

# **Presentation of Economic Indicators**

to

Management and Fiscal Policy Committee

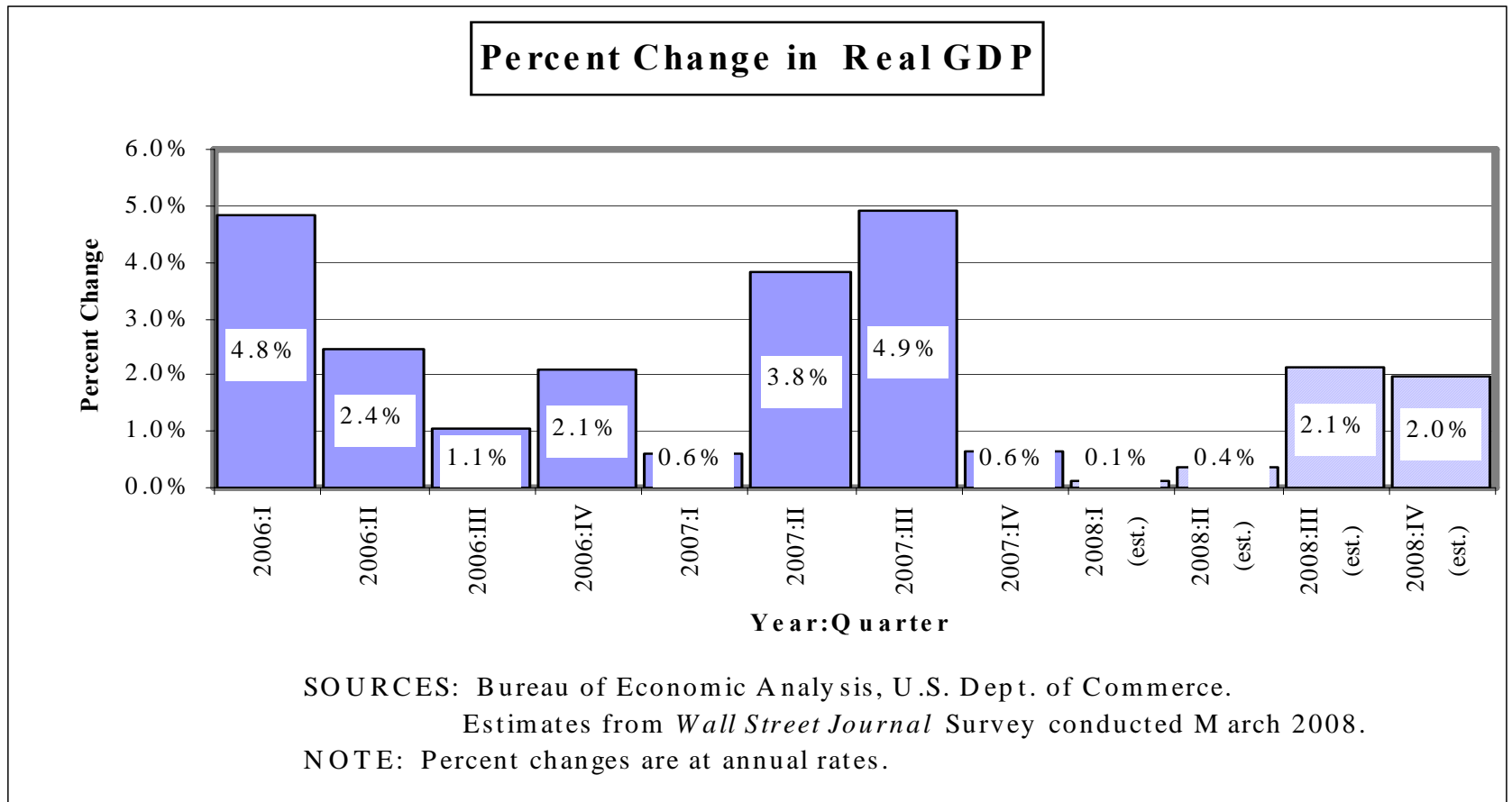
by the

Department of Finance

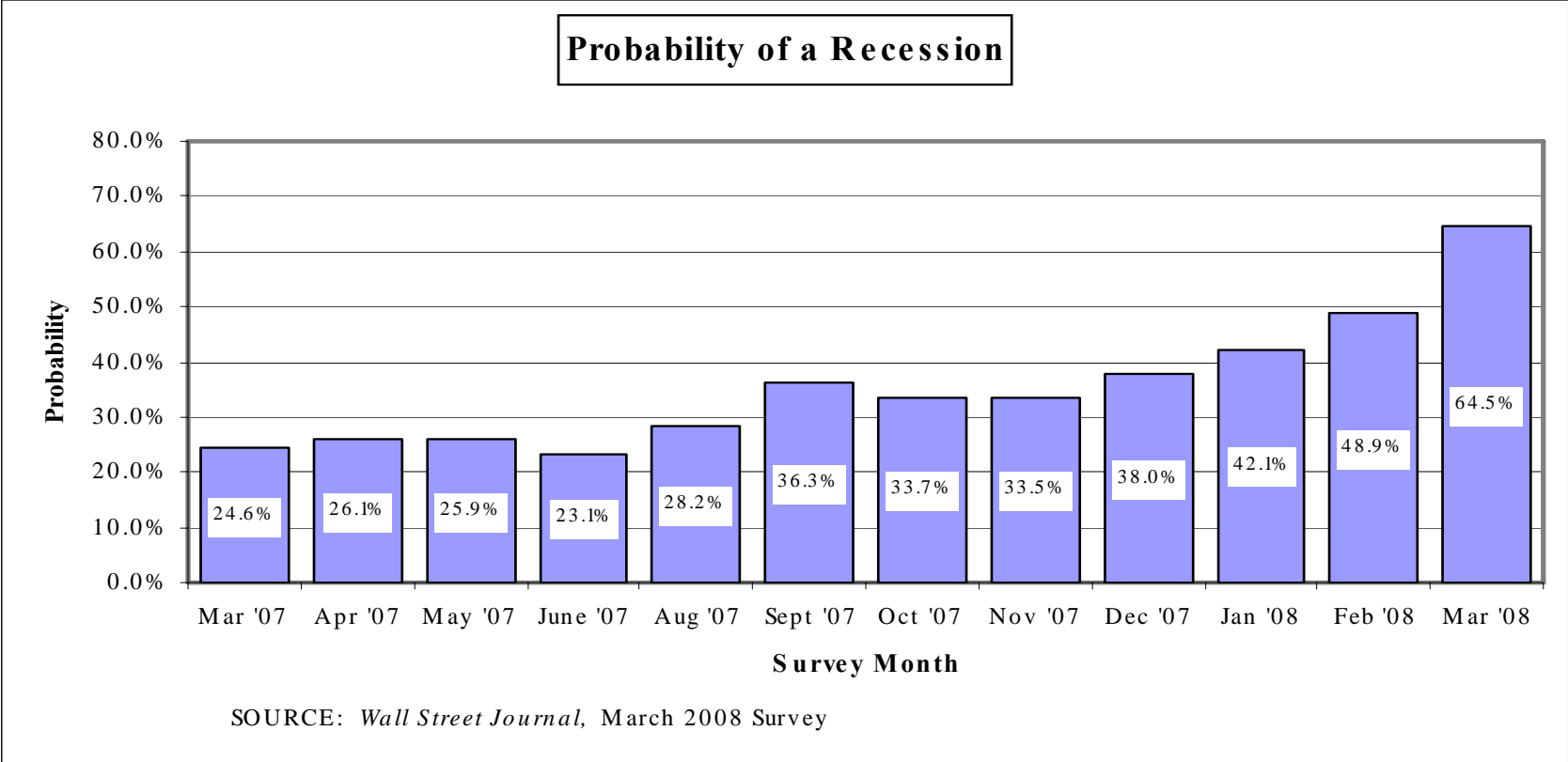
April 10, 2008

# **National Economic Indicators**

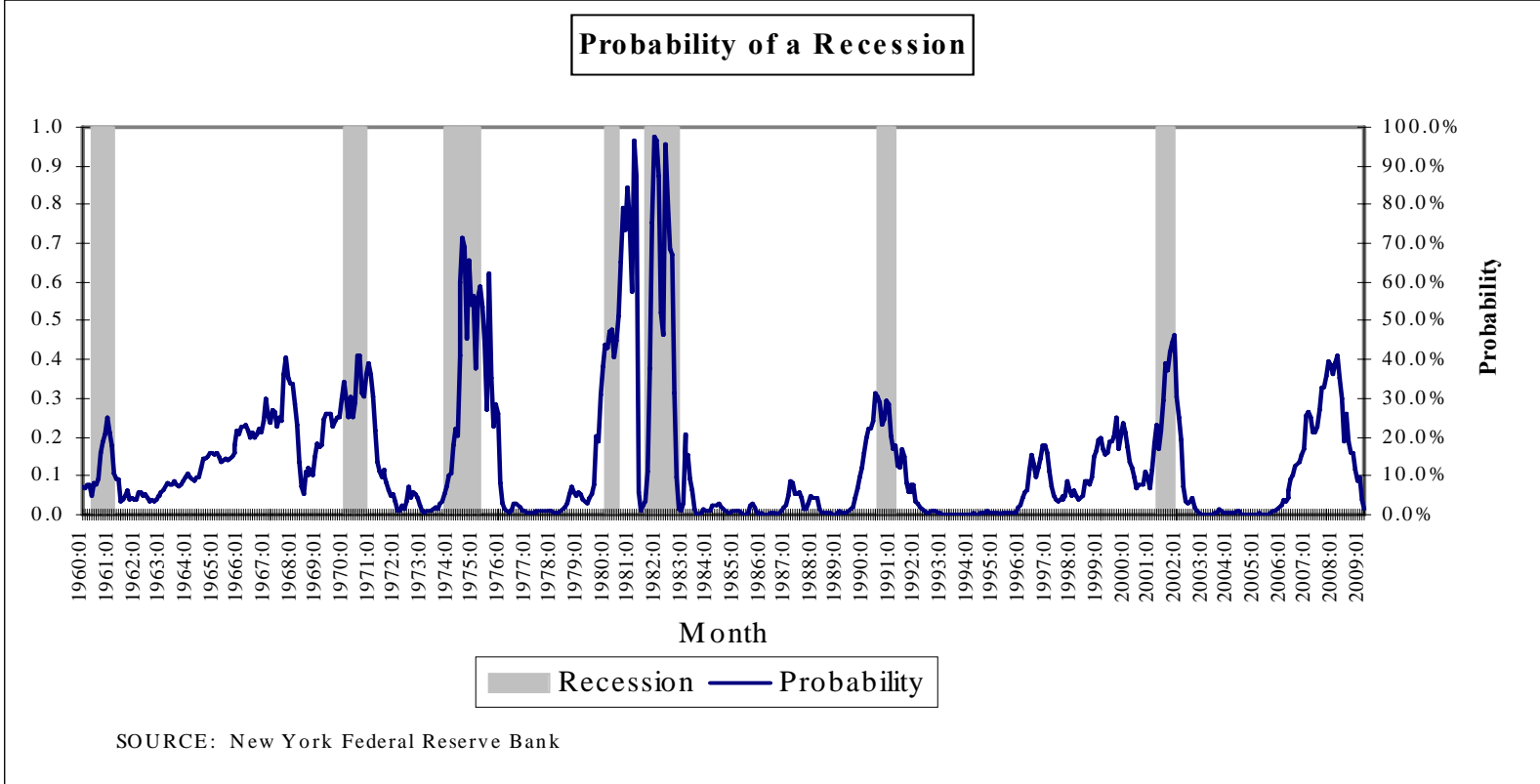
**Survey of 50 Economists by the *Wall Street Journal* expect gross domestic product (GDP) to increase 0.1 percent in the last quarter and 0.4 percent during this quarter. Do these low growth rates signal a recession?**



