

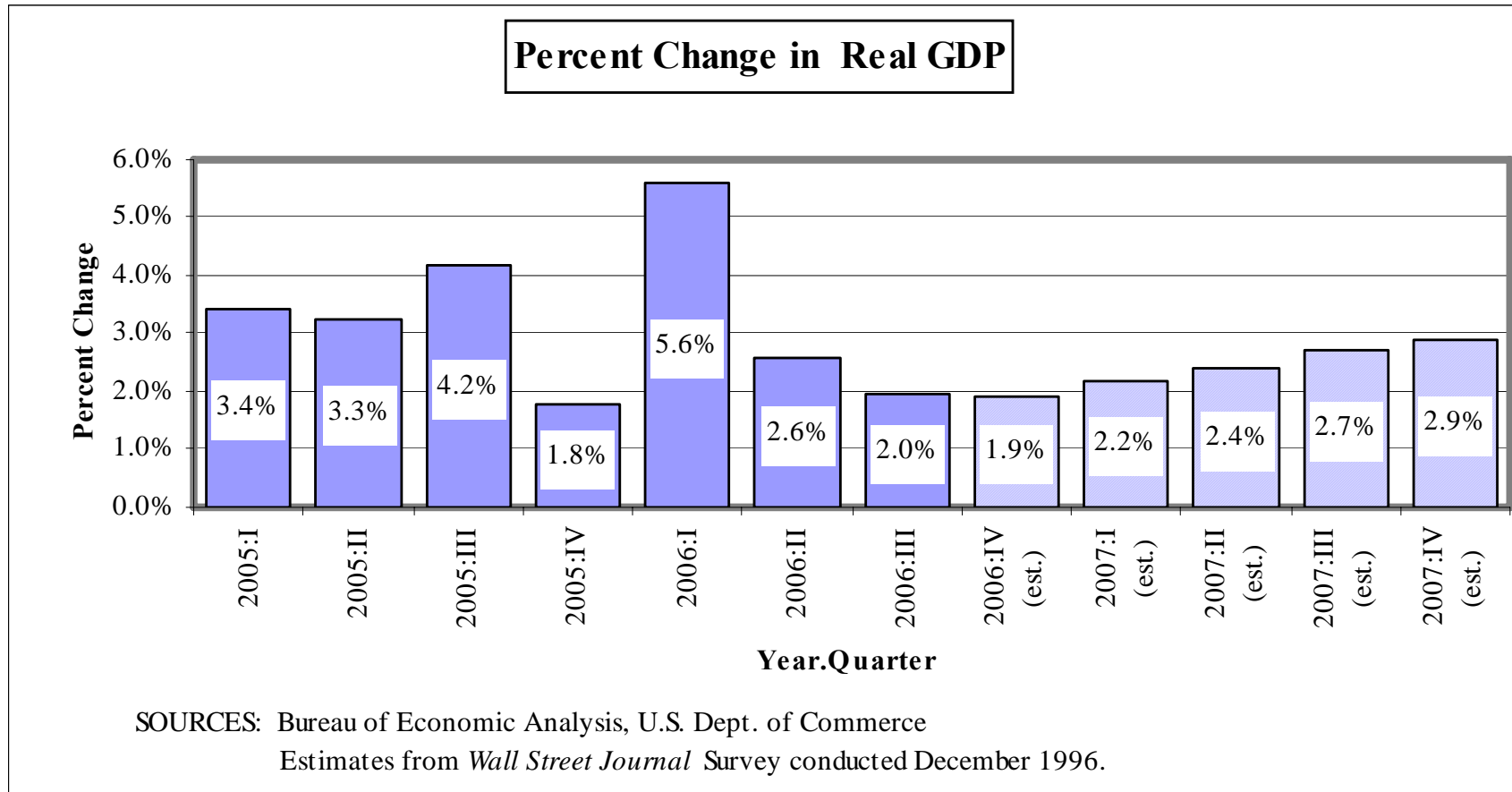
Presentation of Economic Indicators

to the
Management and Fiscal Policy Committee

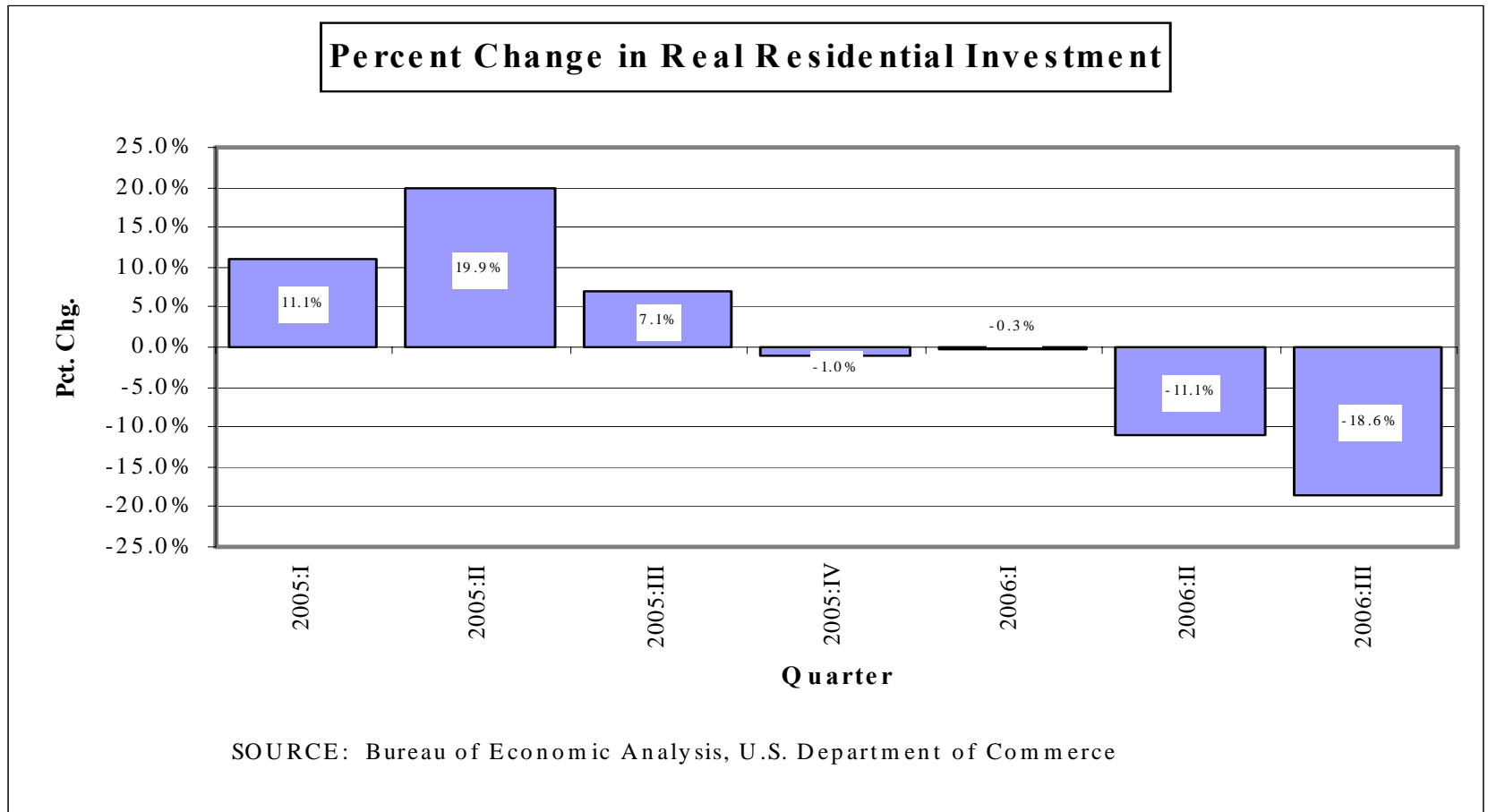
by the
Department of Finance

January 29, 2007

Based on the final estimate, real gross domestic product (GDP) increased 2.0% during the third quarter and, based on the *Wall Street Survey*, is expected to have increased only 1.9% during the fourth quarter.

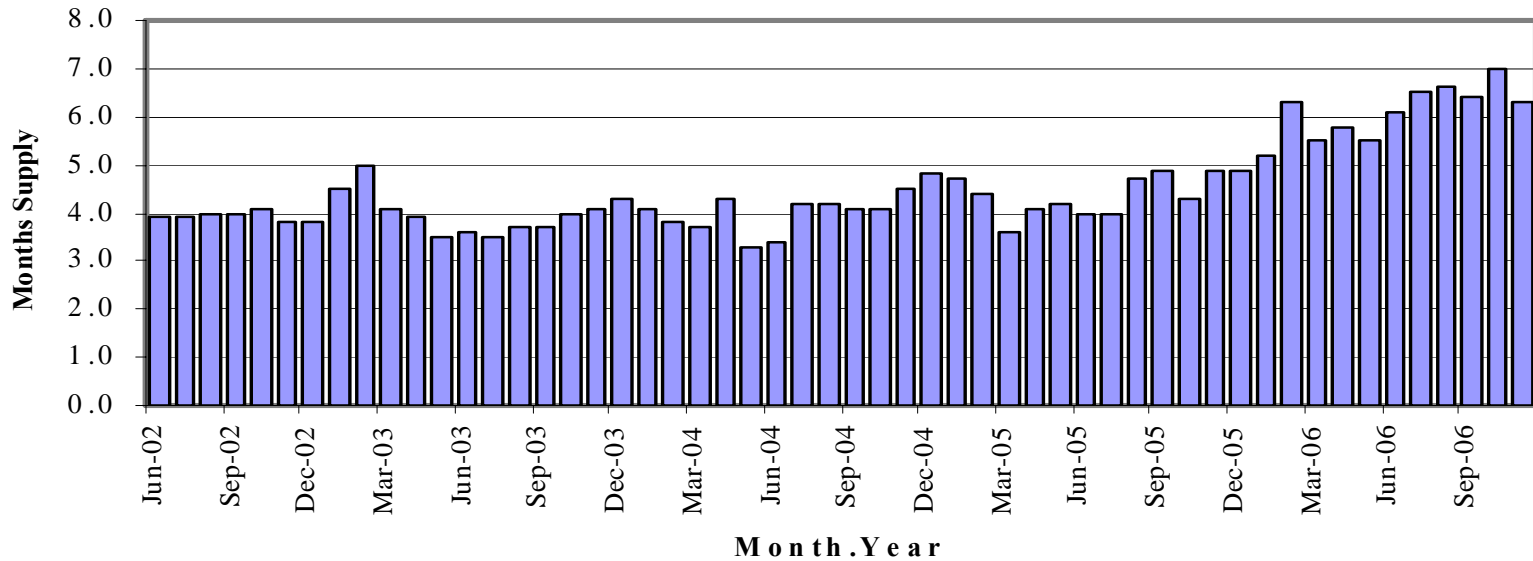


The slowdown in the national economy is mainly attributed to activity in residential fixed investment, which declined 18.6% in the third quarter.



