

Presentation of Economic Indicators

to the

Management and Fiscal Policy Committee

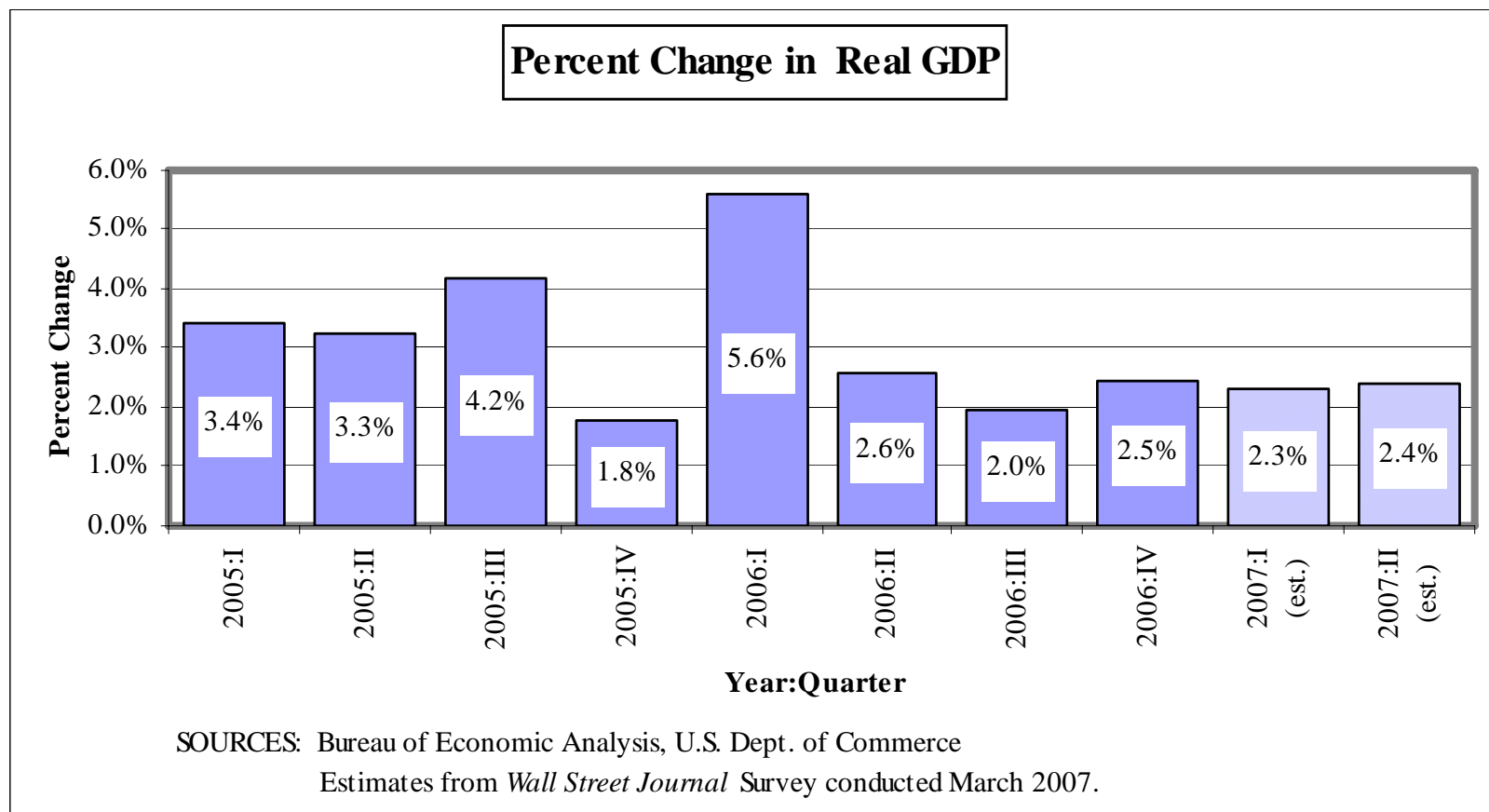
by the

Department of Finance

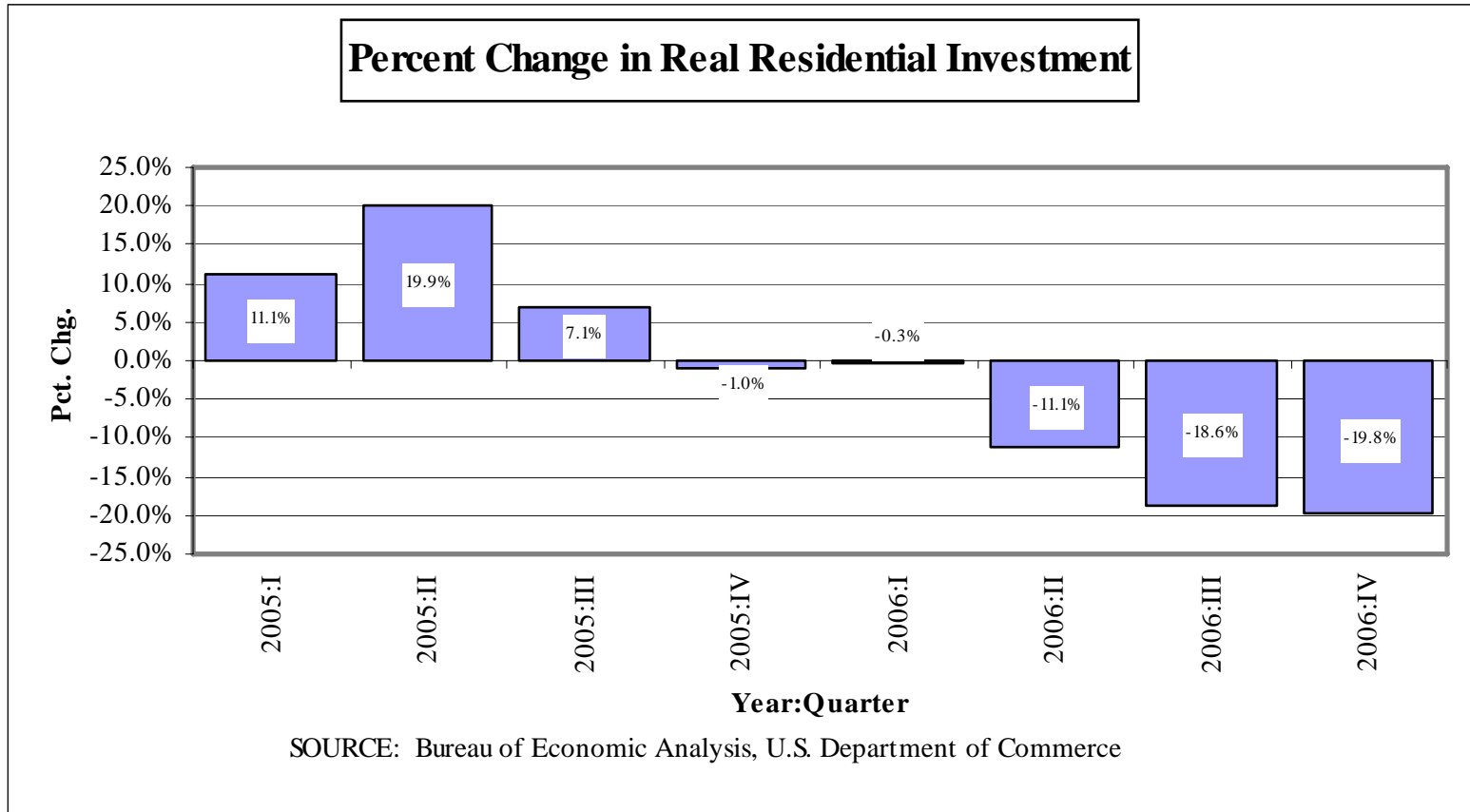
April 16, 2007

National Economic Indicators

Based on the final estimate, real gross domestic product (GDP) increased 2.5 percent during the fourth quarter and, based on the recent *Wall Street Journal* survey, is expected to have increased 2.3 percent during the first quarter.

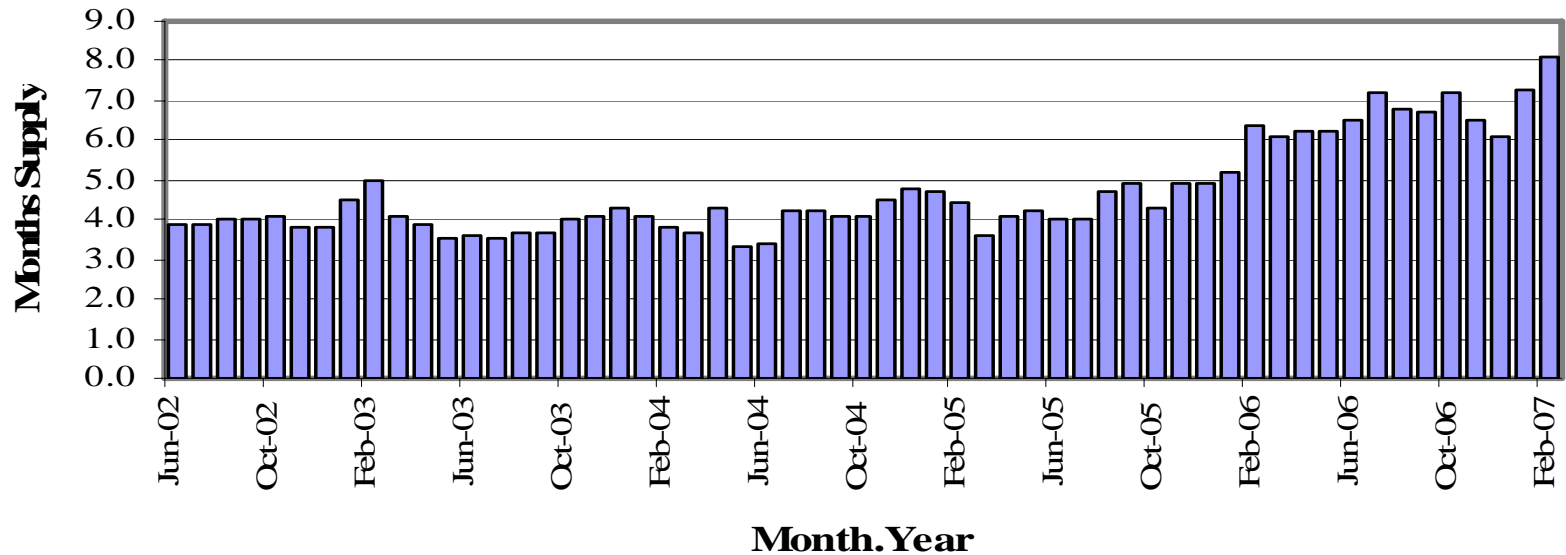


The decline in residential investment continued to contribute to the slowdown in the national economy. Investment, which declined nearly 20 percent in the fourth quarter, continues to deteriorate.