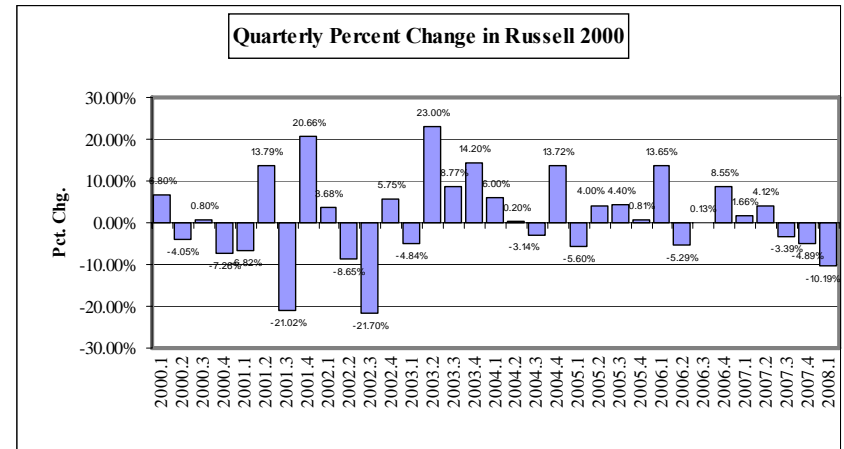
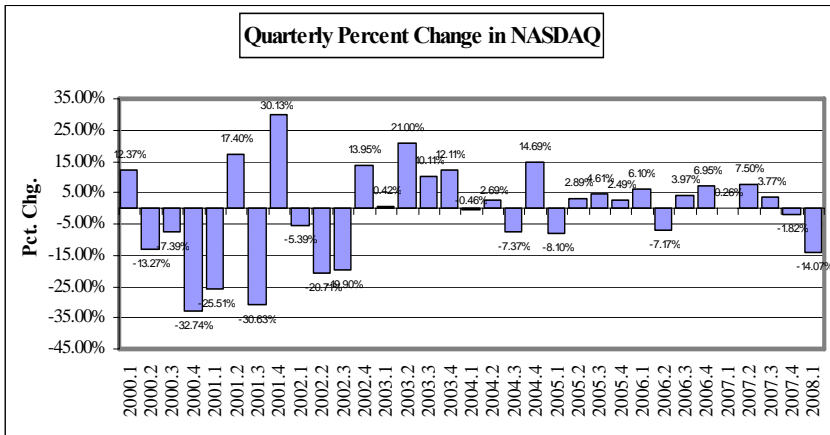
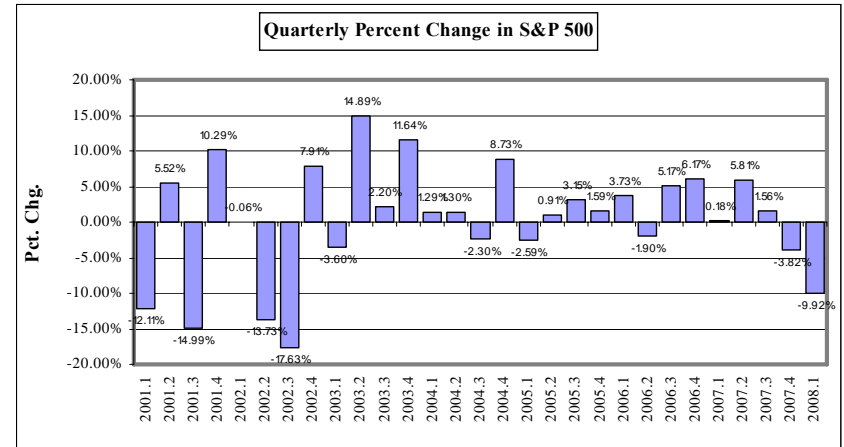
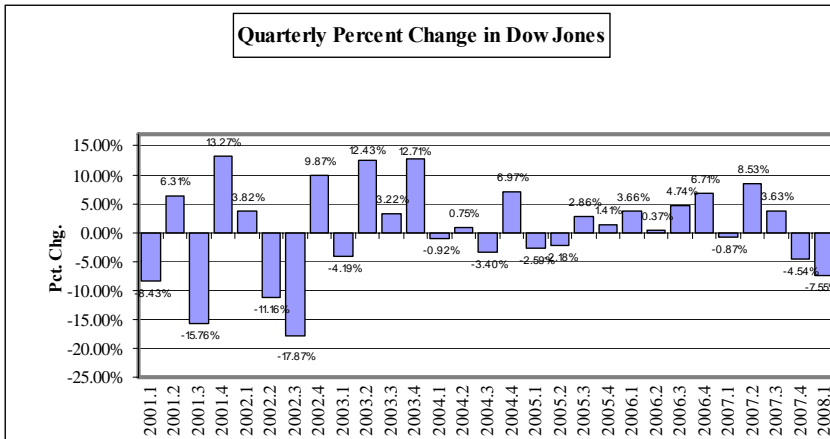
**The survey asked the economists what is the probability the U.S. will enter into a recession. That probability reached over 64 percent in March, up from less than 50 percent the prior month.**



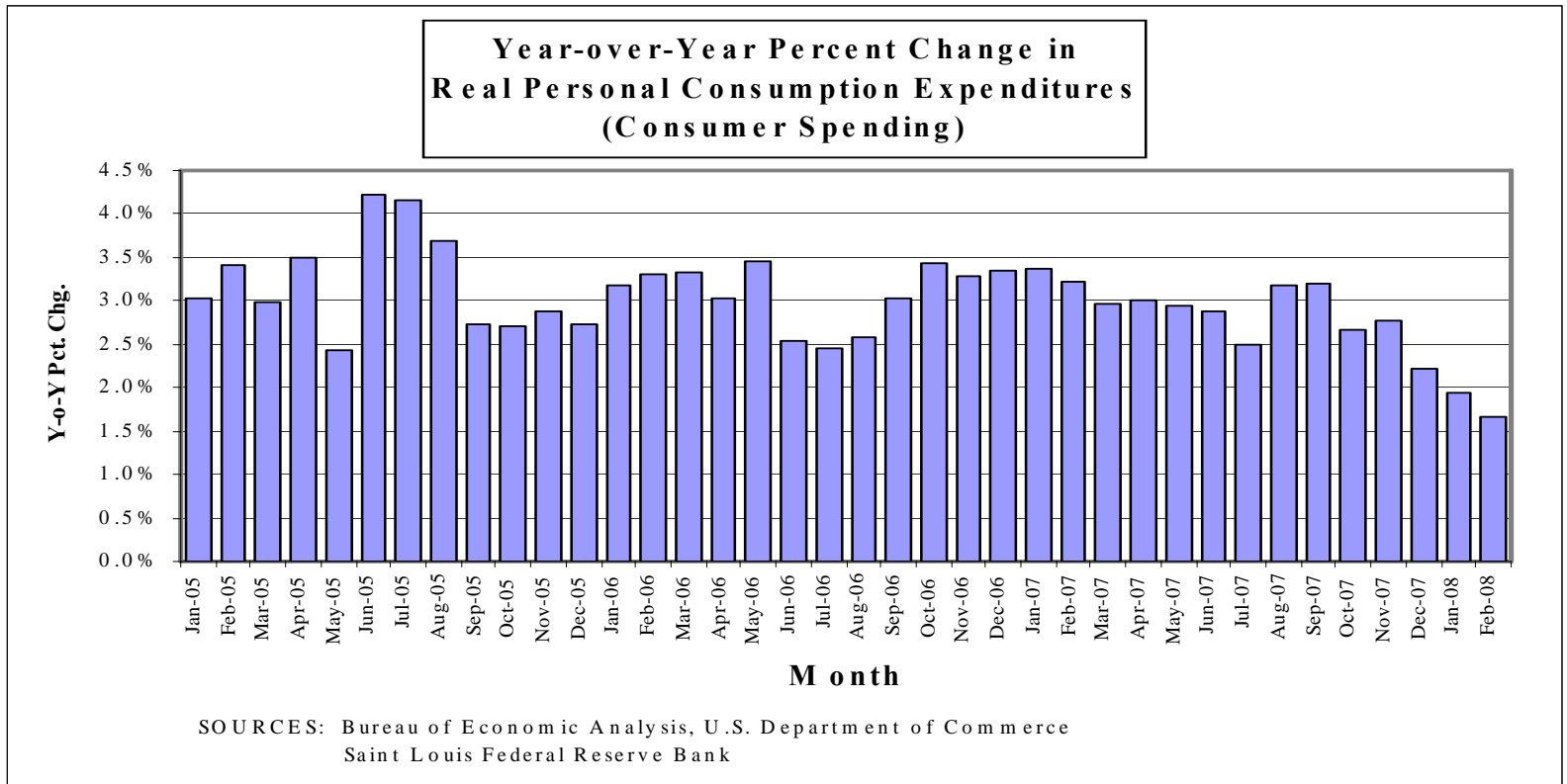
**Another source of the probability of a recession is based on the spread between long-term and short-term Treasury securities (i.e. the yield curve). That derivation suggests that the probability occurring the first half of this year is almost 40 percent.**