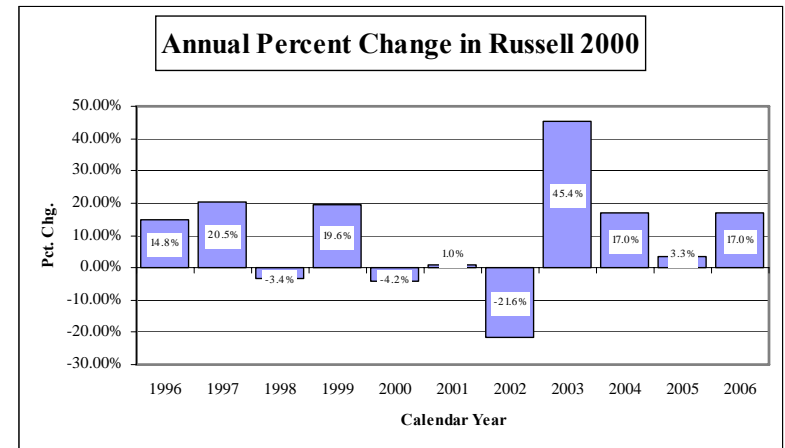
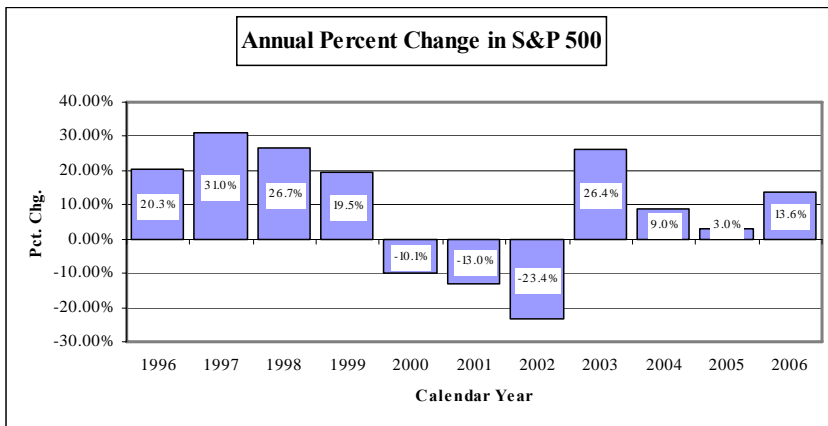
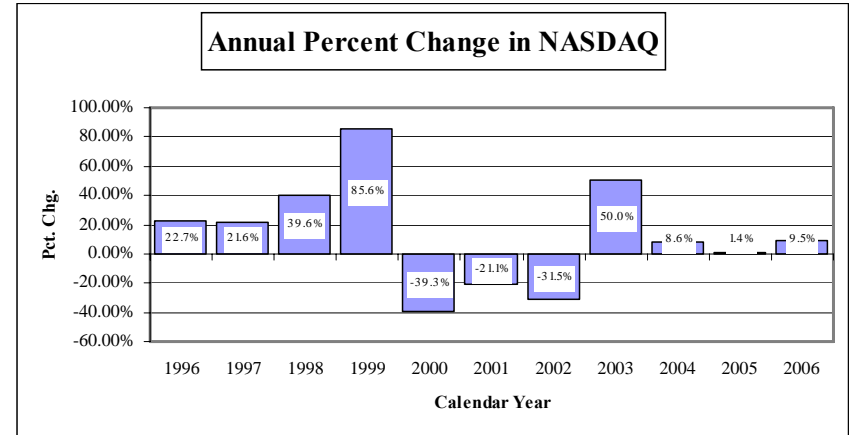
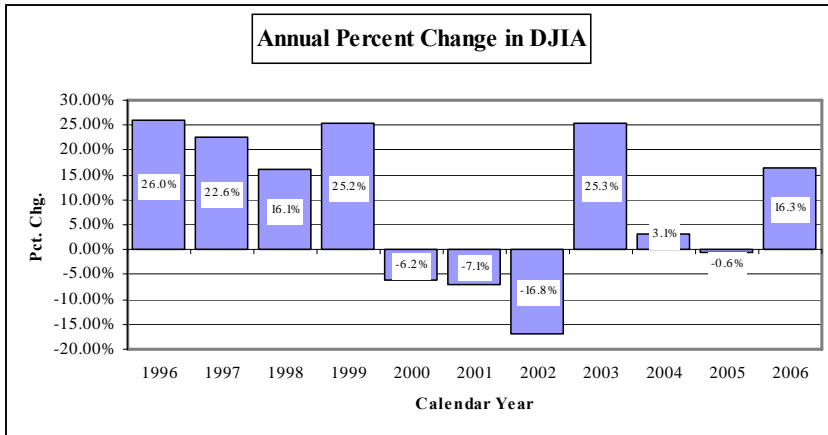
The dramatic decline of residential fixed investment during the third quarter reflects the rapid inventory buildup of new homes for sale. Between June and November of last year, inventory exceeded a six-month supply.

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

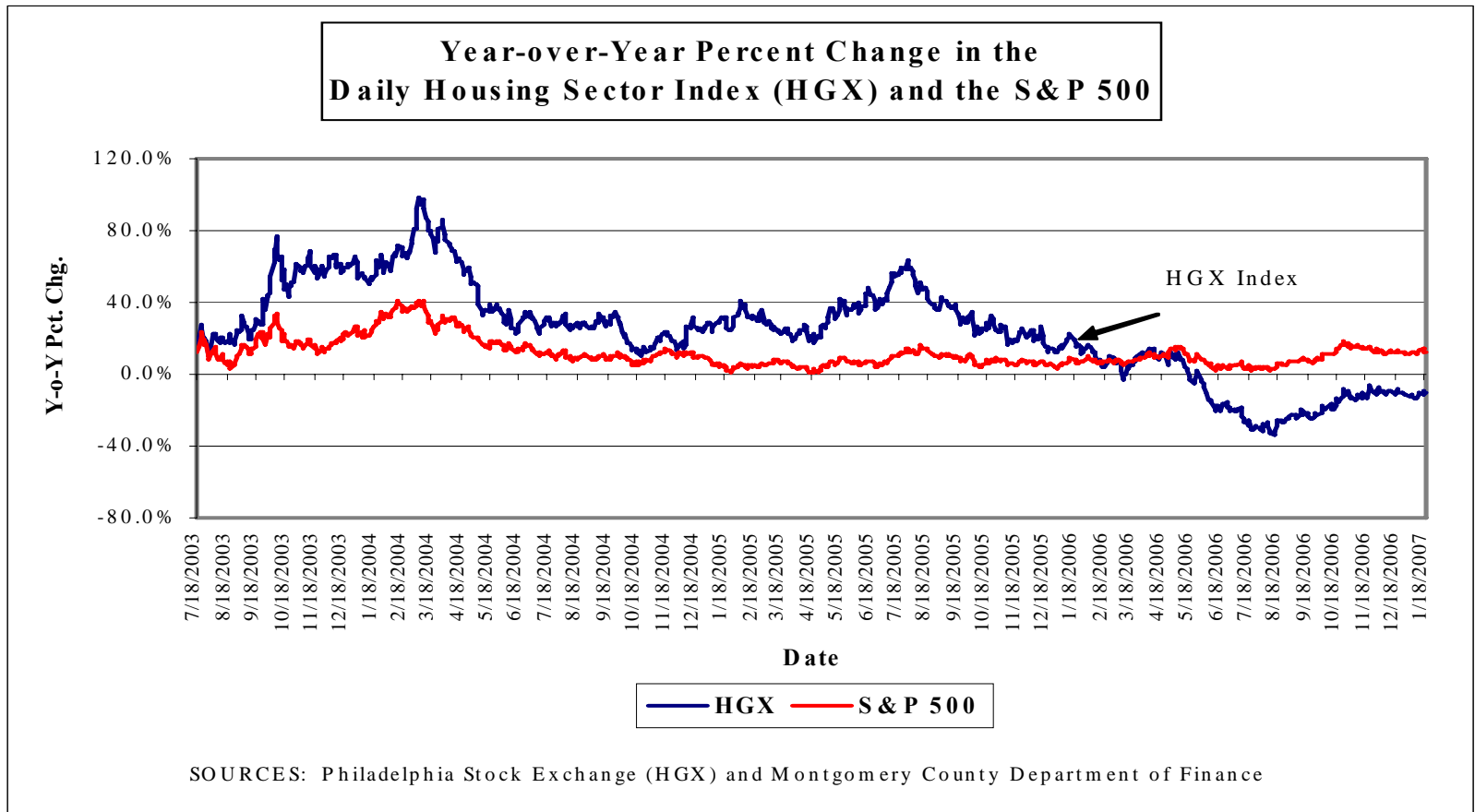


SOURCE: Joint Press Release - U.S. Census Bureau and U.S. Department of HUD

While the housing market experienced a decline during 2006, the stock market experienced its best performance in three years.



The housing sector index (HGX) experienced poor performance between July '05 and July '06 with modest improvement since July '06.



The stock performance of seven of the largest homebuilders in the U.S. appears to have recovered from the July '05-July '06 downturn. This suggests that the financial markets believe that homebuilders have begun to manage their inventories and improve their balance sheets.

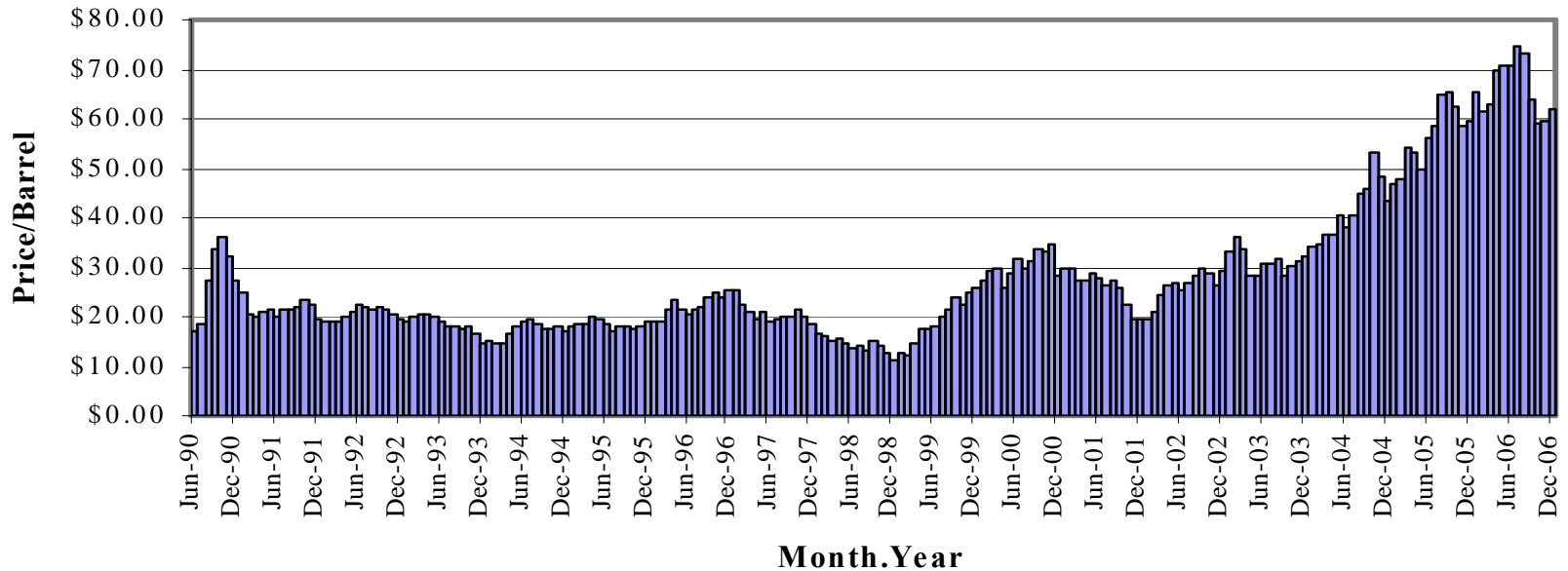
**Equally Weighted Stock Price Index for
Seven Home Builders**



