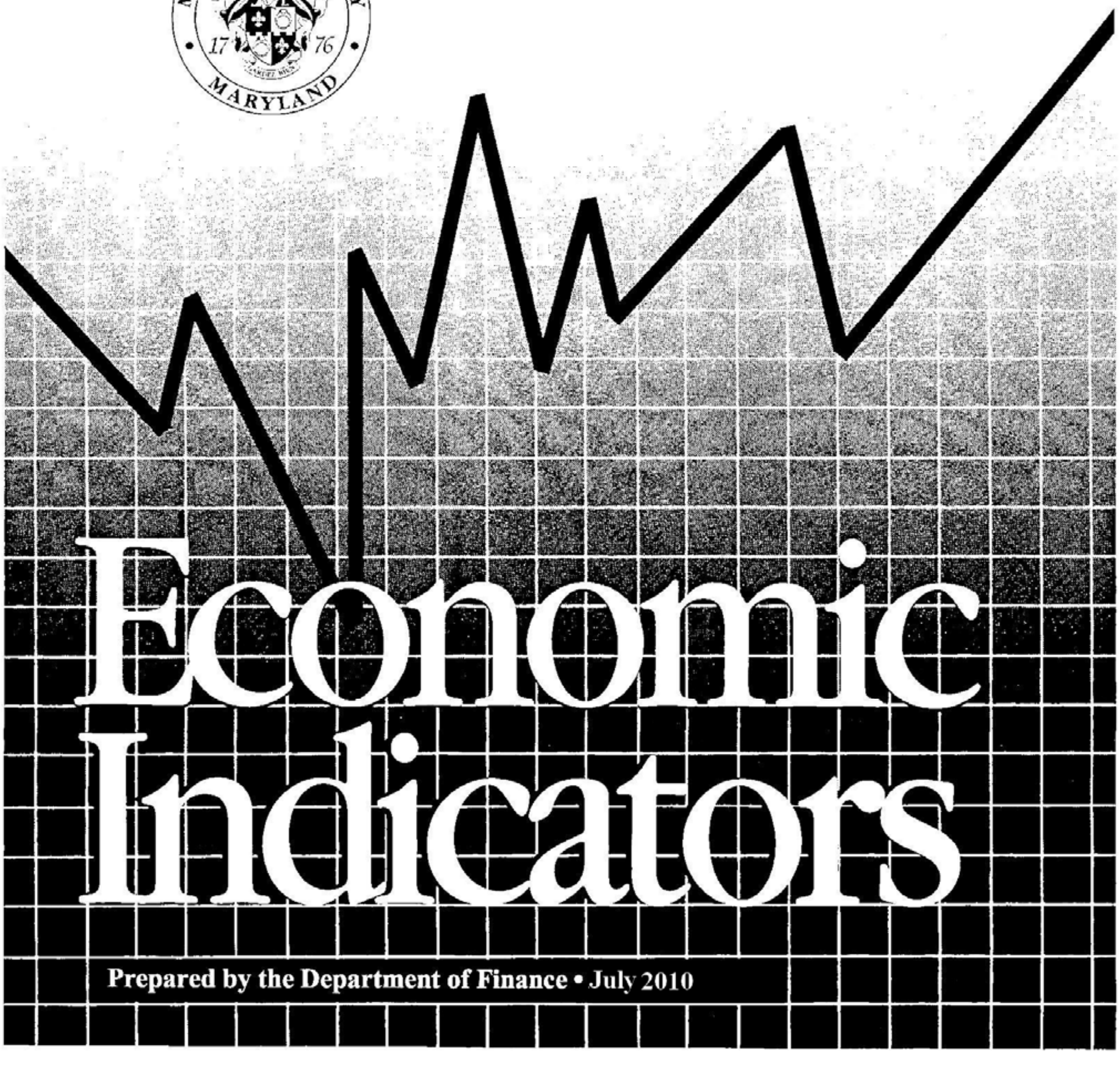

Economic Indicators

Prepared by the Department of Finance • July 2010

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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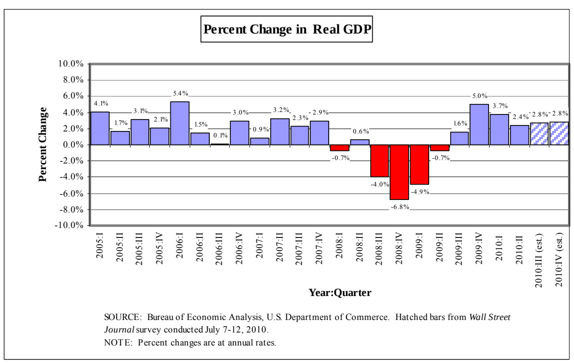
NATIONAL ECONOMY