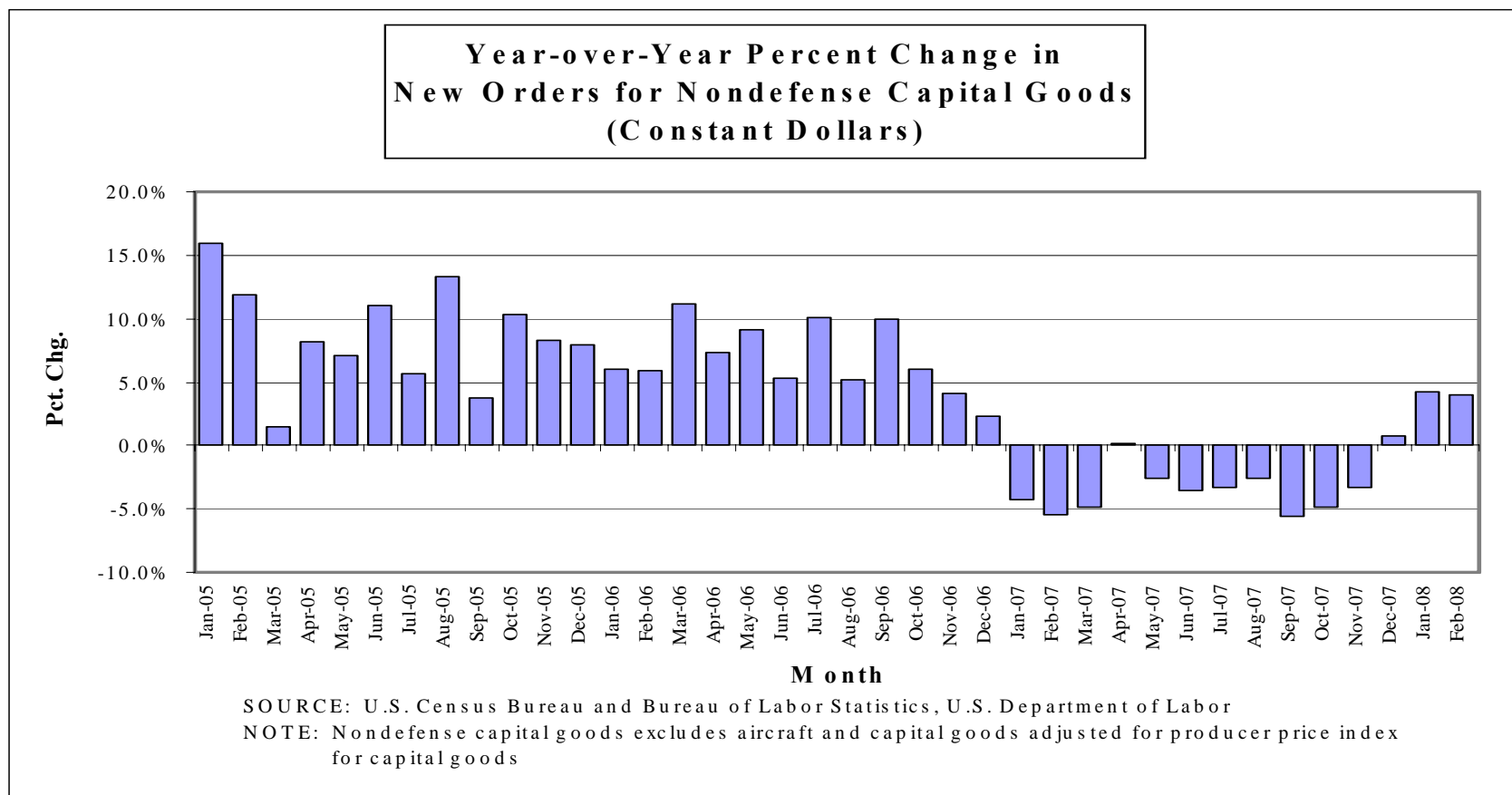
# The outlook for the U.S. economy is reflected in the performance of the stock market during the first quarter of this year. All of the major indices experienced their largest decline since the third quarter of 2003.



**Consumer spending, which represents nearly 72 percent of the gross domestic product, experienced a significant slowdown in January and February on a year-over-year basis. Because of that slowdown, economists view that trend as an indicator of a recession.**

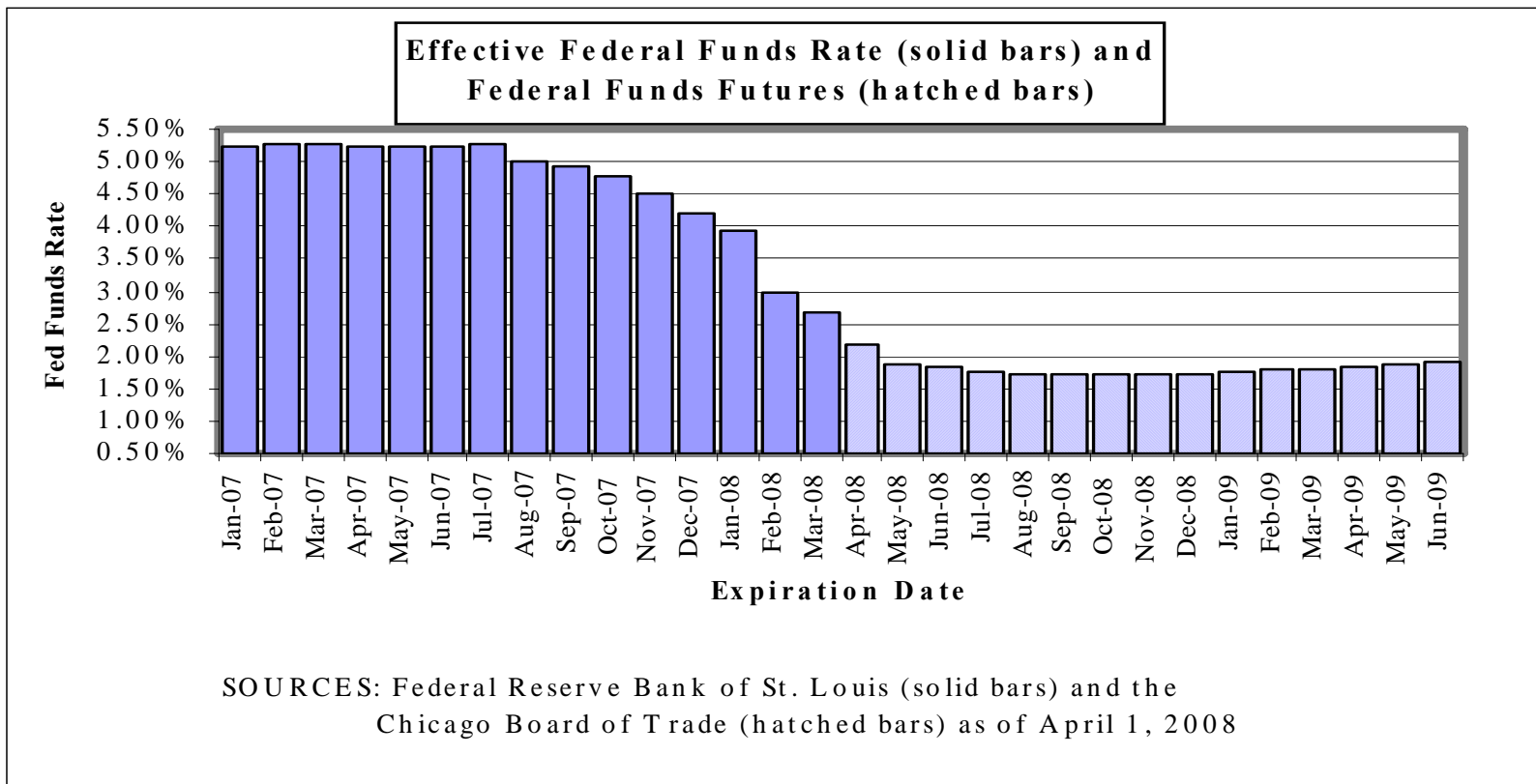


**Business investment is also an indicator of the health of the economy, especially the perception of businesses for future growth. An indicator of that perception is new orders for nondefense capital goods. As opposed to the slowdown in consumer spending, business spending increased in January and February on a year-over-year basis**





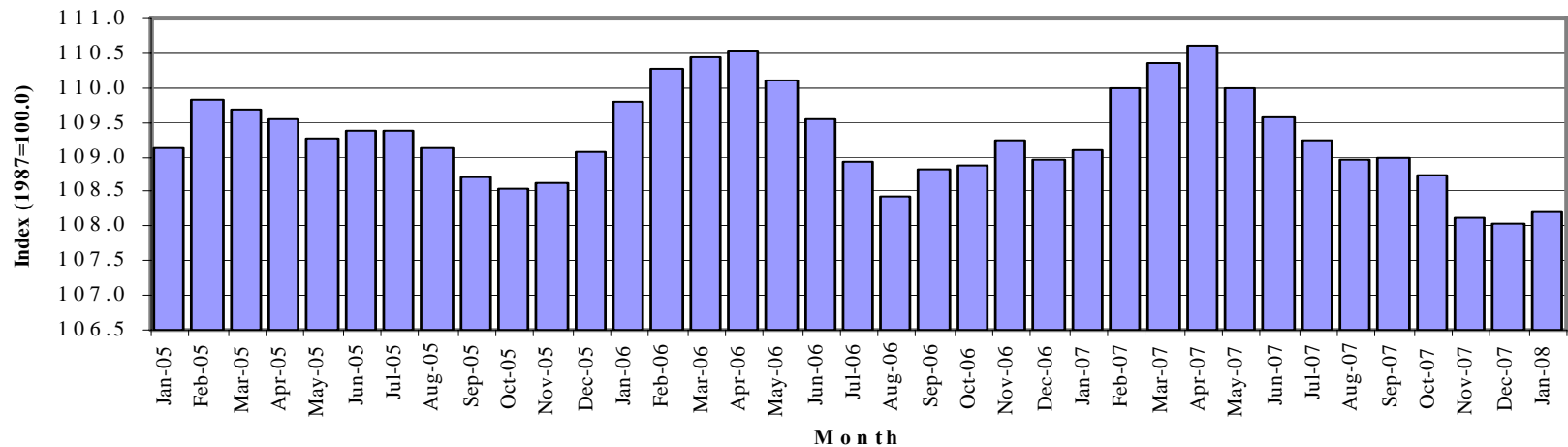
**The Federal Reserve, through its Federal Open Market Committee, has reduced the targeted federal funds rate a total of 300 basis points (bps) from 5.25 percent in September to 2.25 percent in March. The futures market expects a further reduction of 50 bps at the end of April bringing the federal funds rate to 1.75 percent – the lowest since September 2004.**



# **Regional Economic Indicators**

**Except for the slight increase in January, the leading economic indicator for the Washington region has declined steadily since April 2007. That indicator, which measures the performance of the regional economy six to eight months in the future, suggests the region's economy will experience slower growth in 2008.**

