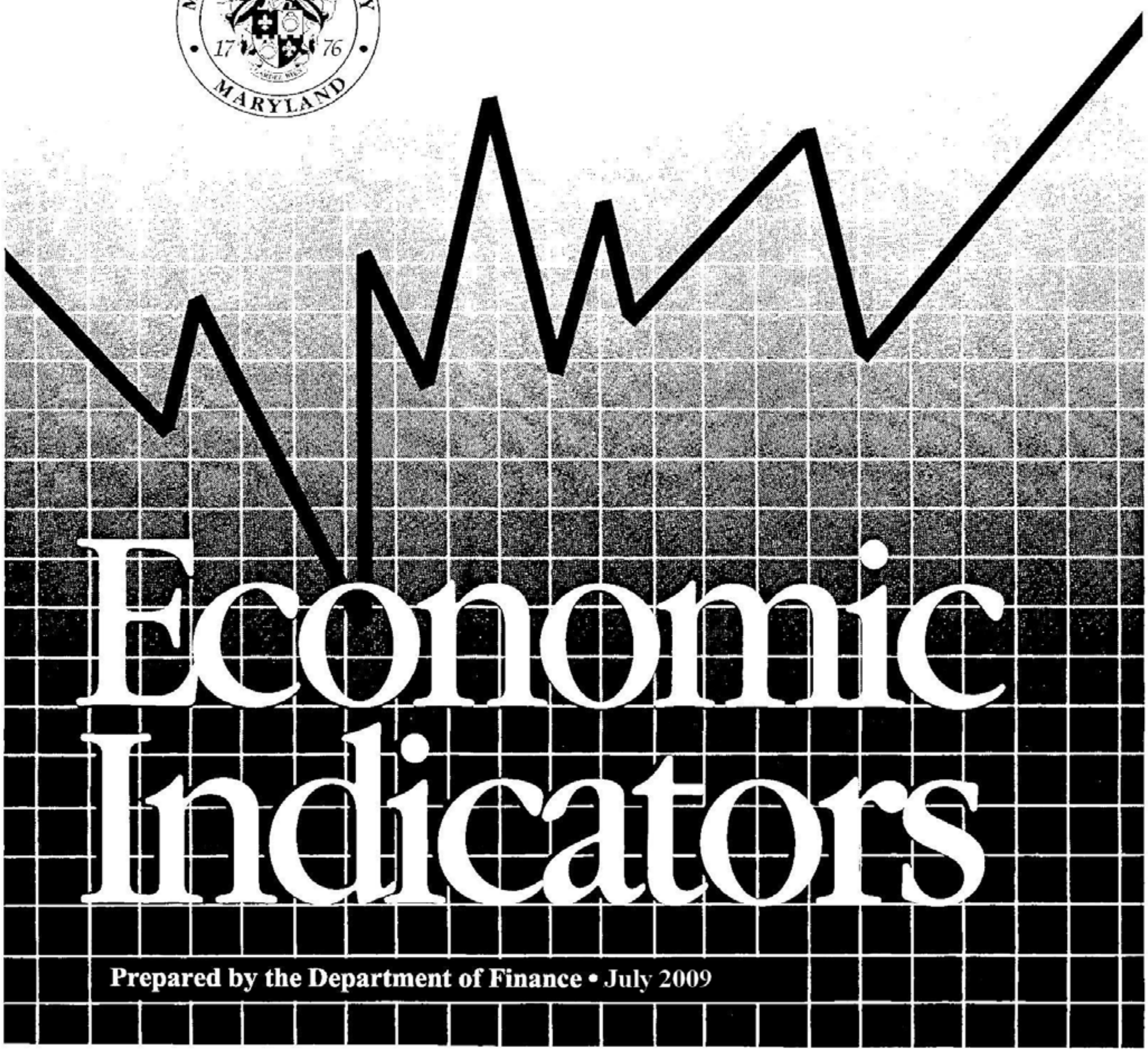

Economic Indicators

Prepared by the Department of Finance • July 2009

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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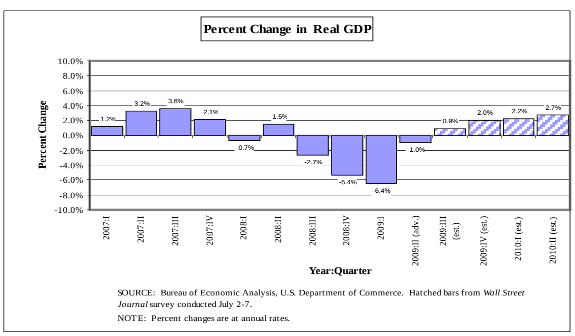
NATIONAL ECONOMY