According to the advance estimate from the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, gross domestic product (GDP) increased at a 2.4 percent seasonally adjusted annual rate during the second quarter − the fourth such increase since the second quarter of 2009 but below economists prediction of 3.3 percent surveyed by the *Wall Street Journal (WSJ)* in early July (July 7 to July 12). That increase followed a 3.7 percent increase during the first quarter of this year and a 5.0 percent increase during the fourth quarter of last year. Based on the *WSJ* survey, economic growth is expected to increase 2.8 percent during the third quarter of this year (July to September) and increase another 2.8 percent during the fourth quarter.



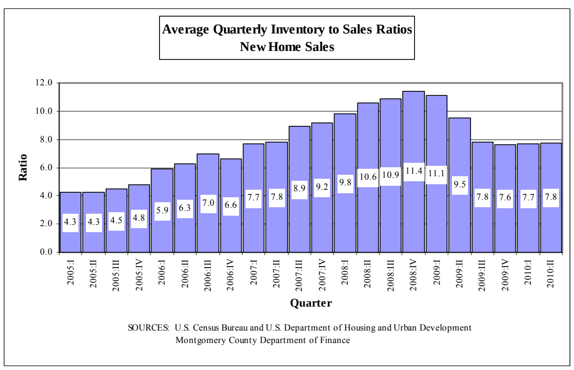
SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Hatched bars from *Wall Street Journal* survey conducted July 7-12, 2010.
NOTE: Percent changes are at annual rates.

The increase in GDP was attributed to an increase in residential construction (↑27.9%) and purchases of business equipment and software (↑21.9%). Growth in *real* personal consumption fell from 1.9 percent in the first quarter to 1.6 percent in the second which contributed to the modest growth in GDP during the second quarter. Also contributing to the modest growth was the drawdown of inventories and an increase in imports over exports. Real final sales of domestic product, which measures aggregate demand and is GDP less the change in real private inventories, increased a modest 1.3 percent. Real final sales indicator is a good measure of future production. If the growth rate 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 four quarters ending with the second quarter of this year, 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 will not experience strong demand in the near term.

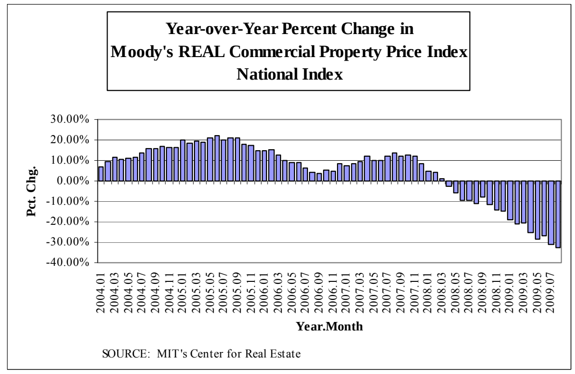
According to economic analysts, business spending usually increases before consumer spending and residential construction as the economy recovers. New orders for non-defense capital goods excluding aircraft increased 5.8 percent during the second quarter. For the past four quarters, business spending increased at an average annual rate of 4.4 percent. Consumer spending as measured by personal consumption expenditures (PCE), and not adjusted for inflation, increased by less than 1.7 percent during the second quarter. For the past four quarters, *nominal* PCE increased at an average annual rate of 3.6 percent. The difference between the growth rates during the past four quarters suggests that business spending has been the economic driver for this recovery to date. However, the economy will not expand until consumer expenditures increase at an average annual rate of nearly 6.0 percent per quarter.

The quarterly increase in residential construction (↑27.9%) was the first such increase after sixteen declines out of the last seventeen quarters. The inventory-to-sales ratio for new homes for sale was 7.8 during the second quarter and has remained constant for the past four quarters. However, data from the National Association of Realtors (Realtors) show that the inventory-to-sales ratio for existing homes increased slightly from 8.0 during the first quarter of this year to 8.5 in the second quarter.