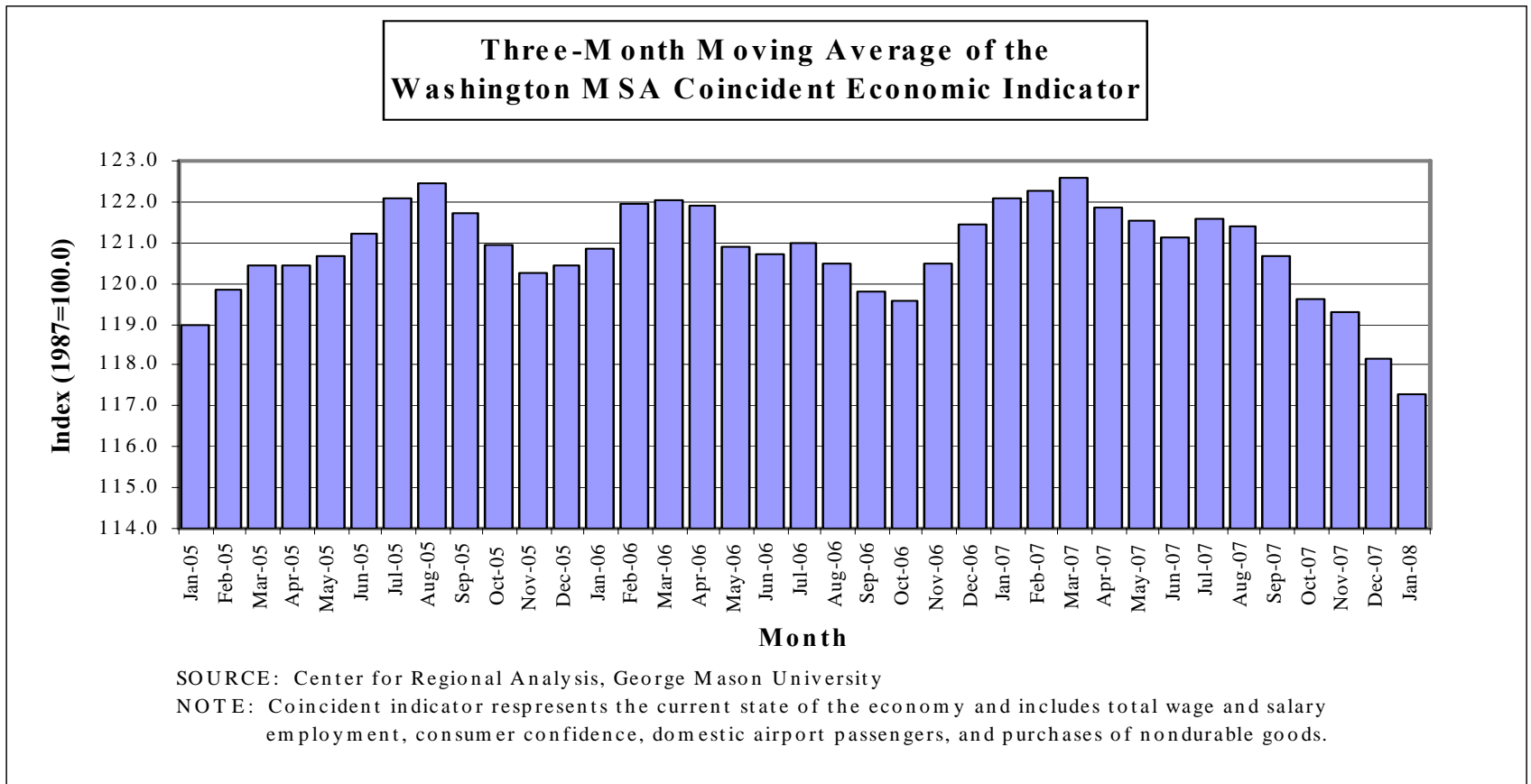
**Three-Month Moving Average of the Washington MSA Leading Economic Indicator**



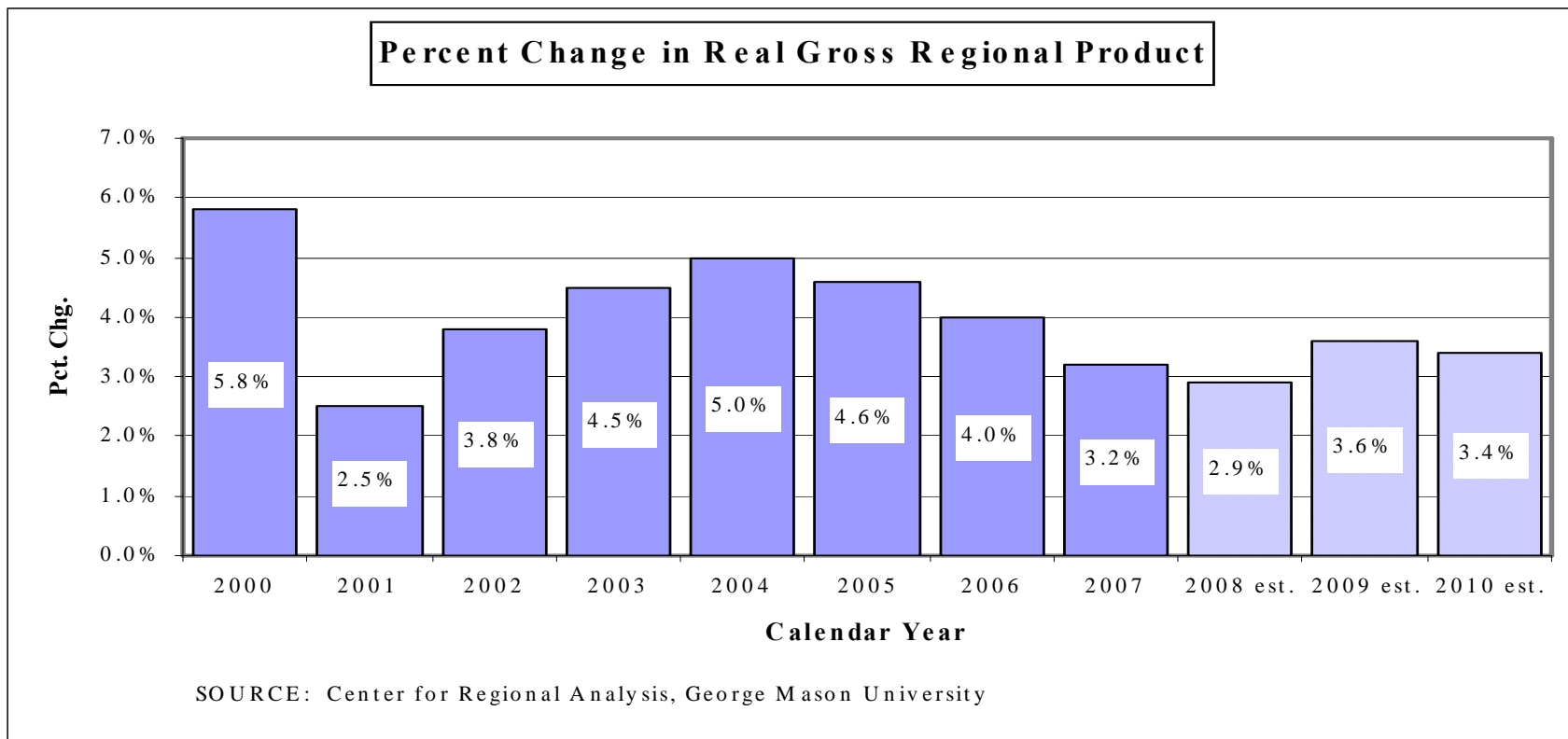
SOURCE: Center for Regional Analysis, George Mason University

NOTE: Leading indicator is designed to forecast economic performance six to eight months in advance and includes residential building permits, consumer expectations, help wanted index, initial claims for unemployment insurance, and purchases of durable goods.

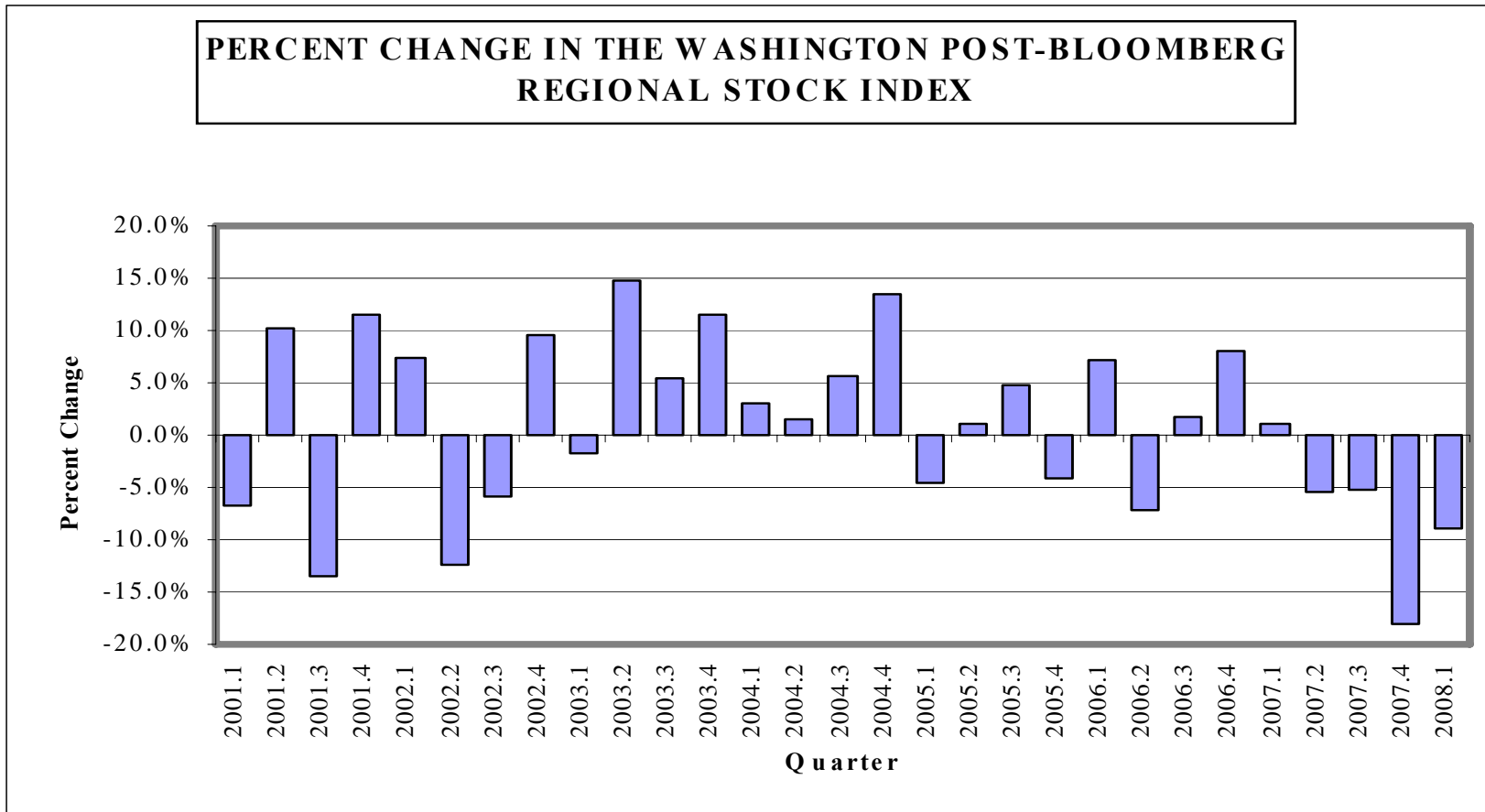
**The coincident economic indicator, which measures the current performance of the region's economy, has also declined steadily since April 2007.**