SOURCE: Montgomery County Department of Finance

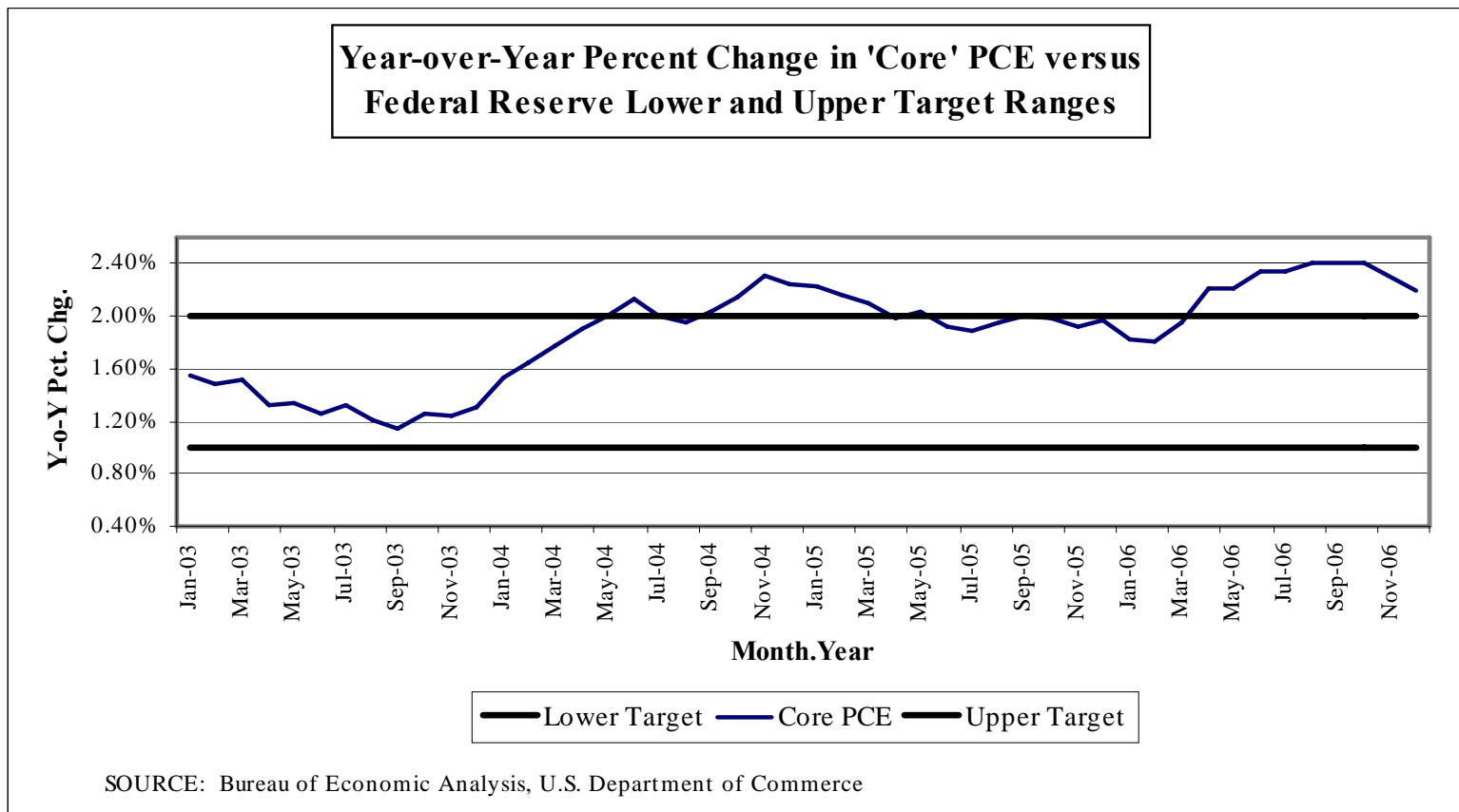
While the housing sector has become a “drag” on U.S. economic growth, the decline in oil prices has helped “boost” consumer spending.

**Monthly Oil Prices for
West Texas Intermediate Crude**

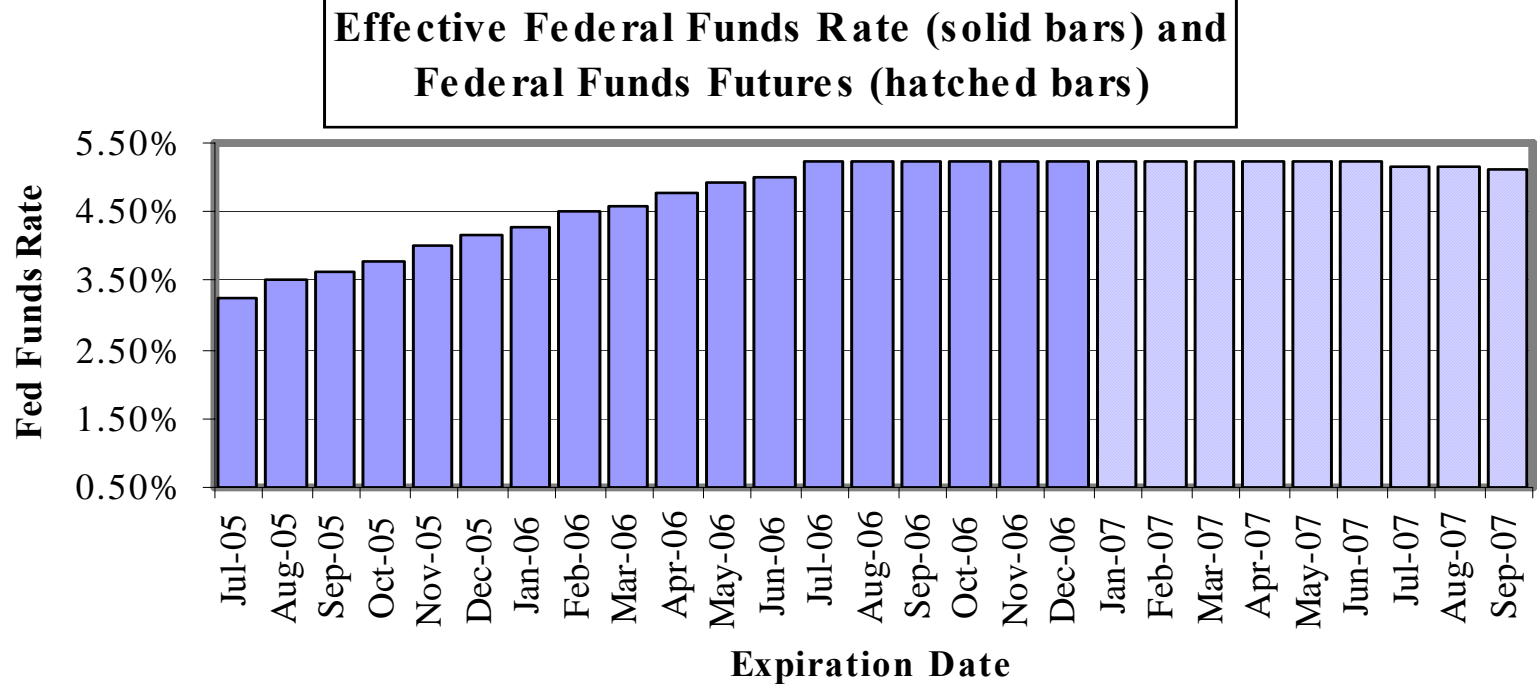


SOURCE: St. Louis Federal Reserve Bank

While oil prices and the housing sector have declined, the Federal Reserve still awaits sustainable progress on inflation. Based on the year-over-year change in the 'core' PCE index, that change was 2.2% in November and remained above the Fed's target range (1% - 2%).



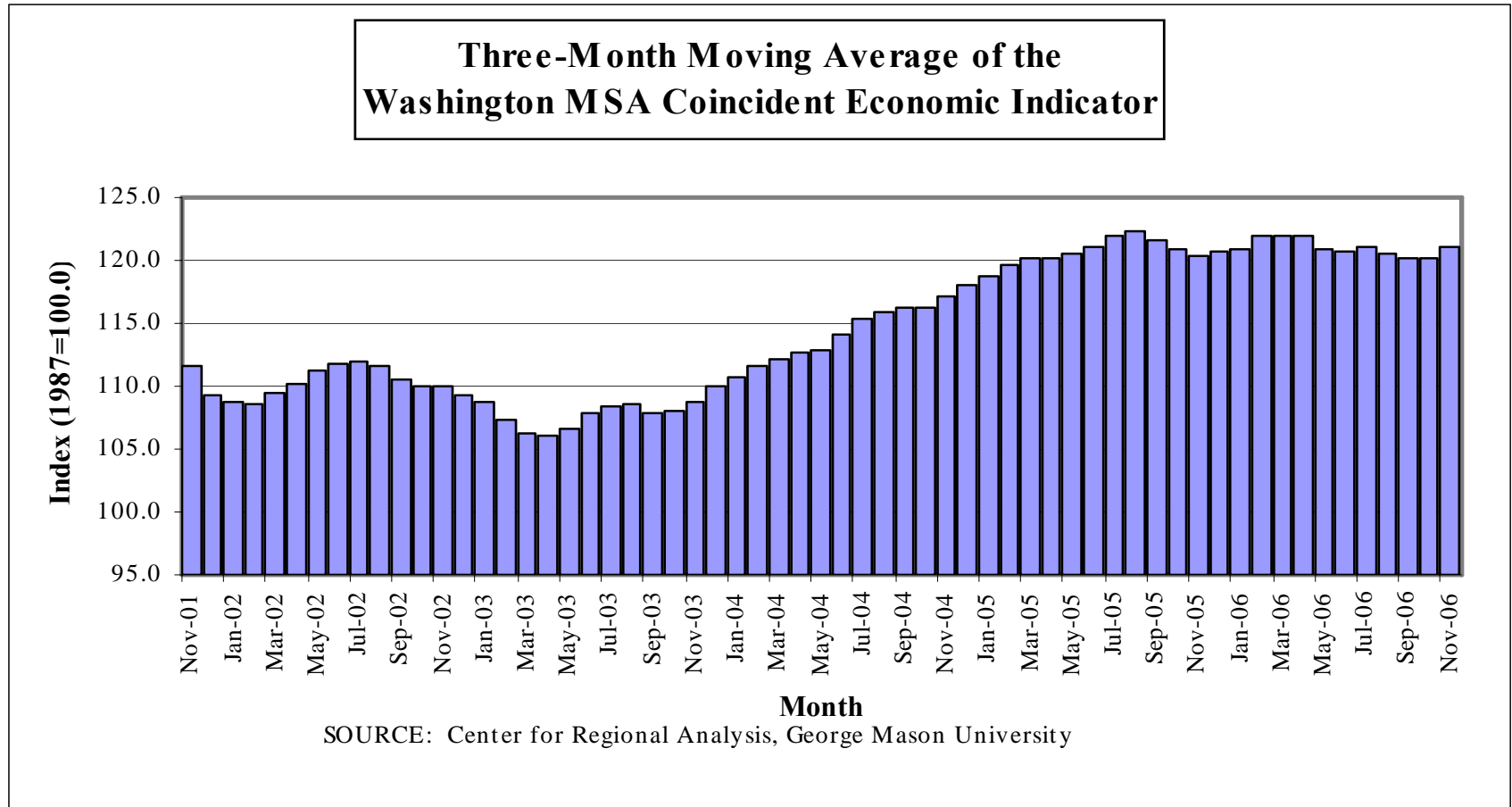
As such, the Federal Fund futures market expects no further action by the Fed to either raise or lower the target rate on federal funds, currently at 5.25%, until July at the earliest.



