

Economic Indicators

Prepared by the Department of Finance • October 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>*

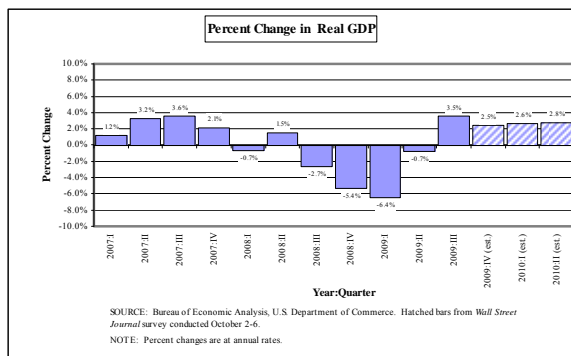
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NATIONAL ECONOMY

According to the advance estimate from the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, gross domestic product (GDP) increased at a 3.5 percent seasonally adjusted annual rate during the third quarter – the first such increase since the second quarter of 2008 and the largest increase since the third quarter of 2007. That increase followed a 2.7 percent decrease during the third quarter of 2008, a 5.4 percent decrease during the fourth quarter of 2008, a 6.4 percent decrease during the first quarter of this year, a 0.7 decrease during the second quarter of this year. Based on the recent *Wall Street Journal* survey of over fifty economists conducted in early October, economic growth during the fourth quarter of this year (October to December) is expected to increase 2.5 percent and increase 2.6 percent during the first quarter of next year.

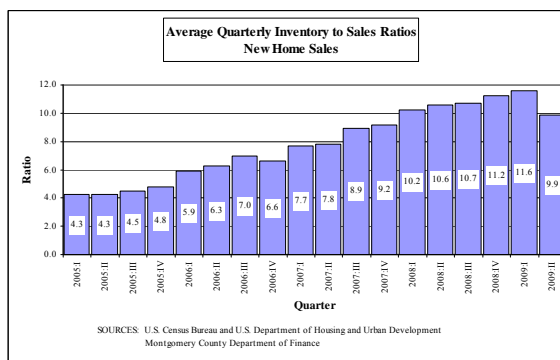


The increase in GDP was attributed to a dramatic increase in purchases of durable goods (↑22.4%), an increase in residential construction (↑23.3%), and exports (↑14.7%). Analysts suggest that most of the growth in real GDP is attributed to government stimulus programs such as the “Cash for Clunkers” Program which boosted the growth in purchases of durable goods and from the rush of first-time home buyers to the \$8,000 tax credit which encouraged builders to complete construction of new

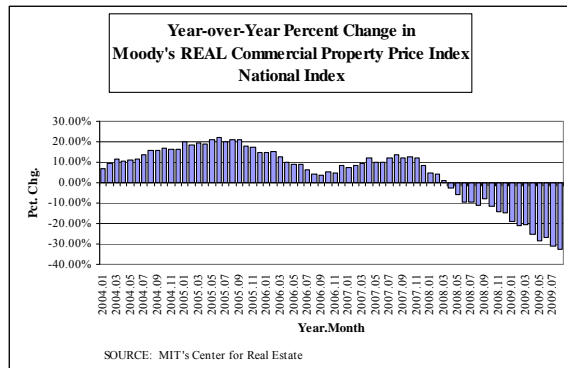
homes before the deadline. Real final sales of domestic product, which measures aggregate demand and is GDP less the change in real private inventories, increased 2.5 percent and contributed 73.8 percent of the growth in real GDP compared to the drawdown in private inventories which contributed 26.2 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.

According to economic analysts, business spending will increase before consumer spending and residential construction as the economy recovers. New orders for non-defense capital goods excluding aircraft increased 2.5 percent during the third quarter. That increase is only the second significant increase since the recession began in December 2007.

The quarterly increase in residential construction (↑23.4%) was the first such increase after fourteen consecutive declines. The inventory-to-sales ratios for existing and new homes for sale declined during the third quarter. Based on data from the National Association of Realtors (Realtors), the ratio for existing homes declined from a high of 11.2 in November 2008 to 7.8 in September. The ratio for new homes for sale declined from a high of 12.4 in January of this year to 7.5 in September.

