal government spending (↑9.5% primarily due to defense spending and up from the decline of 0.2 percent during the second quarter).

Real final sales of domestic product, which measures aggregate demand and is GDP less the change in real private inventories, increased 5.2 percent during the third quarter compared 3.3 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. FOMC anticipates that the growth rate of real GDP would increase somewhat in 2013 and again in 2014. Economic projections provided by the members of the Federal Reserve Board estimates the change in real GDP to range between 2.3 and 3.0 percent during 2013 and between 3.0 and 3.5 percent during 2014. The average forecast by the respondents to the WSJ survey in January estimate real GDP to grow 2.3 percent in 2013 and 2.9 percent in 2014 – the lower end of the range estimated by the Federal Reserve Board for 2013 and below the lower end of the range for 2014.

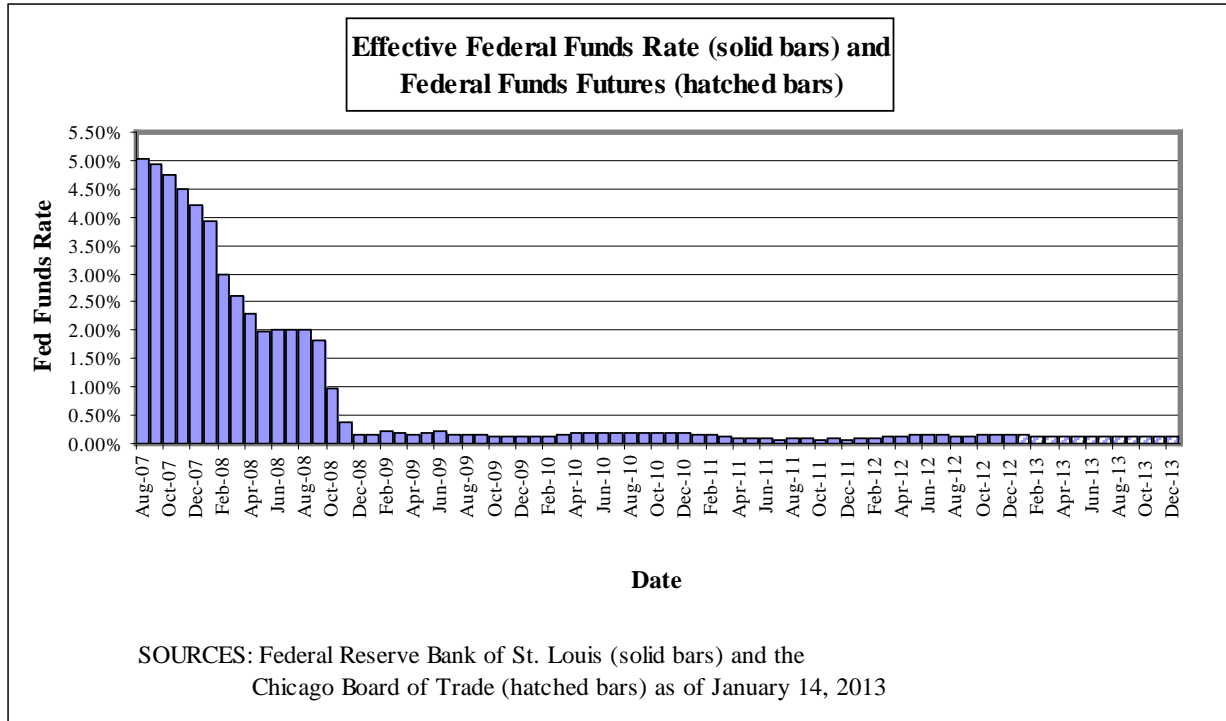
According to economic analysts, business spending usually increases before consumer spending as the economy expands. However, spending on equipment and software decreased at a seasonally adjusted annual rate of 2.6 percent during the third quarter – the first decrease since the second quarter of 2009 (↓8.6%) – the end of the recession. Consumer spending as measured by personal consumption expenditures (PCE) increased 1.6 percent at a seasonally adjusted annual rate during the third quarter which suggests that consumer spending rather than business spending was the economic driver during the third quarter of last year. The quarterly increase in residential construction (↑13.5%) was the sixth consecutive quarterly increase.

Sales of existing homes increased 5.9 percent from October to November of last year and increased 14.5 percent over November 2011. Median home prices for existing homes also increased in November over October (↑2.1%) and 10.1 percent over November 2011. Average prices increased 2.2 percent in November from the previous month and 9.1 percent over November 2011. The inventory-to-sales ratio for new homes for sale was 4.8 in November and was below the five-month level for the first time since October 2005.

According to the Bureau of Labor Statistics, total nonfarm employment increased by 155,000 in December and grew by an average of 153,000 per month during 2012 – the same average monthly gain during 2011. Total private employment rose by 168,000 in December. In 2012, total private employment jobs averaged 159,000 per month, compared to an average monthly gain of 175,000 in 2011. Government employment was little changed in December. However, the government sector shed an average of 6,000 per month in 2012 but reflects a deceleration over 2011 when the sector lost an average of 22,000 jobs per month.