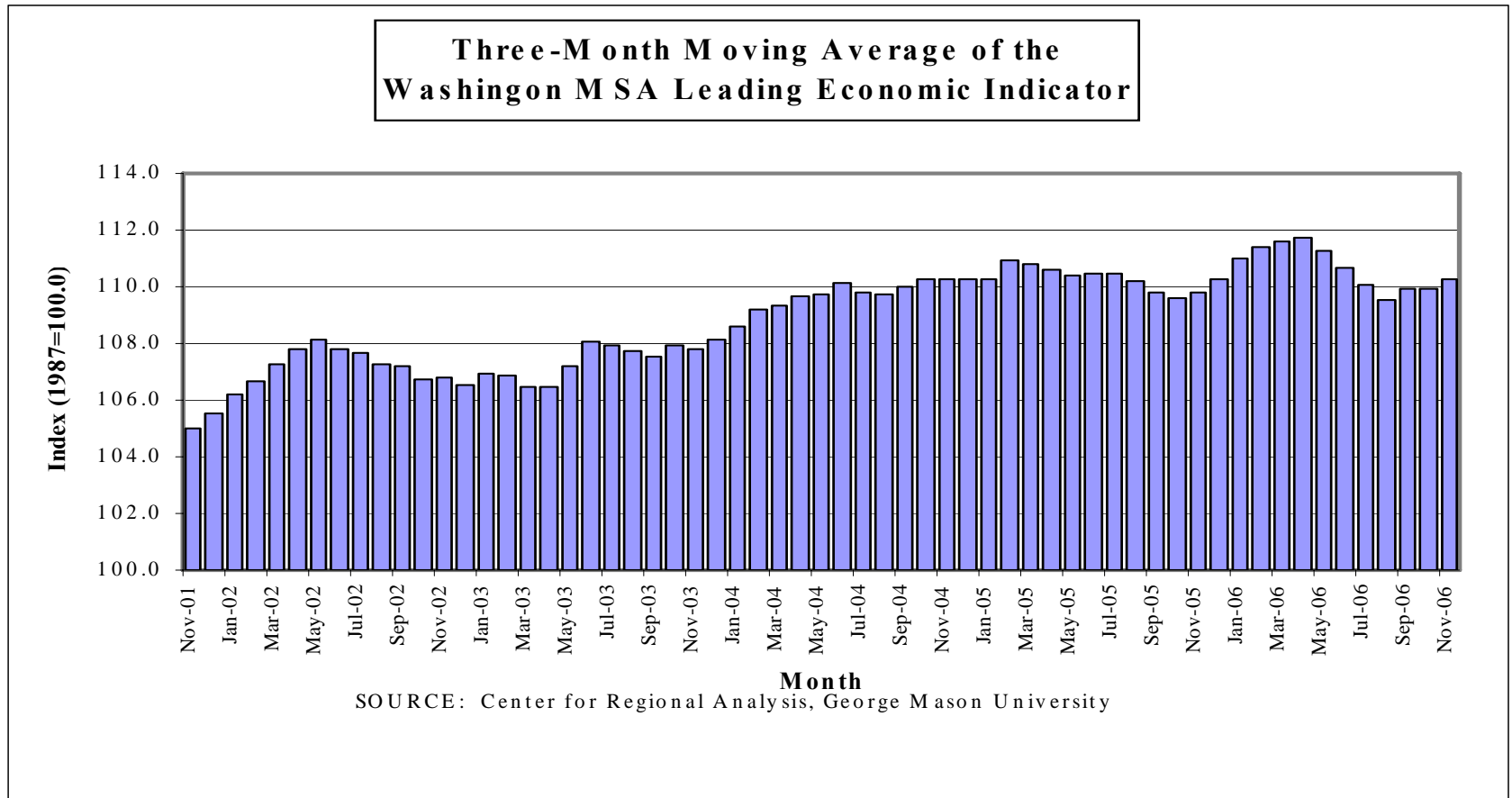
SOURCE: Federal Reserve Bank of St. Louis (solid bars) and the Chicago Board of Trade (hatched bars) as of January 16, 2007

Regional Economics

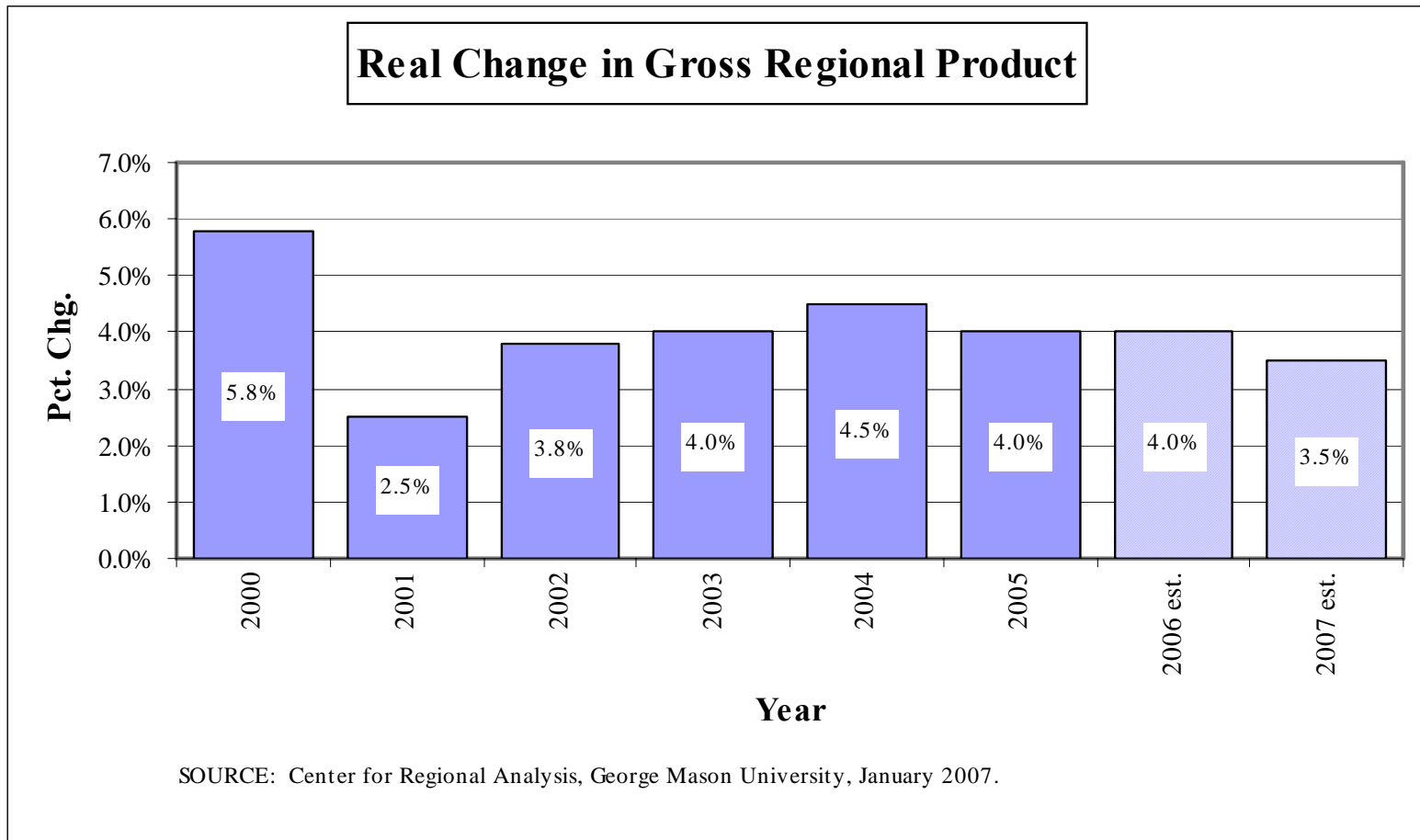
According to CRA, the Washington area economy continues to experience a modest slowdown. However, lower energy prices should bolster consumer spending into 2007.



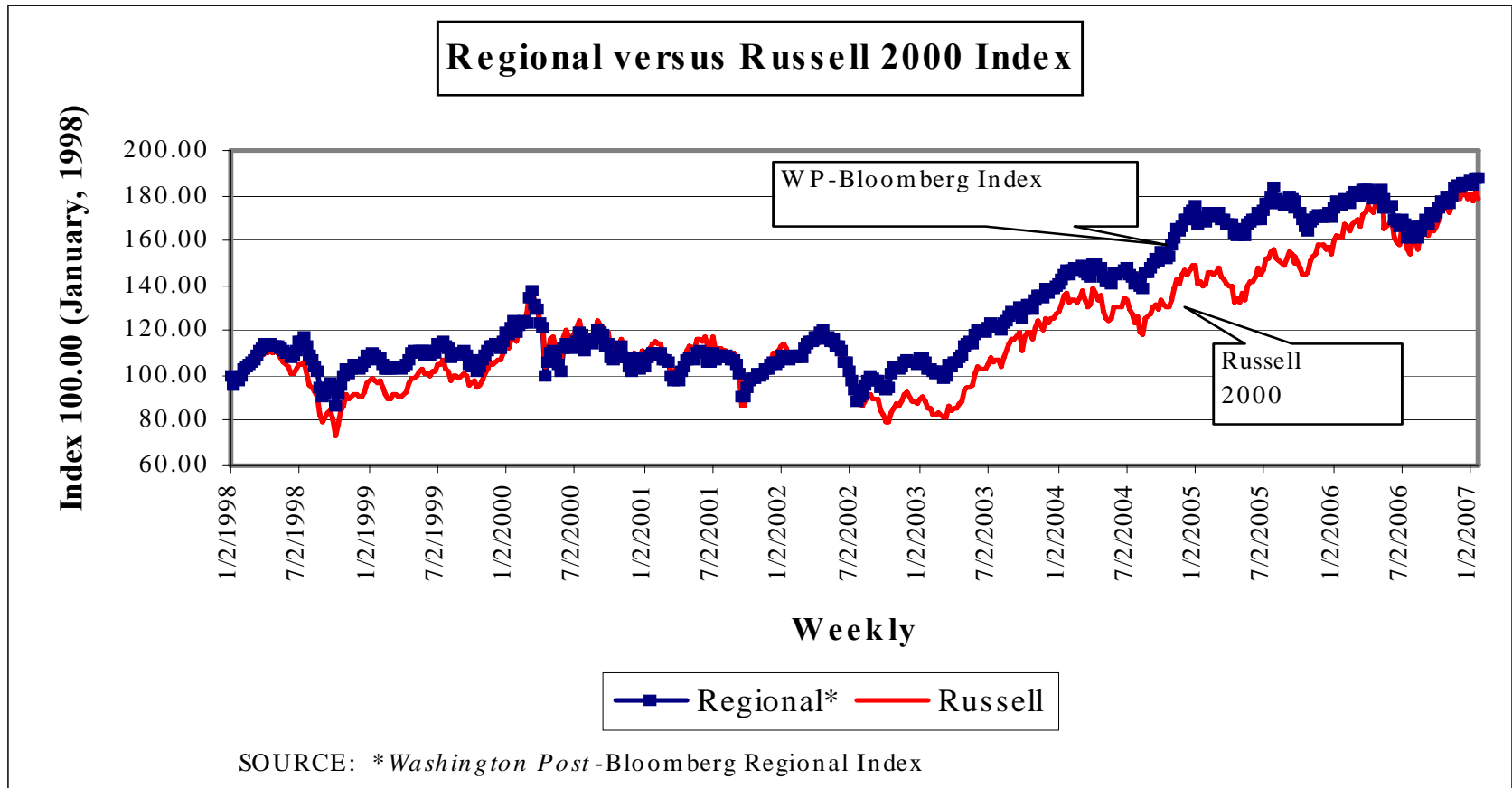
Even with lower energy prices, the leading indicator suggests that the region's economy will continue to moderate over the next three to six months, and job growth is expected to average slightly below 57,000 on a year-over-year basis.