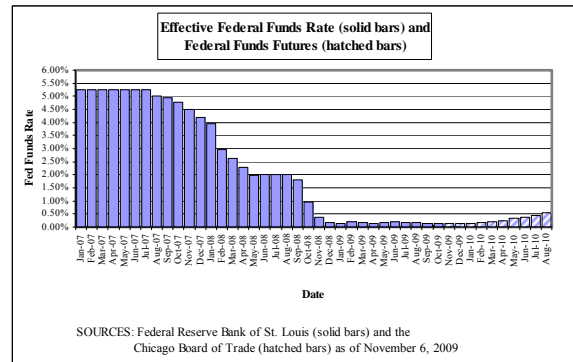


However, while the residential property sector experienced recent improvement, commercial real estate has not. Based on the Moody's REAL commercial property price index (CPPI) development by MIT's Center for Real Estate, prices for commercial property declined nearly 33 percent in October from October of last year – the largest year-over-year percent decline since the index was developed in 2000. Since the national recession began in December 2007, the index declined nineteen out of the past twenty-one months.



According to the recent issue of *Business Week* (November 16), “the same excesses that drove the housing market’s crazy rise and fall were present in the commercial real estate, but they had largely gone unnoticed until now.” Banker’s accepted developer’s (borrower’s) growth assumptions and, as with the residential real estate market, overlooked shortcomings on loan applications. While the housing crisis may appear to be easing, the problems in commercial sector are just beginning. According to *Business Week*, between now and 2012 more than \$1.4 trillion worth of commercial real estate loans will come due. Analysts at Deutsche Bank estimate the borrower’s will have trouble “rolling over” as many as three-quarters of the loans they took out in 2007.

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 November 4th meeting. 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 quarter of next year. The FOMC in its latest announcement agreed to purchase a total of \$1.25 trillion of agency mortgage-backed securities and about \$175 billion of agency debt, less than the previously announced maximum of \$200 billion.



The stock market experienced a slight correction in October, the S&P 500 index was down nearly 2.0 percent, the NASDAQ decreased 3.6 percent, and the Russell 2000 was down 6.9 percent for the month. The Dow Jones Industrial Average (DJIA) did not change in October. However, even with the mild correction in October, the stock market was up at double-digit rates since the beginning of the year. The DJIA has increased 10.7 percent for the year, the NASDAQ has increased 29.7 percent, the S&P 500 is up 14.7 percent, and the Russell

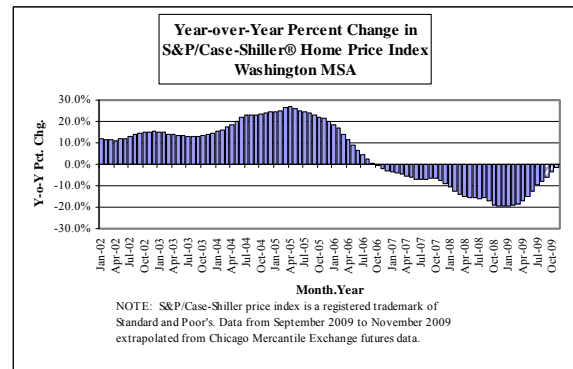
2000 has increased 12.7 percent since the beginning of the year. If the stock market continues this pattern through the remainder of the year, it will experience its best performance since 2003.

REGIONAL ECONOMY

According to the latest report from the Center for Regional Analysis (CRA), George Mason University, “the Washington area economy has experienced the same stresses as the national economy although its decline has not been as long or as deep.” Payroll jobs have declined the last ten months compared to 21 consecutive months for national employment. With the national unemployment rate now at 10.2 percent (9.5 percent not seasonally adjusted in October), the region’s unemployment rate was 6.2 percent (not seasonally adjusted in September). The decline in payroll employment on a year-over-year basis that started in December accelerated through September. The region lost a total of 37,000 jobs between September 2008 and September 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 6.2 percent in September 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 5.5 percent (n.s.a.) compared to 6.4 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.