**Because both the leading and coincident indicators show a slowdown in the region's economy, the Center for Regional Analysis estimates that the gross regional product will increase only 2.9 percent in 2008 – the lowest since 2001 (the last national recession).**

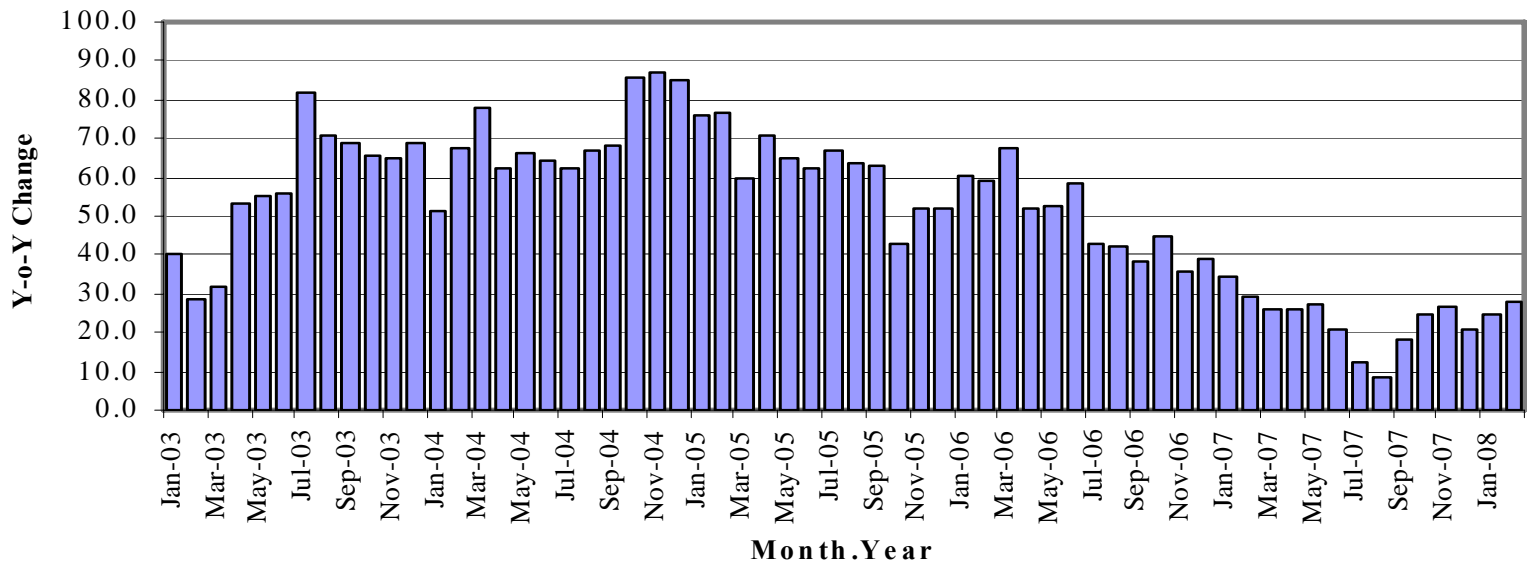


**That expectation of a slowdown in the region's economy in 2008 is reflected in the performance of the regional stock index the past year (last four quarters). Since the end of March of last year, the index declined 26.3 percent.**



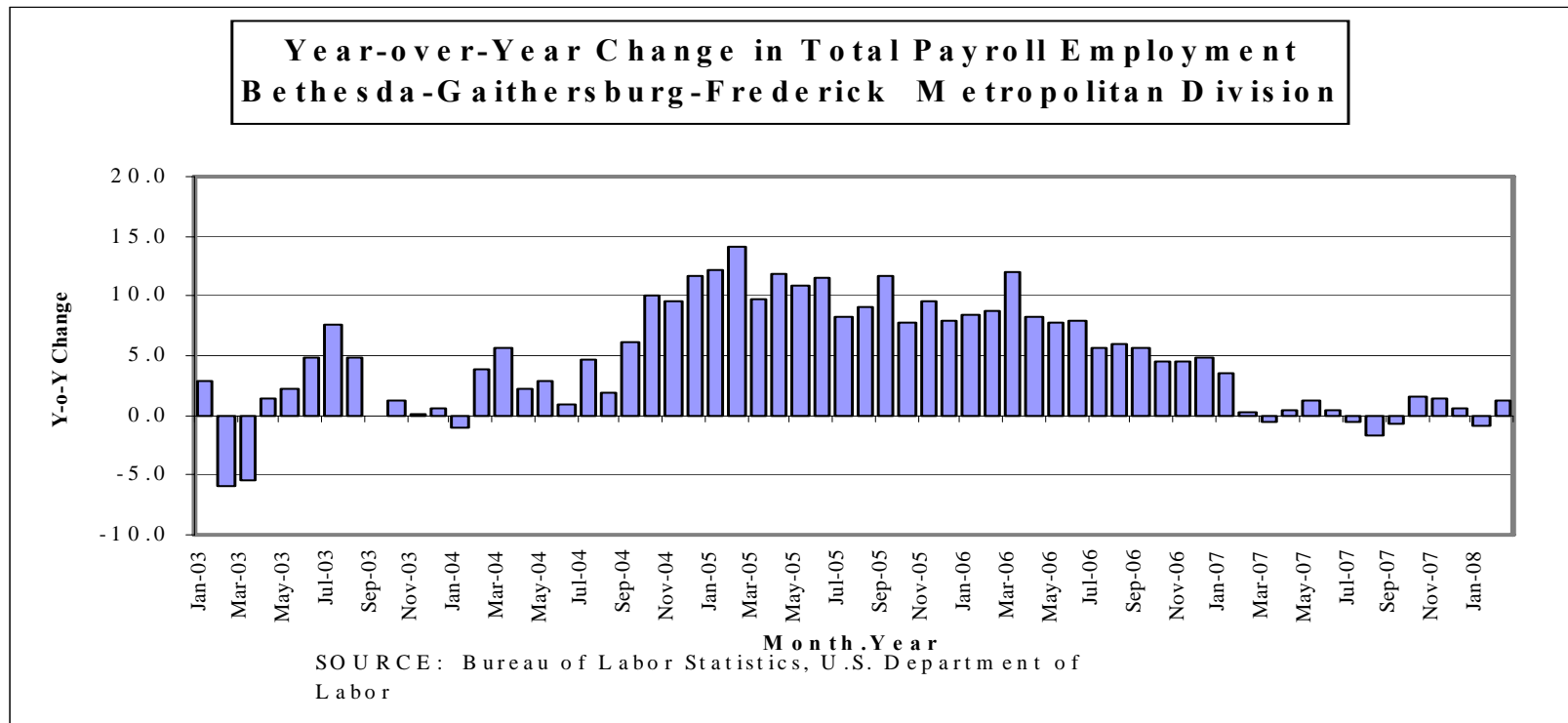
**The slowdown in the region's economy is reflected in the growth of payroll employment. While the region's businesses added 28,000 jobs in February on a year-over-year basis, it is down significantly from 2006 (49,500 new jobs).**

**Year-over-Year Change in Payroll Employment  
Washington DC Metropolitan Area**



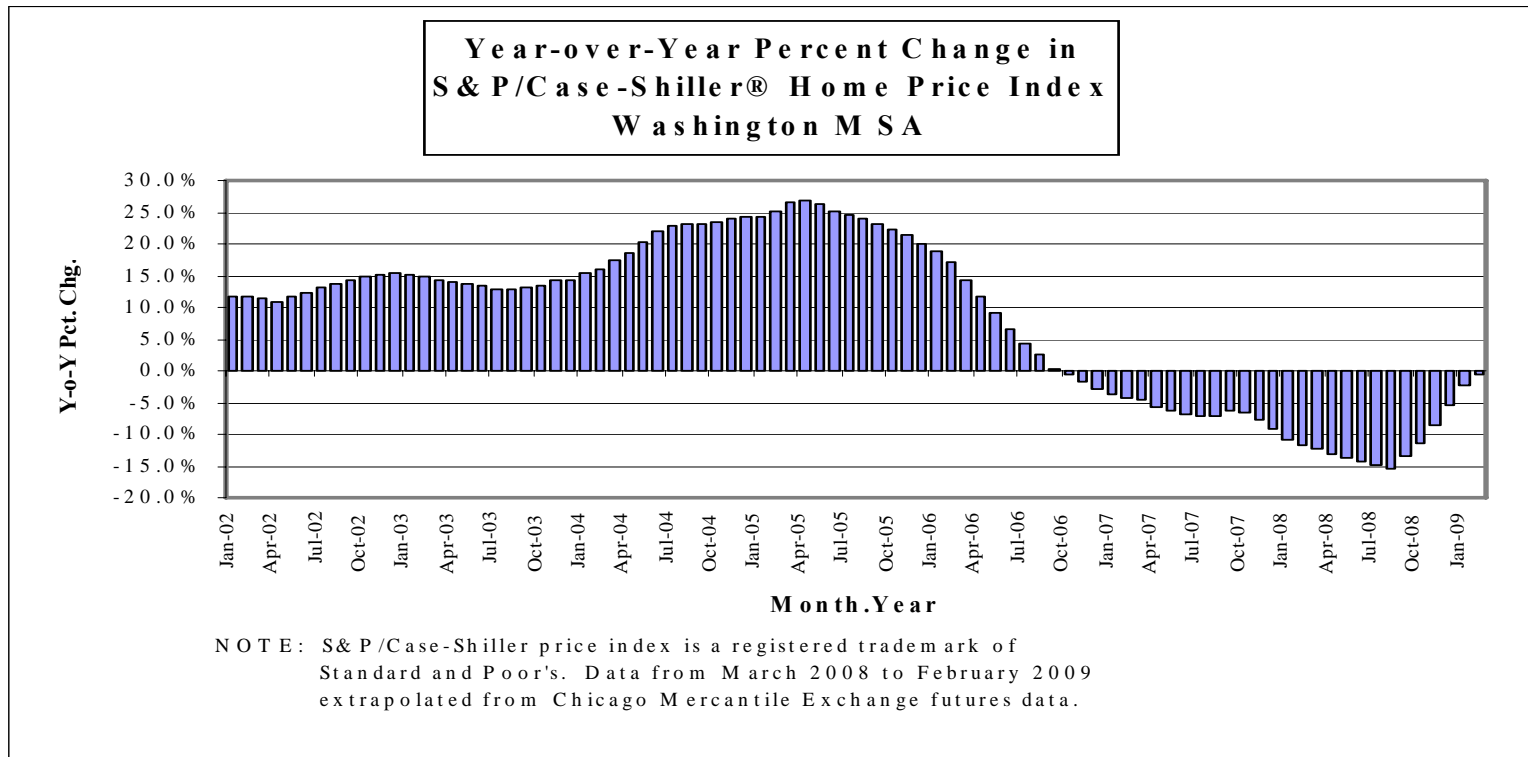
SOURCE: Bureau of Labor Statistics, U.S. Department of Labor