CRA estimates the gross regional product (GRP) will decline from 4.0% in 2006 to 3.5% in 2007.

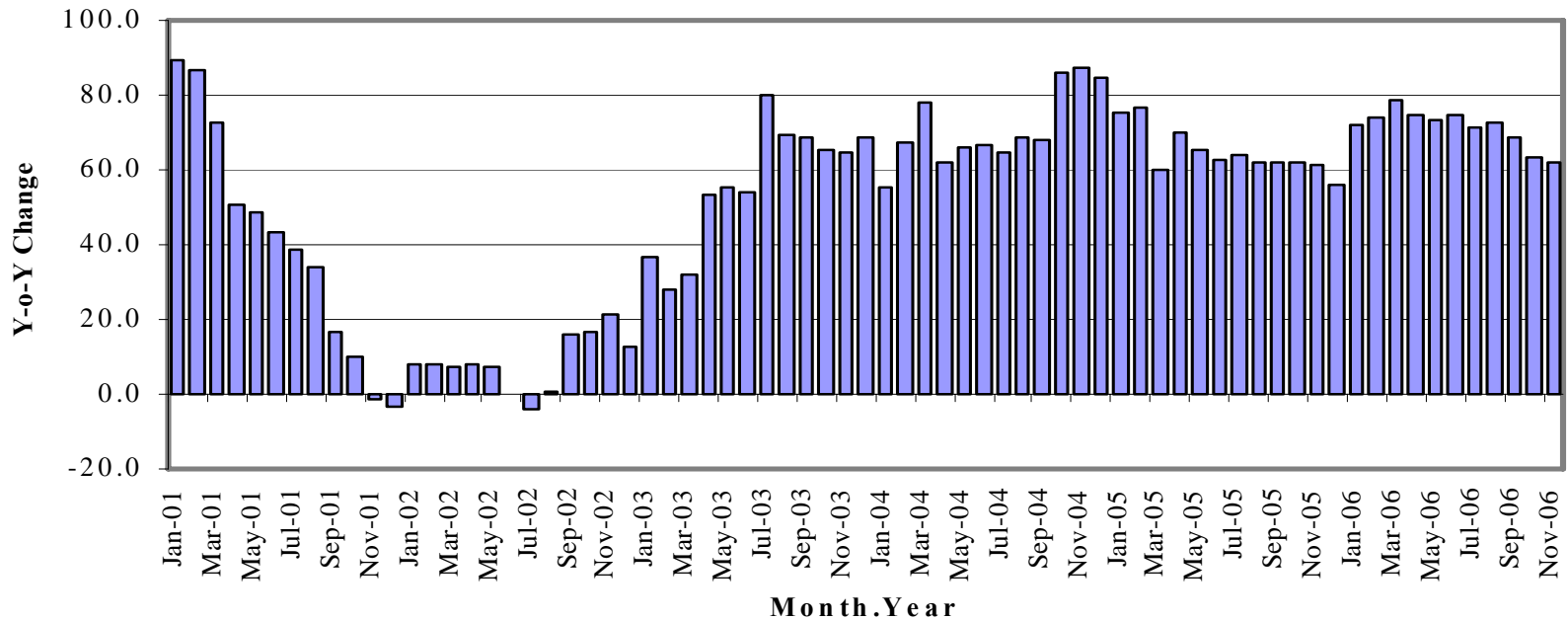


This expected slowdown in the Washington economy was reflected in the regional stock index which increased 9.0% for 2006 compared to 17.0% for the Russell 2000 index.



While the region's economy may have decelerated since the summer of 2006, local companies were still hiring. Between November '05 and November '06, the region's economy added over 62,000 jobs.

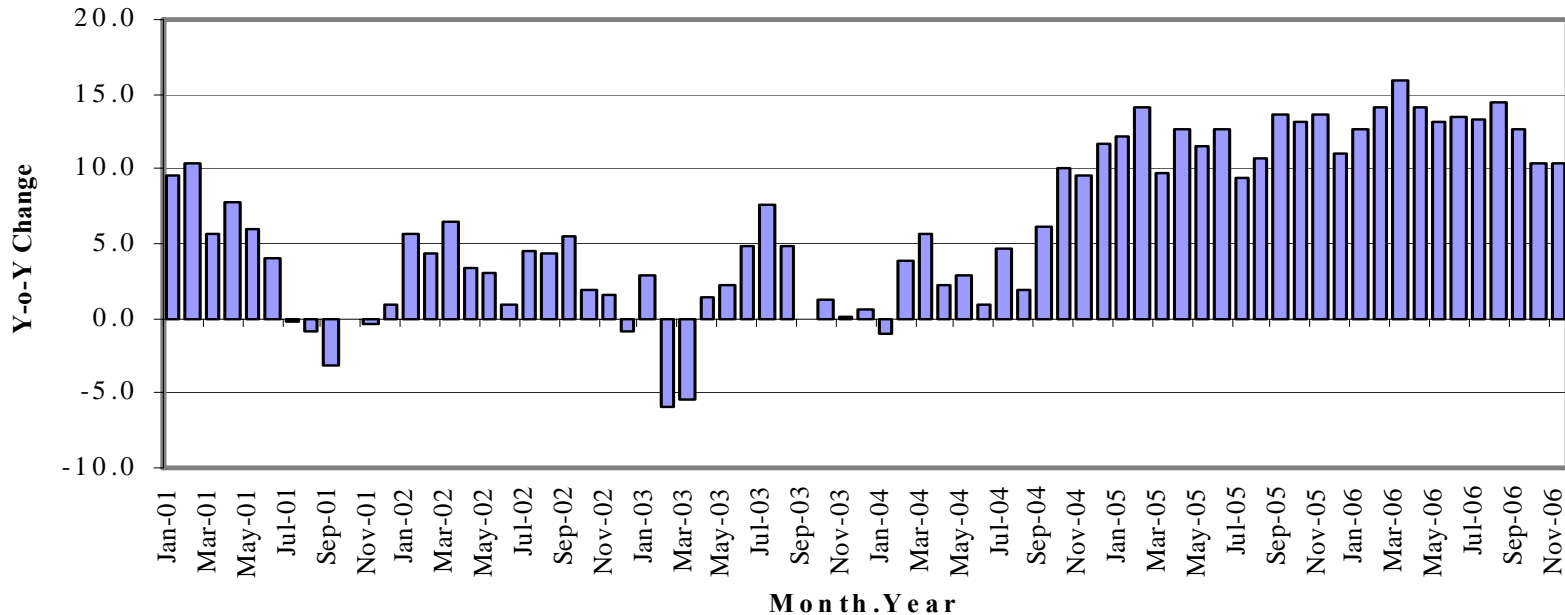
**Year-over-Year Change in Payroll Employment
Washington DC Metropolitan Area**



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

Of those 62,000 jobs, Montgomery and Frederick counties added over 10,000 jobs during the same period.

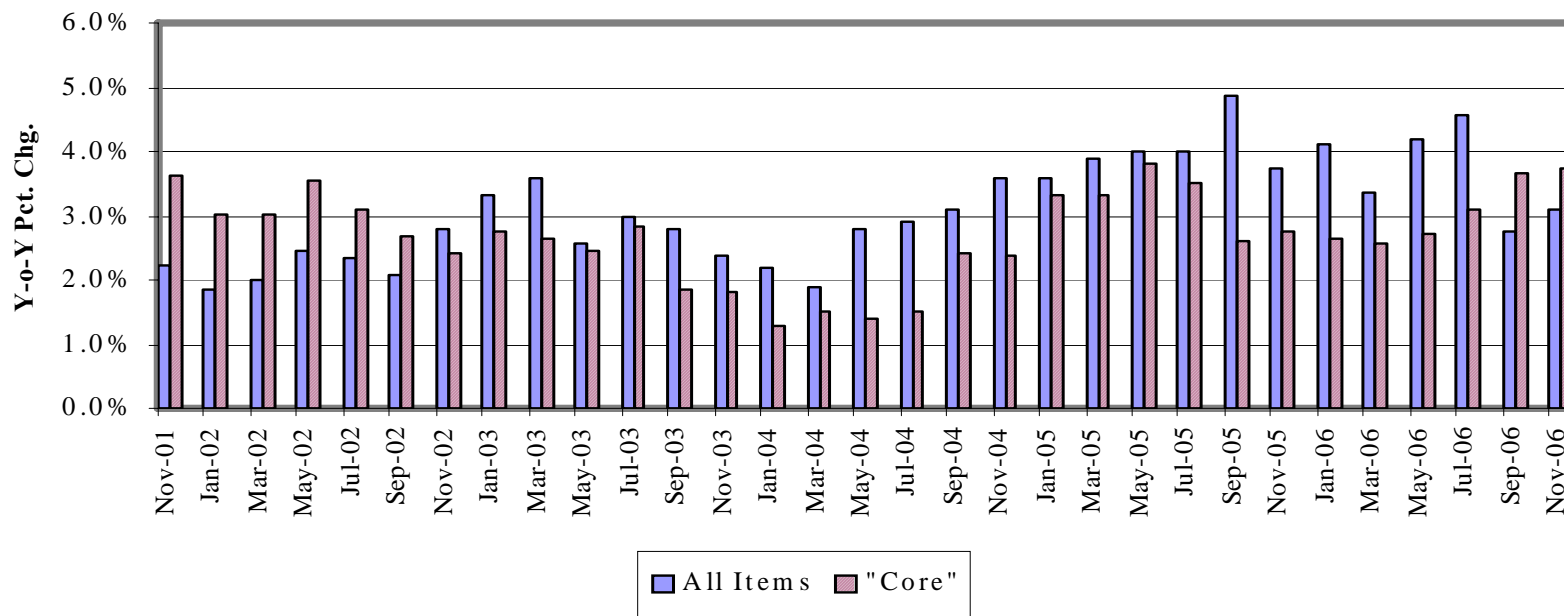
**Year-over-Year Change in Total Payroll Employment
Bethesda-Gaithersburg-Frederick Metropolitan Division**



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

With the decline in energy prices, the year-over-year increase in consumer prices declined from 4.6% in July to 3.1% in November. But the 'core' inflation index increased from 2.5% in March to 3.7% in November.