According to the minutes from the December meeting, “to support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase

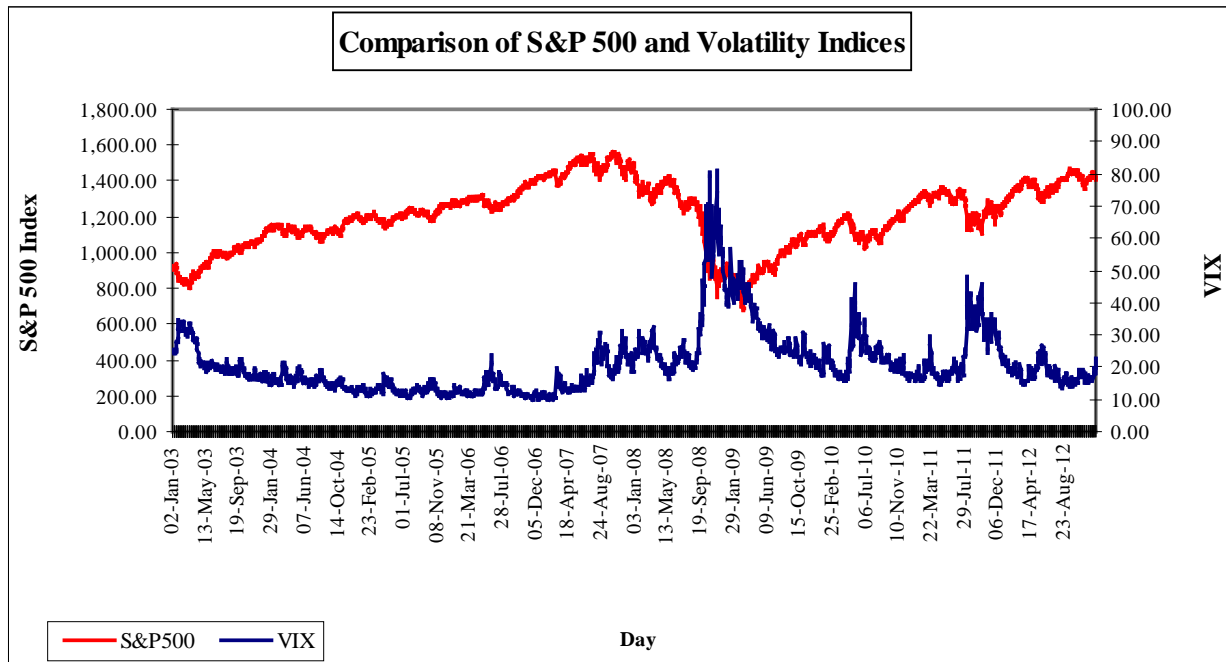
program ends and the economic recovery strengthens.” The Committee will continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month (“QE3”). The Committee also will purchase longer-term Treasury securities after its program to extend the average maturity of its holdings of Treasury securities is completed at the end of the year, initially at a pace of \$45 billion per month (“Operation Twist”). The Committee adopted to keep the range of the targeted federal funds rate at 0 to 0.25 percent and remains there as long as the unemployment rate remains above 6.5 percent. The futures market for 30-day federal funds anticipates that the monthly effective federal funds rates will range between 0.13 and 0.15 percent through December 2013.



The stock market experienced volatility during 2012. However, three of the four market indicators – Standard & Poor’s 500 (S&P 500), NASDAQ, and the Russell 2000 indices – all experienced double-digit growth and the Dow Jones Industrial Average increased 7.3 percent in 2012. While the stock market experienced its best performance in two years, those increases were attributed to a strong first quarter growth (January – March '12). Excluding the growth during the first quarter, the stock market, as measured by the S&P 500 Index, increased a meager 1.3 percent, and the NASDAQ decreased 2.3 percent.

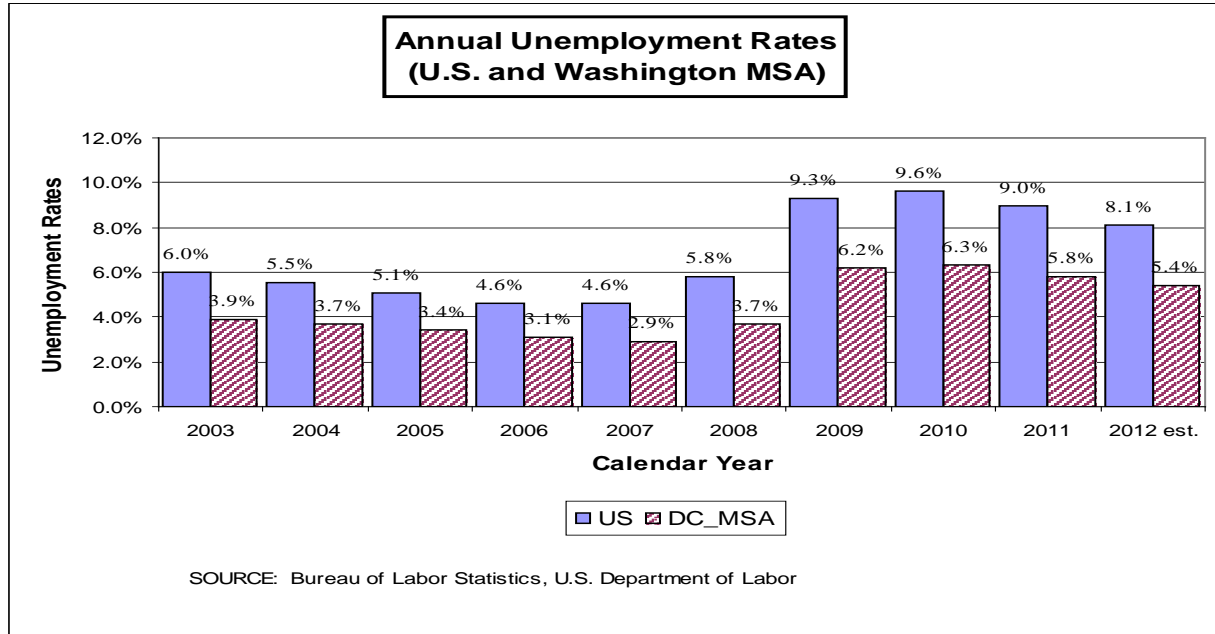
As stated previously, the stock markets experienced volatility during 2012. The volatility in the stock market is reflected in the Chicago Board of Options Exchange’s Market Volatility Index (VIX) known as the “fear index.” The index is one measure of the market’s expectation of stock volatility. Over a one month period beginning on May 14, 2012, the VIX closed at or above 20 until June 15 – during the second quarter of 2012. During the second quarter, all four stock indices experienced their largest decline during that period. Since that time, the VIX remained below the 20 level. The question is whether the modest rally in the equity market

during the fourth quarter of last year led to lower risk taking by investors as measured by the VIX or has the lower VIX led to a rally in the equity market.