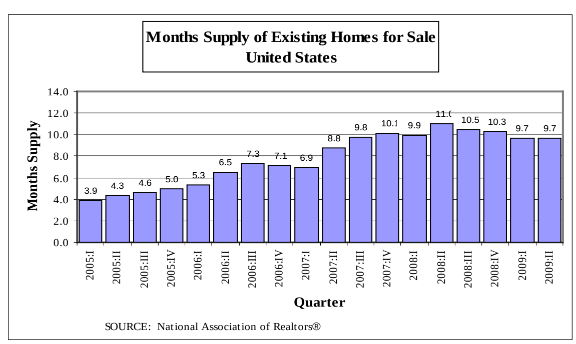
According to the advance estimate from the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, gross domestic product (GDP) decreased at a 1.0 percent seasonally adjusted annual rate during the second quarter − the fourth consecutive decline. That decrease followed a 2.7 percent decrease during the third quarter of 2008, a 5.4 percent decrease during the fourth quarter of 2008, and a 6.4 percent decrease during the first quarter of this year. Based on the recent *Wall Street Journal* survey of over fifty economists conducted in early July, economic growth during the third quarter of this year (July to September) is expected to increase 0.9 percent and increase 2.0 percent during the fourth quarter. However, the survey was conducted prior to the recent release of the advance estimate by BEA when second quarter GDP was expected to decline 1.6 percent instead of 1.0 percent.



SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Hatched bars from *Wall Street Journal* survey conducted July 2-7.
NOTE: Percent changes are at annual rates.

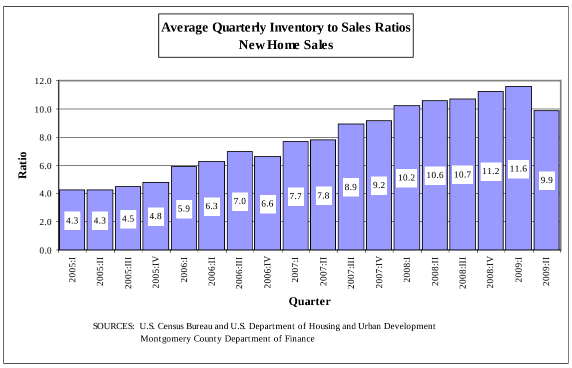
The decrease in GDP was attributed to a decrease in private investment led by declines in nonresidential construction (↓8.9%), equipment and software (↓9.0%), and residential construction (↓29.3%). Declines in inventories (↓29.3%) and exports (↓7.0%) also contributed to the decrease. Consumer purchases of goods decreased 4.0 percent attributed to a 7.1 percent decline in sales of durable goods − the fifth such decrease over the past six quarters. Purchases of nondurable goods also declined in the second quarter (↓2.5%). That decline is the fourth over the past six quarters. The decline in consumer spending confirms that the steady increase in the unemployment rate since the recession began in December 2007, from 5.0 percent to 9.5 percent in June 2009, has resulted in the contraction of consumer spending further exacerbating the recession. According to economic analysts, business spending will increase before consumer spending and residential construction as the economy is expected to recover during the third quarter. In fact, new orders for non-defense capital goods excluding aircraft increased 1.4 percent in June which followed a 4.3 percent increase in May for a combined 5.7 increase over the two-month period. That represents the largest two-month increase since the recession began.

The quarterly decline in residential construction (↓29.3%) was the fourteenth in a row and reflected a significant overhang of inventories of both existing and new homes for sale. The inventory-to-sales ratio for existing and new homes remained at historic high levels during the first and second quarters of this year albeit at slightly lower levels compared to the previous six quarters. Based on data from the National Association of Realtors (Realtors), that ratio increased steadily from a low of 3.9 during the first quarter of 2005 to 11.0 during the second quarter of 2008. That ratio declined slightly to 9.7 during the first two quarters this year.



SOURCE: National Association of Realtors®

Inventories of new homes for sale also remain at historically high levels. Since the first quarter of 2005, the inventory-to-sales ratio increased from over a 4-month supply to nearly a 12-month supply of homes on the market during the first quarter of this year, but improved to under a 10-month supply during the second quarter. Essentially, the average inventory-to-sales ratio increased nearly two and half times during this period.

