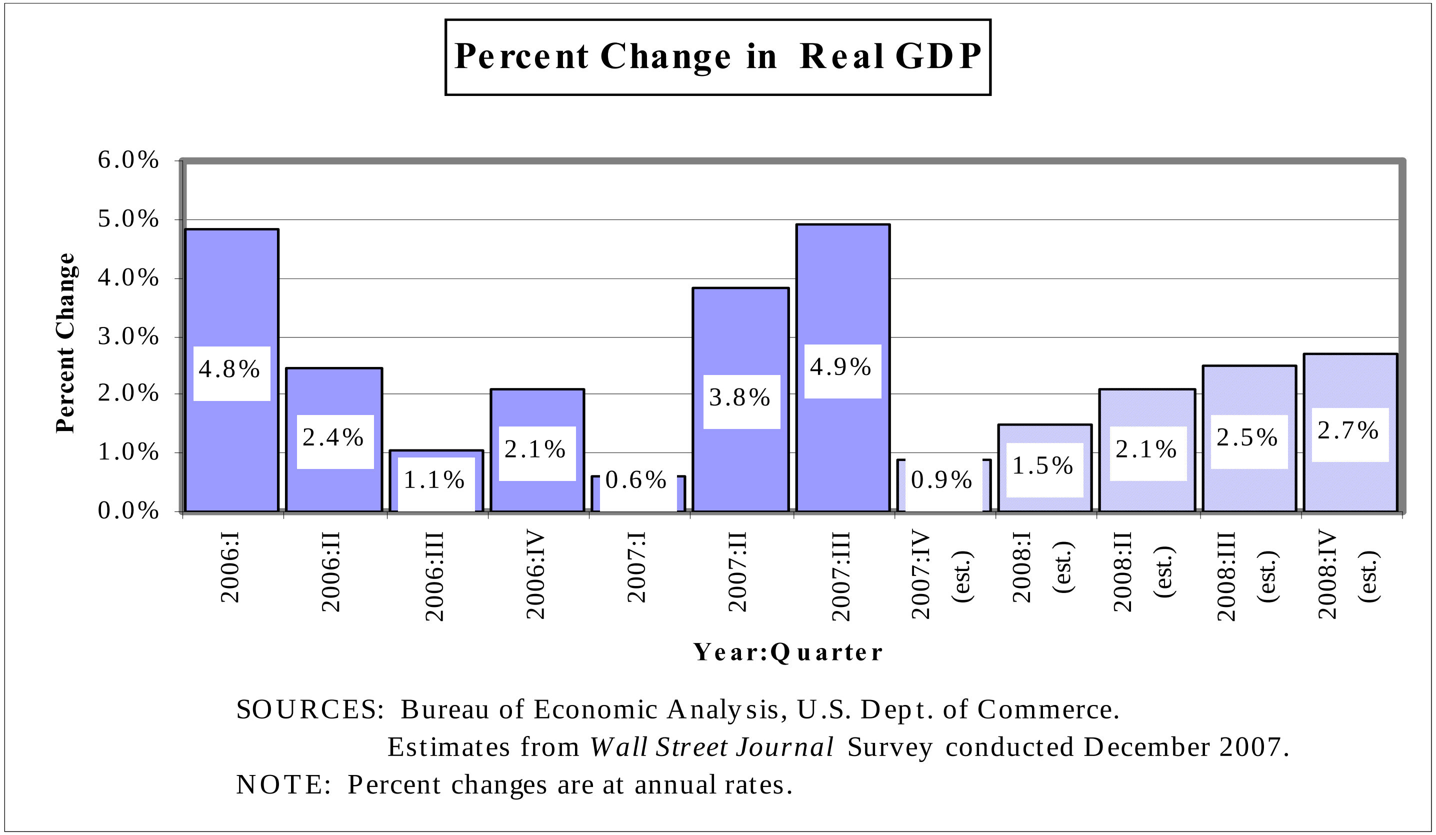
Presentation of Economic Indicators

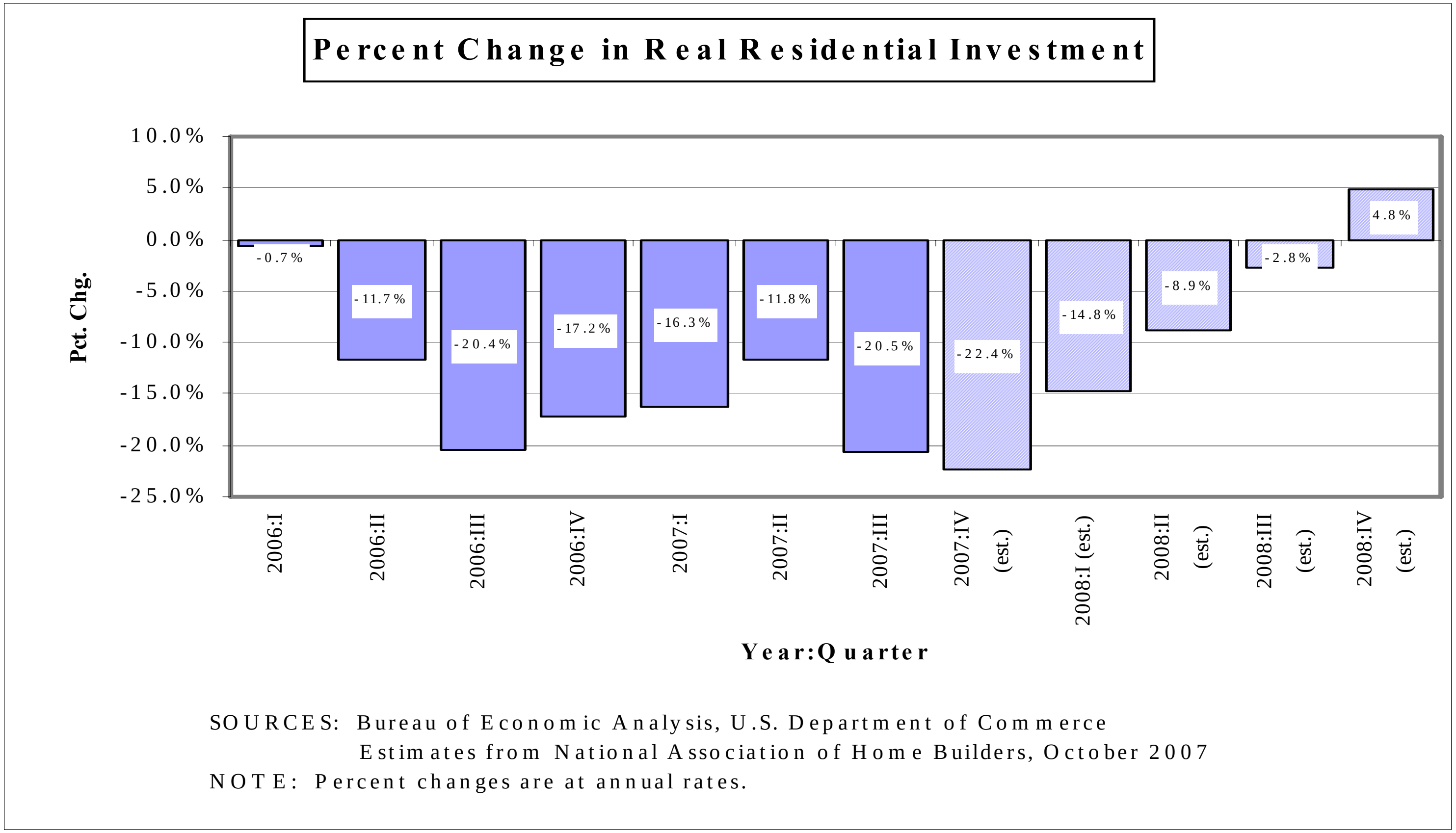
To
Management and Fiscal Policy Committee
by the
Department of Finance
January 17, 2008

National Economic Indicators