**While the region created jobs, albeit at a slower pace than in 2006, Montgomery and Frederick Counties barely added jobs the past year. On a year-over-year basis, both counties added less than 1,000 payroll jobs during the past year.**



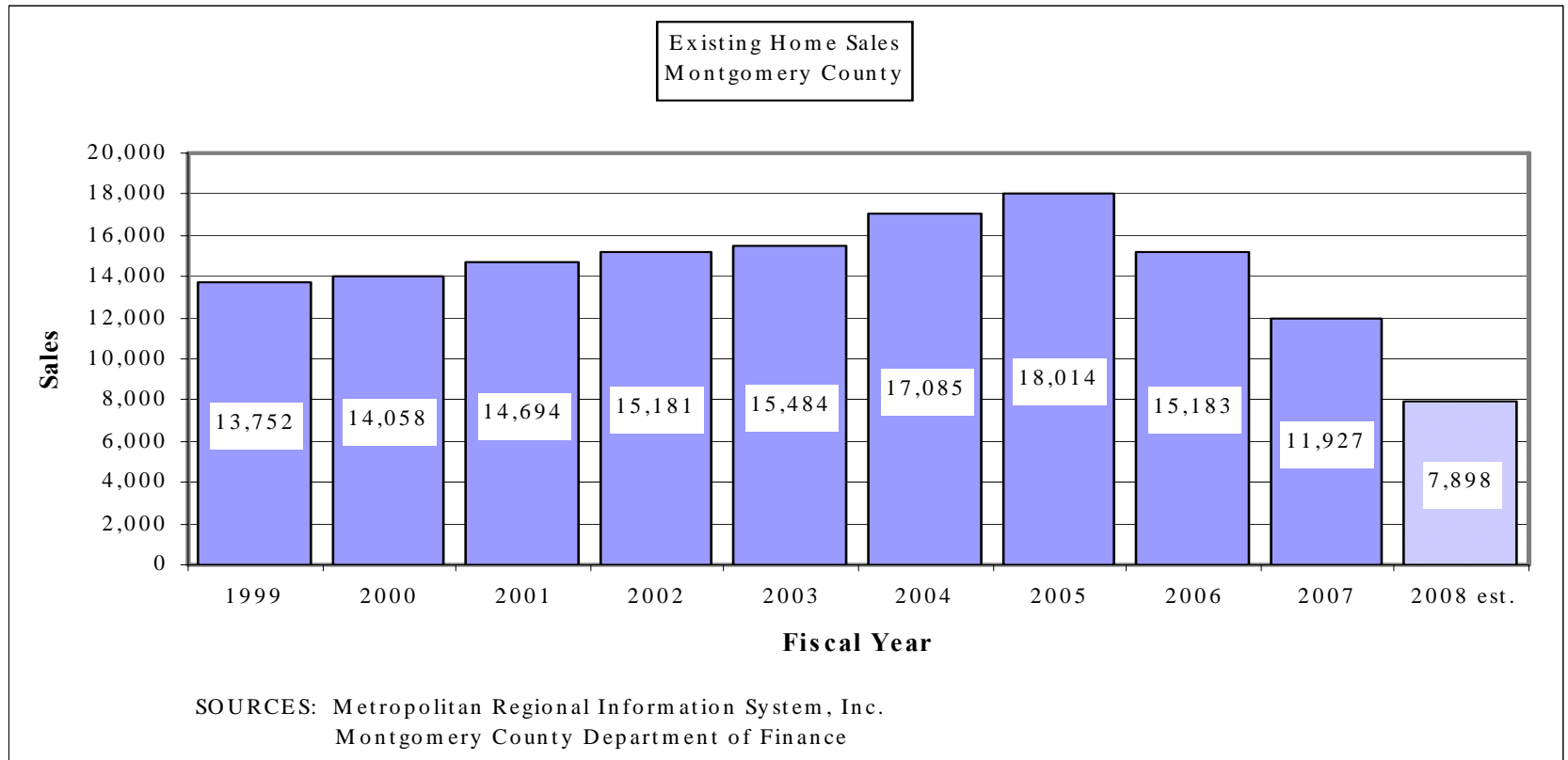


**According to the Center for Regional Analysis, “part of what has eroded in the economy’s performance is seasonal and part is fundamental.” A weak housing sector has been a major fundamental factor. The weak housing sector is attributed to the current and expected decline in home prices for the region. Based on the Case-Shiller® index and the futures market, home prices in the region are not expected to increase until 2009.**

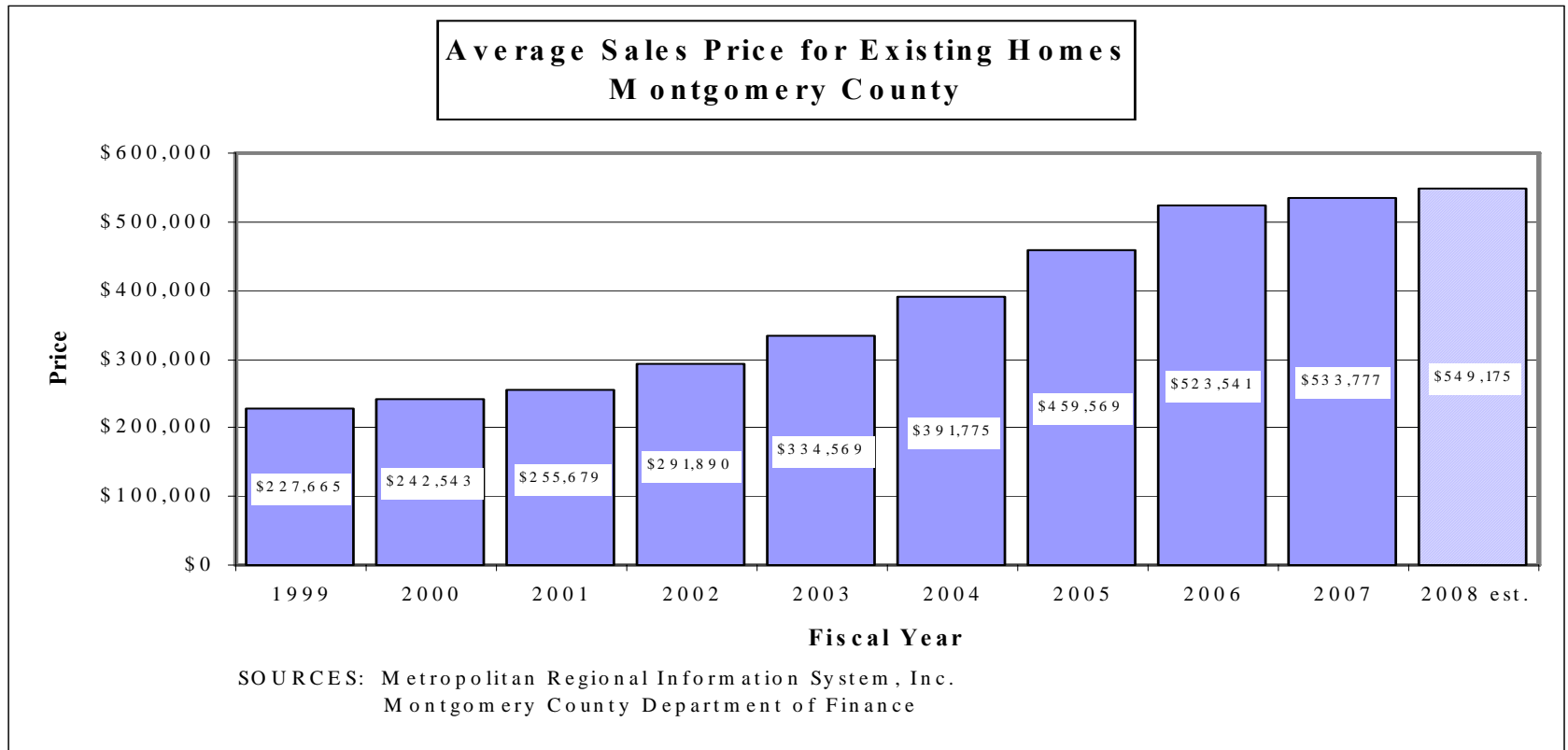


# **Montgomery County Economic Indicators**

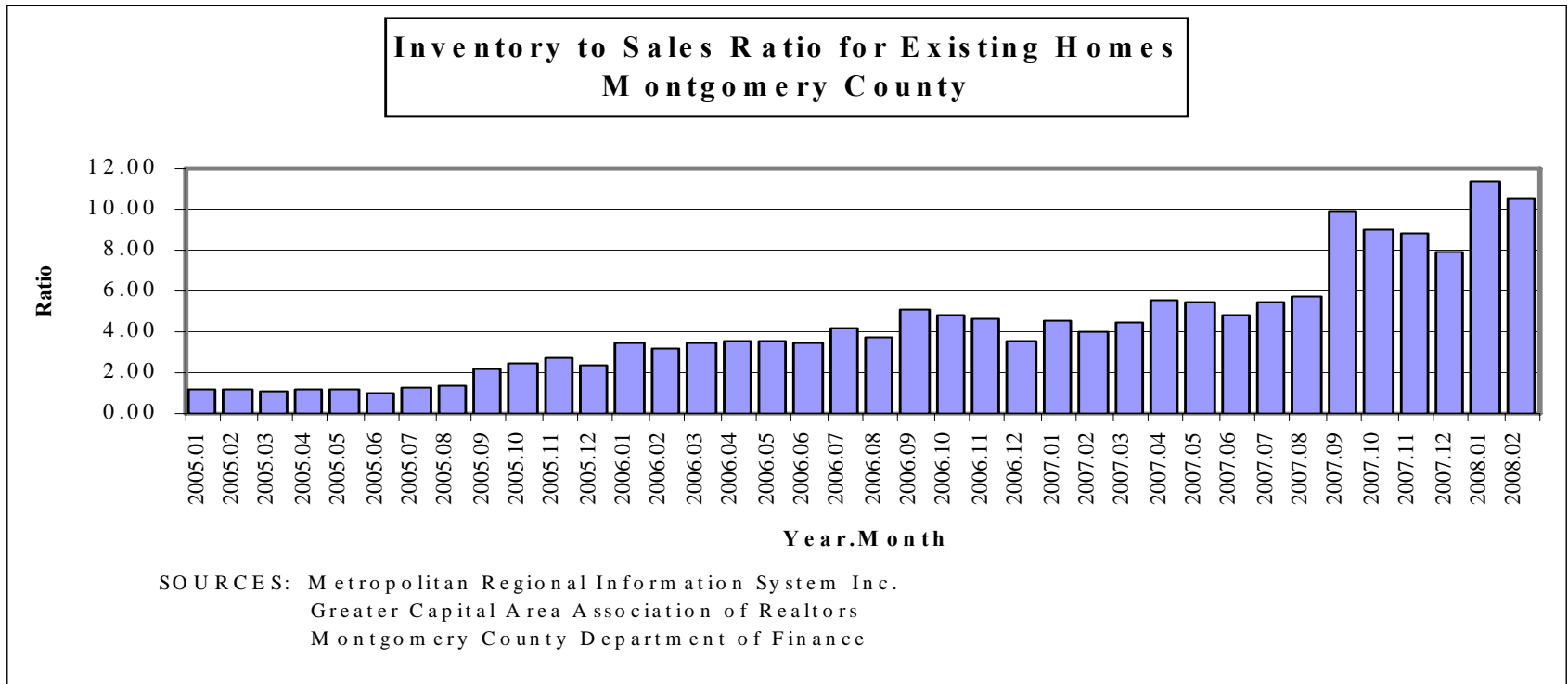
**Existing home sales are expected to decline 33.8 percent in fiscal year 2008 reaching a level of less than 7,900 units – the lowest level in over nine years.**