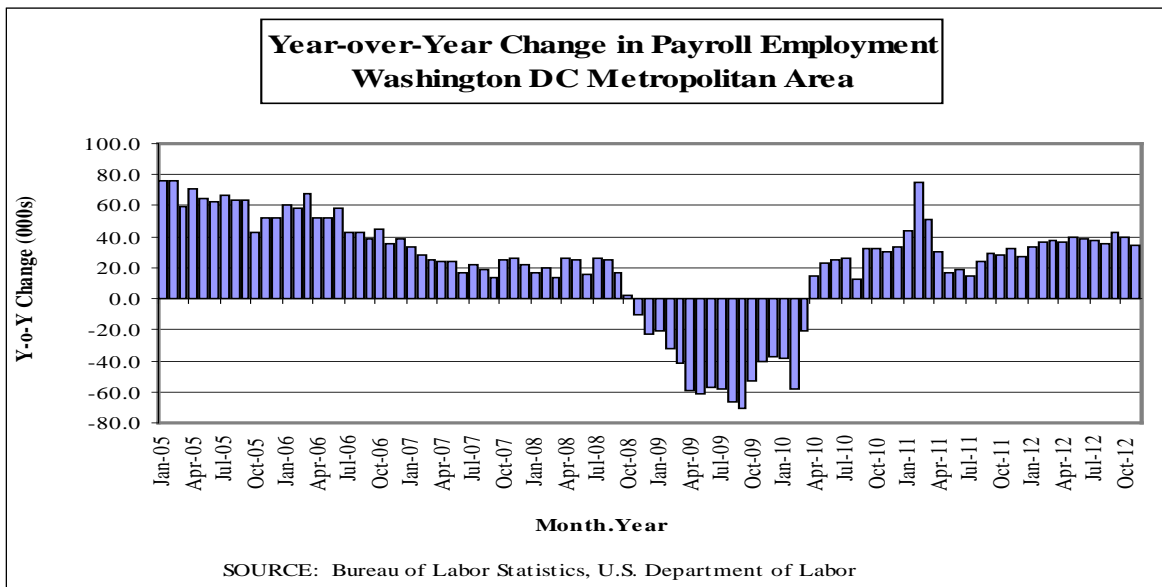


### REGIONAL ECONOMY

According to the employment data from the Bureau of Labor Statistics, U.S. Department of Labor, the Washington area economy is experiencing the same pattern 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 8.1 percent in 2012 (not seasonally adjusted), the estimated region’s unemployment rate was 5.4 percent (not seasonally adjusted). Over the past ten years, the changes in the region’s unemployment rate have followed the same pattern as the national average albeit with a greater percentage point spread beginning calendar year 2009.

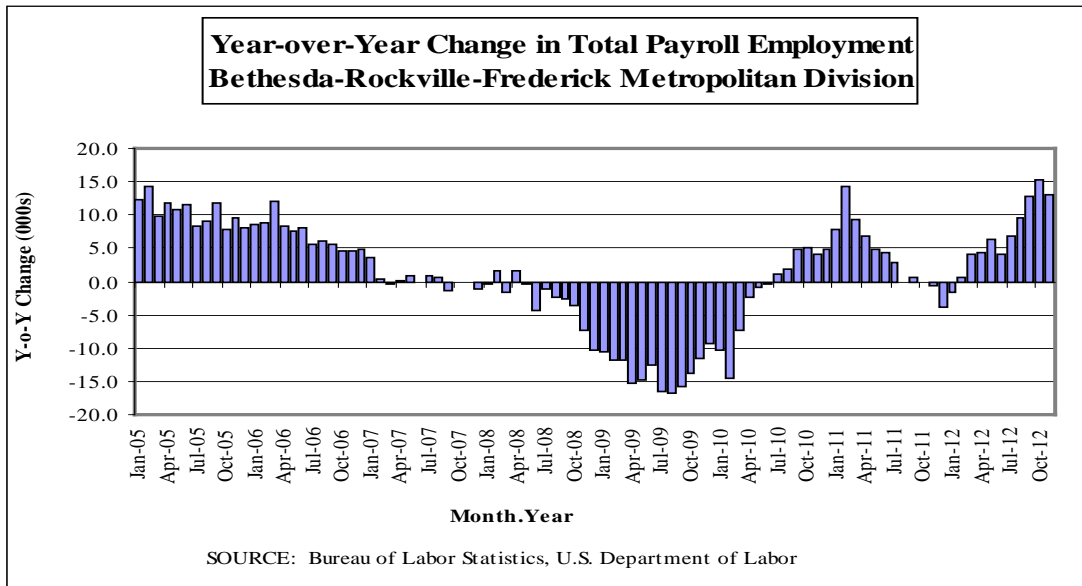


The decline in payroll employment on a year-over-year basis, that started in earnest in December 2008 and continued through March of 2010, has improved dramatically over the past two and a half years ending in November of last year. Total payroll employment stood at nearly 3.1 million (not seasonally adjusted) in November – up slightly from the 3.0 million in November 2011 – an increase of 34,300 jobs and 67,500 since March 2010.