According to CRA, the housing market “also is approaching equilibrium with prices firming up in many regions. The housing market appears to have recovered slightly faster locally than nationally with sales in 2009 (through 9 months) exceeding sales for the same nine-month period in 2008.” On a month-over-month basis, prices have also improved since March. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in August increased 1.4 percent over July for the fifth consecutive month. However, on a year-over-year basis, the August index is 7.9 percent below the August 2008 index and 28.8 percent below its peak in May 2006.

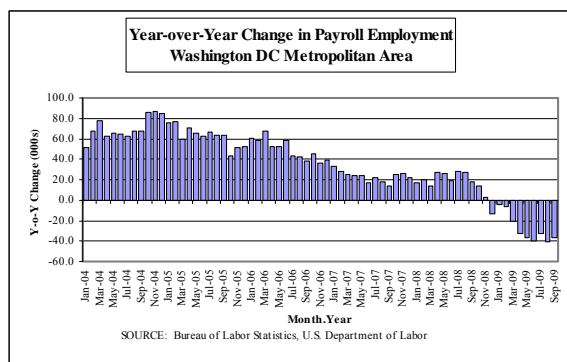


The increase in the region’s unemployment rate has had an effect on consumer confidence. The recent survey by the Conference Board shows that consumer confidence for the South Atlantic region decreased 6.1 percent in October over September and consumer expectations decreased 8.9 percent over the same one-month period. Because the decrease in consumer expectations is larger than the change in consumer confidence, consumers are uncertain that the economy is improving in the near term.

While the Washington metropolitan area continues to have one of the lowest unemployment rates in the country, it has been rising from 2.7 percent in April 2007 to

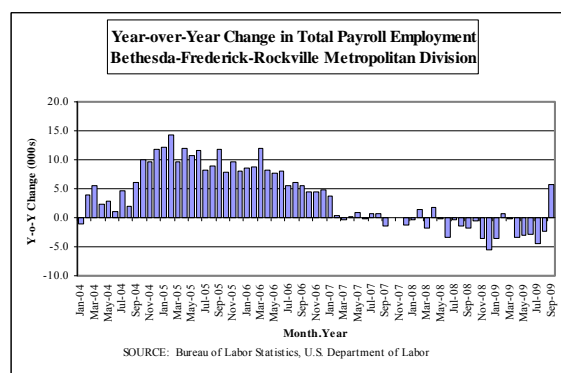
6.2 percent in September. Of the 34 metropolitan divisions, the Bethesda-Rockville-Frederick metropolitan division had the lowest unemployment rate in September at 5.5 percent. While the division had the lowest rate, it has also experienced a dramatic increase over the past year and a half. Since April 2007, when the unemployment rate was 2.4 percent, it has increased over three percentage points. Total employment for the entire Washington region declined from an average of 3.000 million during the January-September 2008 period to an average of 2.975 million during the first nine months of this year – a loss of 25,000 jobs. At the same time, the BFR division employment decreased from an average of 574,700 to an average of 573,200 – a loss of 1,500 jobs.

While the year-over-year declines in the region’s employment through the first nine months of this year averaged 25,000, 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 37,000 by September.



Total payroll employment in the BFR metropolitan division also experienced a decline during the first nine months 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. For example, payroll employment *increased* by 5,700 jobs in September compared to September of last year. However, the September increase masks the average monthly year-over-year decreases over the previous eight months such that average monthly employment has *declined* by 1,500 jobs during the first nine months of this year compared to the same period as last year.