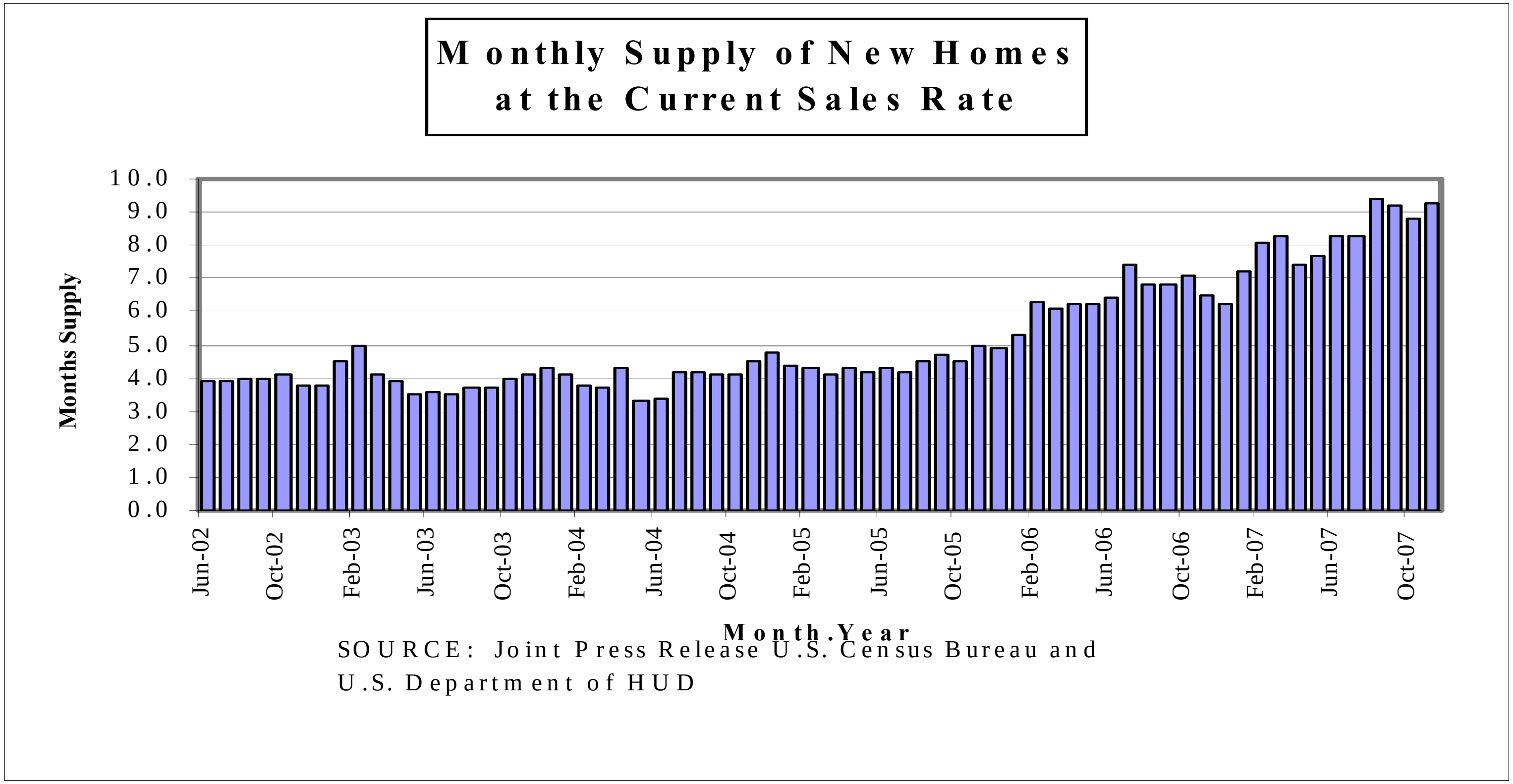
Survey of 50 Economists by the Wall Street Journal expect Gross Domestic Product to increase 0.9 percent during the fourth quarter and 1.5 percent during the first quarter of 2008.