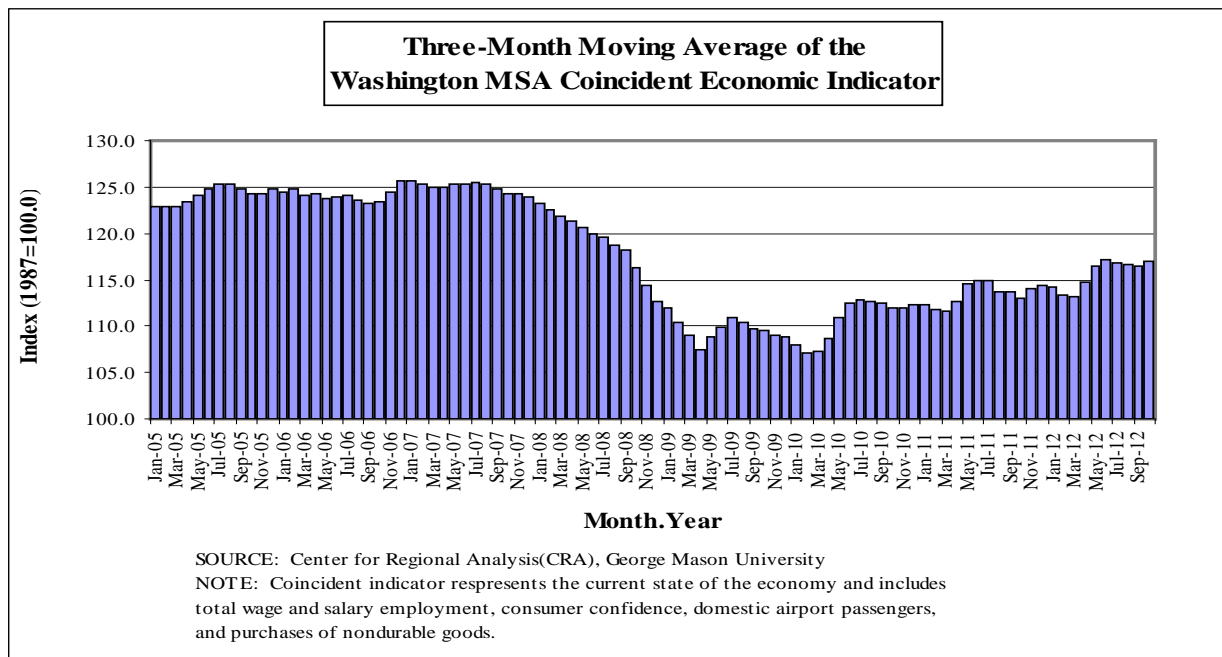


Payroll employment for the Bethesda-Rockville-Frederick (BRF) metropolitan division also experienced growth between November 2011 and November of last year. Total payroll employment stood at 578,300 in November – up from November 2011 (↑31,100). However, during that twelve-month period, payroll employment experienced year-over-year declines in December of 2011 and January of last year.

Because payroll employment experienced growth the past year ending in November 2012, the unemployment rate for the BRF metropolitan division was the second lowest rate among the 34 national metropolitan divisions. In November, the unemployment rate was 4.8 percent compared to the nation’s lowest rate 4.6 percent for the Framingham (MA) division.



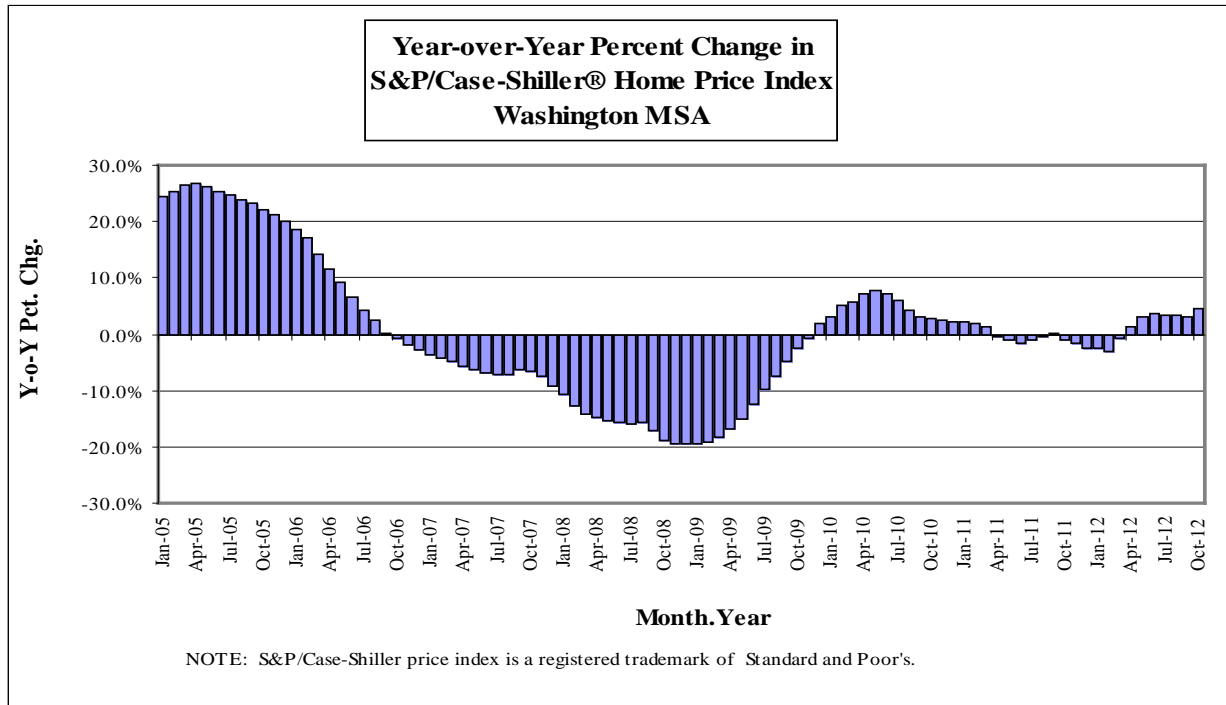
Based on the latest coincident economic indicators for the Washington metropolitan area from the Center for Regional Analysis, George Mason University, the region’s economy increased 3.9 percent from October of 2011 to October of last year – the latest date for which data are available.