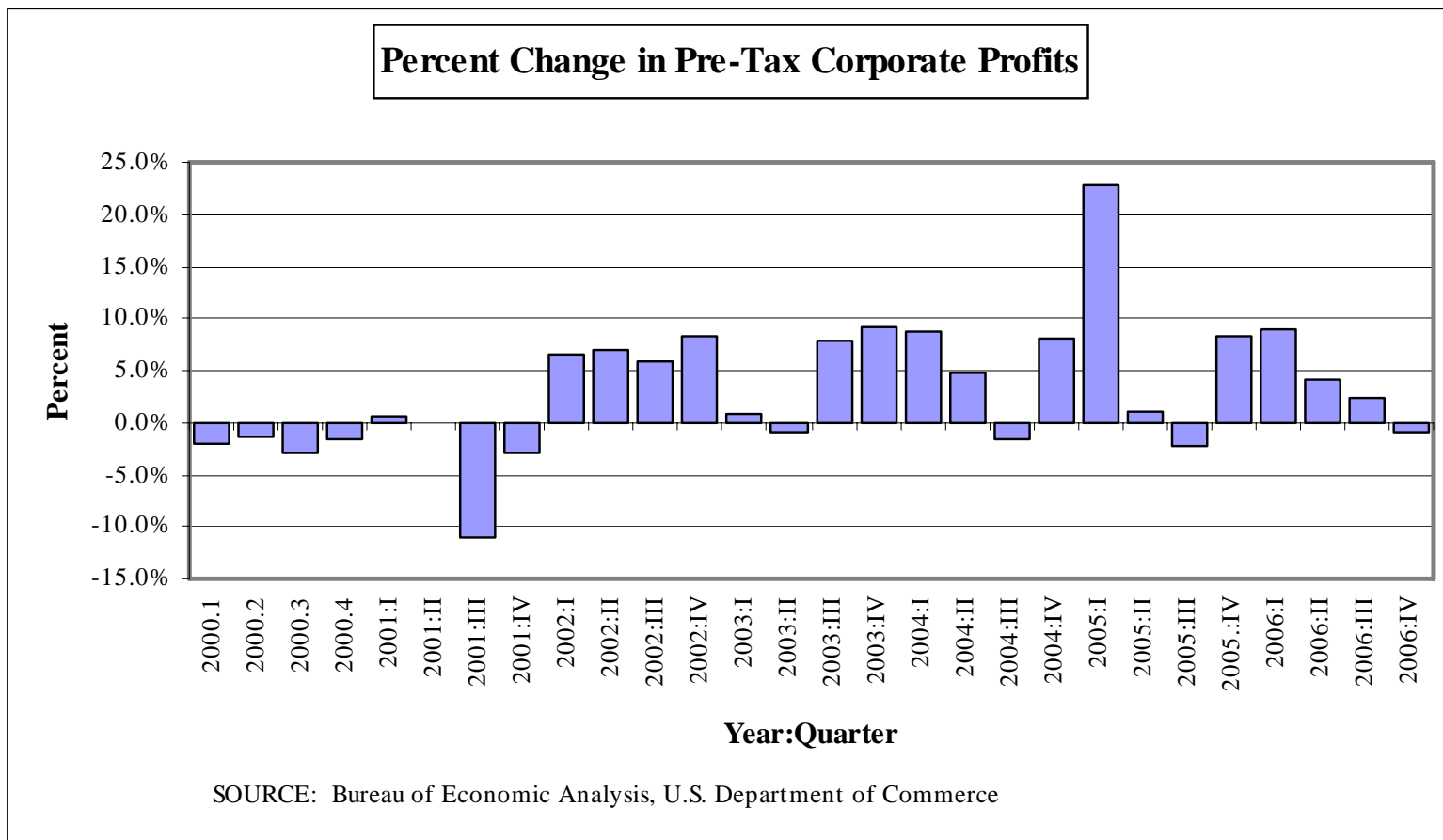
The dramatic decline of residential investment reflects the rapid buildup of unsold new homes. For the past twelve months, inventory has exceeded a six-month supply and reached eight-month supply in February.

**Monthly Supply of New Homes
at the Current Sales Rate**



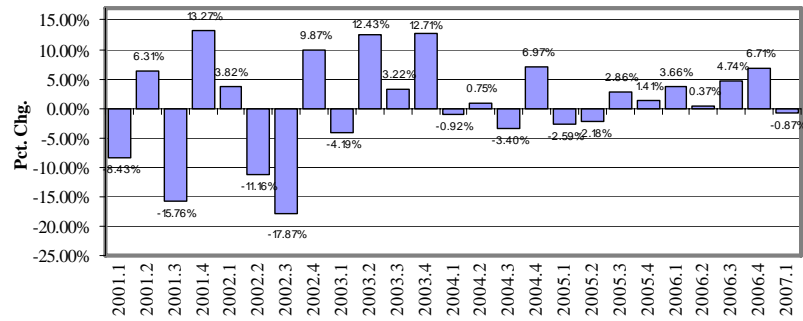
SOURCES: Joint Press Release U.S. Census Bureau and U.S. Department of Housing and Urban Development

The slowdown in the economy is reflected in pre-tax profits. For the first time since the third quarter of 2005, corporate profits declined nearly 1 percent during the fourth quarter.

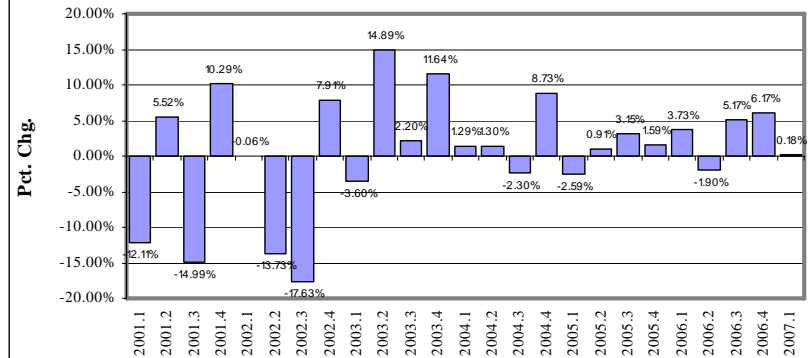


The effects of the subprime mortgage market coupled with the global market correction in February affected the U.S. stock market during the first quarter of this year.