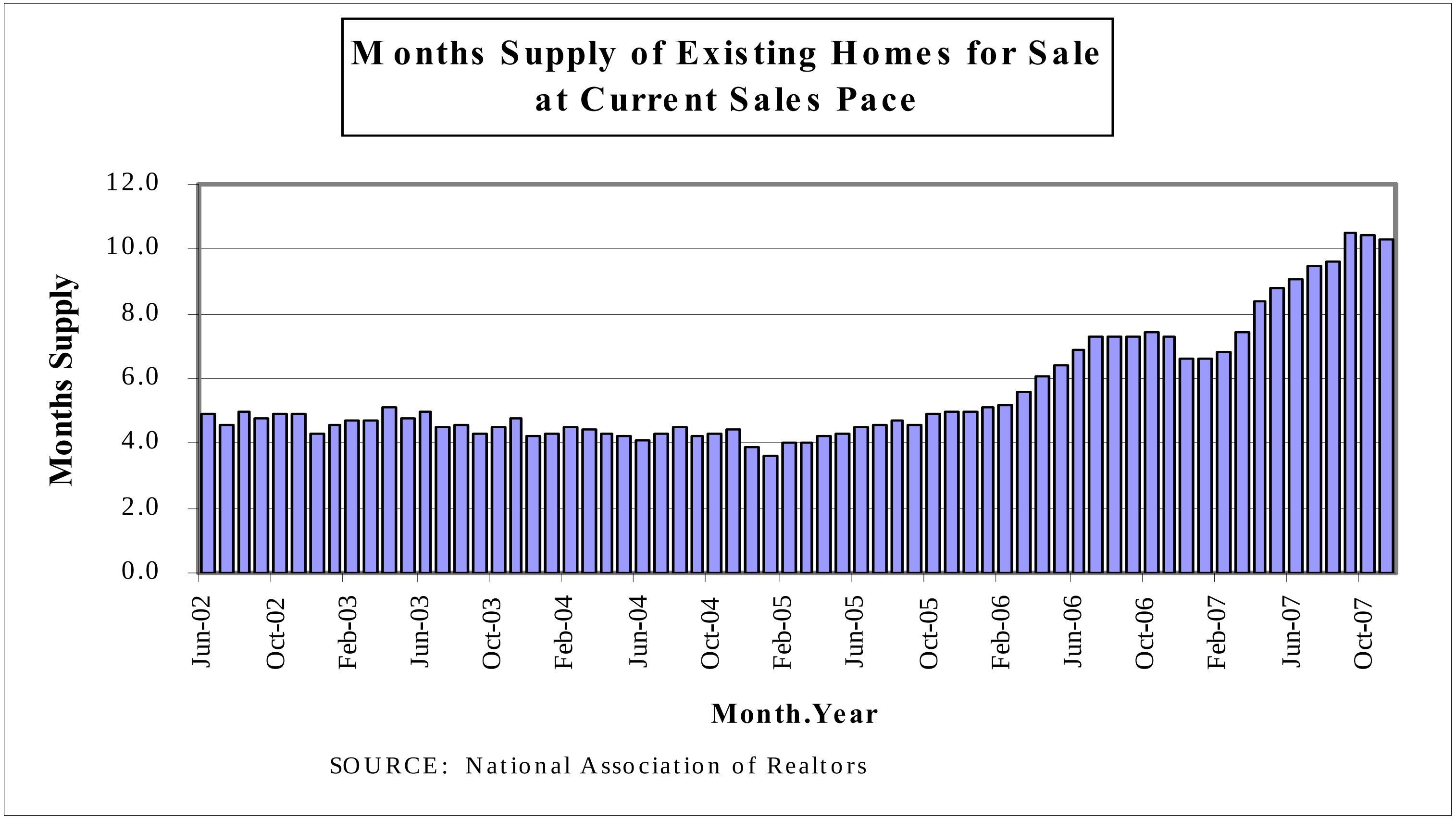
Residential construction continues to be a drag on the overall economy and will not improve until late 2008. Over the past seven quarters, the decline in residential investment subtracted an average of nearly one percent from GDP growth.