The region’s index of leading economic indicators suggests moderate growth over the next six to nine months. The leading index increased 2.4 percent from January 2012 to October 2012 which suggests a future economic growth rate of 2.4 percent for most of 2013.

The resale housing market across the region experienced a growth in prices, on a year-over-year basis, between October 2011 and October of last year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in October increased 4.4 percent over the twelve-month period.



### MONTGOMERY COUNTY ECONOMIC INDICATORS

Montgomery County’s economic performance improved during calendar year 2012. The major reasons for the improvement were a decrease in the unemployment rate, an increase in employment – both resident (labor force series) and payroll employment (establishment series), and an increase in the median sales price for existing homes. Residential construction also picked up in 2012.

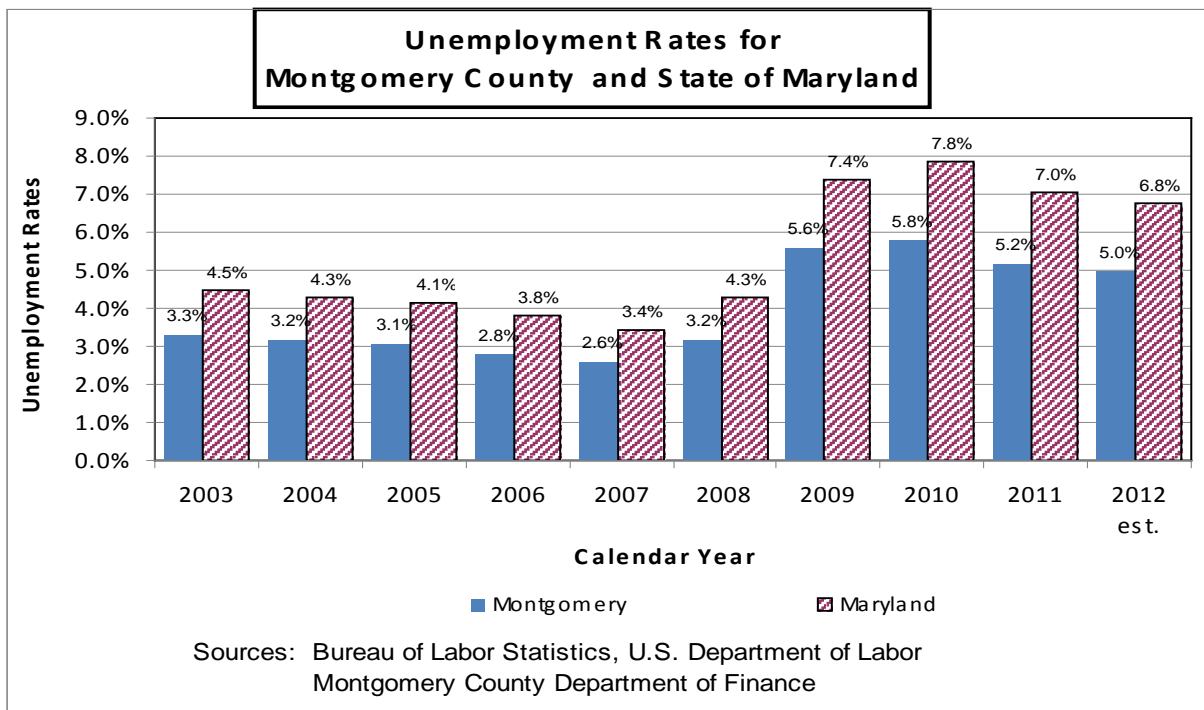
#### *Employment Situation*

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR), average monthly resident employment (labor force series and not seasonally adjusted) in Montgomery County increased by an estimated 6,000 (↑1.2%) during 2012. Average monthly

resident employment stood at an estimated 504,100 in 2012 compared to 498,100 during the previous year.

However, the County’s total payroll employment, as derived by the Department of Finance incorporating the establishment series from the Bureau of Labor Statistics (BLS), U.S. Department of Labor, for the Bethesda-Rockville-Frederick metropolitan division increased by an estimated monthly average of 5,700 jobs (↑1.2%) during 2012. Total payroll employment stood at an estimated monthly average of 474,200 jobs during the calendar year through November 2012 compared to a monthly average of 468,500 in 2011. The modest discrepancy between the series (6,000 versus 5,700) is attributed to the sources of payroll data. The DLLR series is derived from the unemployment insurance program while the BLS series is derived from a survey of establishments.