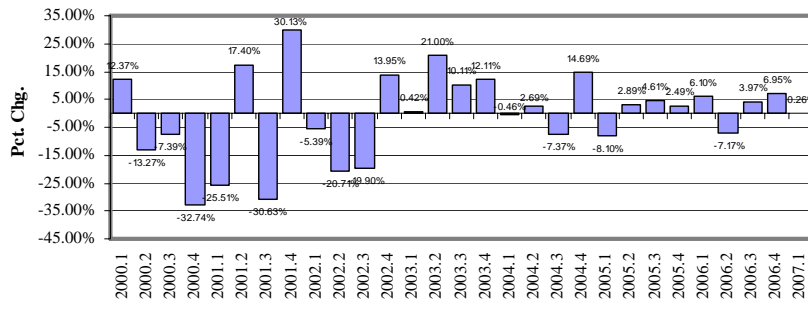
Quarterly Percent Change in Dow Jones



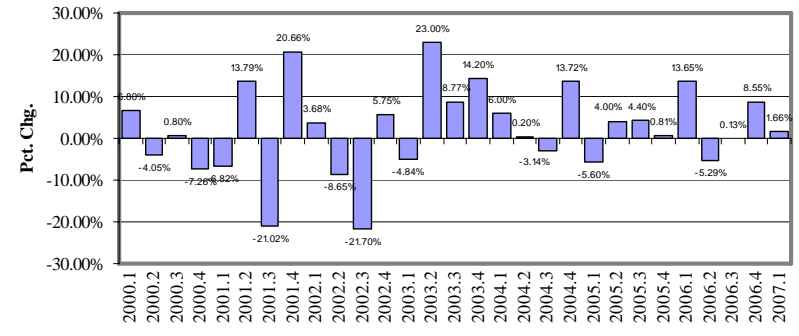
Quarterly Percent Change in S&P 500



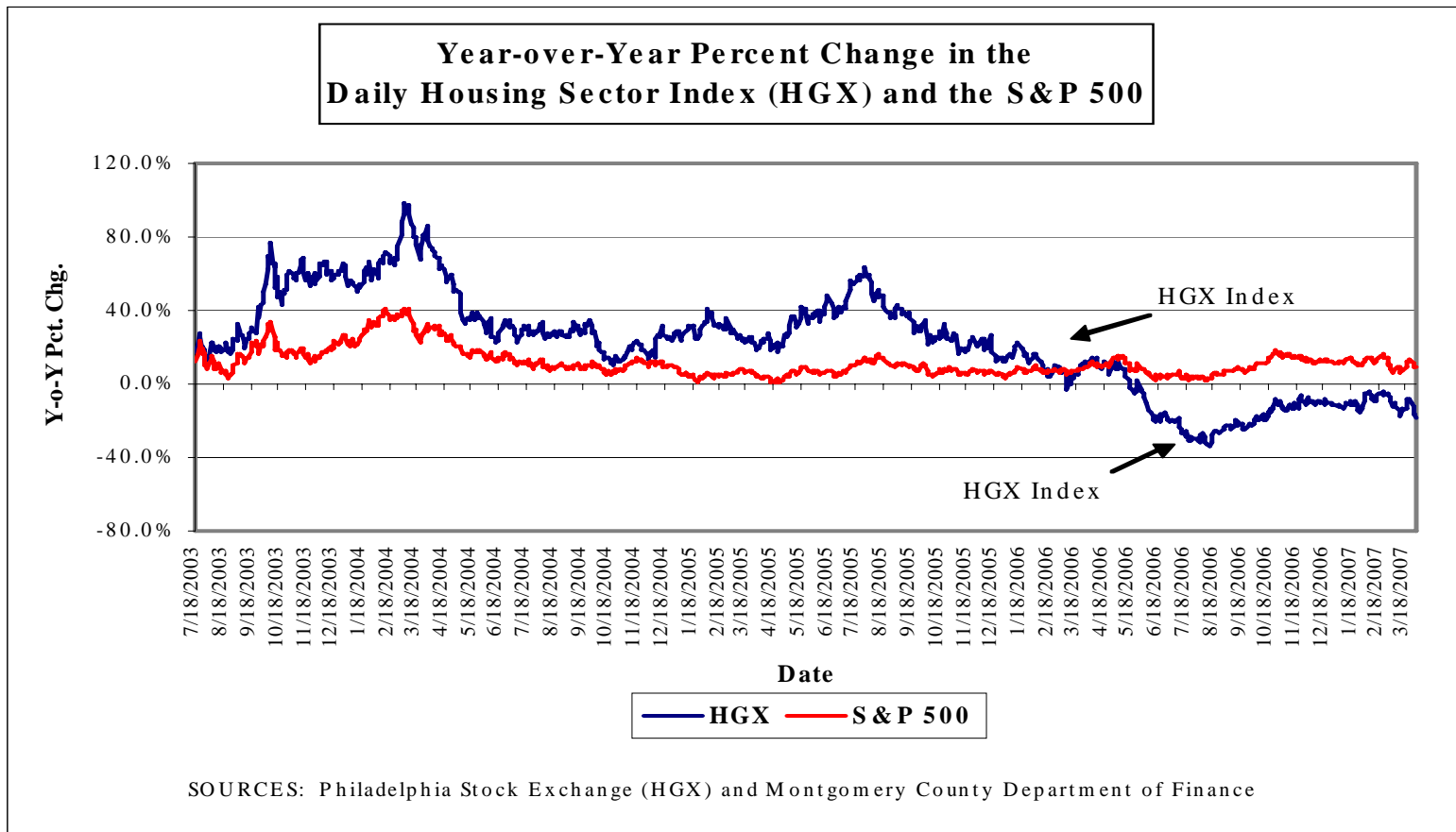
Quarterly Percent Change in NASDAQ



Quarterly Percent Change in Russell 2000



Because of the accumulation of housing inventory and the uncertainty surrounding the subprime mortgage market, the housing sector index (HGX) continues to experience poor performance relative to the broad market index.



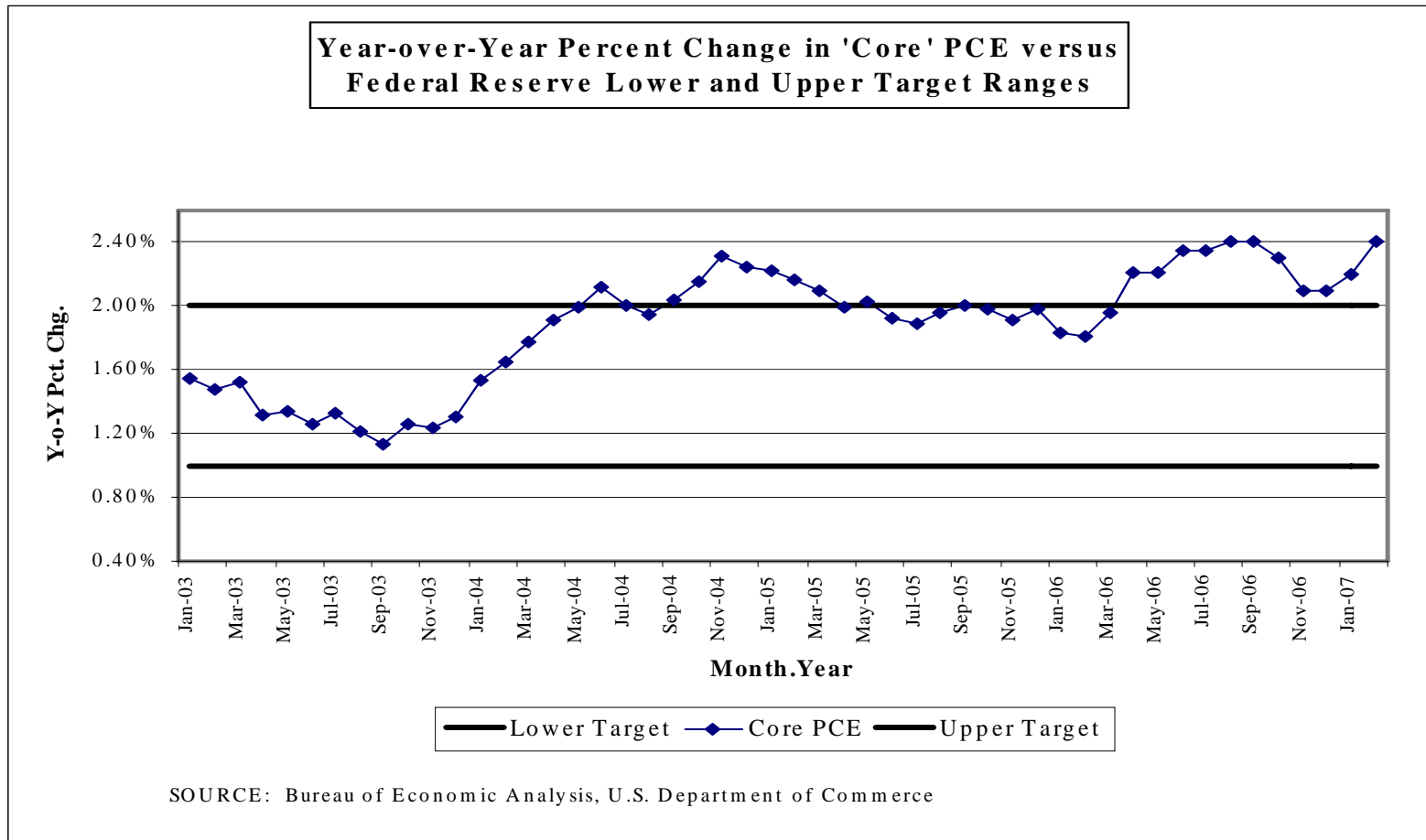
The stock performance of seven major homebuilders improved during the July-January period, but the subprime mortgage market collapse in February has had a significant effect on U.S. homebuilders since then.

Composite Index for Seven Major U.S. Homebuilders

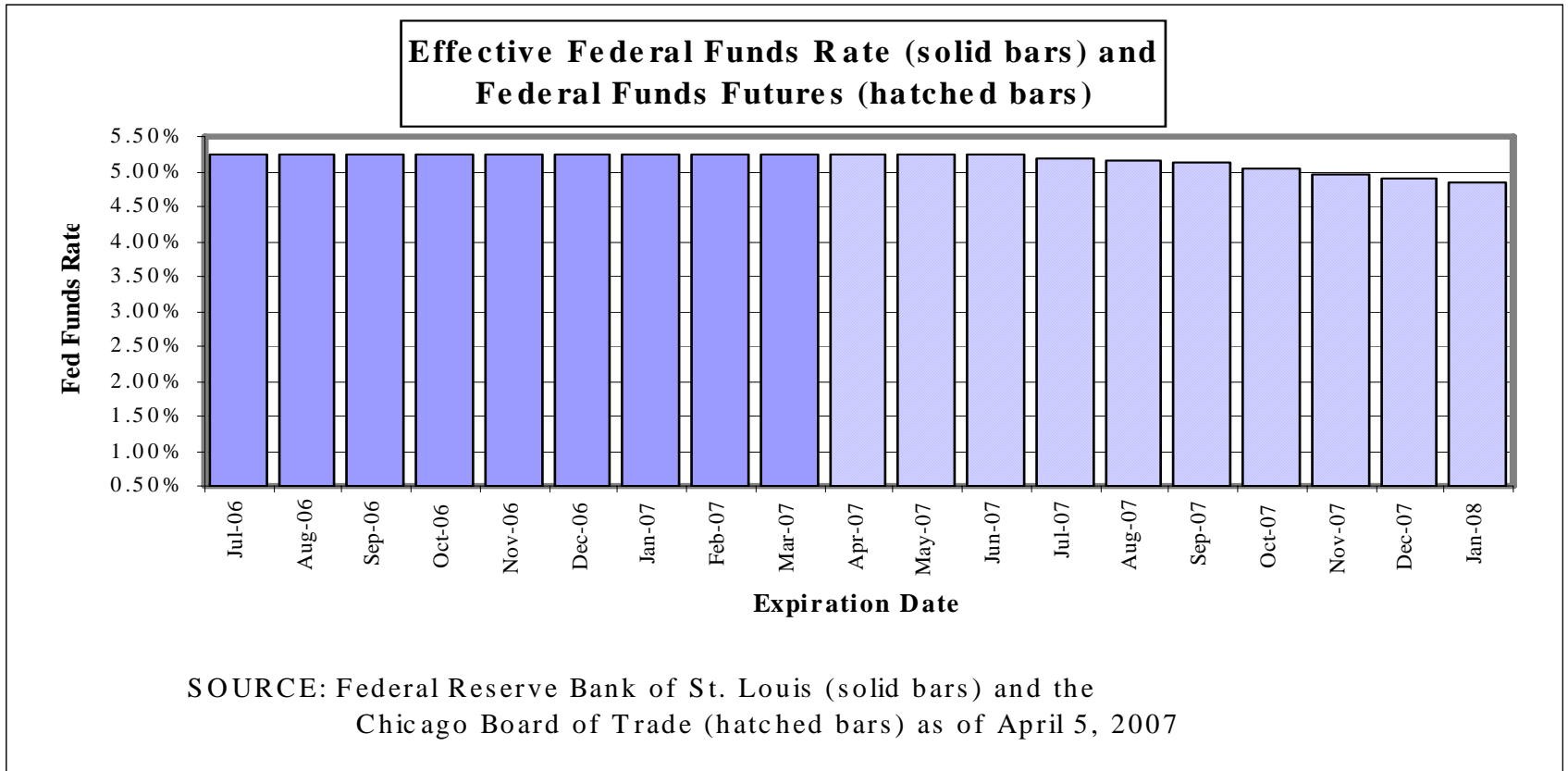


SOURCE: Montgomery County Department of Finance

While the Federal Reserve has stated that the issues with the housing sector and specifically with the subprime market are “contained”, members of the Fed are more concerned about inflation.