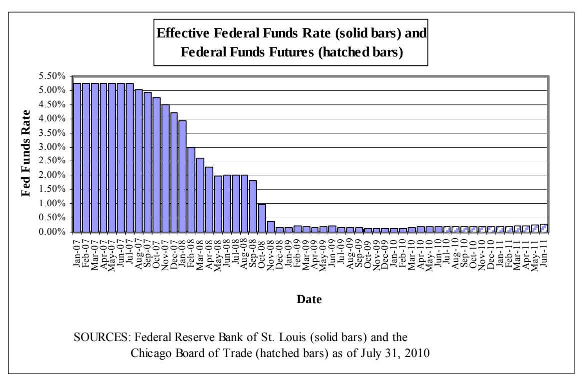
Sales of new homes increased a dramatic 23.6 percent from May to June in part due to the scheduled expiration of the first-time homebuyers credit. In contrast to home sales and because of the expiration of the credit, housing starts declined 14.9 percent from April to May and another 5.0 percent from May to June. Sales of existing homes declined 2.2 percent from April to May and 5.1 percent from May to June. Those declines partially explain the increase in inventory-to-sales ratio for existing homes during the second quarter.



The 'Pending Home Sales" index (PHSI) of existing homes prepared by the Realtors declined in June for the second consecutive month in part due to the expiration of the first-time homebuyers credit. The PHSI is a forward looking indicator that indicates the near term performance of the housing market. Because of the dramatic increases in the index in February (↑8.3%), March (↑7.1%), and April (↑6.0%) attributed to the near expiration of the credit, the declines in May and June portend "months of slow home-sales activity before picking up later in the year" according to the Realtors' chief economist.



Because of the turmoil in the real estate 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 2008 and kept that target range at its June 2010 meeting. The FOMC stated that the economic outlook had softened somewhat and a number of members saw the risks to the outlook as having shifted to the downside. 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 and into the first half of next year.



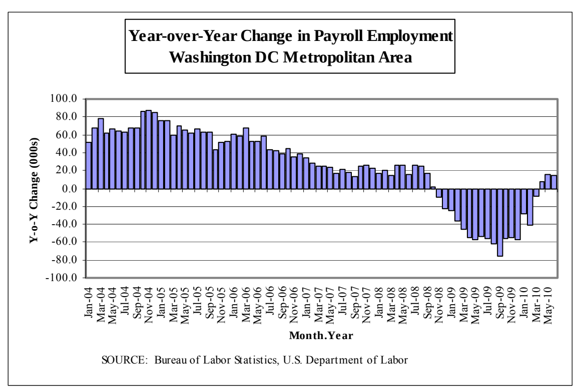
The stock market experienced its best monthly performance in July since July of last year. The Dow Jones Industrial Average (DJIA) increased 7.1 percent in

July, the largest increase since the 8.6 percent in July 2009 and the first increase in three months. The S&P 500 index also had its best month since July 2009. The index increased 6.9 percent in July compared to 7.4 percent in July 2009 and the first monthly increase in three months. However, on a year-to-date basis (through July), the DJIA has increased a meager 0.4 percent while the S&P 500 has decreased 1.2 percent. The slight increase in the DJIA and the decrease in the S&P 500 year to date are attributed to the significant declines in the market during April and May. As one financial writer recently reported: "(w)e are bidding a fond farewell to July, a relatively investor-friendly month in the annals of equity trading, and about to enter a three-month period that traditionally has been the roughest period of the year for stocks." (Alan Abelson, *Barron's*, August 2). If such a tradition holds for this year, the stock market, as measured by the S&P 500 index, may experience a decrease for the entire year. Such a decline will affect capital gains income for this tax year and possibly future years.

REGIONAL ECONOMY

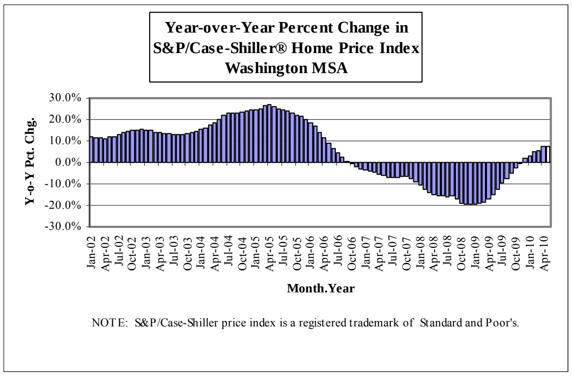
According to the latest report from the Center for Regional Analysis (CRA), George Mason University, "the Washington area economy is experiencing the same pattern of recovery that is being reflected in national trends, although, it was not as vulnerable to the impacts of recession." CRA goes on to state that the Washington area economy is performing better than its metropolitan peers and its labor market indicators appear poised for sustained growth. Compared to the national unemployment rate now at 9.5 percent (9.6 percent not seasonally adjusted in June), the region's unemployment rate was 6.4 percent (not seasonally adjusted in June) − the same rate in June 2009. The decline in payroll employment on a year-over-year basis that started in earnest in December 2008 and continued through March of this year began to improve over the past three months. In June, businesses in the metropolitan region added 15,000 jobs since June of last year. Payroll employment stood at 2.9 million (not seasonally adjusted) − the highest level since December 2008.