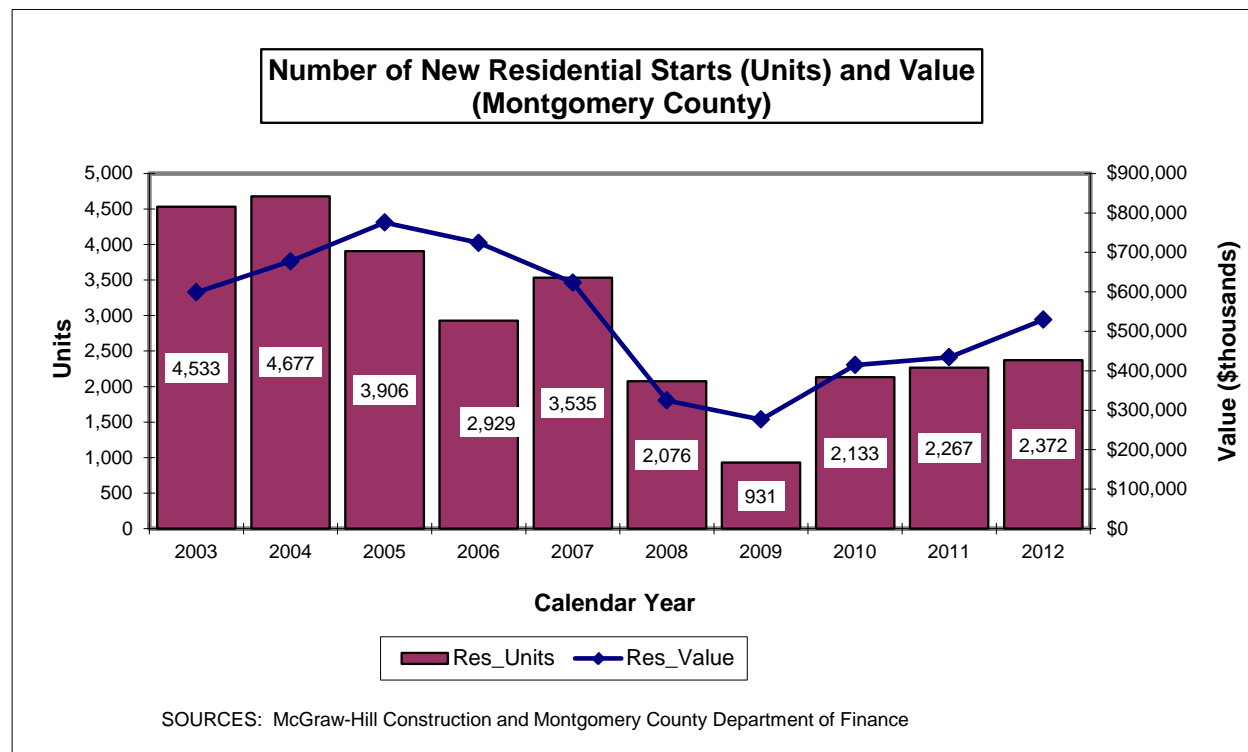
Resident employment in the County as derived from a survey of households rather than establishments increased from 498,100 in 2011 to an estimated 504,100 in 2012 – or by 6,000 (↑1.2%). The County’s unemployment rate declined from 5.2 percent in 2011 to 5.0 percent in 2012. Throughout the calendar year, the County’s unemployment rate remained one of the lowest in the State and averaged 1.8 percentage points below the State’s average in 2012.



While the unemployment rate has remained at or above the 5.0 percent level for the past four calendar years, it has declined steadily since its peak in 2010. The decline has been attributed to an increase in resident employment and a decline in the number of unemployed during the past two fiscal years. Employment grew by 11,500 over the two-year period while the number of unemployed declined by nearly 5,100 over the same period.

### Construction Activity

Construction experienced strong performance during calendar year 2012. The total number of building permits (residential units and commercial permits) increased 45.9 percent and the number of total new construction starts (residential units and commercial projects) increased 6.5 percent compared to calendar year 2011. Strong residential construction starts attributed to multifamily and single-family units added a total value \$529.3 million – an increase of 21.9 percent over 2011.



However, while non-residential starts increased 45.7 percent in 2012, the total value decreased from \$904.2 million to \$761.6 million (↓15.8%). Overall, construction starts added a total value of \$1.291 billion to the property tax base. Because of the decline in the value of non-residential starts, the total value of new construction was 3.6 percent below 2011.

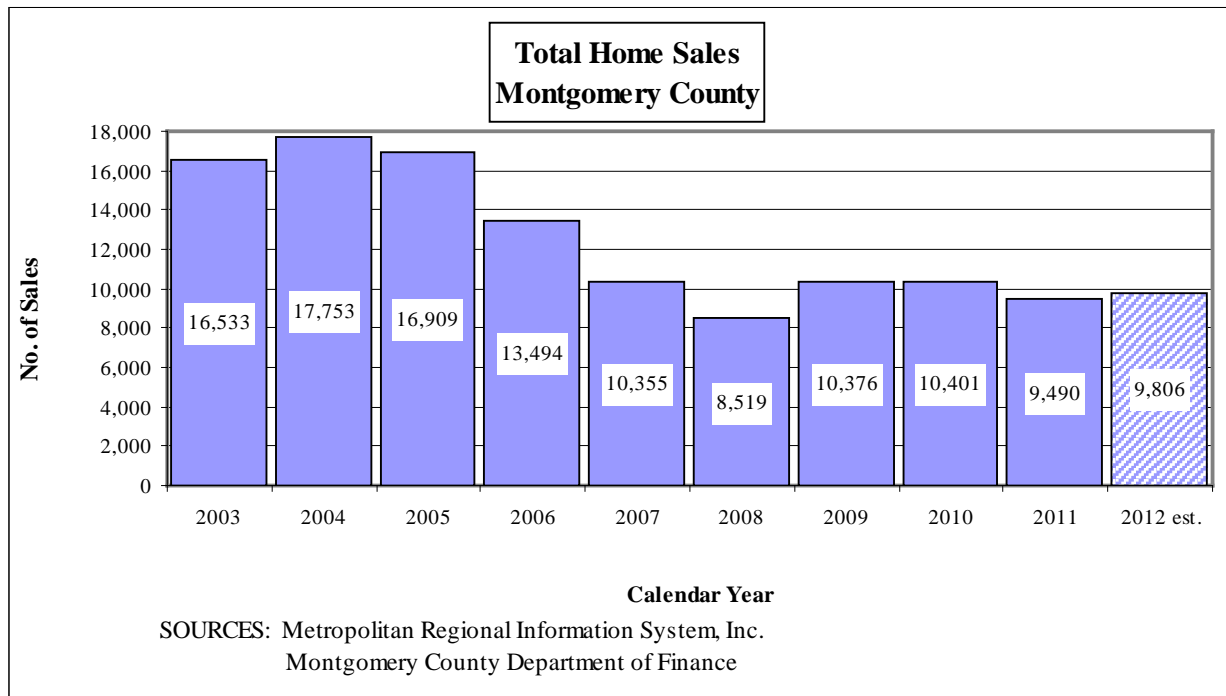
At the same time that the total number of construction starts increased during 2012, construction costs were up 3.5 percent. The construction cost index developed by the *Engineering News Record* (ENR) for the Baltimore area increased 5.2 percent in 2010 and 2.9 percent in 2011. Therefore, while construction activity increased in 2012, that increase was also supported by inflation in construction costs thereby yielding a value of \$1.291 billion.