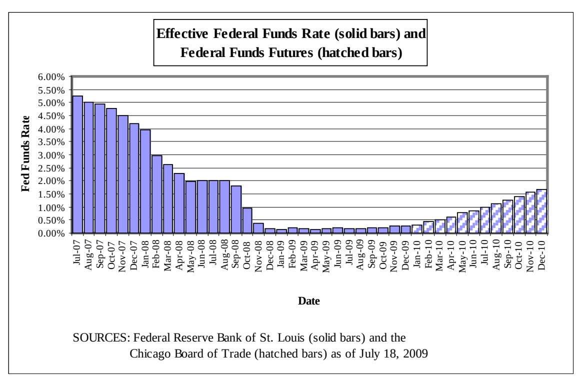


However, recent sales data suggest that the housing market for existing homes may have begun to rebound. Based on preliminary data from Realtors, sales of existing homes increased 3.6 percent in June over May and have increased three consecutive months since March. Median prices increased 4.1 percent in June compared to May and increased the past two months. Average sales prices also experienced a similar trend.

Sales on new homes also increased in June at a seasonally adjusted annual rate of 384,000 which was 11.0 percent above May sales. That increase represented the third consecutive monthly increase in new home sales. The median sales price was $206,200 down from $219,000 in May. That decline was the first since March. Average sales prices remained virtually unchanged in June ($276,900) compared to the recent high of $277,000 in May. In fact, average prices for new homes have increased steadily since January.

With sales of new and existing homes increasing the past three months and inventories retreating from their recent high levels, it appears that the housing market may have passed its cyclical trough. Housing recovery begins with an increase in demand which encourages new home construction and eventually a turnaround in average prices.

Because of the turmoil in the housing market that created a credit crisis starting in the summer of 2007, the Federal Open Market Committee (FOMC) of the Federal Reserve (Fed) began aggressive rate cuts starting in September 2007. Since that time, the FOMC has cut the target rate on federal funds from 5.25 percent to a range of 0.00 to 0.25 percent in December and kept that target range at its June 23-24 meeting − the lowest target rate since the new series for the Fed's target was established in September 1982. The futures market for 30-day federal funds anticipates that the FOMC will hold to its current target range through the remainder of the calendar year.



In July, the Dow Jones Industrial index increased 8.6 percent, S&P 500 index increased 7.4 percent, the NASDAQ was up 7.8 percent, and the Russell 2000 increased 9.5 percent. The stock market experienced its best July performance in twelve years. Since March 9, when the S&P 500 reached its lowest level since September 12, 1996, the index has increased nearly 46 percent ending July 31. The Dow Jones Industrial Average (DJIA) increased 40 percent over the same period. While both the S&P 500 and DJIA indices experienced significant gains since March 9, the NASDAQ has outperformed both indices over the same period. Since March 9, the NASDAQ has increased a remarkable 56 percent ending July 31. Such growth in the stock markets has not been limited to large capitalization ("cap") or high technology companies. The Russell 2000 index and the S&P 600 indices, which represent small "cap" companies, also experienced dramatic increases since March 9. The Russell 2000 index has increased 62 percent while the S&P 600 index has increased 63 percent. Those dramatic increases in all five stock indices suggest that the growth since March 9 is across all types of industries from large "cap", high-technology, and small "cap" companies.

However, despite the recent increases in the stock market since March 9, the Dow Jones Industrial average remains 35 percent and the S&P 500 is 37 percent below their peaks on October 9, 2007. Some market analysts contend that the recent run up in the market lifted equities off their crisis lows, but a continuation of the recent rally based on a sustained economic recovery has not yet begun.

REGIONAL ECONOMY

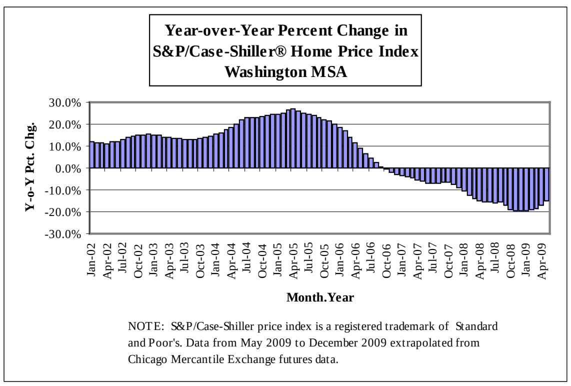
According to the latest report from the Center for Regional Analysis (CRA), George Mason University, "during the first quarter of this year, the Washington area economy experienced its worst economic performance since 1991." The slowdown in the region's economy during the first quarter "has generated consequences that will persist into next year and beyond." The decline in payroll employment on a year-over-year basis that started in December accelerated through June. The region has lost a total of 42,500 jobs between June 2008 and June of this year.