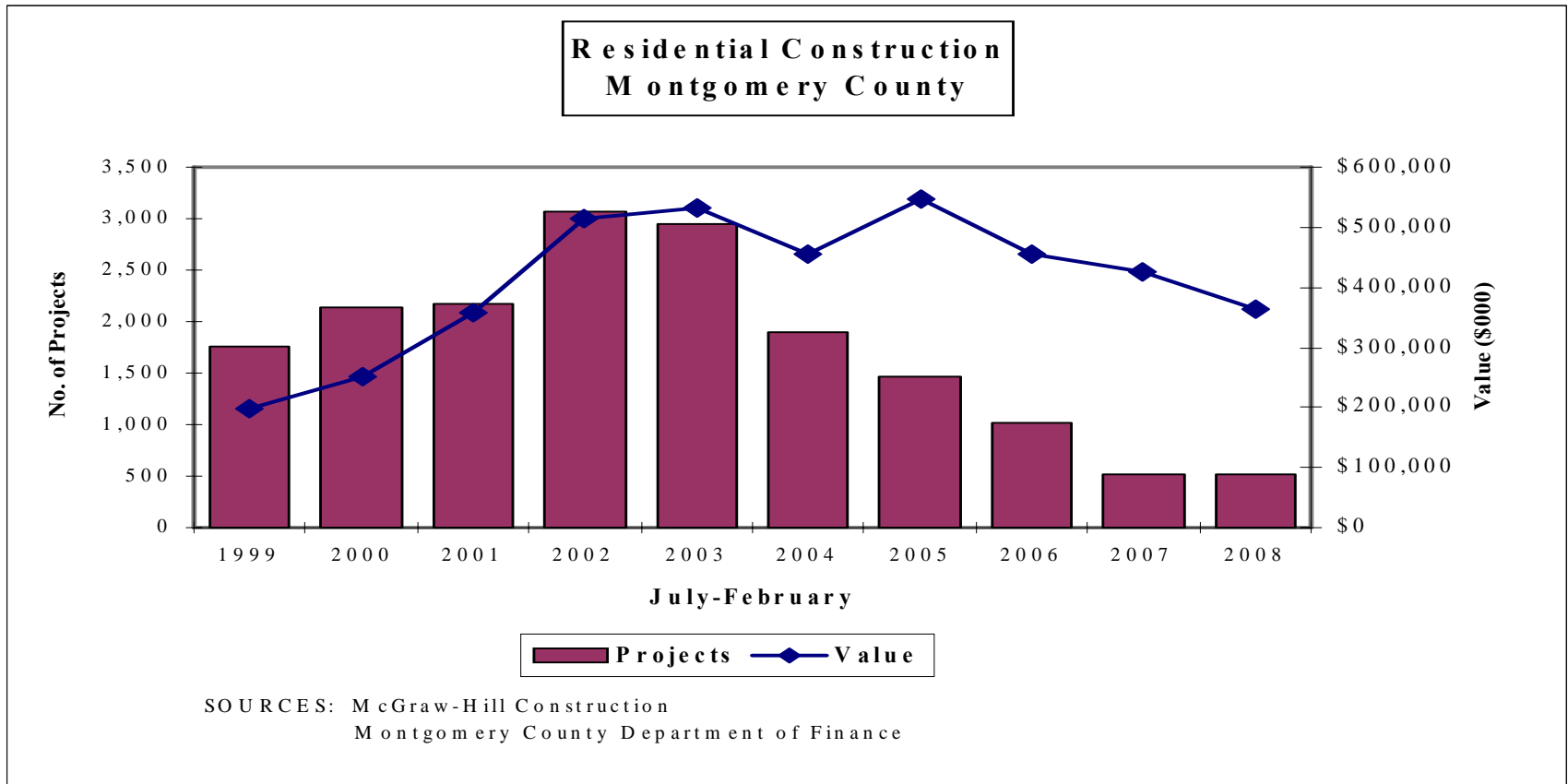
**Based on average sales price to date, average home prices are expected to increase nearly 3 percent in fiscal year 2008. This is slightly above the 2 percent rate in fiscal year 2007 but down significantly from the double-digit rates the previous five years.**



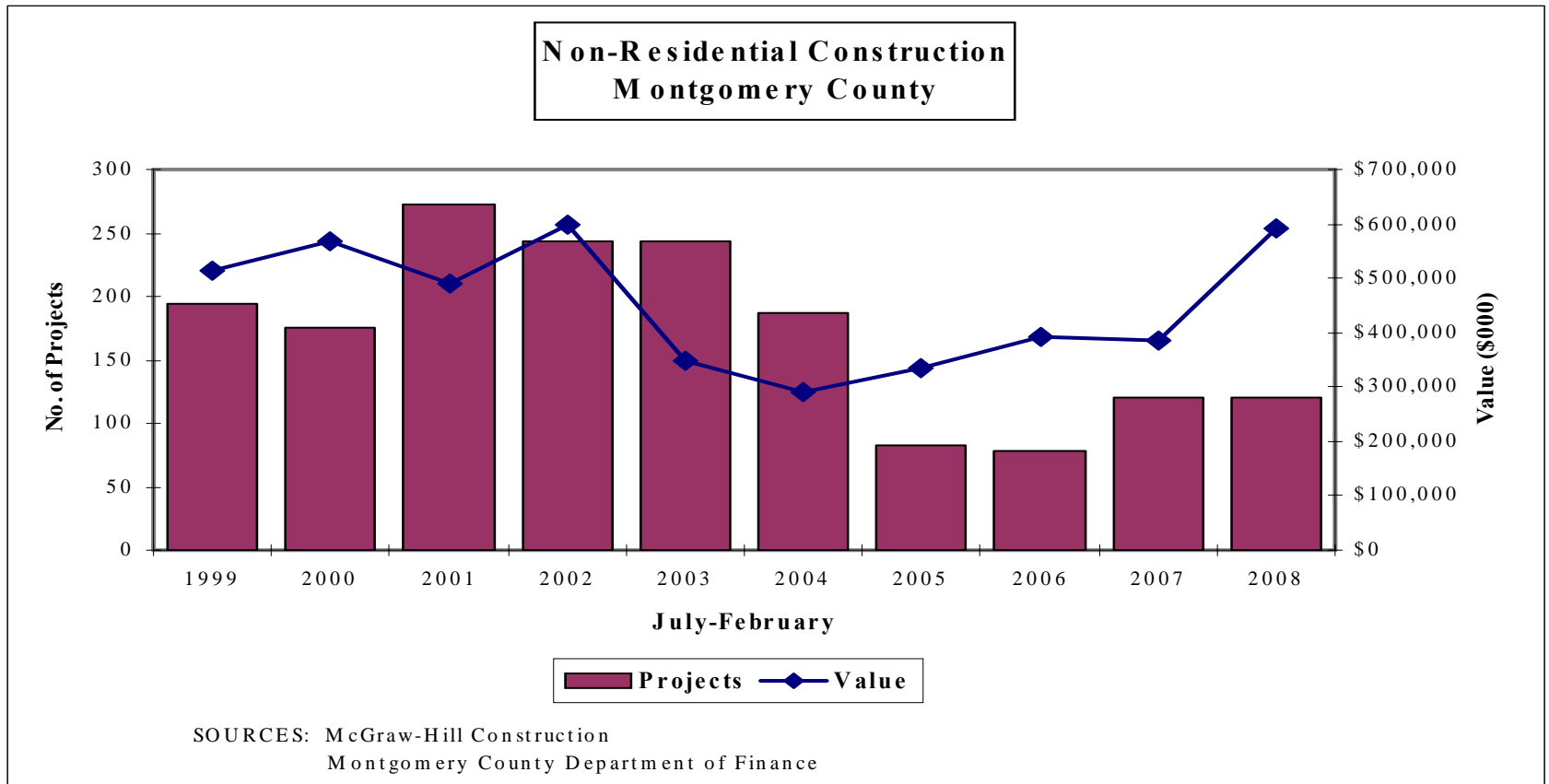
**Housing sales inventory remain at a record high. In February, the inventory to sales ratio was slightly above 10.6 and the second highest ratio (January's ratio of 11.4 being the highest) in recent history. That ratio suggests there is at least a ten-month supply of homes for sale at the current sales pace.**