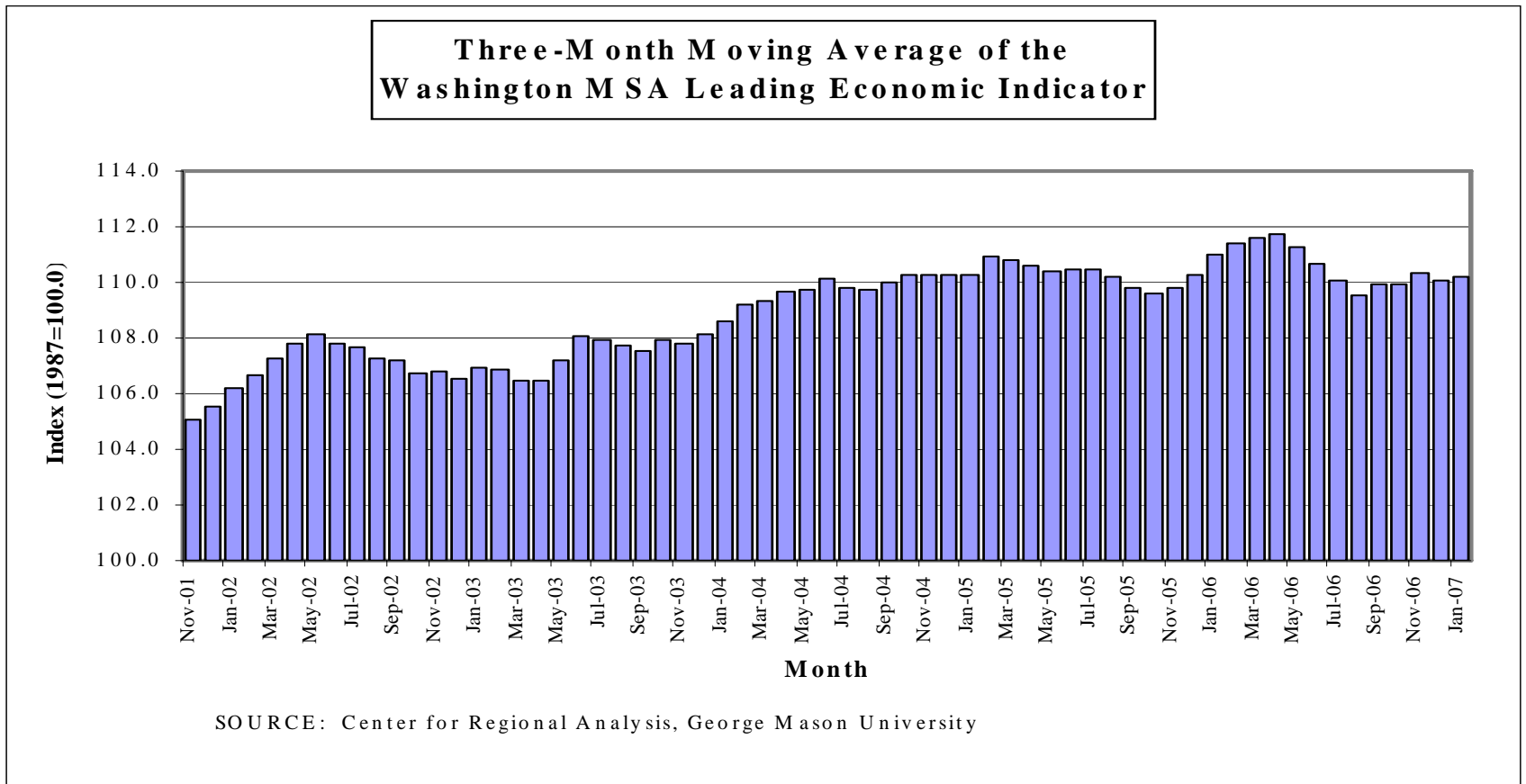


Because of this concern, the Federal Fund Futures market expects the Fed to hold the target federal fund rate at 5.25 percent through the summer and forecasts a 25 point rate cut in the fall.