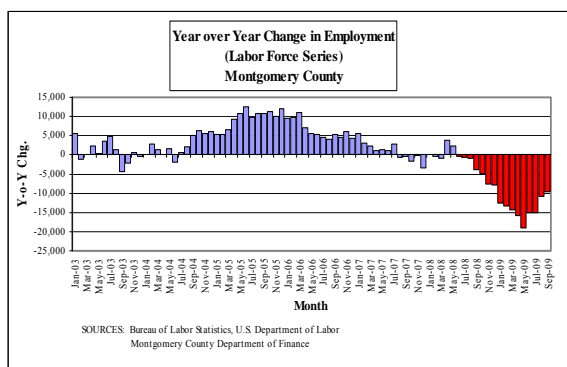


MONTGOMERY COUNTY ECONOMIC INDICATORS

Montgomery County experienced weak economic performance during the first nine months of this year. The reasons for the County’s weak performance were a decrease in employment (↓13,940) as measured by the labor force series coupled with the County’s unemployment rate (5.3% in September), a continuation in the decline of average prices for existing homes for sale (↓16.5%), and weak overall construction (↓33.7%). The bright spots have been the sales of existing homes (↑13.7%) and the decline in the inventory-to-sales ratio for existing homes (3.7 months supply in September compared to 7.0 months supply in September 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, average monthly resident employment (labor force series and not seasonally adjusted) in Montgomery County decreased 13,940 during the first nine months of this year compared to the same period in 2008. Average monthly resident employment stood at 484,948 during the first nine months of this year compared to 498,885 during the same period last year.



The County’s total payroll employment as derived by the Department of Finance decreased over the nine-month period by a monthly average of 1,200 jobs (↓0.3%) compared to the same period in 2008. Payroll employment stood at a monthly average of 477,600 jobs during the first nine months of this year compared to 478,900 over the same period in 2008. With both resident and payroll employment indicating declines so far 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 5.3 percent in September, it remains one of the lowest in the State (7.1% not seasonally adjusted). Howard County had the next lowest unemployment rate (5.4%).

Construction Activity

Construction activity experienced weak performance during the first nine months of this year. The total number of building permits was down 36.2 percent and the number of total new construction projects decreased 33.7 percent compared to the same period in 2008. The total value added of new construction starts was also significantly lower compared to 2008 (↓45.1%). The decrease in additional value was attributed to both a significant decline in the value of residential construction starts (↓47.0%) and, to a lesser extent, non-residential construction starts (↓43.8%).

The number of non-residential construction projects was down 40.4 percent during the first nine months of 2009 compared to the previous 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 (↓54.7%) attributed to declines in retail (↓38.9%), and banks and office buildings (↓63.6%).

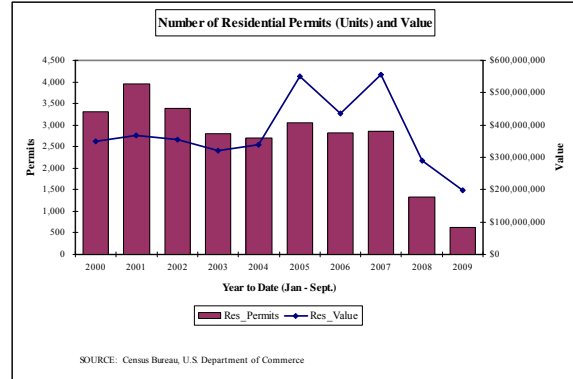
While overall construction activity has declined during 2009, construction costs have not. The construction cost index developed by the Engineering News Record (ENR) for the Baltimore area increased at an average rate 4.4 percent during the first nine-months of this year compared to 3.9 percent between 2006 and 2008.

The office vacancy rate for Class A property in the County was 13.4 percent during the third quarter of this year, up from 10.8 percent during the first quarter and 12.1 percent during the second quarter. The third quarter vacancy rate represents the highest rate prior to the second quarter of 2004.