**Year-over-Year Percent Change in Consumer Price Index
Washington-Baltimore CMSA**



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

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

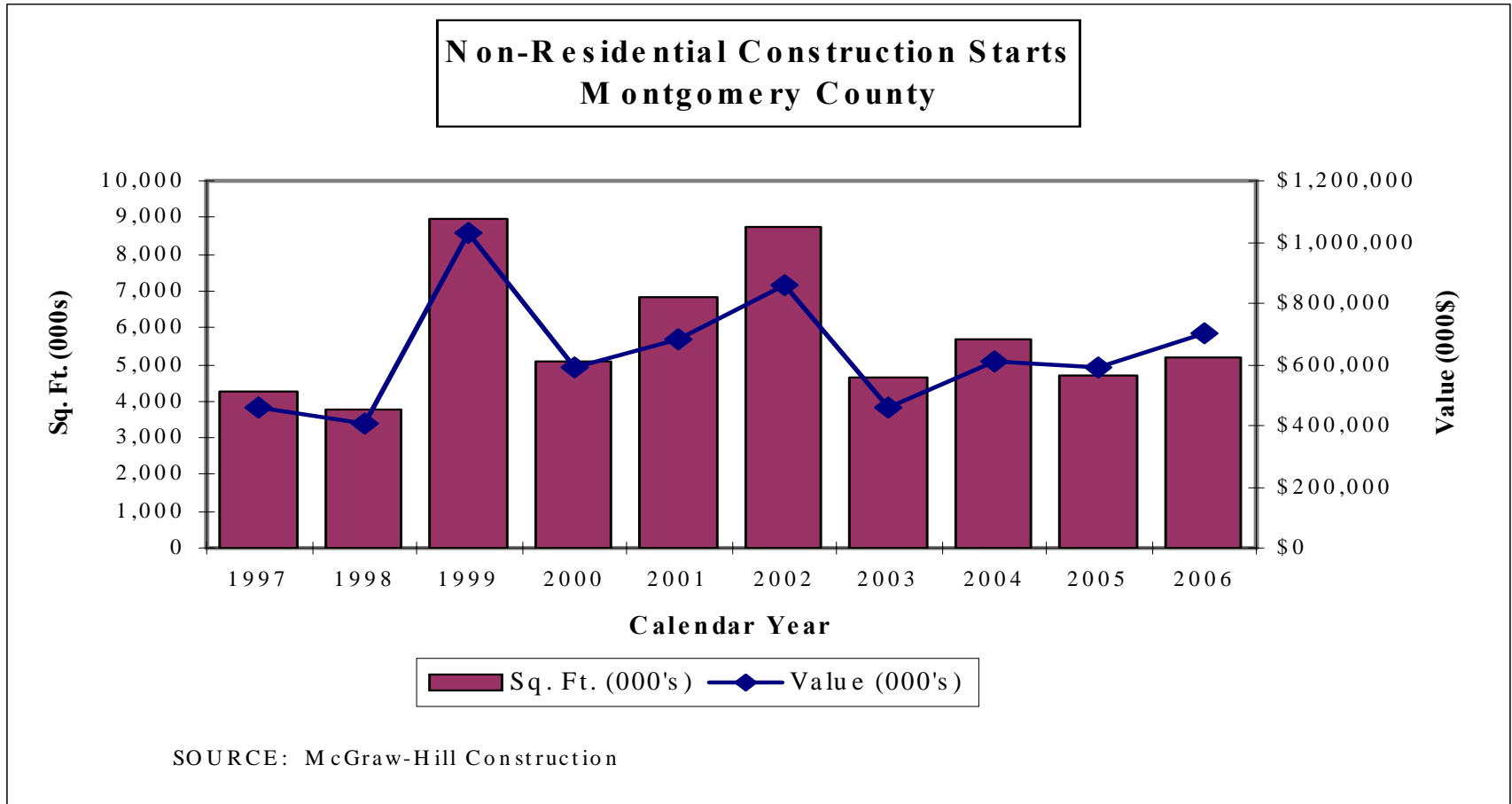
**Year-over-Year Percent Change in
S&P/Case-Shiller® Home Price Index
Washington MSA**



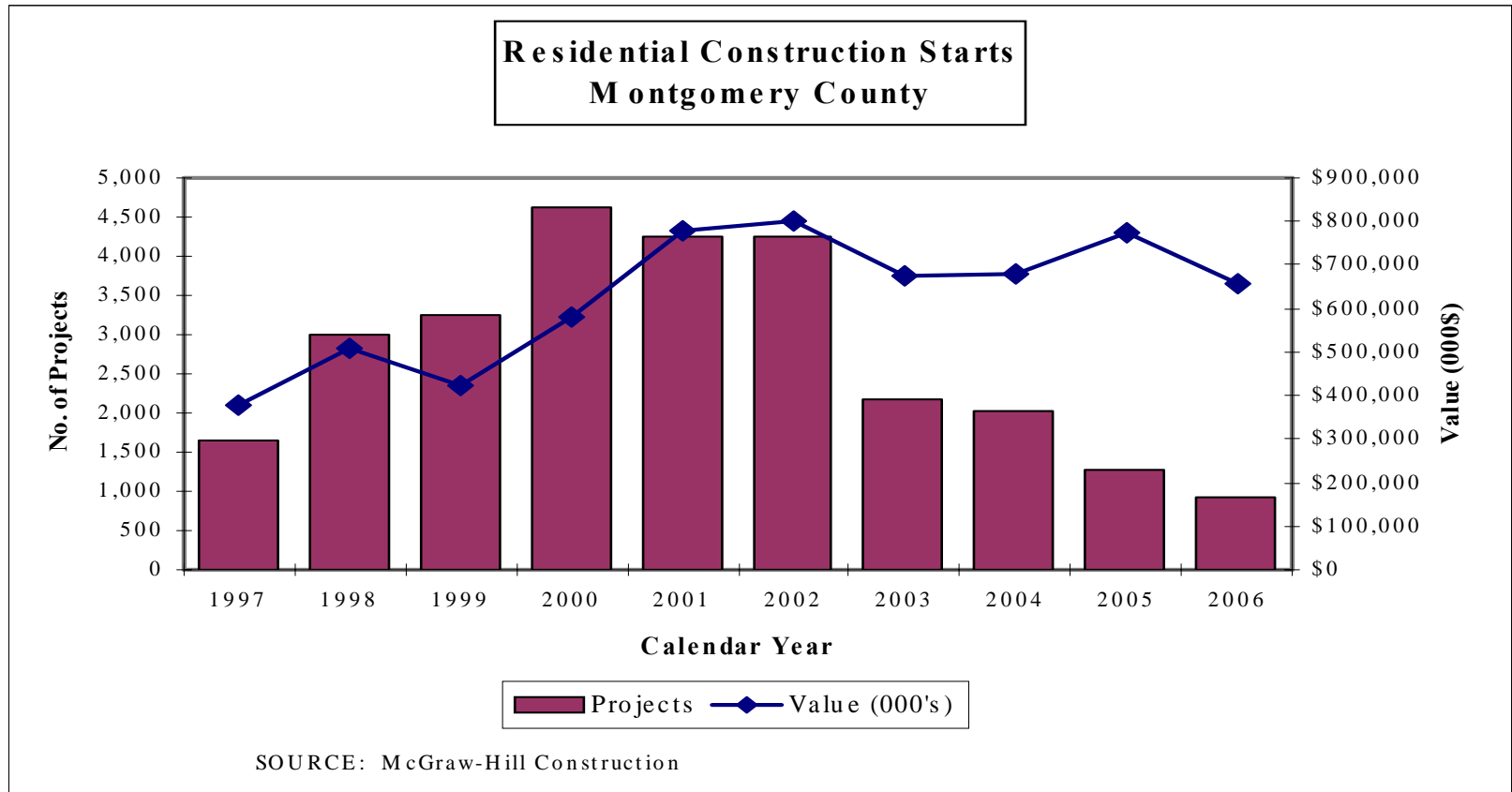
SOURCE: S&P/Case-Shiller price index is a registered trademark of Standard and Poor's
Data for 2007 from options contract traded 1/16/07 on Chicago Mercantile Exchange

Montgomery County Economic Indicators

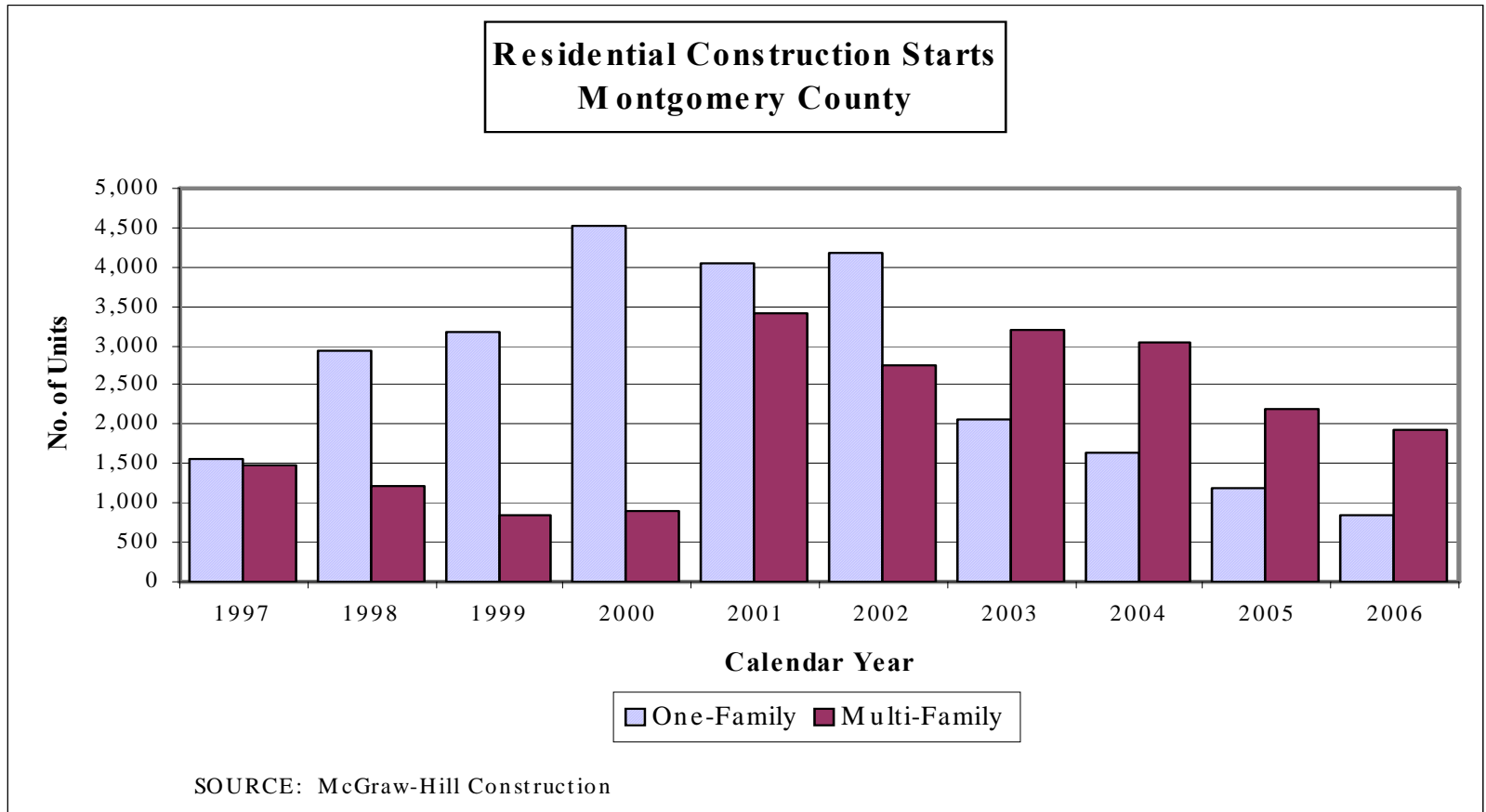
Non-residential construction improved in 2006 with 10.7% growth in total square feet and 19.0% in value. Since 2003, the County averaged an additional 5 million square feet of non-residential space.