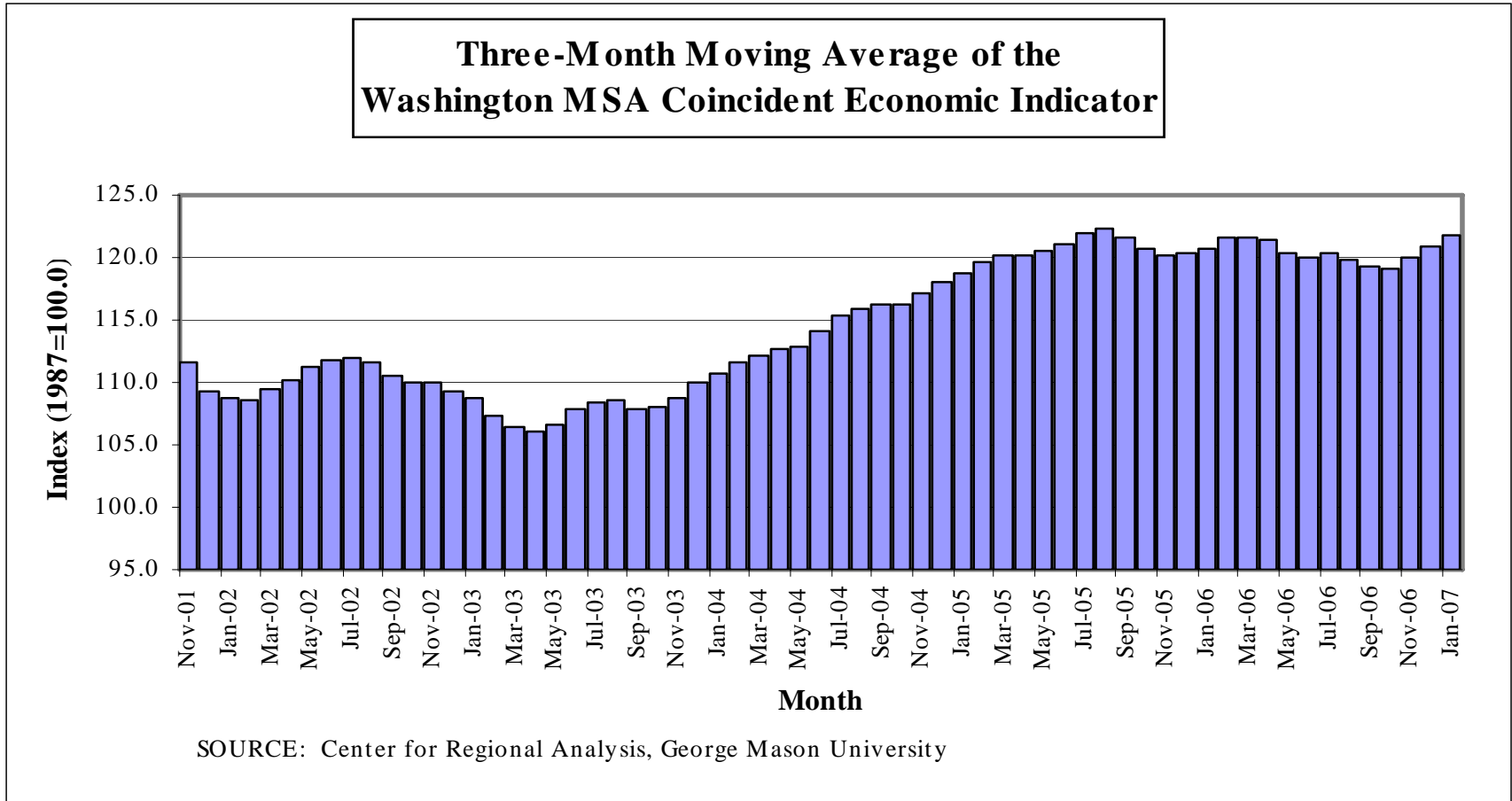


Regional Economic Indicators

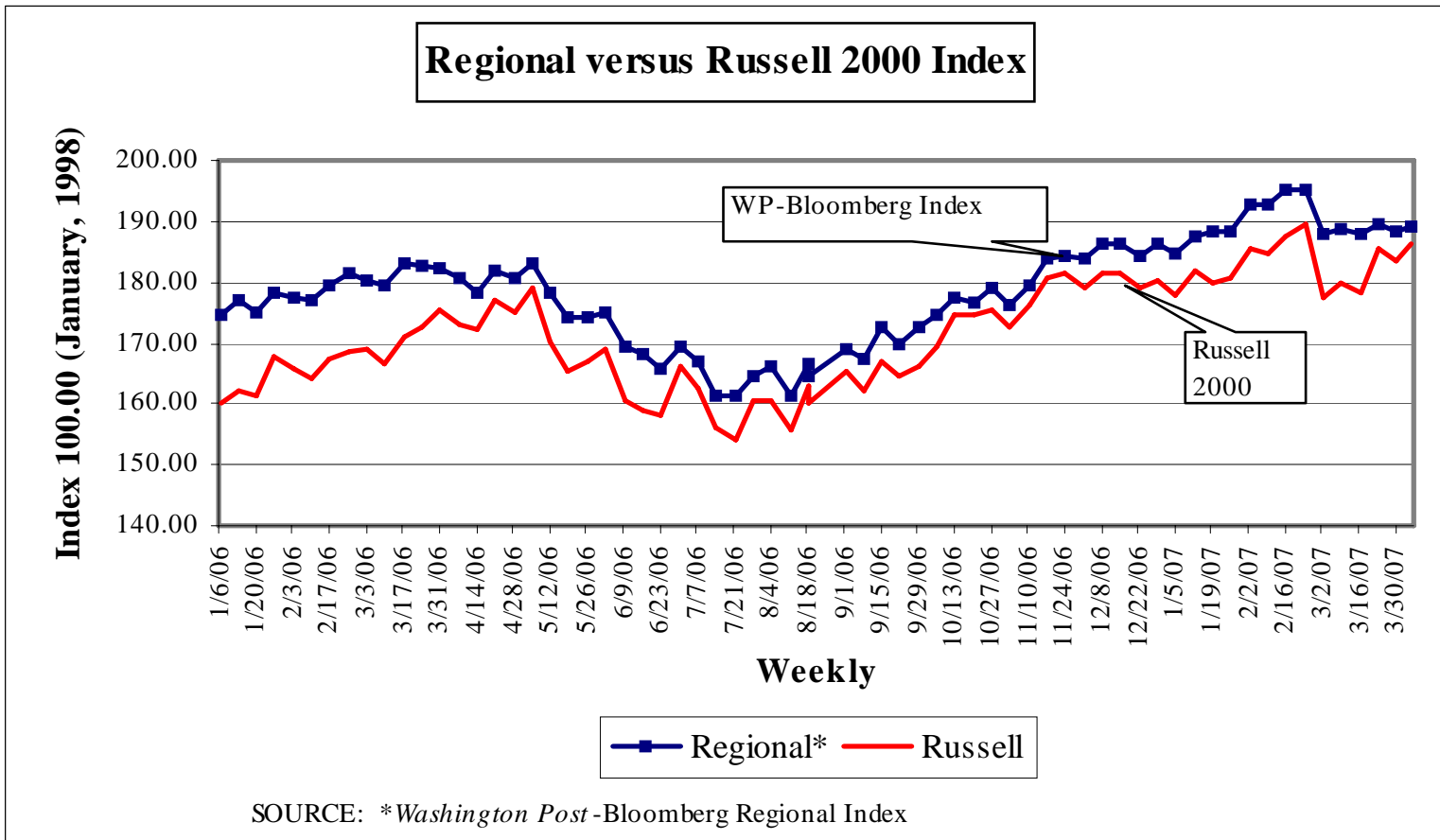
Over the past nine months, the region's leading economic indicator has suggested slower growth. Recent data also suggest a clear indication of a continued slowdown in the coming months.



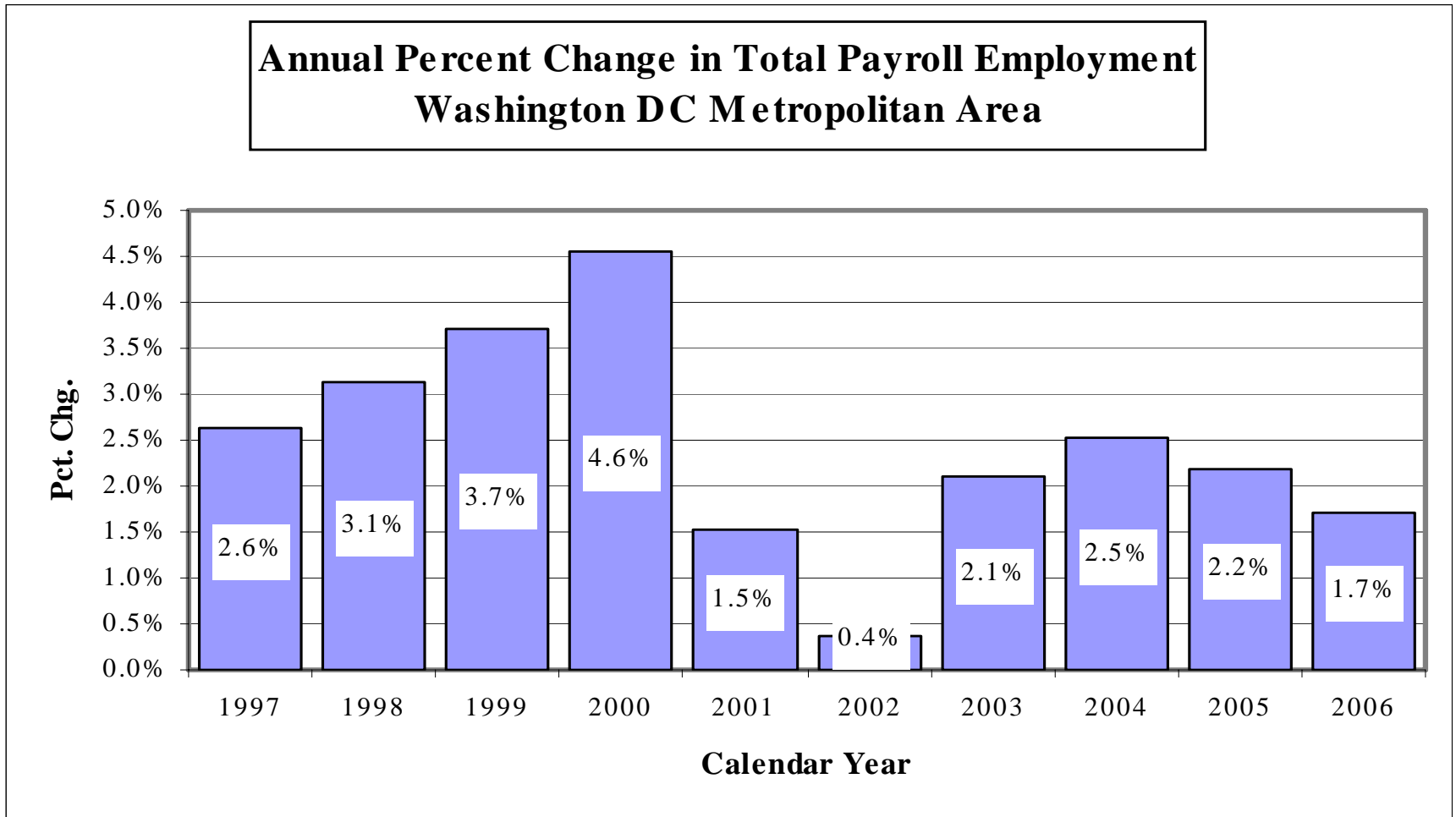
The Washington economy appears to mirror the national economy's recent slowdown as measured by the coincident indicator. Slower federal procurement in 2006 may continue into 2007.



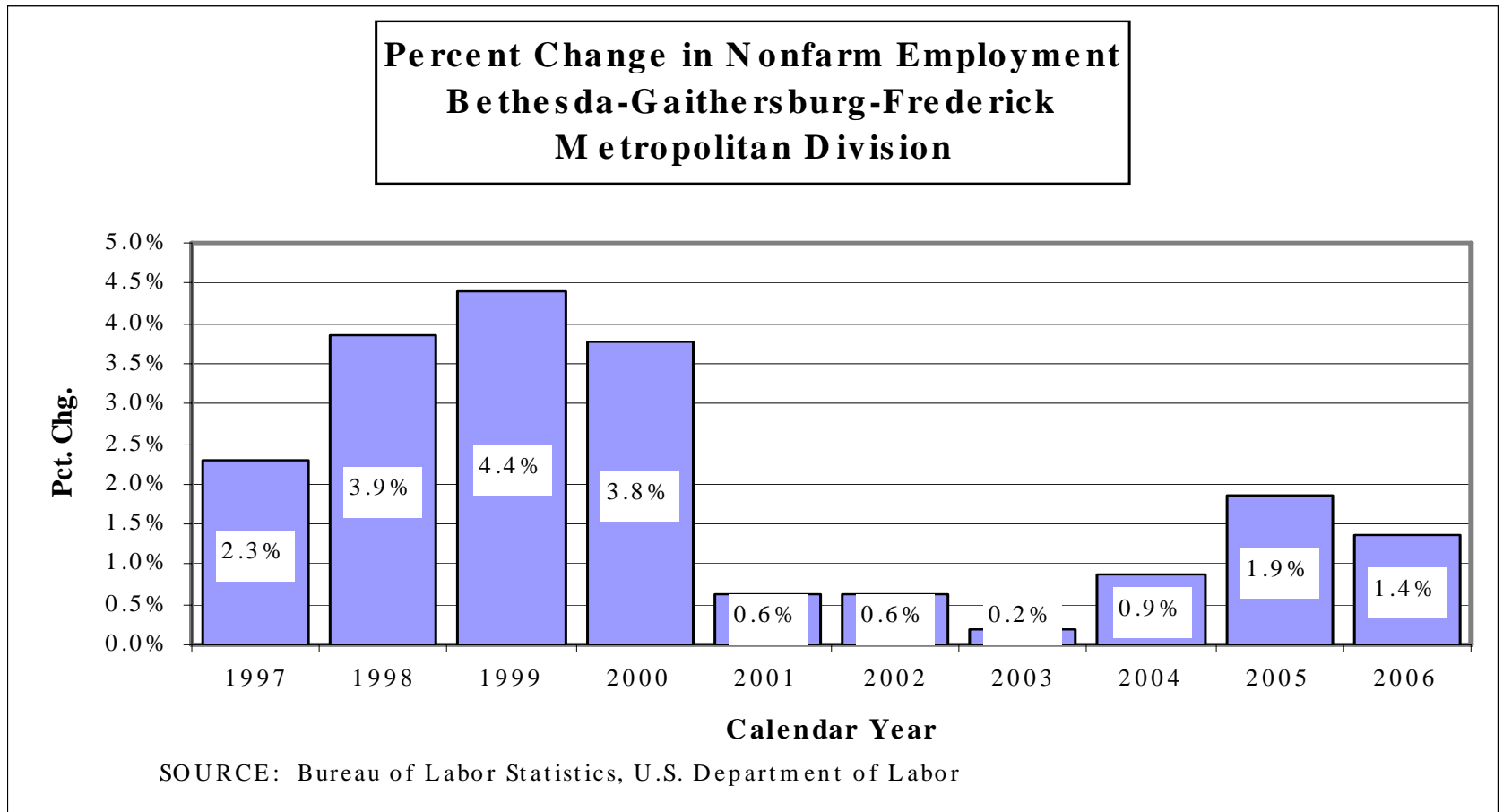
The slowdown in the region's economy is reflected in the regional stock index which increased 1.2 percent since the beginning of the year compared to 1.7 percent for the Russell 2000 index.