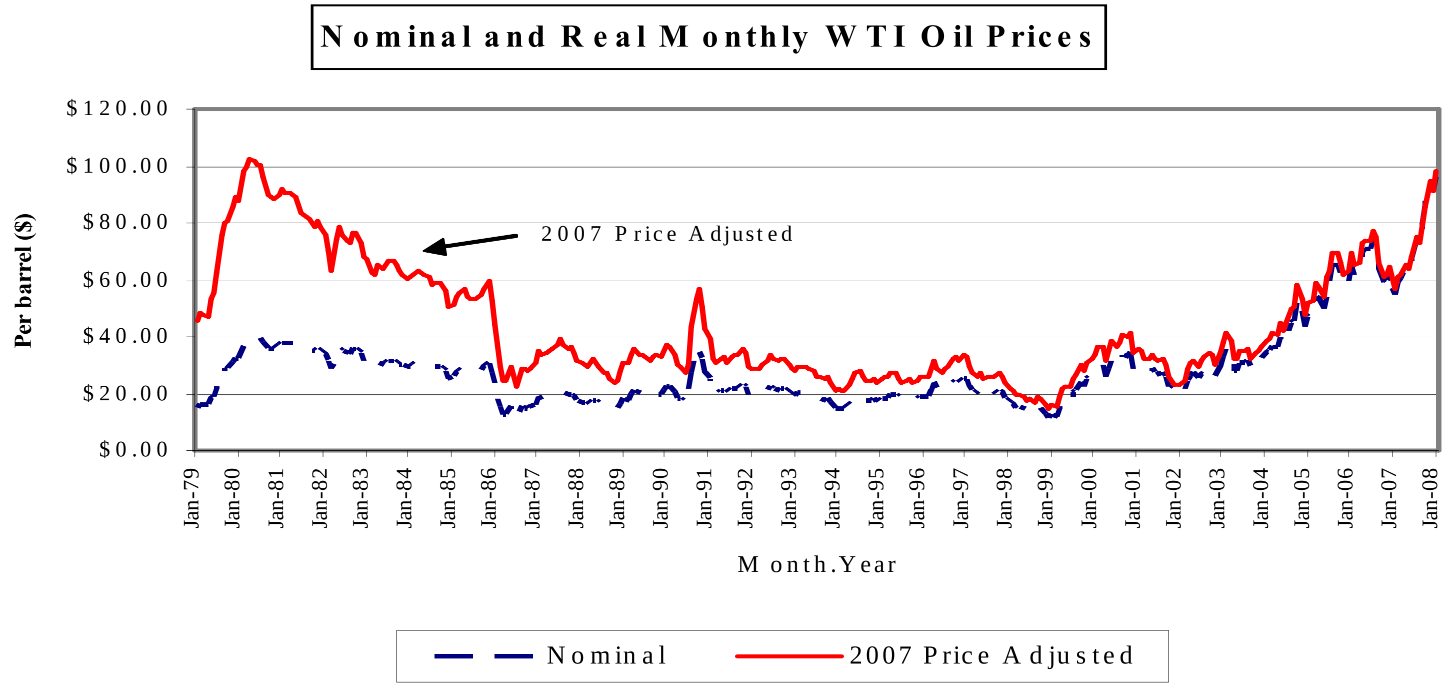
The decline in *new residential construction* reflects the high inventory of unsold new homes. Since February 2006, inventory has exceeded a six-month supply every month and stood at over 9 months in November.



Since February 2006, inventory of ***existing homes*** has exceeded a six-month supply every month and stood at over 10 months supply in November.

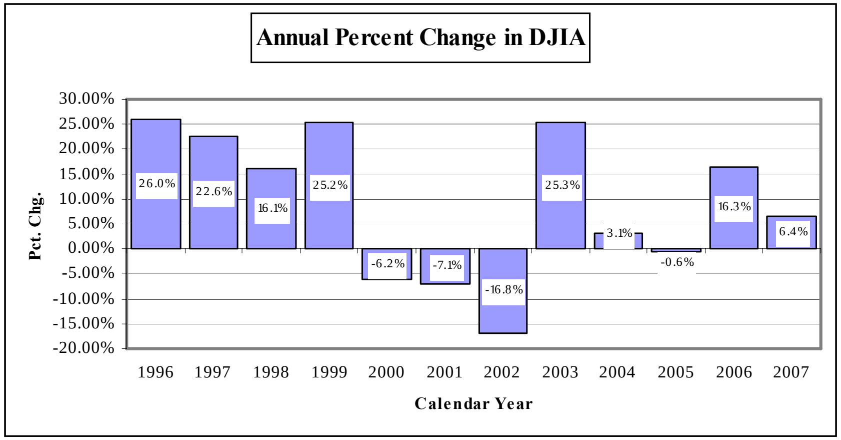


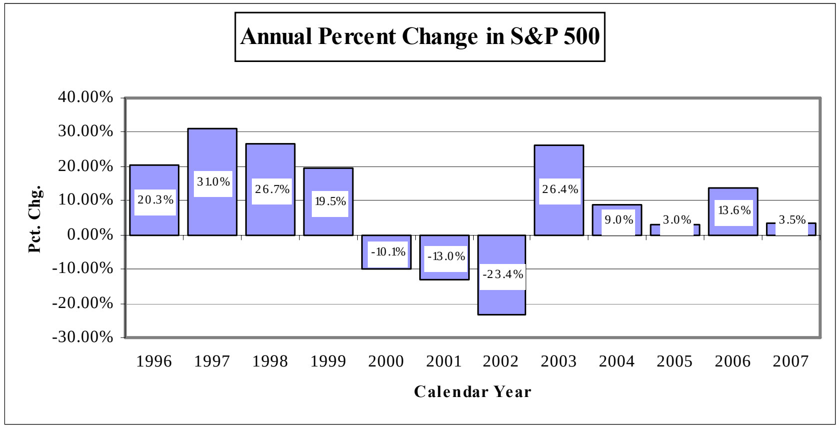
Crude oil prices are near the record highs experienced during the 1979-1980 period.