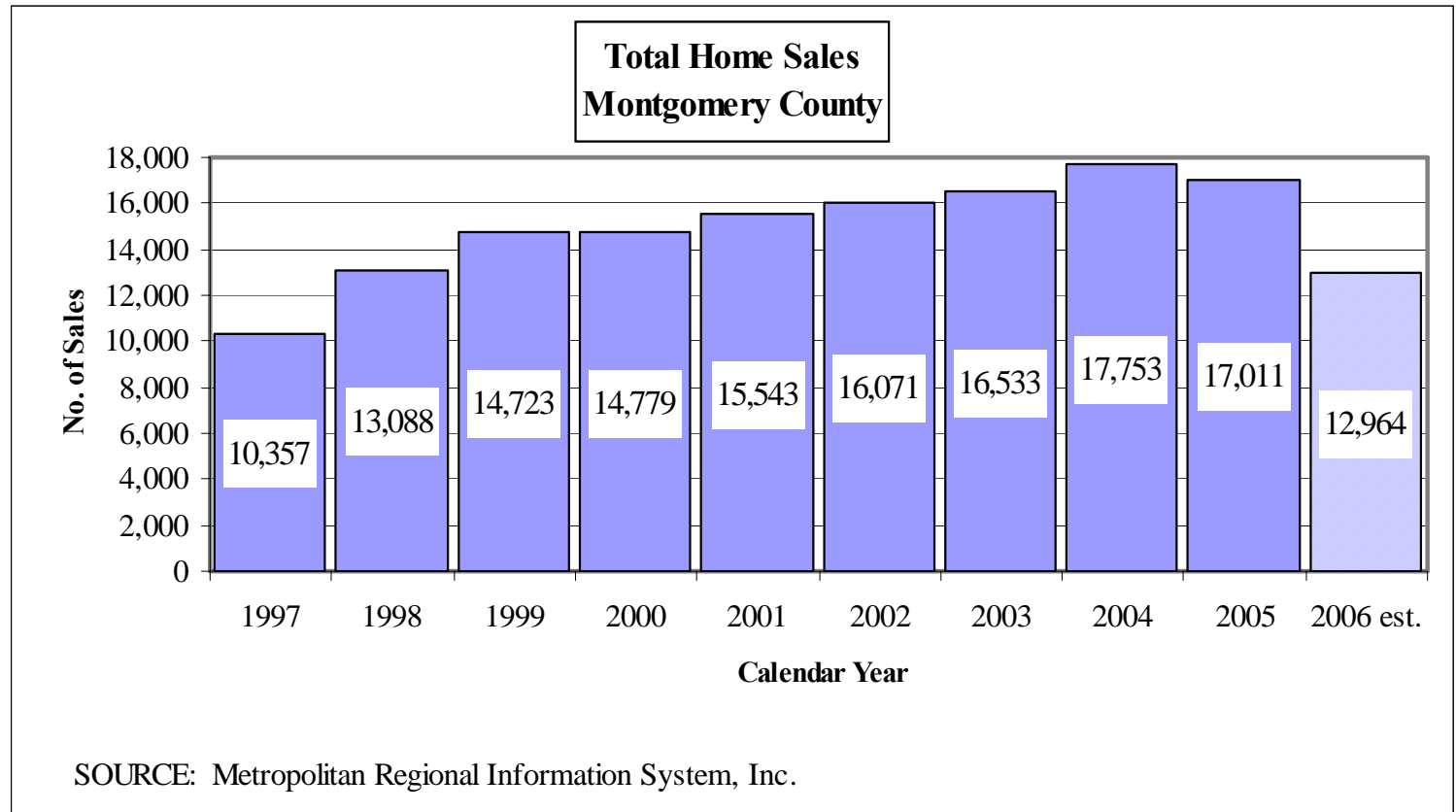
However, residential construction continued to decline in 2006. The number of projects was less than 1,000, which was the lowest level of activity in over nine years. However, while the number steadily declined since 2002, the value-added averaged nearly \$700 million per year.



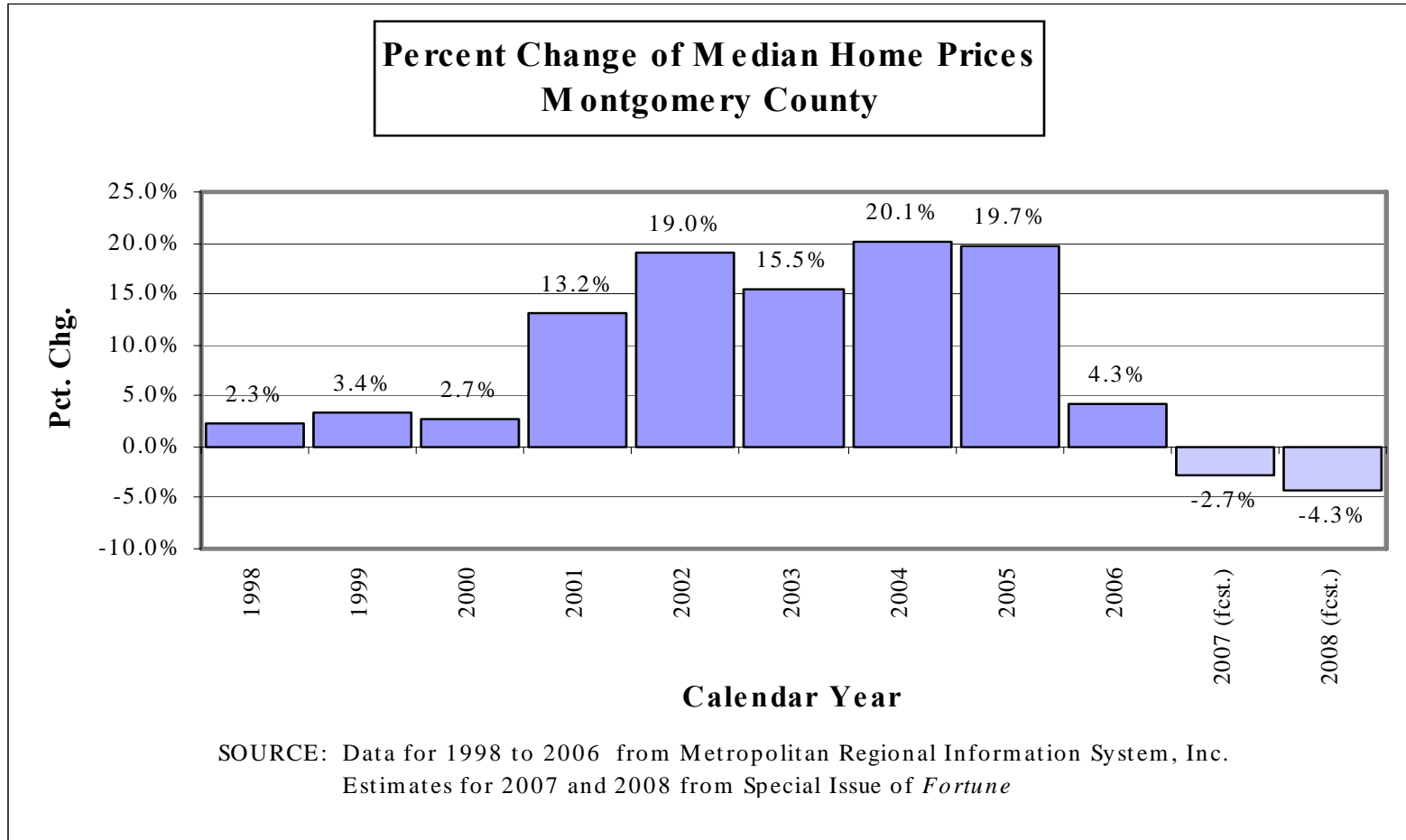
The decline in residential construction is reflected in both the building of single-family and multi-family homes. Since 2002, the larger decline occurred among single-family homes (↓ 40.2% per year).