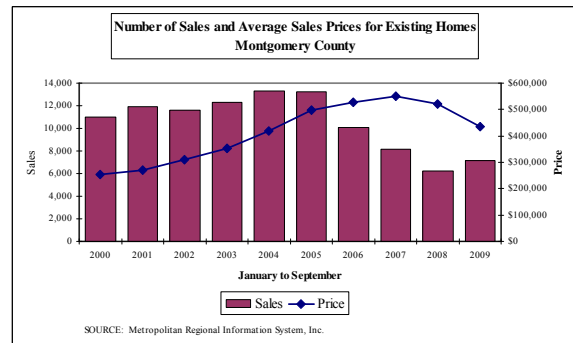
Residential Real Estate

Led by a decline in the building of new multi-family units, residential construction decreased during the first nine months of 2009 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 33.0 percent with the construction of multi-family *units* down 99.1 percent and construction of single-family *units* down 25.8 percent. The overall added value of new residential construction starts declined 47.0 percent. With the decline in additional value of residential and non-residential properties of approximately \$357.7 million in 2009 to date, the amount of new construction added to the property tax base will 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 2009, the number of units authorized, i.e., permitted, decreased 52.4 percent based on data from the Census Bureau. The number of permitted units decreased from 3,058 units during the first nine months of 2005, the peak of the housing boom, to less than 632 units in 2009.

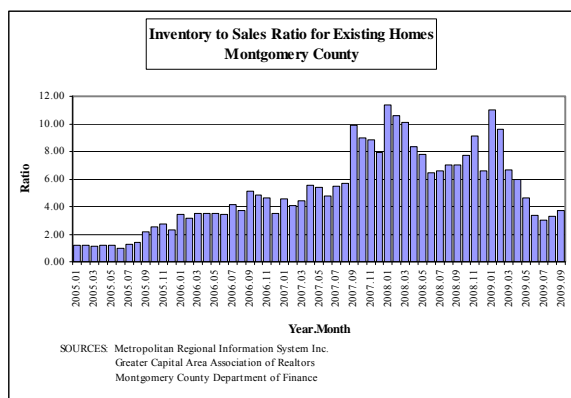


During the first nine months of calendar year 2009, home sales increased 13.7 percent. For FY2009, home sales increased 2.9 percent. Average sales prices for existing homes have declined 16.5 percent during the first nine months of this calendar year compared to the same period in 2008. For FY2009, average prices declined 15.8 percent.



The increase in sales during the past nine months of this 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 from 1.0 to 11.4 by January 2008, then declined through the calendar year reaching a ratio of 6.6 in December 2008. 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 3.7 in September. 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 may remain on the sidelines until a sustainable recovery in the housing market is underway.



Retail Sales

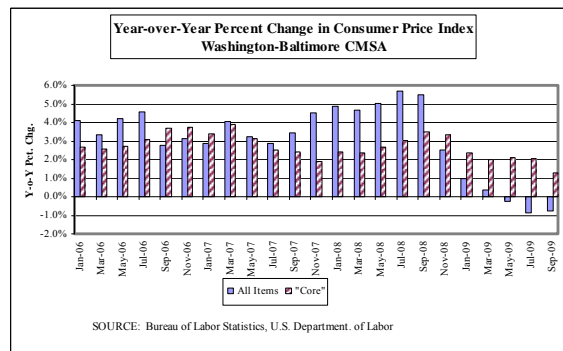
Using sales tax receipts as a measure of retail sales activity in the County, the growth in sales of durable and nondurable goods, excluding miscellaneous and assessment collection, were down 7.5 percent during the first eight months of this calendar year compared to the same period in 2008. Purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, decreased 4.2 percent during this period while sales of durable goods were down 15.2 percent.

Purchases of merchandise goods (↓9.5%) led the decline in sales of nondurable goods followed by a decline in

sales of apparel items (↓7.9%). Purchases of building and industrial supplies (↓18.2%), furniture and appliances (↓24.2%) and hardware and machinery (↓9.1%) 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 0.8 percent on a year-over-year basis in September, i.e., September 2009 over September 2008, but was less of a decline than the year-over-year national average of -1.3 percent. That decrease was the third consecutive 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 1.3 percent in the region (on a year-over-year basis), which was slightly lower than the increase for the nation (↑1.5%) over the same September 2008-to-September 2009 period.