### Residential Real Estate

Total construction of residential units increased 4.6 percent from 2011 to 2012. The number of new single-family units increased 39.2 percent from 650 single-family units in 2011 to 905

units in 2012. Construction of single-family units in 2012 was the second highest number since 2007. At the same time that the number of total residential construction starts increased during 2012, the number of permitted units increased 71.9 percent through November 2012 compared to the same eleven-month period ending in November 2011 suggesting continued improvement in residential construction.

During 2012, home sales increased an estimated 3.3 percent following a decline of 8.8 percent in 2011 and an increase of 0.2 percent in 2010. Median sales prices for existing homes increased an estimated 4.9 percent and followed an increase of 2.9 percent in 2010 and no increase in 2011.



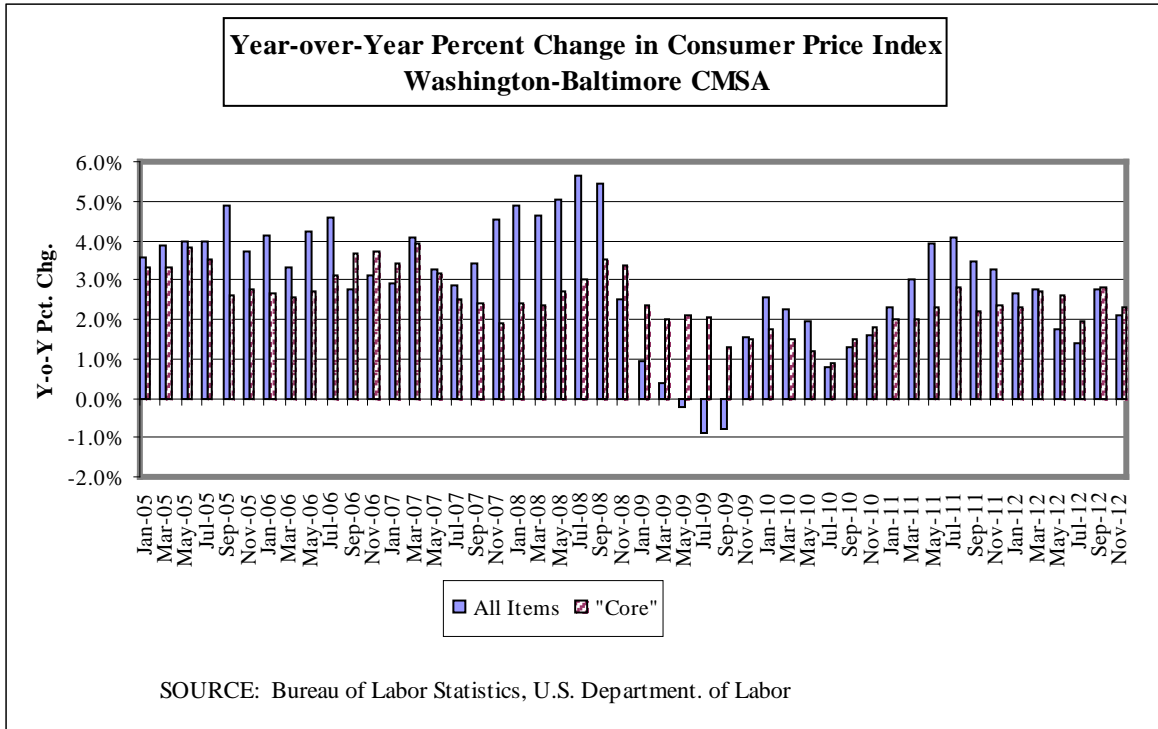
**Retail Sales**

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 2.9 percent through October 2012 compared to the same ten-month period in 2011. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 6.5 percent during this period while sales of durable goods were up 1.7 percent. The increase in nondurable good purchases was attributed to food and beverage sales (↑6.3%). The increase in durable goods was attributed to a decline in sales of hardware, machinery, and equipment (↑7.8%) and building and industrial supplies (↑2.5%).