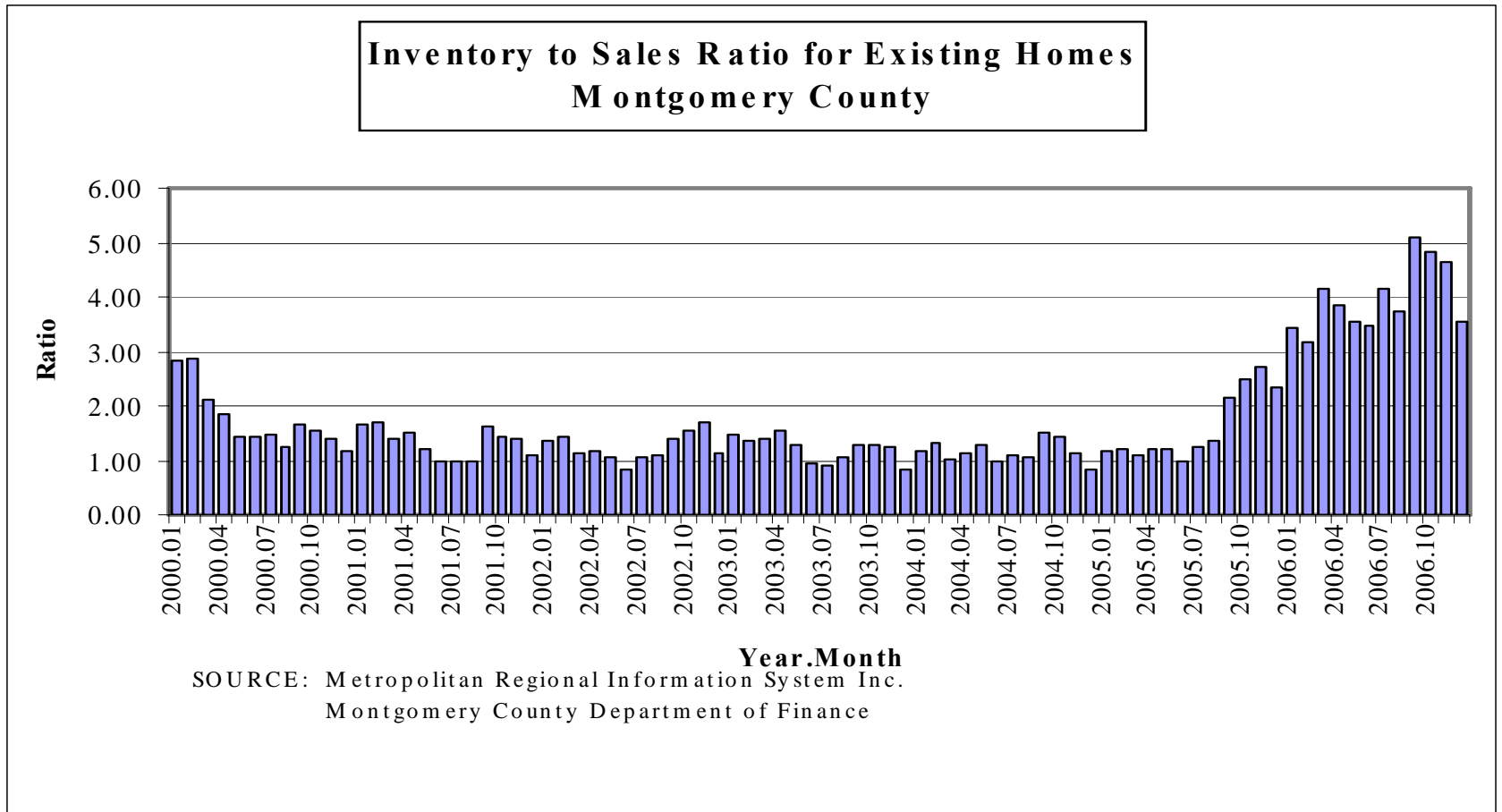
Home sales were down dramatically in 2006 to their lowest level since 1997. Between 1997 and 2005, home sales grew at an average annual rate of 6.2% per year. In 2006, homes sales were off 23.8% from the previous year.



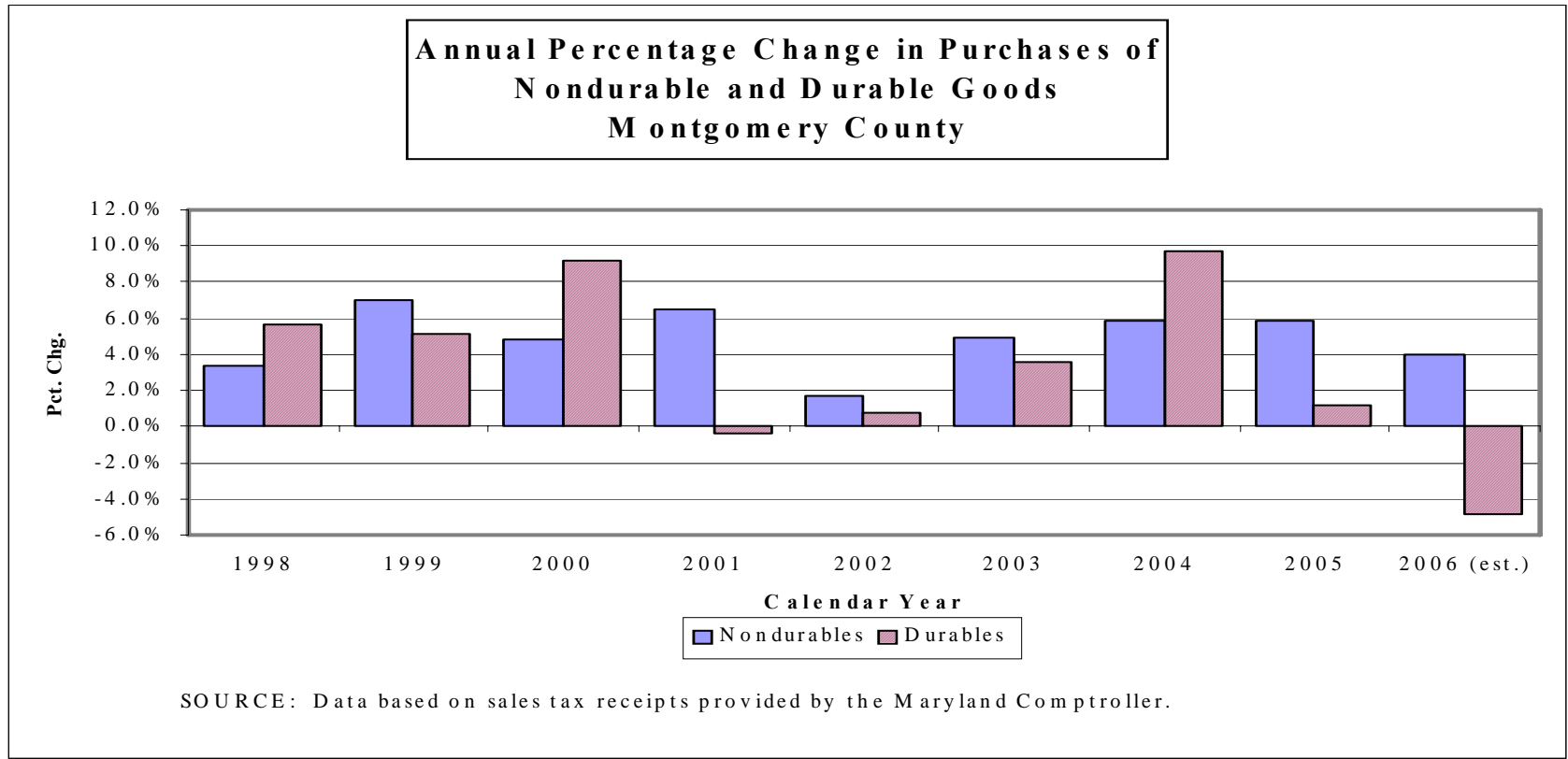
While sales were off dramatically in 2006, median prices continued to increase (↑ 4.3%). However, *Fortune* magazine suggests that median prices may decline over the next two years.



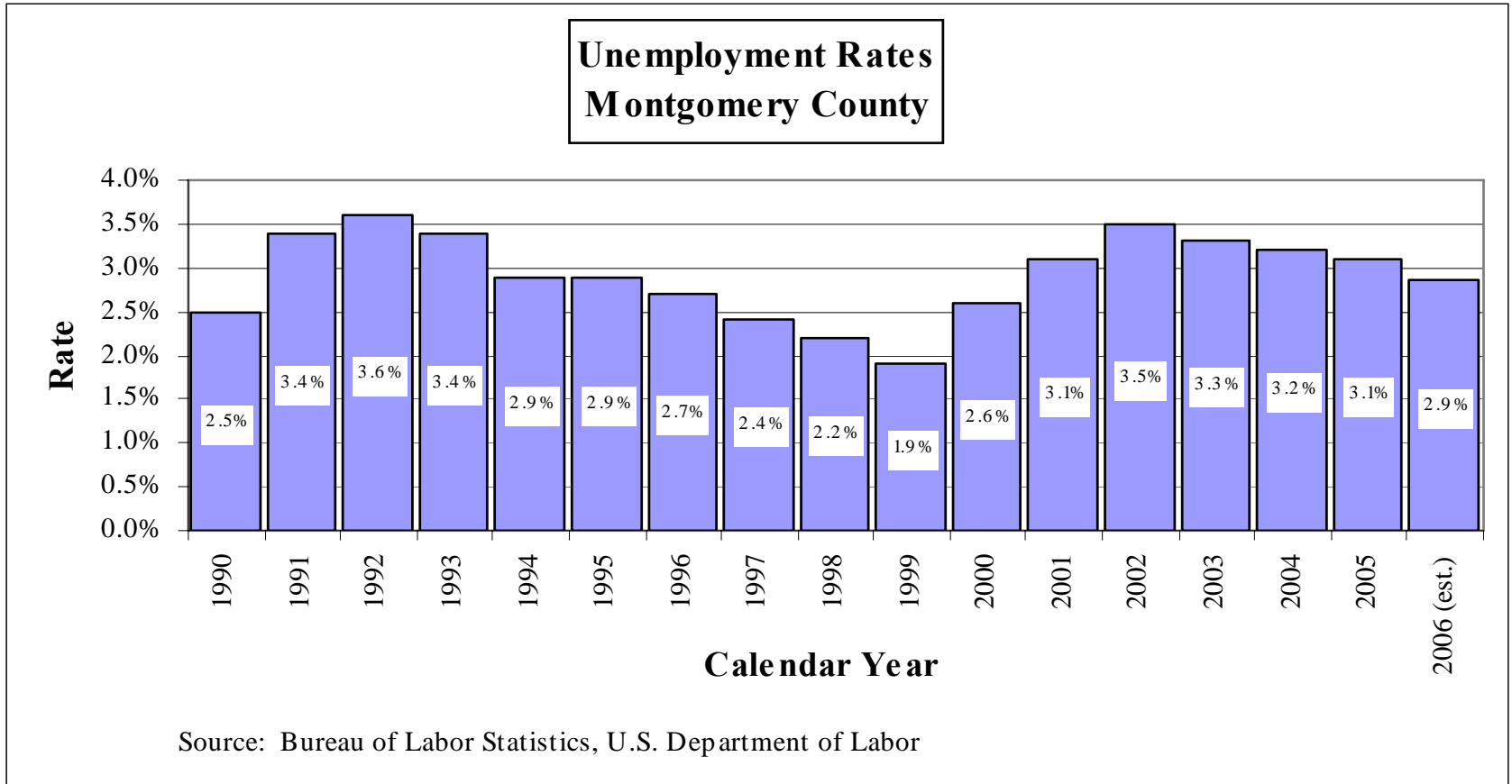
The dramatic change in home sales reflects the rapid buildup of inventory-to-sales ratio for existing homes. Since August '05, the ratio increased from 1.37 to a peak of 5.10 by September. Since then, the ratio dropped to 3.53 in December.



Consumer spending on durable goods by County residents declined in 2006 for the first time since 2001. With housing sales declining, spending on durable goods related to that market declined as well.



While local businesses added to their payrolls, the County's unemployment rate at 2.9% (through November) was the lowest since 2000 and one of the lowest in the State.



ALERTS

- According to *The Washington Post*, homeowners with high-interest mortgages in the Washington region may lose their homes to foreclosure.
- According to a study by the Center for Responsible Lending dated December 2006, “2.2 million households in the subprime market either have lost their homes to foreclosure or hold subprime mortgages that will fail over the next several years.”
- In the Washington region, the projected foreclosure rate for homeowners with subprime loans originated in 2006 has increased to 22.8 percent compared to 8.2 percent of loans originated between 1998 and 2001. That rate represents the ninth highest foreclosure rate among major metropolitan areas throughout the country.
- The report also states that the projected foreclosure rate for Bethesda-Gaithersburg-Frederick metropolitan division is projected to increase from 5.1% for loans originated between 1998 and 2001 to 20.4% for loans in 2006.