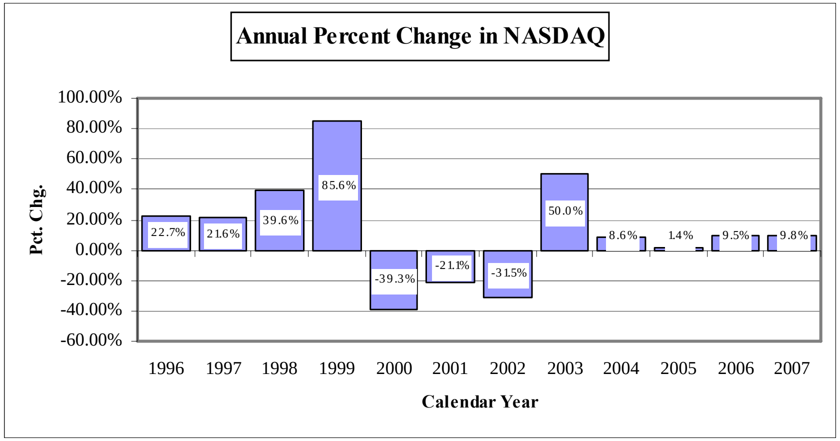


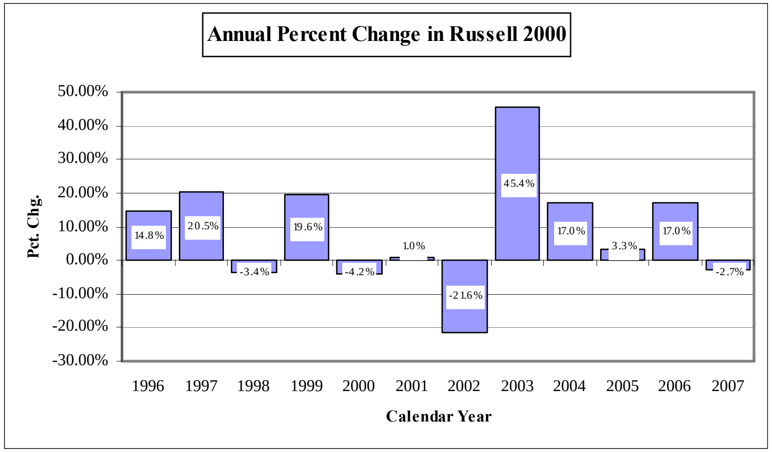
SOURCES: Federal Reserve Bank of St. Louis
Montgomery County Department of Finance

The stock market, except the Russell 2000, experienced modest growth in 2007 compared to 2003-2006 averages. (DJIA ↑6.4%, S&P 500 ↑3.5%, NASDAQ ↑9.8%)