The metropolitan region's unemployment rate has increased on a non-seasonally adjusted basis from 3.8 percent in 2008 to 6.4 percent in June of this year. However, when that rate for the entire region is divided between the Bethesda-Rockville-Frederick (BRF) 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 6.5 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.

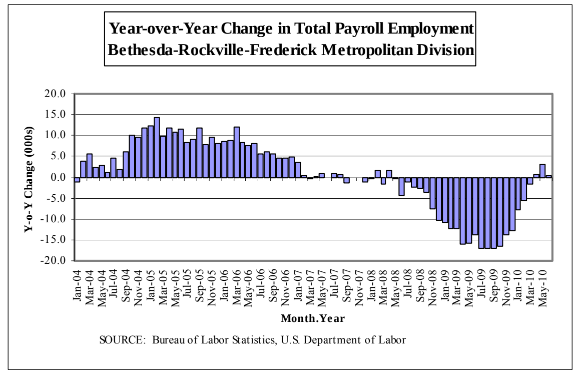


According to CRA, the resale housing market "has stabilized across most of the region although price gains have been largely confined to Northern Virginia with prices up by approximately 6 percent from a year ago." Based on the S&P/Case-Shiller®

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. While some of the strength in home sales is attributed to the first-time homebuyers credit, CRA contends that there are other signs of recovery that "will drive the market forward during the year's second half."



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 has the lowest unemployment rate in June at 5.8 percent. While the division had the lowest rate, it has also experienced an increase over the past year and a half. Since 2008, when the unemployment rate was 3.4 percent, it has increased over two percentage points. While the unemployment rate has remained elevated, i.e., above 5.0 percent since February of last year, payroll employment for the division increased during the second quarter of this year (↑1,400 new jobs) compared to the second quarter of last year. It remains to be seen if that increase, which is attributed to the hiring by the U.S. Bureau of the Census, continues through the remainder of the calendar year.

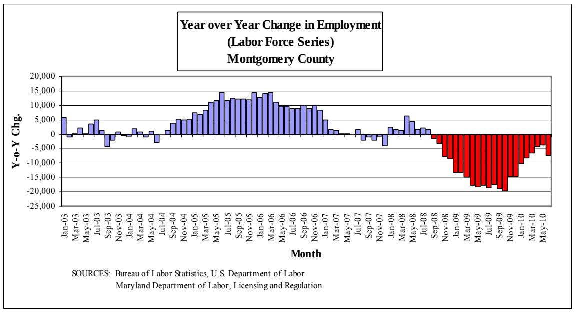


MONTGOMERY COUNTY ECONOMIC INDICATORS

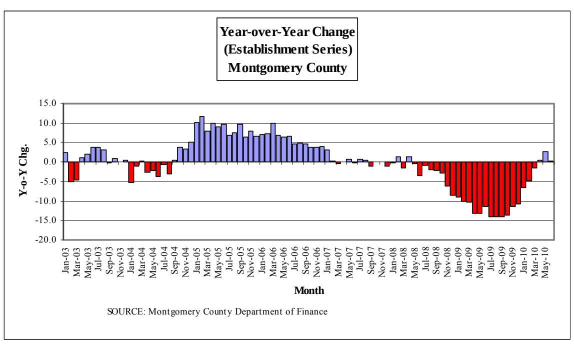
Montgomery County experienced weak economic performance during fiscal year 2010. The reasons for the County's weak performance were a decrease in employment (↓12,100 or ↓2.4%) as measured by the labor force series coupled with the County's elevated unemployment rate (5.7% in June), a continuation in the decline of average sales prices for existing homes (↓5.1%), and weak overall construction (↓19.7%). The bright spots have been the volume of sales of existing homes (↑27.4%) and the decline in the inventory-to-sales ratio for existing homes (3.0 months supply in June).