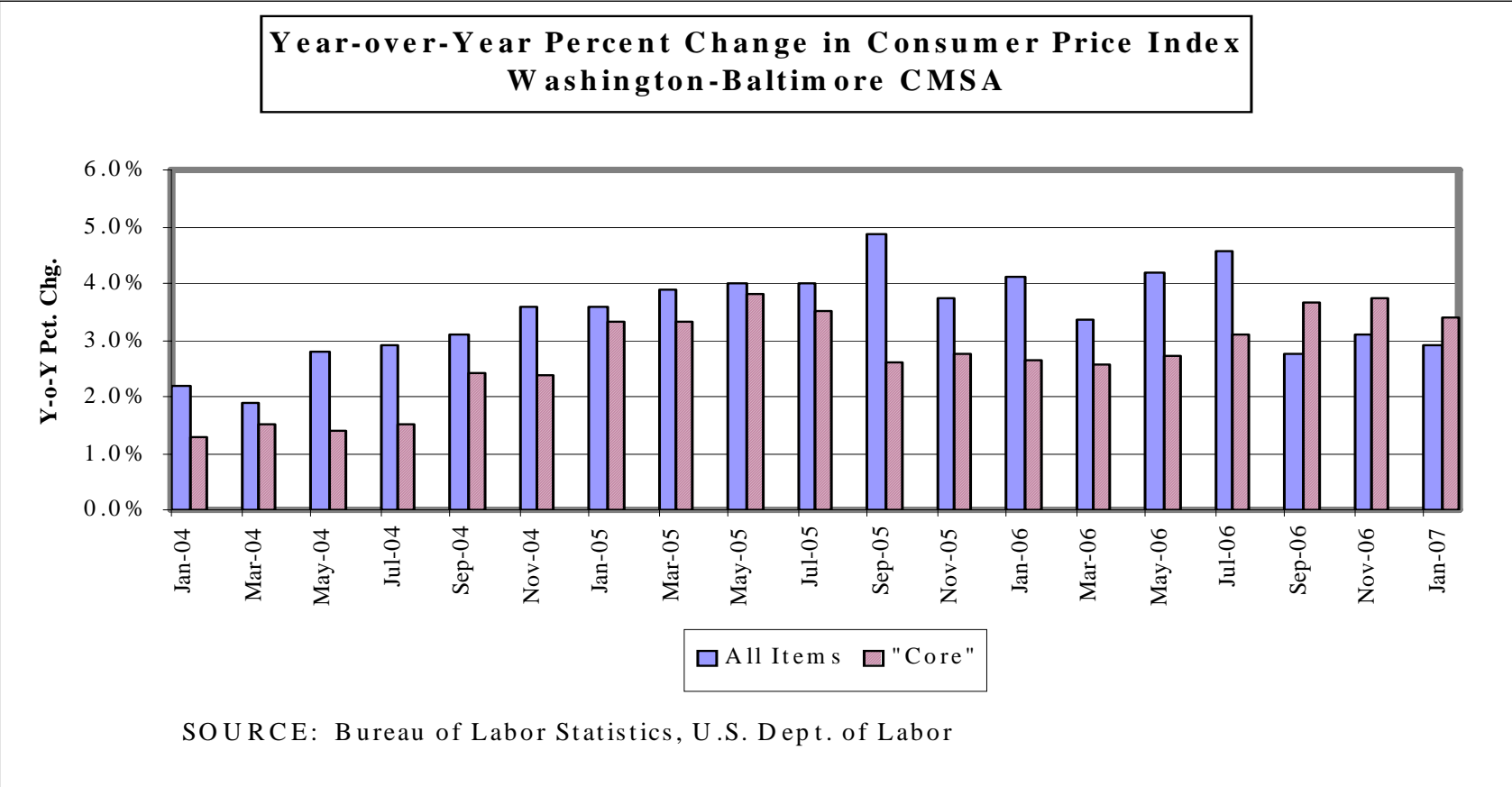
The slowdown in the region's economy in 2006 is also reflected in the growth in total payroll employment. In 2006, the growth rate of 1.7 percent was the lowest since 2002.



Montgomery and Frederick counties also experienced a lower growth rate in payroll employment in 2006.



With the decline in energy prices through January, the year-over-year increase in consumer prices was less than 3 percent. However, “core” inflation remained above that level over the same period.



According to the options market for the region's S&P/Case-Shiller® home price index, home prices in the region are expected to decline through February of next year.

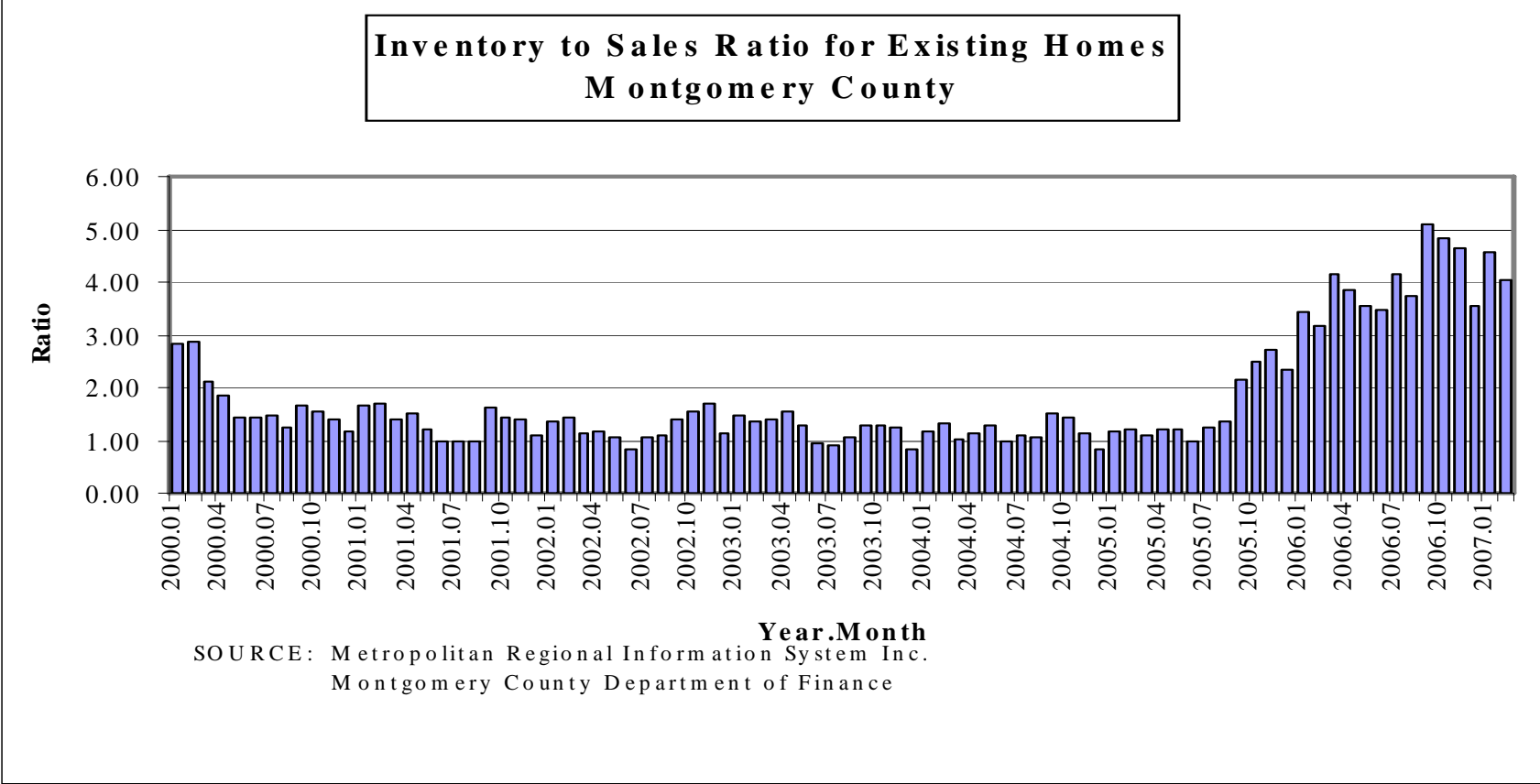
**Year-over-Year Percent Change in
S & P/Case-Shiller® Home Price Index
Washington M S A**