The area's unemployment rate has increased on a non-seasonally adjusted (n.s.a.) basis from 3.8 percent in June 2008 to 6.6 percent in June of this year. However, when that rate for the entire region is divided between the Bethesda-Frederick-Rockville (BFR) metropolitan division and the remaining Washington-Arlington-Alexandria metropolitan division, the unemployment picture varies with the BFR division's unemployment rate at 5.9 percent (n.s.a.) compared to 6.8 percent (n.s.a.) for the remaining metropolitan area. Even with that variation between the divisions, both have the lowest unemployment rates among the 34 national metropolitan divisions.

The second indicator reflecting a weakness in the region's economy is home prices. Prices continued to weaken since May 2006. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, monthly prices have declined steadily such that the May index, the latest data available to date, was 14.9 percent below May 2008 and 32.5 percent below the May 2006 peak.

The recent increase in the region's unemployment rate and the continuing decline in home prices have had an effect on consumer confidence. The recent survey by the Conference Board shows that consumer confidence for the South Atlantic region decreased 12.4 percent in July over June and consumer expectations decreased 11.8 percent over the same one-month period.

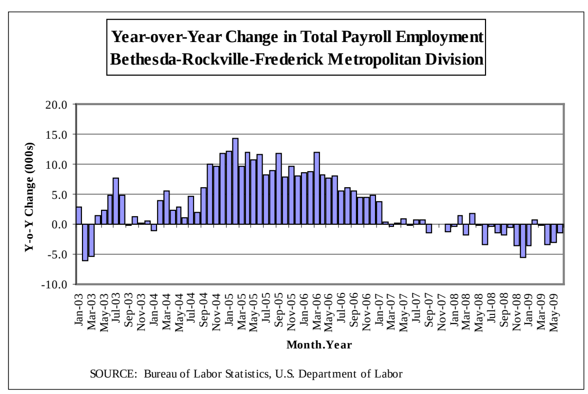
Because the decrease in consumer expectations is slightly smaller than the change in consumer confidence, consumers may expect that the economy will improve six months from now but not with the same enthusiastic outlook experienced in April and May. Such optimism is tempered with the rising unemployment rate and further decline in home values. Both factors have contributed to lower consumer spending either through decreases in total income (employment) or wealth (home values).



As stated previously, the Washington metropolitan area continues to have one of the lowest unemployment rates in the country. Of the 34 metropolitan divisions, the two Washington divisions had the lowest unemployment rates in March (5.9% for BFR and 6.8% for the remaining metropolitan area). While the two divisions have experienced the lowest unemployment rates in the U.S., employment for the entire metropolitan region declined during the first half of this year compared to the same period last year. Total employment for the region declined from an average of 2,995,500 during the January-June 2008 period to an average of 2,971,700 during the first half of this year − a loss of 23,800 jobs. At the same time, the BFR division employment decreased from an average of 573,600 to an average of 571,800 − a loss of 1,800 jobs.

While the decline in the region's employment through the first half was nearly 24,000, that decline masks the recent trend in the loss of jobs. For example, employment in January 2009 was only 3,900 below January 2008. However, as the year progressed, year-over-year declines increased steadily from 3,900 to 42,500 by June.

Total payroll employment in the BFR metropolitan division also experienced a decline during the first half of this year compared to the same period in 2008. However, unlike the metropolitan region, the year-over-year changes have been very erratic since January 2007.