**Consumer Prices and Inflation**

As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region increased 2.1 percent on a year-over-year basis in November, i.e.,

November 2012 over November 2011. That modest growth continued a deceleration in the rate of inflation since July 2011 (↑4.1%). Consumer prices excluding food and energy purchases were up 2.3 percent in the region (on a year-over-year basis), which was higher compared to the national rate (↑1.9%) over the same November 2011-to-November 2012 period.



## CONCLUSION

While the County's economy improved during 2012, the results are somewhat mixed. Although the average monthly unemployment rate declined in 2012 to 5.0 percent, it remained elevated. Employment measured either by the survey of establishments or households increased in 2012 but not at rates to drive the unemployment rate below 5 percent. Residential construction improved with the construction of single-family homes up 56.8 percent. Sales of existing homes increased but remained below 10,000 units for the second year in a row and median prices rebounded in 2012 after remaining flat in 2011.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2011
				2012	2011	
<b>Leading Indicators</b>						
National	Nov. '12	-0.2%		n.a.		n.a.
Washington MSA	Oct. '12	-0.5%		2.0%		2.4%
<b>Coincident Indicators</b>						
National	Nov. '12	0.1%		n.a.		n.a.
Washington MSA	Oct. '12	0.9%		2.2%		3.9%
<b>Consumer Confidence Index</b>						
National	Dec. '12	-9.0%		15.1%		2.2%
South Atlantic Region	Dec. '12	-9.4%		13.8%		2.4%
Consumer Sentiment (University of Michigan)	Dec. '12	-11.9%		13.6%		-6.2%
<b>Consumer Price Index</b>						
<u>All Items (nsa)</u>						
National	Nov. '12	1.8%		2.1%		3.2%
Washington - Baltimore CMSA	Nov. '12	2.1%		2.2%		3.3%
<u>Core CPI (nsa)</u>						
National	Nov. '12	1.9%		2.1%		1.7%
Washington - Baltimore CMSA	Nov. '12	2.3%		2.5%		2.3%
<b>Retail Trade</b>						
National (sales - nsa)	Nov. '12	4.8%		5.5%		7.9%
Maryland (sales tax)(1)	Oct. '12	0.3%		4.0%		3.8%
Montgomery County (sales tax)(1)	Oct. '12	-2.9%		2.9%		4.4%
<b>Employment</b>						
Maryland (labor force data - nsa)	Nov. '12	2,905,516	2,879,507	2,878,992	2,854,254	2,855,735
- Percent Change		0.9%		0.9%		1.3%
Bethesda-Federick-Gaithersburg (labor force data)	Nov. '12	631,188	619,985	625,432	618,037	617,979
- Percent Change		1.8%		1.2%		1.1%
Montgomery County (labor force data)	Nov. '12	509,214	499,673	504,110	498,104	498,057
- Percent Change		1.9%		1.2%		1.1%
Montgomery County (QCEW)	June '12	455,754	452,910	447,998	446,842	447,784
- Percent Change		0.6%		0.3%		1.4%
<b>Unemployment</b>						
Maryland (nsa)	Nov. '12	6.4%	6.3%	6.8%	7.1%	7.0%
Bethesda-Federick-Gaithersburg (nsa)	Nov. '12	4.8%	4.8%	5.2%	5.4%	5.3%
Montgomery County (nsa)	Nov. '12	4.7%	4.7%	5.0%	5.2%	5.2%
<b>Construction</b>						
<u>Construction Starts - Montgomery County</u>						
Total (\$ thousands)	Dec. '12	\$160,829	\$71,001	\$1,290,889	\$1,338,464	\$1,338,464
- Percent Change		126.5%		-3.6%		-21.8%
Residential (\$ thousands)	Dec. '12	\$100,674	\$22,159	\$529,302	\$434,287	\$434,287
- Percent Change		354.3%		21.9%		14.1%
Non-Residential (\$ thousands)	Dec. '12	\$60,155	\$48,842	\$761,587	\$904,177	\$904,177
- Percent Change		23.2%		-15.8%		-32.2%
<u>Building Permits (Residential)</u>						
National	Nov. '12	66,545	50,328	749,110	561,198	610,707
- Percent Change		32.2%		33.5%		2.1%
Maryland	Nov. '12	1,409	778	13,351	10,416	12,198
- Percent Change		81.1%		28.2%		0.1%
Montgomery County (units)	Nov. '12	389	135	3,473	2,020	2,531
- Percent Change		188.1%		71.9%		33.6%
<u>Building Permits (Non-Residential)</u>						
Montgomery County	Nov. '12	179	127	2,080	1,787	1,937
- Percent Change		40.9%		16.4%		15.7%
<u>Construction Cost Index</u>						
Baltimore	Dec. '12	6,820.38	6,527.07	6,616.13	6,391.17	6,391.17
		4.5%		3.5%		2.9%
<b>Real Estate</b>						
<u>National</u>						
Sales (saar)	Nov. '12	5,040,000	4,400,000	4,645,500	4,273,600	4,260,000
- Percent Change		14.5%		8.7%		1.7%
Median Price	Nov. '12	\$180,600	\$164,000	\$175,100	\$164,800	\$166,100
- Percent Change		10.1%		6.3%		-3.9%
<u>Montgomery County</u>						
Sales	Dec. '12	753	713	9,806	9,490	9,490
- Percent Change		5.6%		3.3%		-8.8%
Average Price	Dec. '12	\$496,604	\$442,472	\$464,047	\$451,479	\$451,479
- Percent Change		12.2%		2.8%		2.3%
Median Price	Dec. '12	\$360,000	\$335,000	\$367,105	\$350,000	\$350,000
- Percent Change		7.5%		4.9%		0.0%
Average Days on the Market	Dec. '12	61	85	68	78	78

**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.