METROPOLITAN AREA OFFICE MARKET

Direct Office Vacancy Rate by Jurisdiction and Class, 2009:3Q

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudoun	19.74%	13.65%	11.80%	16.89%
Fairfax	13.66%	12.90%	15.12%	13.46%
Frederick	9.23%	12.04%	8.47%	10.60%
Alexandria/Arlington	9.52%	7.41%	6.03%	8.40%
Montgomery	13.42%	9.90%	8.80%	11.51%
District of Columbia	11.58%	5.97%	5.28%	9.20%
Prince George's	23.43%	15.86%	6.90%	17.38%
<i>Metropolitan Area</i>	12.92%	9.84%	7.76%	11.37%

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

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudoun	1,729,492	931,643	66,438	2,727,573
Fairfax	9,640,911	5,023,262	712,605	15,376,778
Frederick	207,087	509,476	118,450	835,013
Alexandria/Arlington	2,991,007	1,622,518	337,187	4,950,712
Montgomery	4,385,736	2,677,287	606,078	7,669,101
District of Columbia	9,555,261	2,672,893	687,984	12,916,138
Prince George's	2,207,952	1,847,111	258,838	4,313,901
<i>Region</i>	30,717,446	15,284,190	2,787,580	48,789,216

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

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudoun	8,759,378	6,823,600	562,973	16,145,951
Fairfax	70,593,192	38,936,677	4,713,387	114,243,256
Frederick	2,243,735	4,232,803	1,398,982	7,875,520
Alexandria/Arlington	31,432,415	21,903,442	5,596,250	58,932,107
Montgomery	32,681,143	27,040,289	6,885,370	66,606,802
District of Columbia	82,548,410	44,787,879	13,031,500	140,367,789
Prince George's	9,422,192	11,648,147	3,750,965	24,821,304
<i>Region</i>	237,680,465	155,372,837	35,939,427	428,992,729

Share of Office Space Inventory by Jurisdiction and Class

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudoun	54.3%	42.3%	3.5%	100.0%
Fairfax	61.8%	34.1%	4.1%	100.0%
Frederick	28.5%	53.7%	17.8%	100.0%
Alexandria/Arlington	53.3%	37.2%	9.5%	100.0%
Montgomery	49.1%	40.6%	10.3%	100.0%
District of Columbia	58.8%	31.9%	9.3%	100.0%
Prince George's	38.0%	46.9%	15.1%	100.0%
<i>Metropolitan Area</i>	55.4%	36.2%	8.4%	100.0%