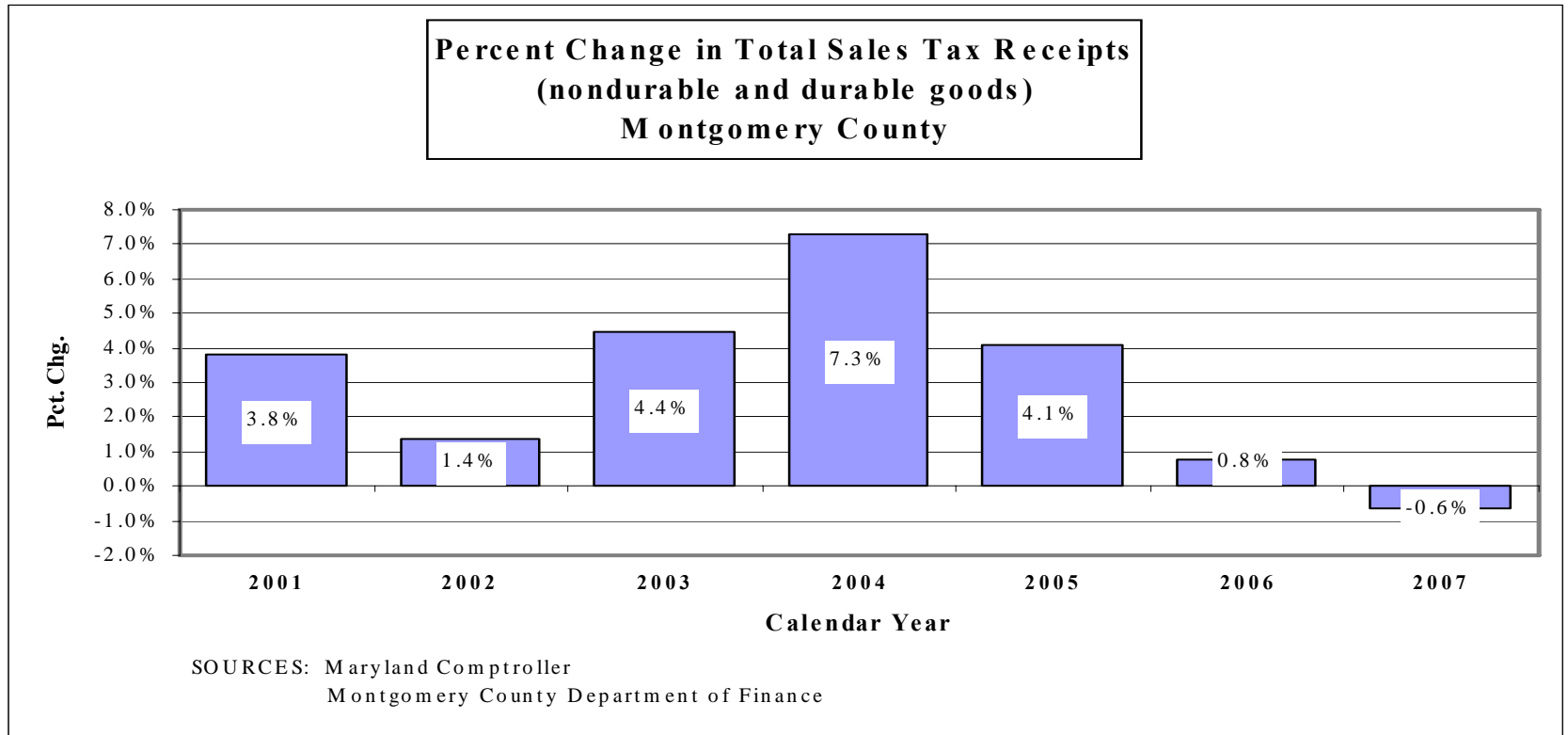
**Because of the oversupply of existing homes for sale, the number of residential projects has dropped to its lowest level the past two years – nearly 50 percent below in fiscal year 2006 (July-February). The value of residential construction also has declined steadily since its peak in fiscal year 2005.**



**While residential construction activity continues to decline, the value of non-residential construction during fiscal year to date has increased over 50 percent compared to the July-February 2007 period and nearly reaching the peak achieved during the July-February 2002 period.**

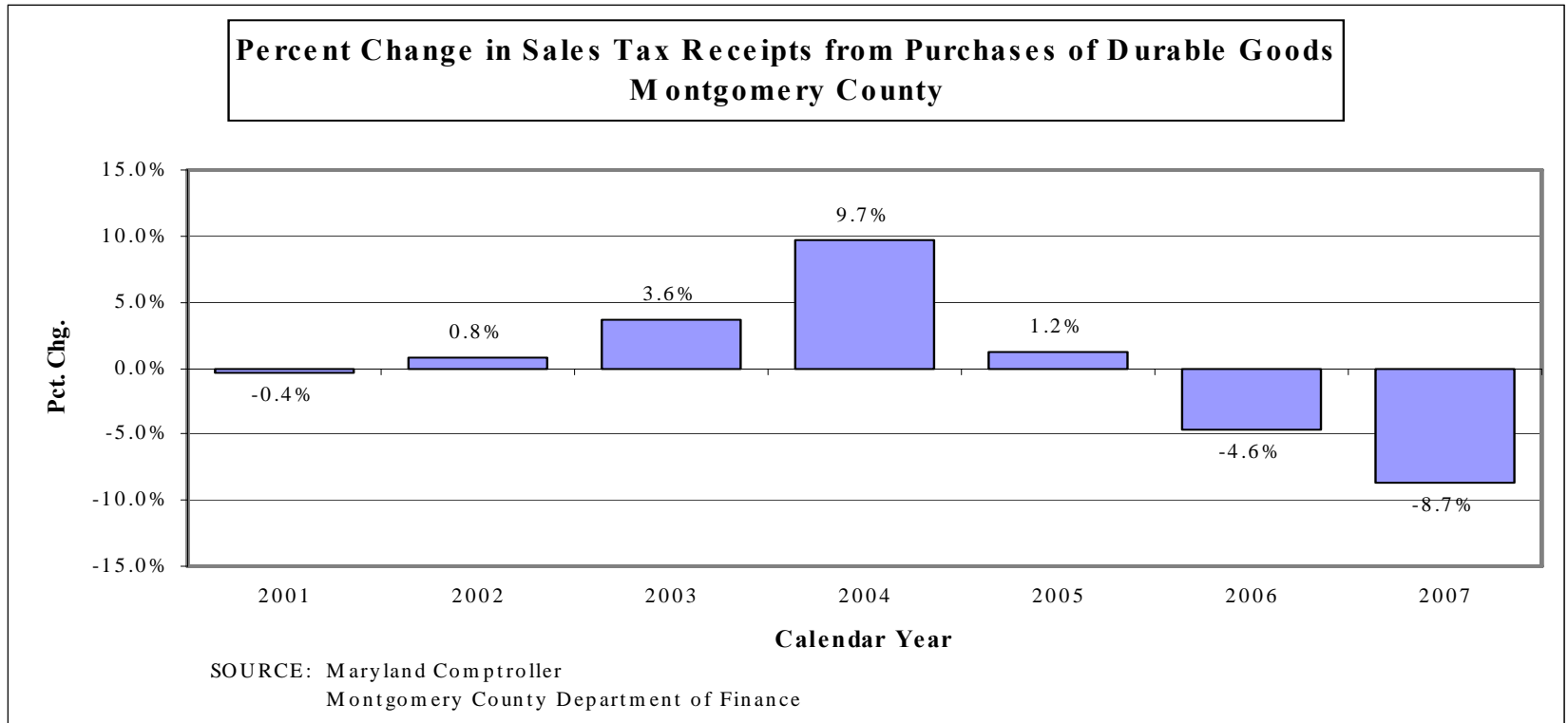


**Sales tax receipts from the purchases of nondurable and durable goods declined 0.6 percent in 2007 after increasing a meager 0.8 percent in 2006.**

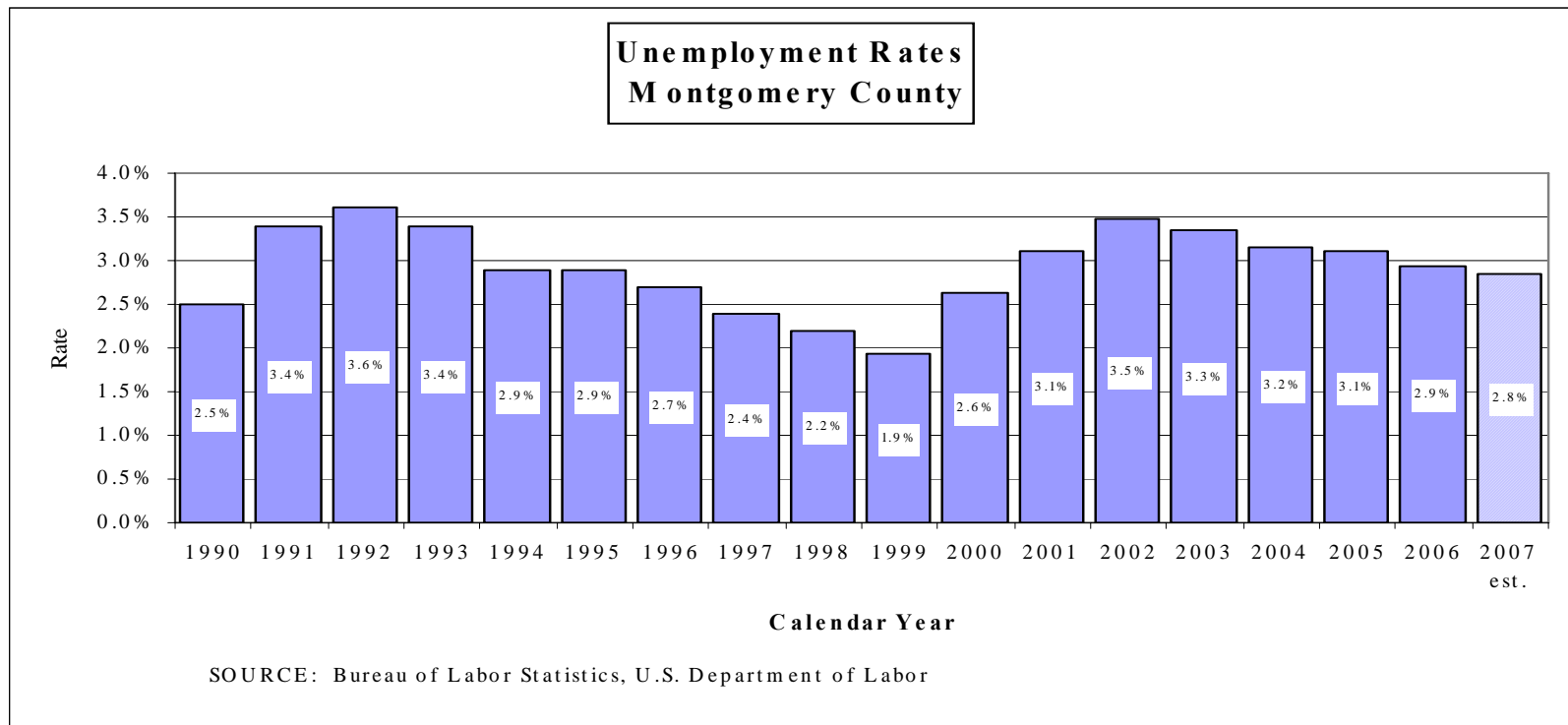




**The meager growth in sales tax receipts in 2006 and the decline in 2007 is attributed to the decline of purchases of durable goods especially those goods related to housing such as appliances and furniture.**



**While Montgomery and Frederick Counties experienced little growth in payroll employment the past twelve months, the County's unemployment rate declined slightly from 2.9 percent in 2006 to an estimated 2.8 percent in 2007. In February, the County's unemployment rate was 2.7 percent, one of the lowest in the State and a full percentage point below the State's rate.**



# SUMMARY

- The County continues to face economic challenges through the remainder of 2008. Those challenges include:
  - While the County continues to have one of the lowest unemployment rates in the State, job growth in payroll employment remains anemic with businesses adding fewer jobs the past twelve months. **Red Alert:** Such meager job growth will have an effect on income tax receipts through the remainder of this fiscal year and perhaps into next fiscal year.
  - While home prices are still increasing, albeit at a much slower rate than during the 2002-2006 period, home sales have declined near 34 percent during this fiscal year to date. **Red Alert:** If there is no improvement in the sales of homes through the remainder of this fiscal year, collections from the transfer and recordation tax will show no improvement.
  - Because of the decline in home sales and the increase in inventory to sales ratio for existing homes, the outlook for any improvement in residential construction is not encouraging. This will have an effect on value of new construction added to the property tax base through the remainder of this fiscal year and possible next fiscal year as well.