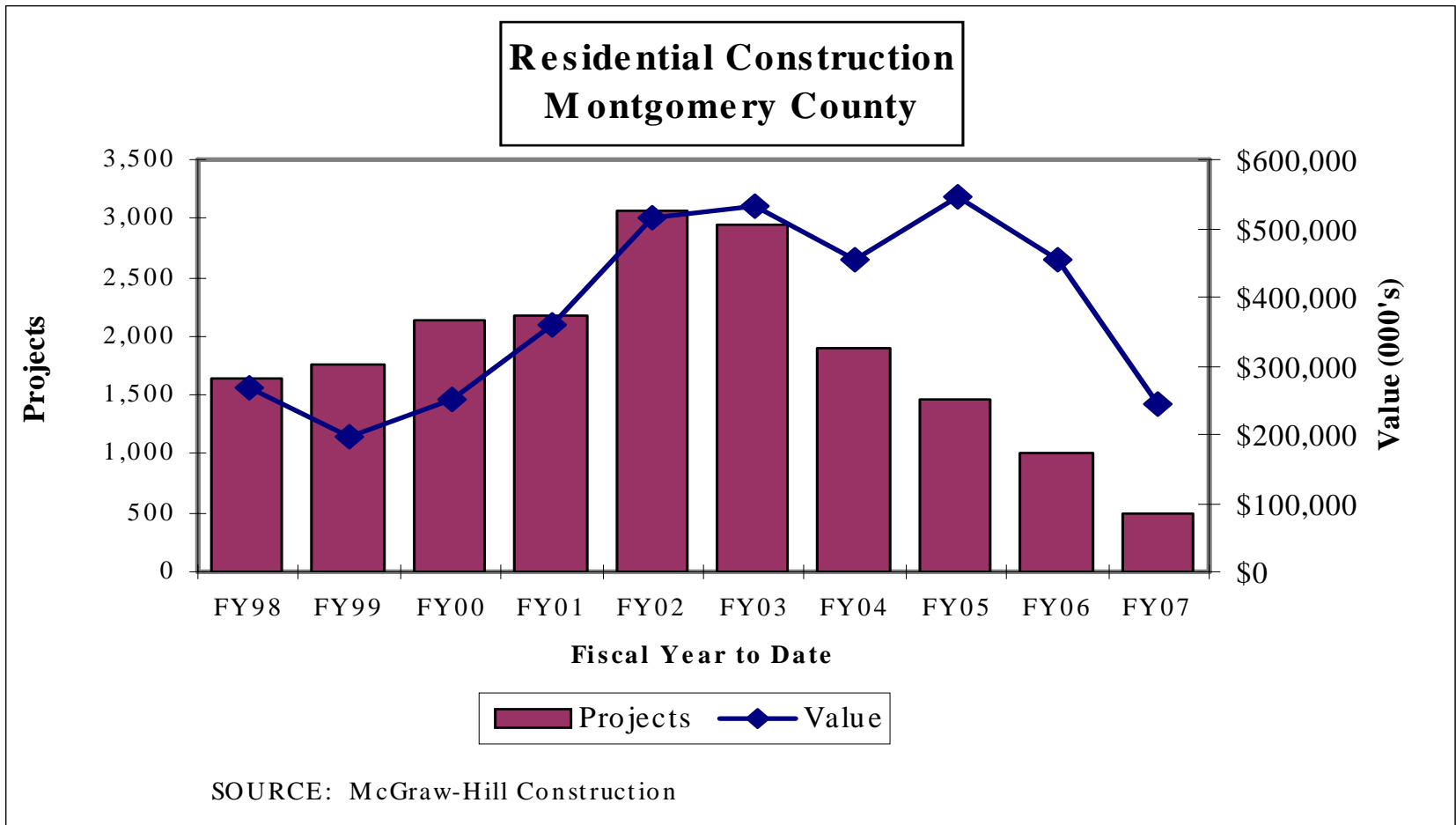
SOURCE: S&P/Case-Shiller price index is a registered trademark of Standard and Poor's
Data for 2007 from options contract traded 1/16/07 on Chicago Mercantile Exchange

Montgomery County Economic Indicators

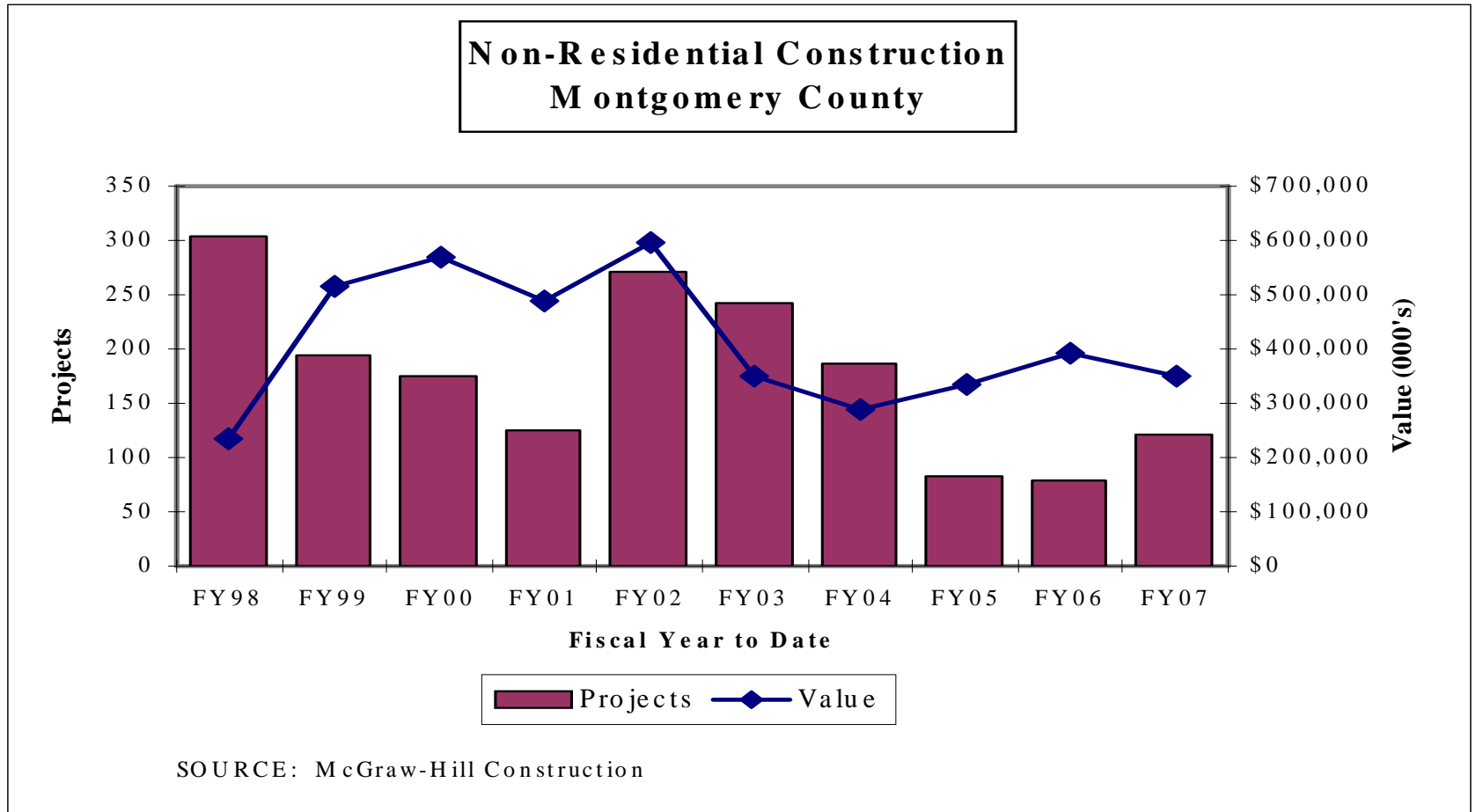
The inventory of homes for sale in the County remained above the four month level on average for the past six months.



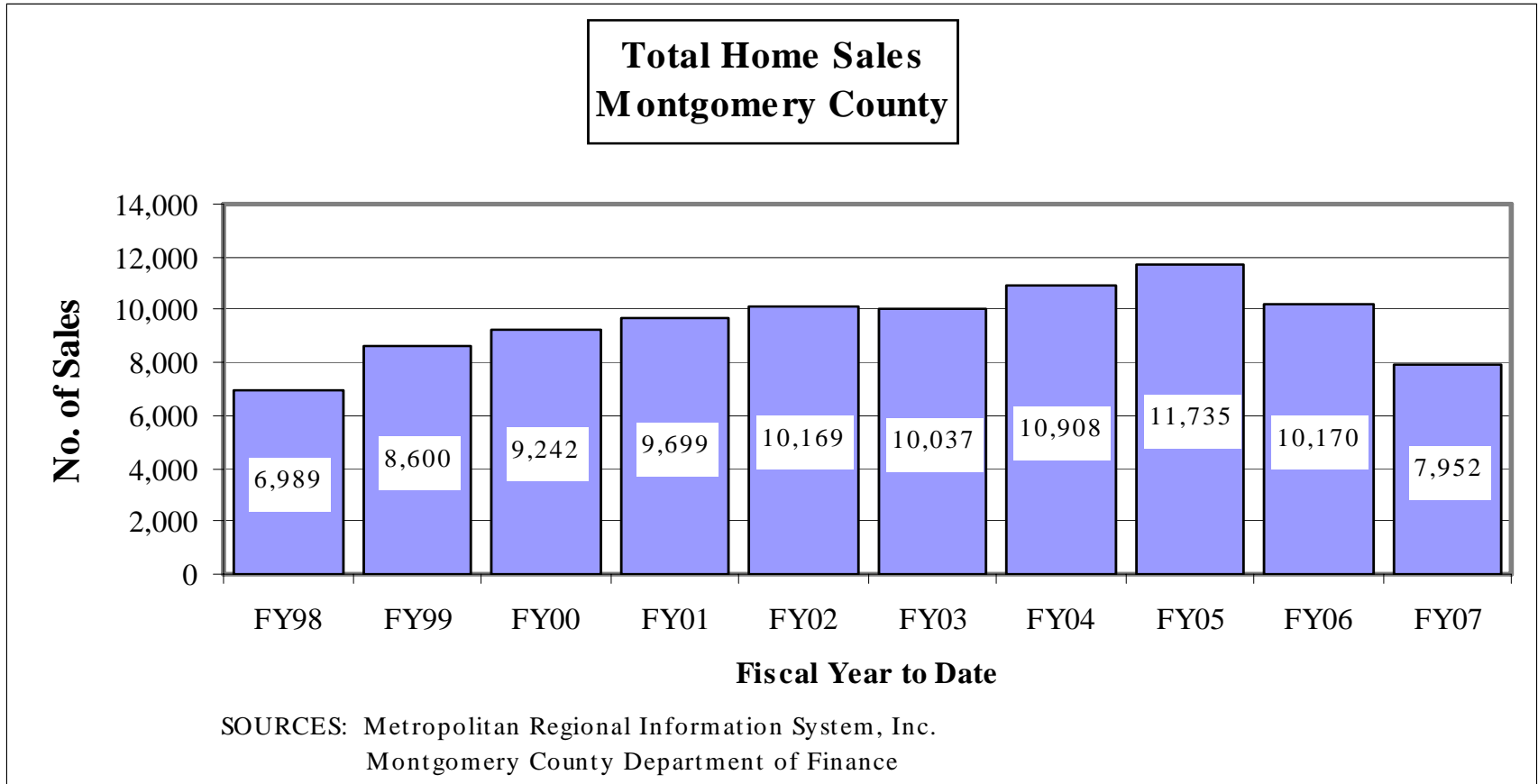
Residential construction has declined significantly during this fiscal year. The number of projects are nearly 52 percent below the same period last fiscal year and the value of new construction is down nearly 50 percent.