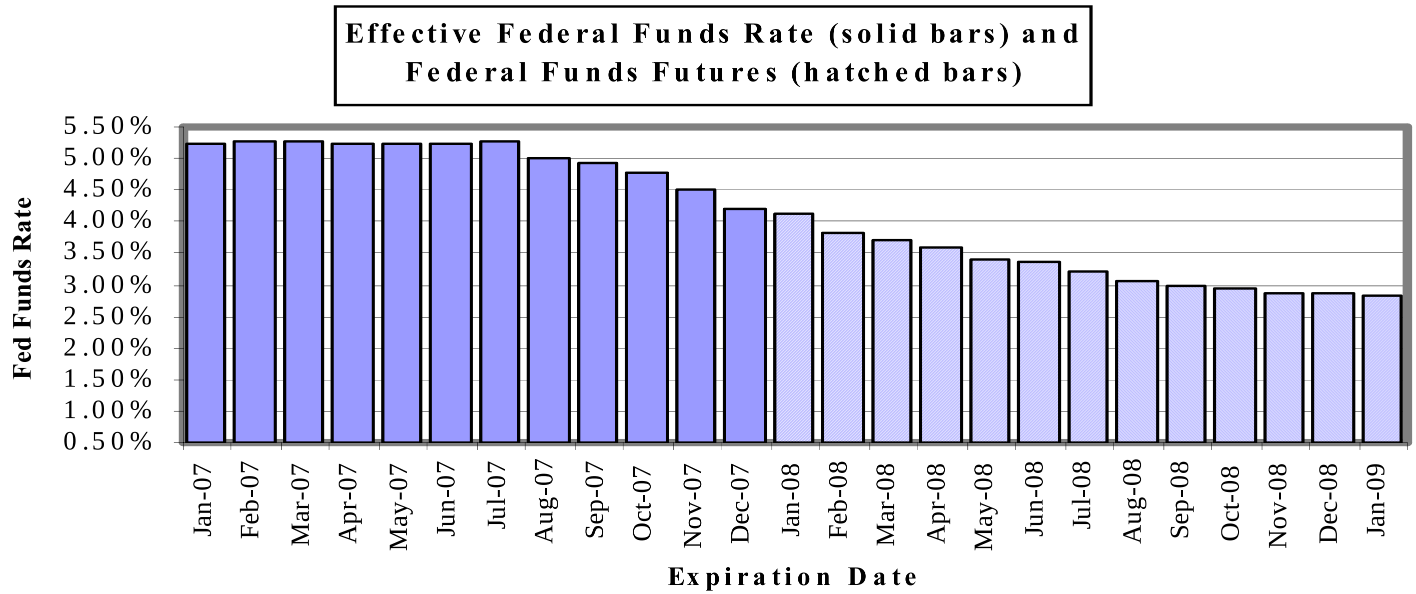






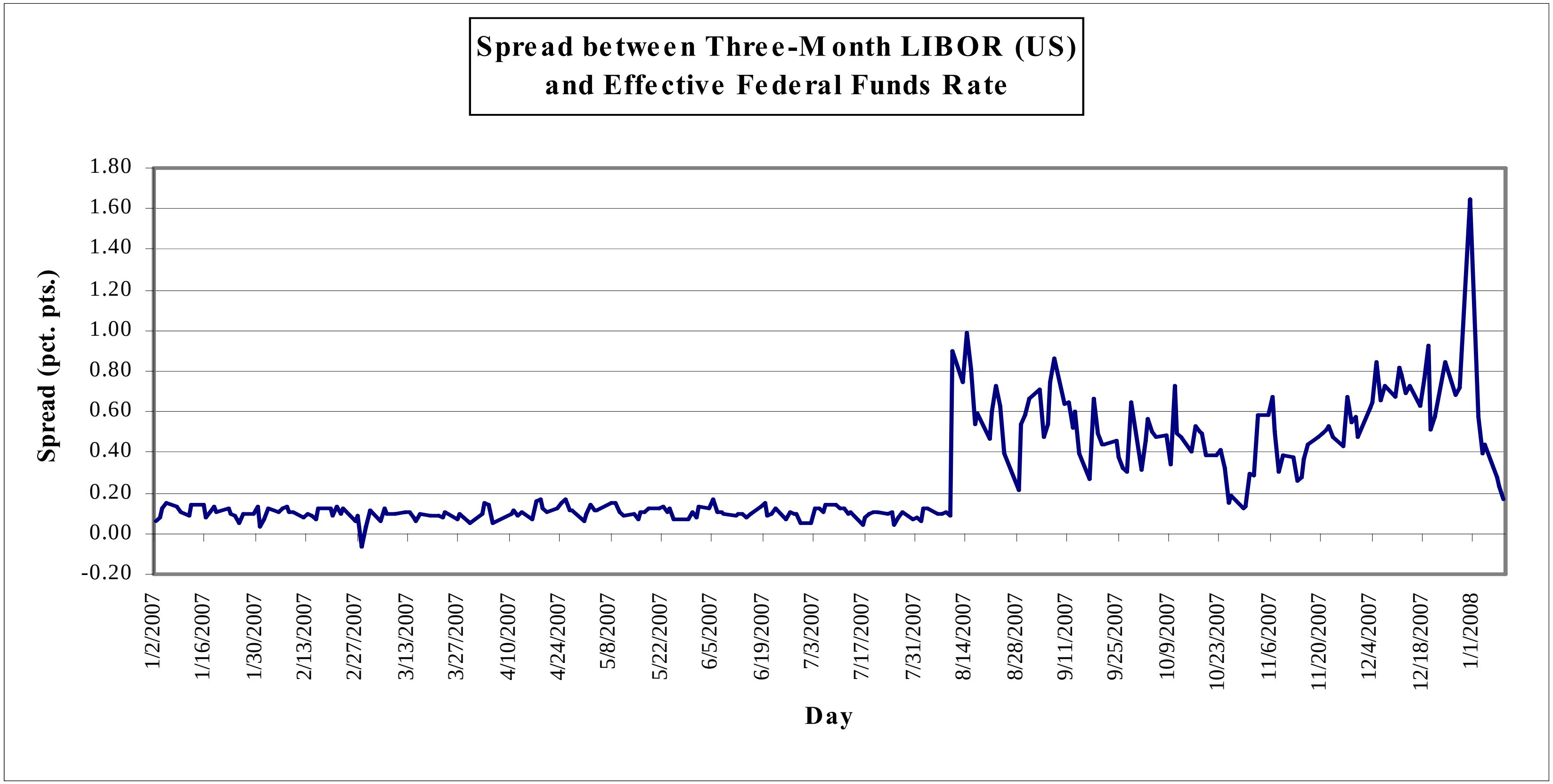


Since August 17, the Federal Reserve Board has cut the discount rate and federal funds rate to ease the concerns about the health of the economy. The Fed cut the federal funds rate three times − 50 basis points (bps) cut in September, 25 bps in October, and 25 bps in December.

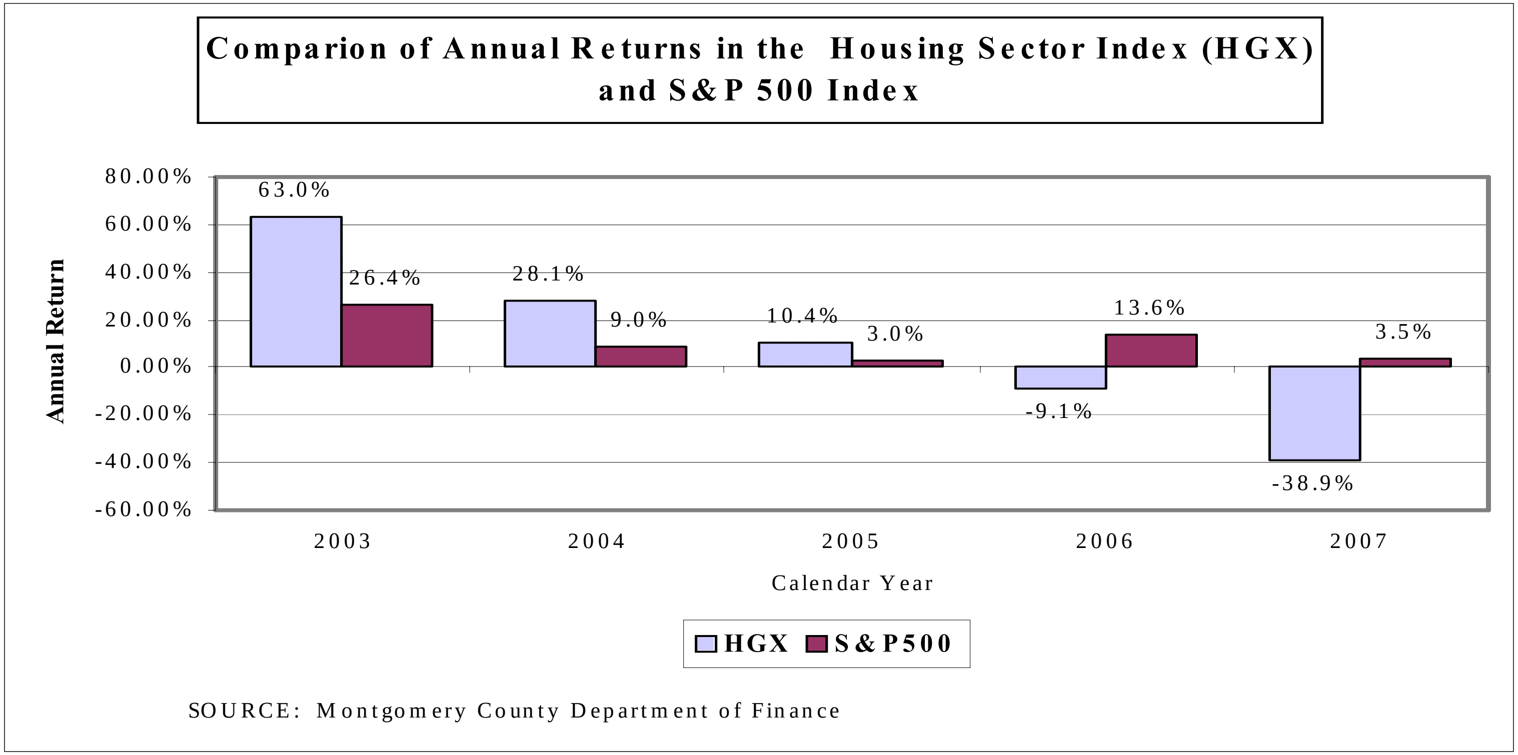


SOURCES: Federal Reserve Bank of St. Louis (solid bars) and the Chicago Board of Trade (hatched bars) as of January 4, 2007

The interbank lending market deteriorated beginning August 10. The large spread between LIBOR and fed funds rate appeared to be related to commercial banks' exposures to subprime mortgages. Since the beginning of this year, the spread has declined and is near its pre-August spread (10 bps).