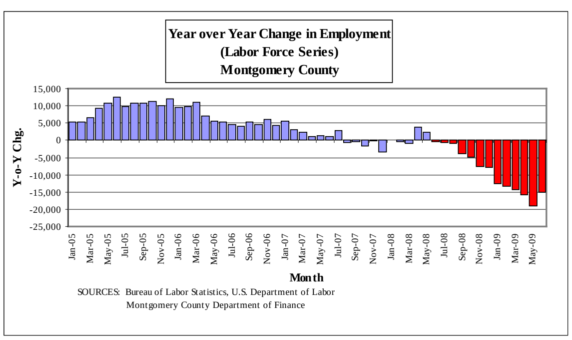


MONTGOMERY COUNTY ECONOMIC INDICATORS

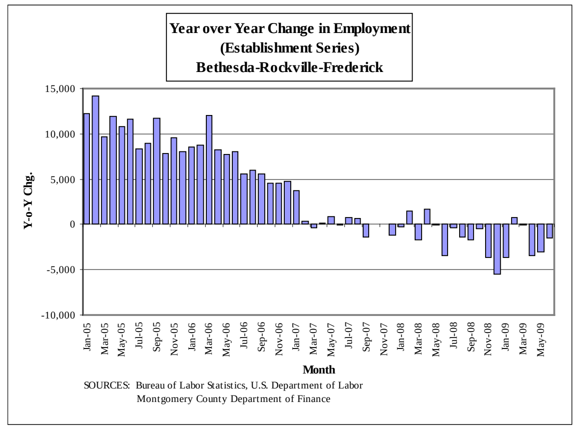
Montgomery County experienced weak economic performance during the first half of 2009. The reasons for the County's weak performance were a decrease in employment (↓15,000) as measured by the labor force series coupled with an increase in the County's unemployment rate (5.7% in June), a continuation in the decline of average prices for existing homes for sale (↓19.0%), and weak overall construction (↓19.8%). The bright spots have been the sales of existing homes (↑8.4%) and the decline in the inventory-to-sales ratio for existing homes (3.3 months supply in June compared to 6.4 months supply in June 2008).

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 and not seasonally adjusted) in Montgomery County decreased 15,000 during the first half of this year compared to the same period in 2008. Resident employment essentially stood at 485,800 in June compared to 500,900 in June of last year – a decrease of 15,100.



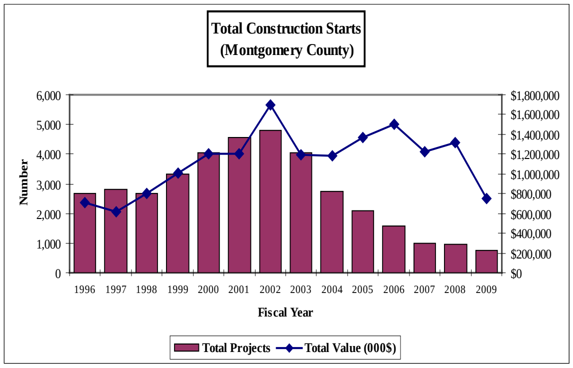
The County's total payroll employment as derived by the Department of Finance decreased by 1,500 jobs (↓0.3%) during the first half of this year compared to the first half of 2008. Payroll employment stood at a monthly average of 476,400 jobs during the first half of this year compared to 477,900 over the same period in 2008. With both resident and payroll employment indicating declines during the first half of this year, any increase in income tax revenues during this fiscal year and into the next will be based solely on growth in wages and salaries rather than growth in employment.



While the employment situation remained weak with the unemployment rate at 5.7 percent in June, the highest prior to January 1990, it remains one of the lowest in the State (7.5% not seasonally adjusted). Howard County had the next lowest unemployment rate (5.8%).

Construction Activity

Construction activity experienced weak performance during fiscal year (FY) 2009. The total number of building permits was down 25.2 percent and the number of total new construction projects decreased 22.5 percent compared to FY2008. The total value added of new construction starts was also significantly lower compared to FY2008 (↓43.4%). The decrease in additional value was attributed to both a significant decline in the value of residential construction starts (↓58.3%) and, to a lesser extent, non-residential construction starts (↓29.4%).



The number of non-residential construction projects was down 36.0 percent in FY2009 compared to the previous fiscal year. While the number of non-residential construction projects decreased during this period, the total amount of additional value also decreased. The major contributor to the decrease in the number of projects has been commercial construction (↓43.1%) attributed to declines in retail (↓58.6%), warehouses (↓75.0%), banks and office buildings (↓38.0%), and garage and service stations (↓45.5%). Also the decline in amusements (↓60.0%) contributed to the overall decline.

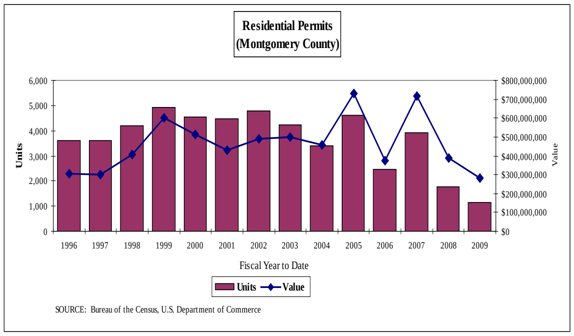
While overall construction activity has declined during FY2009, construction costs have not. First, producer price index from BLS for non-residential construction increased 3.4 percent during FY2009 and 10.2 percent over the past two fiscal years. Second, the construction cost index developed by the Engineering News Record (ENR) for the Baltimore area increased 5.3 percent during FY2009 and 7.3 percent over the past two fiscal years. Both indices confirm significant increases in construction costs the past two years.