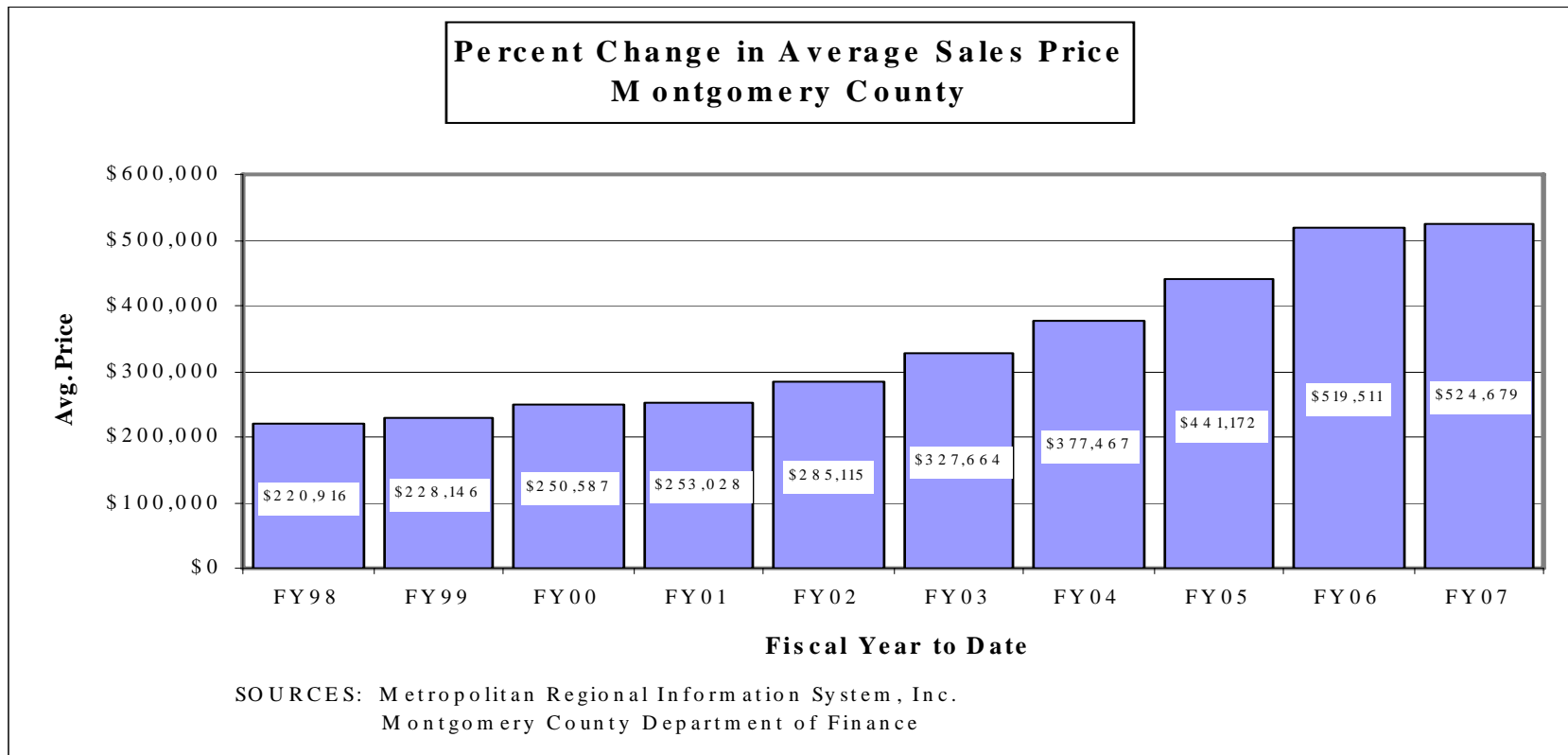
However, non-residential construction has experienced mixed results so far this year. While the number of projects have nearly doubled, the value of those projects is down 10.2 percent compared to last year.



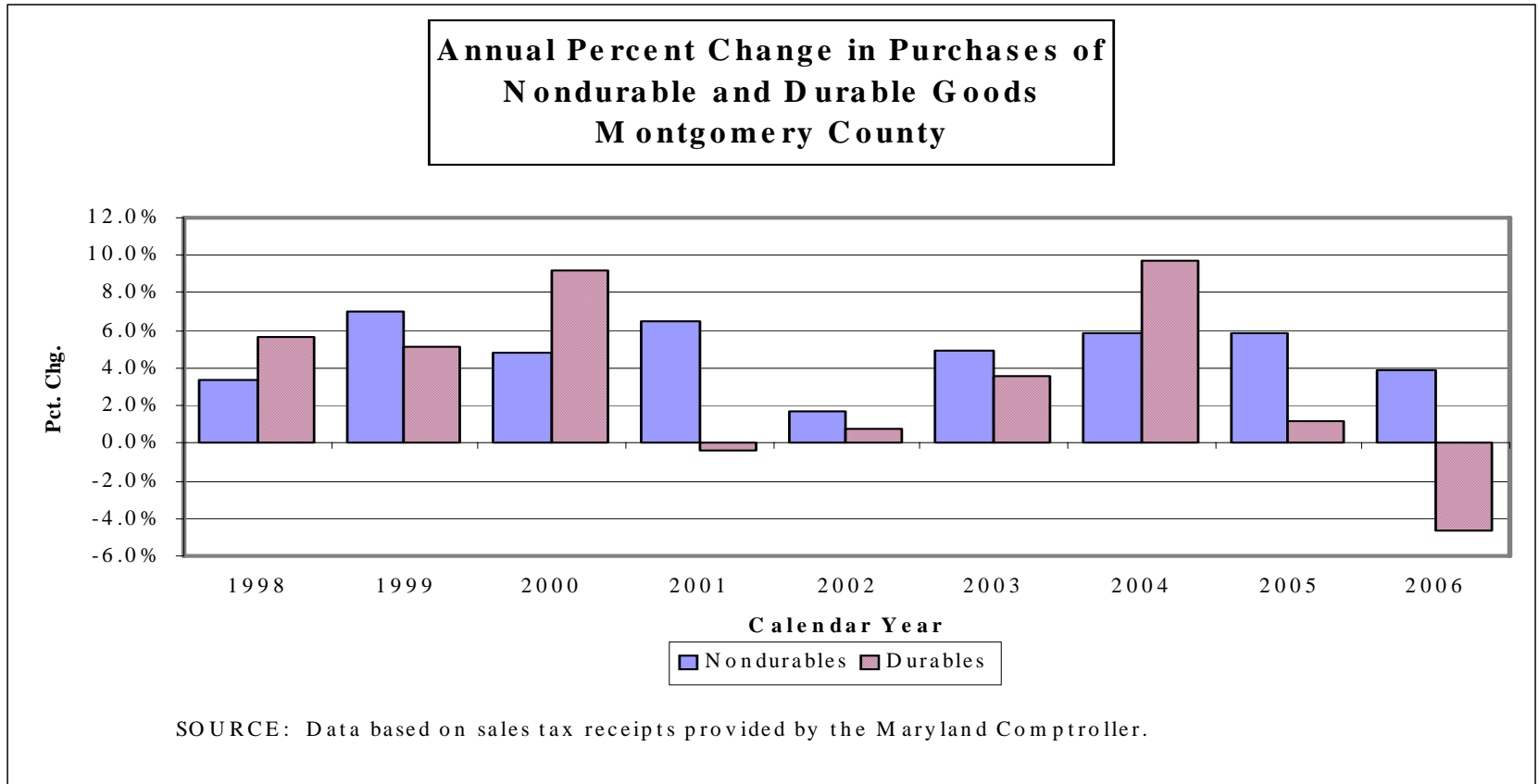
So far this fiscal year, home sales are down nearly 22 percent, which is in line with Finance’s revised forecast for transfer and recordation taxes.



While sales have declined this fiscal year, prices have not. To date, the average price has increased a modest 1 percent. While home prices are expected to decline in the region, the County has yet to experience that decline.



Because of the contraction in home sales in the County, sales of durable goods especially furniture and appliances declined nearly 5 percent in 2006, the largest one-year decline in over nine years.



SUMMARY

- Home sales have declined nearly 22 percent this fiscal year and Finance's revenue estimates for residential transfer and recordation taxes are in line with that decline.
- Home prices have increased a modest 1 percent this fiscal year and prices are not expected to decline as opposed to Northern Virginia.
- According to participants of the Business Advisory Panel and recent publication by Loan Performance, foreclosures are not an issue in Montgomery County. Loan Performance ranks Maryland and Virginia as having the lowest delinquency rates among subprime borrowers (4.32% -5.92%) compared to the national average of 8.49 percent.
- The real estate market is expected to rebound during the latter half of 2007.
- The County's economy could experience a slowdown in calendar year 2007 which follows the regional pattern. Even with that slowdown, the County's and region's economy should outperform the nation's.
- The County's unemployment rate of 2.9 percent is the lowest in the State.