Share of Total Regional Vacant Office Space by Jurisdiction and Class

<i>Jurisdiction</i>	Class A	Class B	Class C	Total
Loudoun	5.6%	6.1%	2.4%	5.6%
Fairfax	31.4%	32.9%	25.6%	31.5%
Frederick	0.7%	3.3%	4.2%	1.7%
Alexandria/Arlington	9.7%	10.6%	12.1%	10.1%
Montgomery	14.3%	17.5%	21.7%	15.7%
District of Columbia	31.1%	17.5%	24.7%	26.5%
Prince George's	7.2%	12.1%	9.3%	8.8%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		Annual 2008
				2009	2008	
Leading Indicators						
National	Sept. '09	1.0%		-1.2%		-3.7%
Washington MSA	Aug. '09	0.2%		-0.9%		-3.3%
Coincident Indicators						
National	Sept. '09	0.0%		-5.5%		-3.5%
Washington MSA	Aug. '09	-1.4%		-7.4%		-8.5%
Consumer Confidence Index						
National	Oct. '09	-10.8%		-28.5%		-57.4%
South Atlantic Region	Oct. '09	-6.1%		-29.6%		-59.0%
Consumer Sentiment (University of Michigan)	Oct. '09	-5.6%		0.7%		-20.4%
Consumer Price Index						
<u>All Items (nsa)</u>						
National	Oct. '09	-1.3%		-0.9%		3.8%
Washington - Baltimore CMSA	Sept. '09	-0.8%		-0.1%		4.5%
<u>Core CPI (nsa)</u>						
National	Oct. '09	1.5%		1.7%		2.3%
Washington - Baltimore CMSA	Sept. '09	1.3%		2.0%		2.9%
Retail Trade						
National (sales - nsa)	Sept. '09	-5.4%		-8.8%		-0.2%
Washington MSA (sales - nsa)	Aug. '09	-10.7%		-7.5%		2.4%
Maryland (sales tax)(1)	Aug. '09	-7.5%		-7.2%		-4.5%
Montgomery County (sales tax)(1)	Aug. '09	-4.2%		-7.9%		-4.1%
Employment						
National (labor force data - nsa)	Oct. '09	139,088,000	145,533,000	140,145,000	145,639,000	145,362,000
- Percent Change		-4.4%		-3.8%		-0.5%
Bethesda-Federick-Gaithersburg (establish.)	Sept. '09	580,700	575,000	573,200	574,700	575,200
- Percent Change		1.0%		-0.3%		-0.2%
Montgomery County (labor force data)	Sept. '09	484,519	494,061	484,948	498,885	497,249
- Percent Change		-1.9%		-2.8%		-0.4%
Montgomery County (QCEW)	Mar. '09	443,668	455,683	443,351	454,635	457,518
- Percent Change		-2.6%		-2.5%		-0.4%
Unemployment						
National (nsa)	Oct. '09	9.5%	6.1%	9.2%	5.6%	5.8%
Maryland (nsa)	Sept. '09	7.1%	4.5%	7.0%	4.1%	4.4%
Montgomery County (nsa)	Sept. '09	5.3%	3.3%	5.2%	3.0%	3.2%
Construction						
<u>Construction Starts - Montgomery County</u>						
Total (\$ thousands)	Sept. '09	\$45,723	\$72,291	\$435,619	\$793,293	\$1,003,660
- Percent Change		-36.8%		-45.1%		-29.0%
Residential (\$ thousands)	Sept. '09	\$27,223	\$31,979	\$212,111	\$399,935	\$430,073
- Percent Change		-14.9%		-47.0%		-40.2%
Non-Residential (\$ thousands)	Sept. '09	\$18,500	\$40,312	\$223,508	\$393,358	\$573,587
- Percent Change		-54.1%		-43.2%		-17.3%
<u>Building Permits (Residential)</u>						
National	Sept. '09	51,336	68,790	435,781	749,924	892,771
- Percent Change		-25.4%		-41.9%		-35.3%
Maryland	Sept. '09	803	1,063	8,118	11,915	13,976
- Percent Change		-24.5%		-31.9%		-29.9%
Montgomery County	Sept. '09	116	249	650	1,329	1,476
- Percent Change		-53.4%		-51.1%		-57.3%
<u>Building Permits (Non-Residential)</u>						
Montgomery County	Sept. '09	142	146	1,111	1,431	1,817
- Percent Change		-2.7%		-22.4%		11.3%
Real Estate						
<u>National</u>						
Sales (saar)	Sept. '09	5,570,000	5,100,000	4,880,000	4,951,100	4,913,000
- Percent Change		9.2%		-1.4%		-13.1%
Median Price	Sept. '09	\$174,900	\$191,400	\$173,300	\$202,700	\$198,100
- Percent Change		-8.6%		-14.5%		-9.5%
<u>Montgomery County</u>						
Sales	Sept. '09	859	768	7,121	6,263	8,516
- Percent Change		11.8%		13.7%		-17.8%
Average Price	Sept. '09	\$412,795	\$458,036	\$434,235	\$520,293	\$503,958
- Percent Change		-9.9%		-16.5%		-8.4%
Median Price	Sept. '09	\$330,000	\$350,000	\$345,166	\$407,444	\$395,000
- Percent Change		-5.7%		-15.3%		-11.0%
Average Days on the Market	Sept. '09	83	101	101	105	103

NOTES:

(nsa): not seasonally adjusted

(1): Data include miscellaneous and assessment collections.