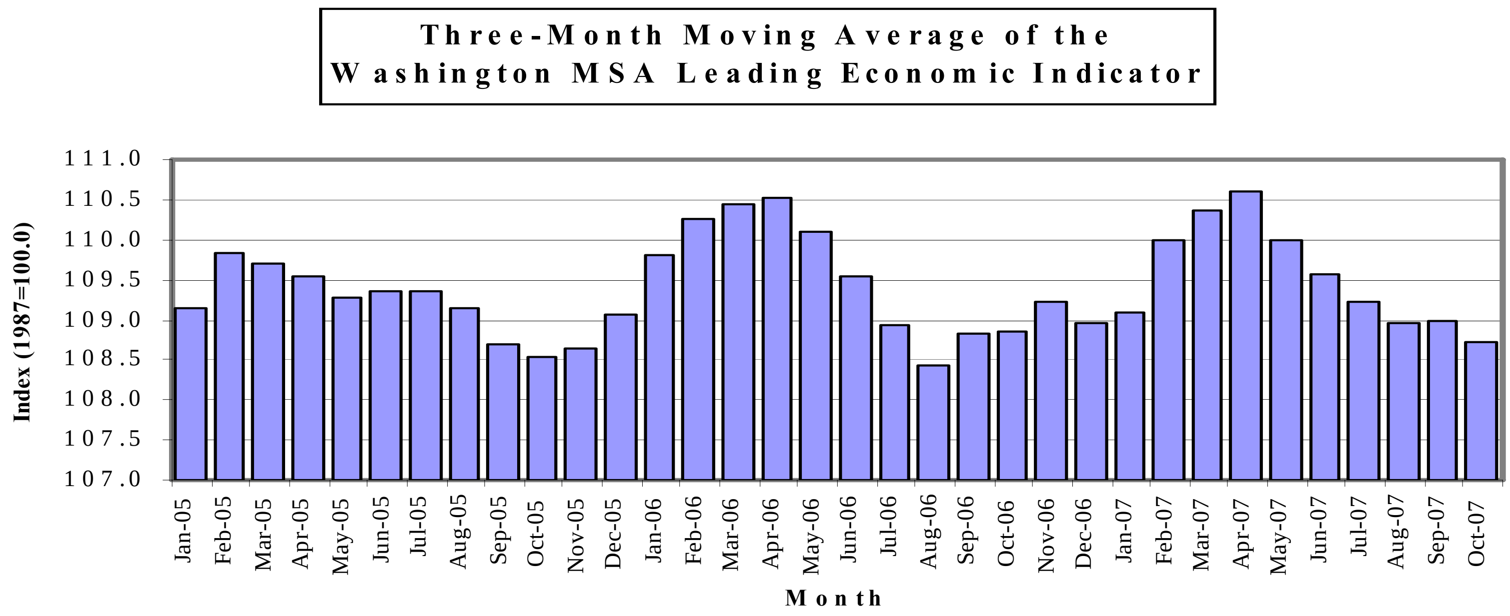


The housing sector index (HGX) fell 38.9 percent in 2007. That drop followed a 9.1 percent decline in 2006. Both reflecting the major correction in the housing market.