The office vacancy rate for Class A property in the County was 12.1 percent during the second quarter of this year, up from 10.8 percent during the first quarter. The second quarter vacancy rate represents the highest rate prior to July 1996.

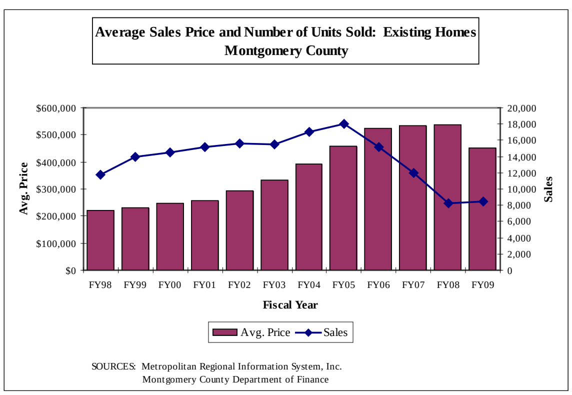
Residential Real Estate

Led by the decline in the building of new multi-family units, residential construction decreased in FY2009 in response to the correction in the real estate market that began in the summer of 2005. The number of new residential construction *projects* declined 19.7 percent with the construction of multi-family *units* down 76.1 percent and construction of single-family *units* down 26.0 percent. The overall added value of new residential construction starts declined 58.3 percent. Expressed in constant values, i.e., adjusted for changes in the PPI residential construction index, the added value of new residential construction decreased 59.4 percent in FY2009 to the lowest level in over thirteen years. With the deceleration in additional value of residential and non-residential properties of approximately $750 million in FY2009, the amount of new construction added to the property tax base did not achieve recent levels of between $1.4 billion and $1.5 billion per year.

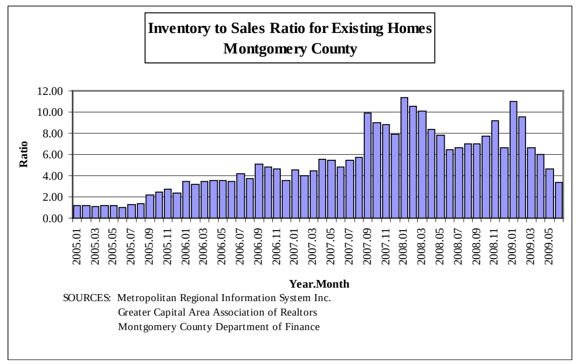
At the same time that the number of total residential construction starts declined during FY2009, the number of units authorized, i.e., permitted, decreased 35.9 percent based on data from the Census Bureau. The number of permitted units decreased from 4,600 units in fiscal year 2005, the peak of the housing boom, to less than 1,150 units in FY2009.



During the first half of calendar year 2009, home sales increased 8.4 percent, which was attributed to the 15.5 percent increase in sales in March compared to March 2008, 16.1 percent in April over April 2008, and 20.9 percent in June over June 2008. For FY2009, sales of existing homes increased 2.9 percent the first increase since FY2005. Average sales prices for existing homes have declined 19.0 percent during the first half of this calendar year compared to the same period in 2008. For FY2009, average prices declined 15.8 percent.



The slight increase in sales during the past fiscal year is reflected in the dramatic decline in the inventory-to-sales ratio from January to June. From June 2005 to January of this year, the ratio increased steadily from 1.0 to 11.4 by January 2008, then declined through the calendar year reaching a ratio of 6.6 in December. The ratio increased dramatically in January of this year to 11.0 near its all time high of January 2008. With the increase in sales starting in March, the ratio decreased to its recent low of 3.3 in June. With the decline in listings coupled with the increase in sales since March, both indicators suggest that the local housing market appears to have reached its cyclical trough. However, the decline in residential construction also suggests that the local developers will remain on the sidelines until a sustainable recovery in the housing market is underway.



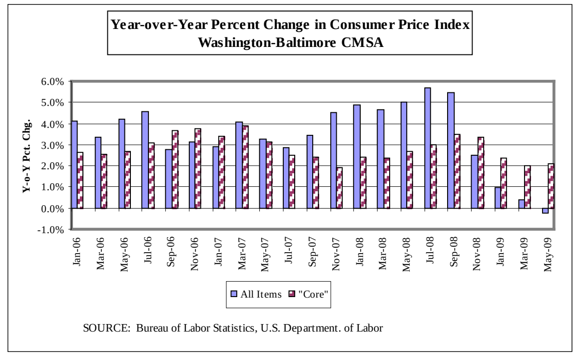
Retail Sales

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 collection, were down 7.4 percent during the first five months of this calendar year compared to the same period in 2008. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, decreased 3.8 percent during this period while sales of durable goods were down 15.7 percent.