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 decreased 6,760 (↓1.4%) during the first six months of this year compared to the same period in 2009 and decreased 12,100 during fiscal year 2010. Average monthly resident employment stood at 481,390 during the first six months of this calendar year compared to 488,150 during the same period last year.



The County's total payroll employment, as derived by the Department of Finance, decreased over the six-month period by a monthly average of 1,500 jobs (↓0.3%) compared to the same period in 2009. Payroll employment stood at a monthly average of 462,500 jobs during the first half of this year compared to 464,000 over the same period in 2009. With both resident and payroll employment indicating declines so far this calendar year, any increase in income tax withholdings during the remainder of this year and possibly into the first half of next calendar year will be based solely on growth in wages and salaries rather than growth in employment.

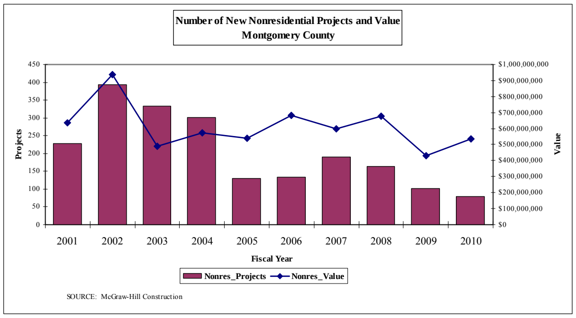


Because of the weak employment situation, as measured by the labor force (resident employment) and establishment (payroll employment) series; the unemployment rate reached 5.7 percent in June. However, it remains one of the lowest in the State (7.4% not seasonally adjusted). Howard County had the lowest unemployment rate (5.5%) among the State's counties and City of Baltimore.

Construction Activity

Construction activity experienced mixed performance during fiscal year 2010. The total number of building permits increased 14.9 percent but the number of total new construction projects (starts) decreased 19.7 percent compared to fiscal year 2009. Because of strong non-residential construction activity, particularly in the commercial sector, the total value added from new construction starts, both residential and non-residential, was up compared to 2009 (↑11.7%). But the increase in total additional value was solely attributed to a significant increase in the value of non-residential construction starts (↑23.9%) which offset the decline in the added construction value from residential construction starts (↓8.9%).

The number of non-residential construction starts was down 20.8 percent in fiscal year 2010 compared to the previous fiscal year. While the number of non-residential construction projects decreased during this period, the total amount of additional value increased from $431.0 million to $534.1 million (↑23.9%). The major contributor to the increase in additional value was commercial construction (↑15.5%) attributed to warehouses and banks and office buildings. The value of new construction of education and science facilities was up 61.7 percent.

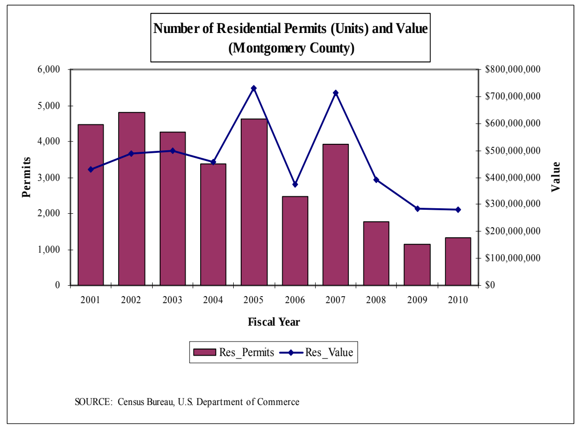


While the total number of construction starts declined during 2010, construction costs had not. The construction cost index developed by the *Engineering News Record* (ENR) for the Baltimore area increased 7.7 percent between June 2009 and June 2010. Therefore, while construction activity *decreased* in fiscal year 2010, that decrease was more than offset by inflation in construction costs thereby yielding an *increase* in values.