Purchases of merchandise goods (↓11.0%) led the decline in sales of nondurable goods. Purchases of building and industrial supplies (↓17.8%), furniture and appliances (↓ 24.3%) and hardware and machinery (↓9.9%) led the decline in durable goods.

Consumer Prices and Inflation

As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore region decreased 0.2 percent on a year-over-year basis in May, i.e., May 2009 over May 2008, but was less of a decline in the year-over-year national average of -1.3 percent. That decrease was the first such decline since the Bureau of Labor Statistics, U.S. Department of Labor, has been calculating that specific index since November 1996. Consumer prices excluding food and energy purchases were up 2.1 percent in the region (on a year-over-year basis), which was slightly higher than the increase for the nation (↑1.8%) over the same May 2008-to-May 2009 period.



METROPOLITAN AREA OFFICE MARKET

Direct Office Vacancy Rate by Jurisdiction and Class, 2009:2Q

Jurisdiction	Class A	Class B	Class C	Total
Loudon	23.33%	12.87%	12.46%	18.60%
Fairfax	13.69%	13.29%	6.42%	13.27%
Frederick	9.23%	11.57%	7.34%	10.15%
Alexandria/Arlington	9.13%	6.96%	5.67%	7.99%
Montgomery	***12.07%***	***9.71%***	***8.60%***	***10.75%***
District of Columbia	10.87%	5.37%	5.03%	8.55%
Prince George's	21.23%	14.94%	6.83%	16.16%
Metropolitan Area	12.51%	9.53%	6.38%	10.91%

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

Jurisdiction	Class A	Class B	Class C	Total
Loudoun	2,048,015	854,623	70,026	2,972,664
Fairfax	9,516,492	5,173,533	278,368	14,968,393
Frederick	207,087	486,096	102,101	795,284
Alexandria/Arlington	2,868,368	1,523,711	314,830	4,706,909
Montgomery	***3,892,251***	***2,620,515***	***585,875***	*7,098,641*
District of Columbia	8,812,229	2,412,187	655,144	11,879,560
Prince George's	2,018,330	1,701,863	251,126	3,971,319
Region	29,362,772	14,772,528	2,257,470	46,392,770

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

Jurisdiction	Class A	Class B	Class C	Total
Loudoun	8,778,802	6,640,007	561,928	15,980,737
Fairfax	69,505,719	38,928,947	4,336,974	112,771,640
Frederick	2,243,735	4,203,052	1,390,910	7,837,697
Alexandria/Arlington	31,432,415	21,901,241	5,551,448	58,885,104
Montgomery	*32,240,374*	*26,978,337*	*6,815,505*	*66,034,216*
District of Columbia	81,088,698	44,895,666	13,022,618	139,006,982
Prince George's	9,506,198	11,388,780	3,677,766	24,572,744
Region	234,795,941	154,936,030	35,357,149	425,089,120

Share of Office Space Inventory by Jurisdiction and Class

Jurisdiction	Class A	Class B	Class C	Total
Loudon	54.9%	41.6%	3.5%	100.0%
Fairfax	61.6%	34.5%	3.8%	100.0%
Frederick	28.6%	53.6%	17.7%	100.0%
Alexandria/Arlington	53.4%	37.2%	9.4%	100.0%
Montgomery	***48.8%***	***40.9%***	***10.3%***	***100.0%***
District of Columbia	58.3%	32.3%	9.4%	100.0%
Prince George's	38.7%	46.3%	15.0%	100.0%
Metropolitan Area	55.2%	36.4%	8.3%	100.0%

Share of Total Regional Vacant Office Space by Jurisdiction and Class

Jurisdiction	Class A	Class B	Class C	Total
Loudon	7.0%	5.8%	3.1%	6.4%
Fairfax	32.4%	35.0%	12.3%	32.3%
Frederick	0.7%	3.3%	4.5%	1.7%
Alexandria/Arlington	9.8%	10.3%	13.9%	10.1%
Montgomery	***13.3%***	***17.7%***	***26.0%***	***15.3%***
District of Columbia	30.0%	16.3%	29.0%	25.6%
Prince George's	6.9%	11.5%	11.1%	8.6%
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date 2009	Year To-Date 2008	Annual 2008
Leading Indicators						
National	June '09	0.7%		-2.8%		-3.7%
Washington MSA	Apr. '09	1.1%		-2.2%		-3.3%
Coincident Indicators						
National	June '09	-0.2%		-5.3%		-3.5%
Washington MSA	Apr. '09	0.8%		-8.9%		-8.5%
Consumer Confidence Index						
National	July '09	-5.6%		-38.0%		-57.4%
South Atlantic Region	July '09	-12.4%		-38.8%		-59.0%
Consumer Sentiment (University of Michigan)	July '09	-8.8%		-3.2%		-20.4%
Consumer Price Index						
All Items (nsa)						
National	June '09	-1.4%		-0.6%		3.8%
Washington - Baltimore CMSA	May '09	-0.2%		0.4%		4.5%
Core CPI (nsa)						
National	June '09	1.7%		1.8%		2.3%
Washington - Baltimore CMSA	May '09	2.1%		2.1%		2.9%
Retail Trade						
National (sales - nsa)	June '09	-7.8%		-9.8%		-0.2%
Washington MSA (sales - nsa)	Apr. '09	-6.2%		-6.4%		2.4%
Maryland (sales tax)(1)	May '09	-6.7%		-6.2%		-4.5%
Montgomery County (sales tax)(1)	May '09	-7.1%		-8.0%		-4.1%
Employment						
National (labor force data - nsa)	June '09	140,826,000	146,649,000	140,358,000	145,460,000	145,362,000
- Percent Change		-4.0%		-3.5%		-0.5%
Bethesda-Federick-Gaithersburg (establish.)	June '09	578,200	579,700	571,800	573,600	575,200
- Percent Change		-0.3%		-0.3%		-0.2%
Montgomery County (labor force data)	June '09	485,782	500,925	483,283	498,309	497,249
- Percent Change		-3.0%		-3.0%		-0.4%
Montgomery County (QCEW)(2)	Dec. '08	460,529	466,724	457,518	459,346	457,518
- Percent Change		-1.3%		-0.4%		-0.4%
Unemployment						
National (nsa)	June '09	9.7%	5.7%	9.0%	5.3%	5.8%
Maryland (nsa)	June '09	7.5%	4.2%	7.0%	3.8%	4.4%
Montgomery County (nsa)	June '09	5.7%	3.4%	5.1%	2.8%	3.2%
Construction						
Construction Starts - Montgomery County						
Total ($ thousands)	June '09	$71,523	$95,369	$325,847	$549,799	$1,003,660
- Percent Change		-25.0%		-40.7%		-29.0%
Residential ($ thousands)	June '09	$27,073	$63,484	$146,295	$283,544	$430,073
- Percent Change		-57.4%		-48.4%		-40.2%
Non-Residential ($ thousands)	June '09	$44,450	$31,885	$179,552	$266,255	$573,587
- Percent Change		39.4%		-32.6%		-17.3%
Building Permits (Residential)						
National	June '09	59,489	108,093	276,356	521,364	892,771
- Percent Change		-45.0%		-47.0%		-35.3%
Maryland	June '09	1,129	1,654	5,410	8,143	13,976
- Percent Change		-31.7%		-33.6%		-29.9%
Montgomery County	June '09	88	128	397	861	1,476
- Percent Change		-31.3%		-53.9%		-57.3%
Building Permits (Non-Residential)						
Montgomery County	June '09	175	173	703	981	1,817
- Percent Change		1.2%		-28.3%		11.3%
Real Estate						
National						
Sales (saar)	June '09	4,890,000	4,900,000	4,670,000	4,923,300	4,913,000
- Percent Change		-0.2%		-5.1%		-13.1%
Median Price	June '09	$181,800	$215,000	$171,000	$203,300	$198,100
- Percent Change		-15.4%		-15.9%		-9.5%
Montgomery County						
Sales	June '09	1,099	909	4,165	3,841	8,516
- Percent Change		20.9%		8.4%		-17.8%
Average Price	June '09	$471,758	$560,605	$429,867	$530,401	$503,958
- Percent Change		-15.8%		-19.0%		-8.4%
Median Price	June '09	$376,900	$445,000	$341,082	$416,833	$395,000
- Percent Change		-15.3%		-18.2%		-11.0%
Average Days on the Market	June '09	94	87	108	108	103

NOTES:

(nsa): not seasonally adjusted

(1): Data adjusted for rate increase and *include* miscellaneous and assessment collections

(2): year-to-date data are for 2008 and 2007, respectively.