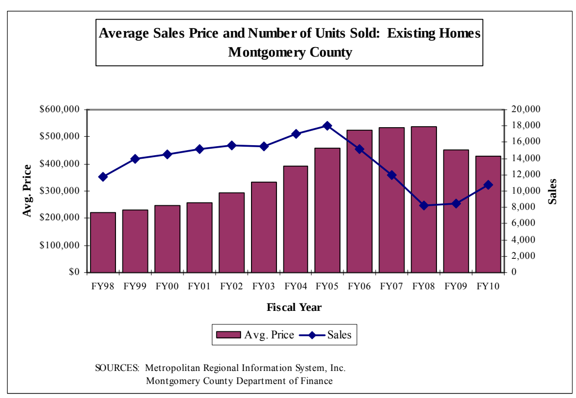
Residential Real Estate

Led by a dramatic decline in the building of new multi-family units, total residential construction decreased in fiscal year 2010 in response to the correction in the real estate market that began in the summer of 2005. However, while total residential construction declined, the number of new single-family units increased 22.4 percent over fiscal year 2009 (612 single-family units in FY2009 to 749 units in FY2010) albeit the second lowest number of starts in ten years. The overall added value of new residential construction starts declined 8.9 percent. With the total additional value of residential and non-residential properties of approximately \$768.5 million in fiscal year 2010, the amount of new construction added to the property tax base will not achieve levels ranging between \$1.2 billion and \$1.5 billion per year experienced during the FY2003 and FY2008 period.

At the same time that the number of total residential construction starts declined during fiscal year 2010, the number of permitted units increased from 1,136 units in fiscal year 2009 to 1,332 units in fiscal year 2010 (↑17.3%). Even with the double-digit growth in 2010, the number of residential permits was the second lowest over the past ten years.

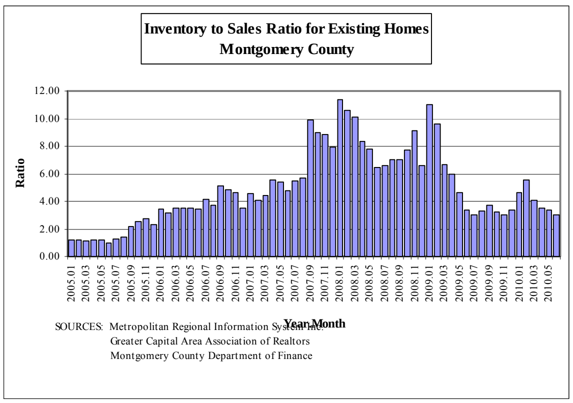


During fiscal year 2010, home sales increased 27.4 percent following a modest 2.9 percent growth in FY2009. Average sales prices for existing homes declined 5.1 percent during the fiscal year, but not as large of a drop as the 15.8 percent decrease during the prior fiscal year.



The increase in sales during the fiscal year is reflected in the decline in the inventory-to-sales ratio compared to the previous three fiscal years. In fiscal year

2010, the average monthly inventory-to-sales ratio was 3.6 compared to 4.6 in FY2007, 8.5 in FY2008, and 7.1 in FY2009. With the decline in listings coupled with the increase in sales, 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 may remain on the sidelines until a sustainable recovery in the housing market is underway.



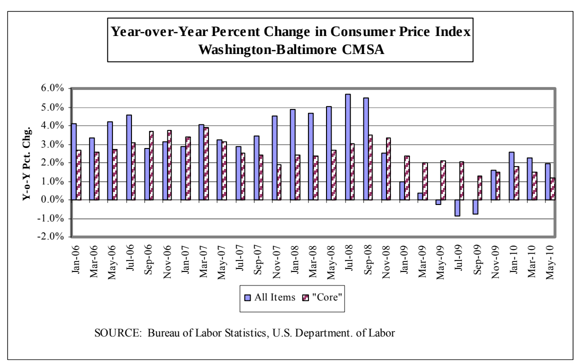
Retail Sales

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 collections, was down 1.5 percent during the first five months of this calendar year compared to the same period in 2009. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, decreased 4.5 percent during this period while sales of durable goods were up 6.8 percent. The decline in nondurable goods was attributed to weak sales of apparel goods and general merchandise in January and February. The increase in durable goods during the five-month period was attributed to auto sales.

Purchases of merchandise goods (↓8.0%) led the decline in sales of nondurable goods. Purchases of automobiles (↑25.6%) were mainly responsible for the increase 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 increased 1.9 percent on a year-over-year basis in May, i.e., May 2010 over May 2009. That increase was the fourth consecutive increase since November of last year. Consumer prices excluding food and energy purchases were up 1.2 percent in the region (on a year-over-year basis), which was slightly above the increase for the nation (↑0.9%) over the same May 2009-to-May 2010 period.



SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date 2010	Year To-Date 2009	Annual 2009
Leading Indicators						
National	June '10	-0.2%		10.0%		8.3%
Washington MSA	May '10	0.2%		2.1%		1.6%
Coincident Indicators						
National	June '10	0.0%		-0.1%		-3.3%
Washington MSA	May '10	0.1%		-1.5%		-4.1%
Consumer Confidence Index						
National	July '10	-7.2%		34.9%		38.8%
South Atlantic Region	July '10	-6.7%		29.0%		41.9%
Consumer Sentiment (University of Michigan)	June '10	-10.8%		14.8%		20.6%
Consumer Price Index						
All Items (nsa)						
National	June '10	1.1%		2.1%		-0.4%
Washington - Baltimore CMSA	May '10	1.9%		2.3%		0.2%
Core CPI (nsa)						
National	June '10	0.9%		1.1%		1.7%
Washington - Baltimore CMSA	May '10	1.2%		1.5%		1.9%
Retail Trade						
National (sales - nsa)	June '10	4.9%		6.5%		-6.2%
Washington MSA (sales - nsa)	May '10	0.4%		-2.3%		-6.8%
Maryland (sales tax)(1)	May '10	2.3%		0.6%		-6.5%
Montgomery County (sales tax)(1)	May '10	-0.4%		-0.9%		-7.1%
Employment						
Maryland (labor force data - nsa)	June '10	2,753,449	2,803,398	2,730,048	2,790,450	2,777,610
- Percent Change		-1.8%		-2.2%		-4.0%
Bethesda-Federick-Gaithersburg (labor force data)	June '10	596,239	605,561	595,989	604,348	602,096
- Percent Change		-1.5%		-1.4%		-3.3%
Montgomery County (labor force data)	June '10	481,599	489,128	481,386	488,149	486,329
- Percent Change		-1.5%		-1.4%		-3.3%
Montgomery County (QCEW)	Dec. '09	446,914	460,529	443,305	457,518	443,305
- Percent Change		-3.0%		-3.1%		-3.1%
Unemployment						
Maryland (nsa)	June '10	7.4%	7.3%	7.6%	6.9%	7.0%
Bethesda-Federick-Gaithersburg (nsa)	June '10	5.8%	6.0%	5.9%	5.3%	5.5%
Montgomery County (nsa)	June '10	5.7%	5.8%	5.6%	5.1%	5.3%
Construction						
Construction Starts - Montgomery County						
Total ($ thousands)	June '10	$44,851	$74,873	$499,024	$326,097	$600,171
- Percent Change		-40.1%		53.0%		-63.1%
Residential ($ thousands)	June '10	$15,494	$27,739	$115,849	$146,961	$256,598
- Percent Change		-44.1%		-21.2%		-41.6%
Non-Residential ($ thousands)	June '10	$29,357	$47,134	$383,175	$179,136	$343,573
- Percent Change		-37.7%		113.9%		-71.0%
Building Permits (Residential)						
National	June '10	58,862	59,489	314,065	276,356	572,232
- Percent Change		-1.1%		13.6%		-35.9%
Maryland	June '10	1,074	1,129	6,601	5,410	11,085
- Percent Change		-4.9%		22.0%		-20.7%
Montgomery County	June '10	285	88	877	397	862
- Percent Change		223.9%		120.9%		-46.7%
Building Permits (Non-Residential)						
Montgomery County	June '10	198	175	852	703	1,605
- Percent Change		13.1%		21.2%		-12.2%
Real Estate						
National						
Sales (saar)	June '10	5,370,000	4,890,000	5,373,300	4,695,000	5,156,000
- Percent Change		9.8%		14.4%		4.9%
Median Price	June '10	$183,700	$181,800	$171,600	$171,000	$172,500
- Percent Change		1.0%		0.4%		-12.9%
Montgomery County						
Sales	June '10	1,232	1,099	5,168	4,165	10,371
- Percent Change		12.1%		24.1%		21.8%
Average Price	June '10	$470,564	$471,758	$421,380	$429,867	$434,440
- Percent Change		-0.3%		-2.0%		-13.8%
Median Price	June '10	$374,750	$376,900	$341,500	$341,082	$340,000
- Percent Change		-0.6%		0.1%		-13.9%
Average Days on the Market	June '10	54	94	65	108	91

NOTES:

(nsa): not seasonally adjusted

(1): Data *include* miscellaneous and assessment collections.