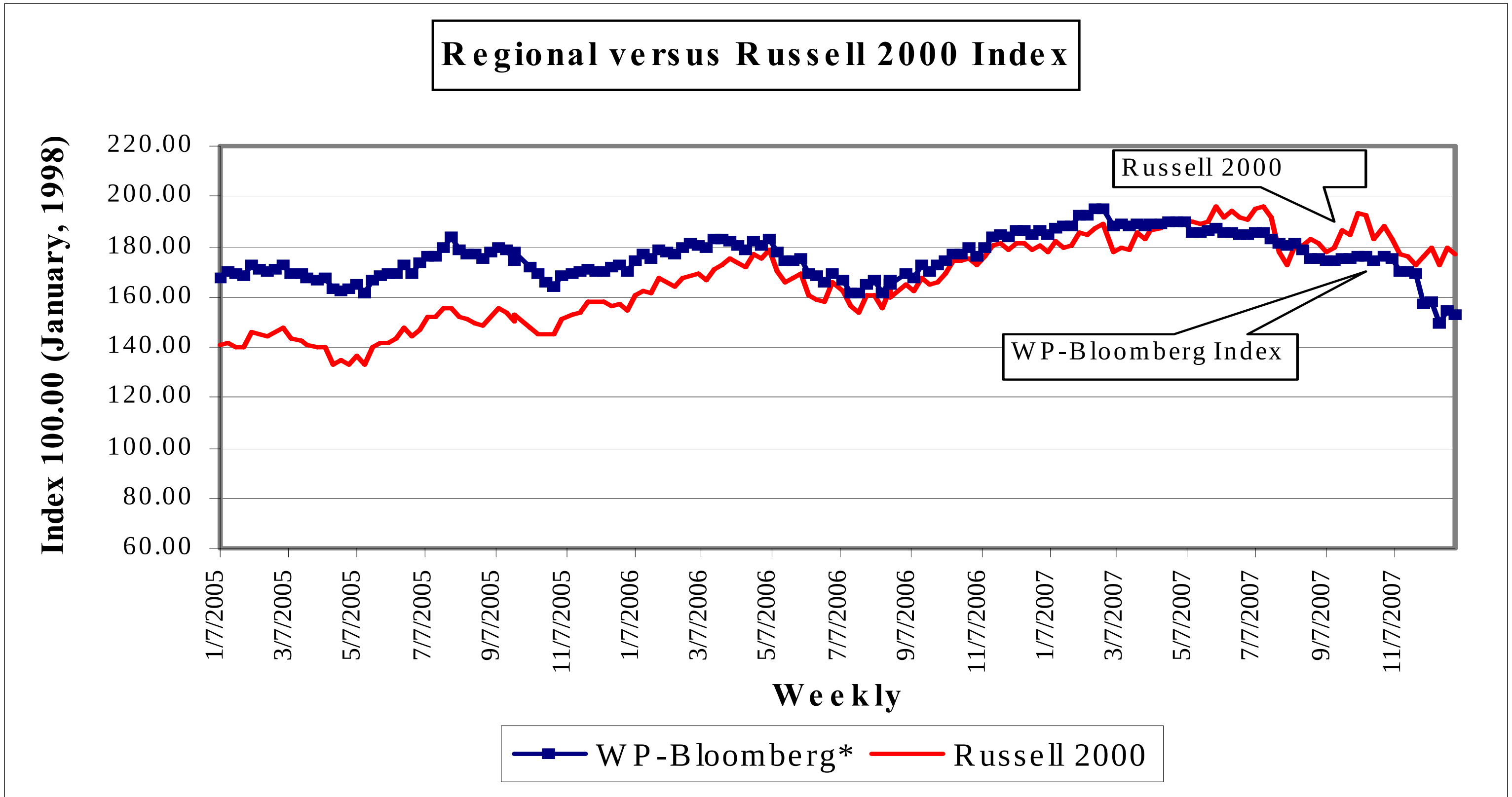
Regional Economic Indicators

The leading economic indicator for the Washington region has declined over the six-month period ending in October. That decline suggests that the region's economy will experience slower economic growth during 2008.



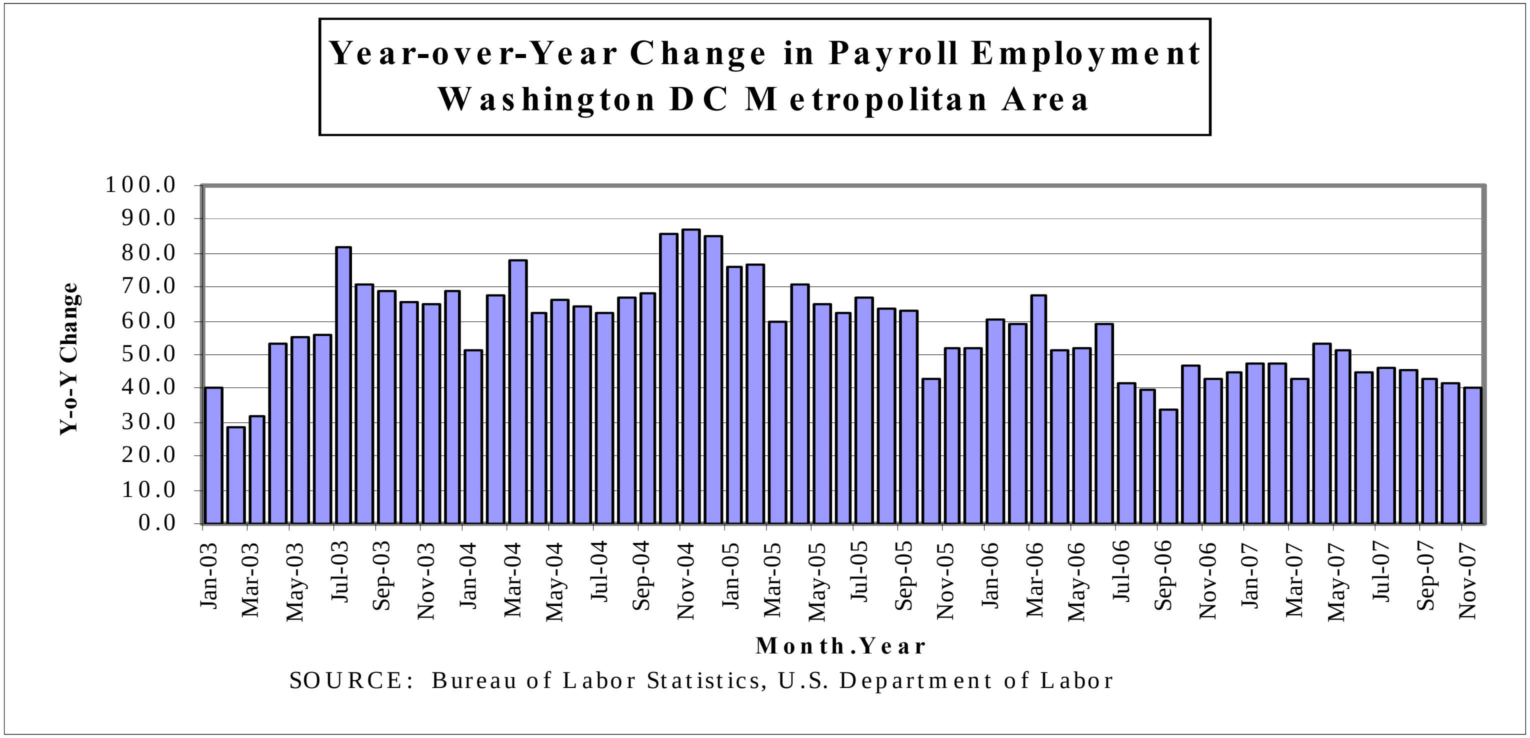
SOURCE: Center for Regional Analysis, George Mason University
NOTE: Leading indicator is designed to forecast economic performance six to eight months in advance.

The regional stock index also confirms an economic slowdown in the region's economy with the index declining over 18 percent in 2007.

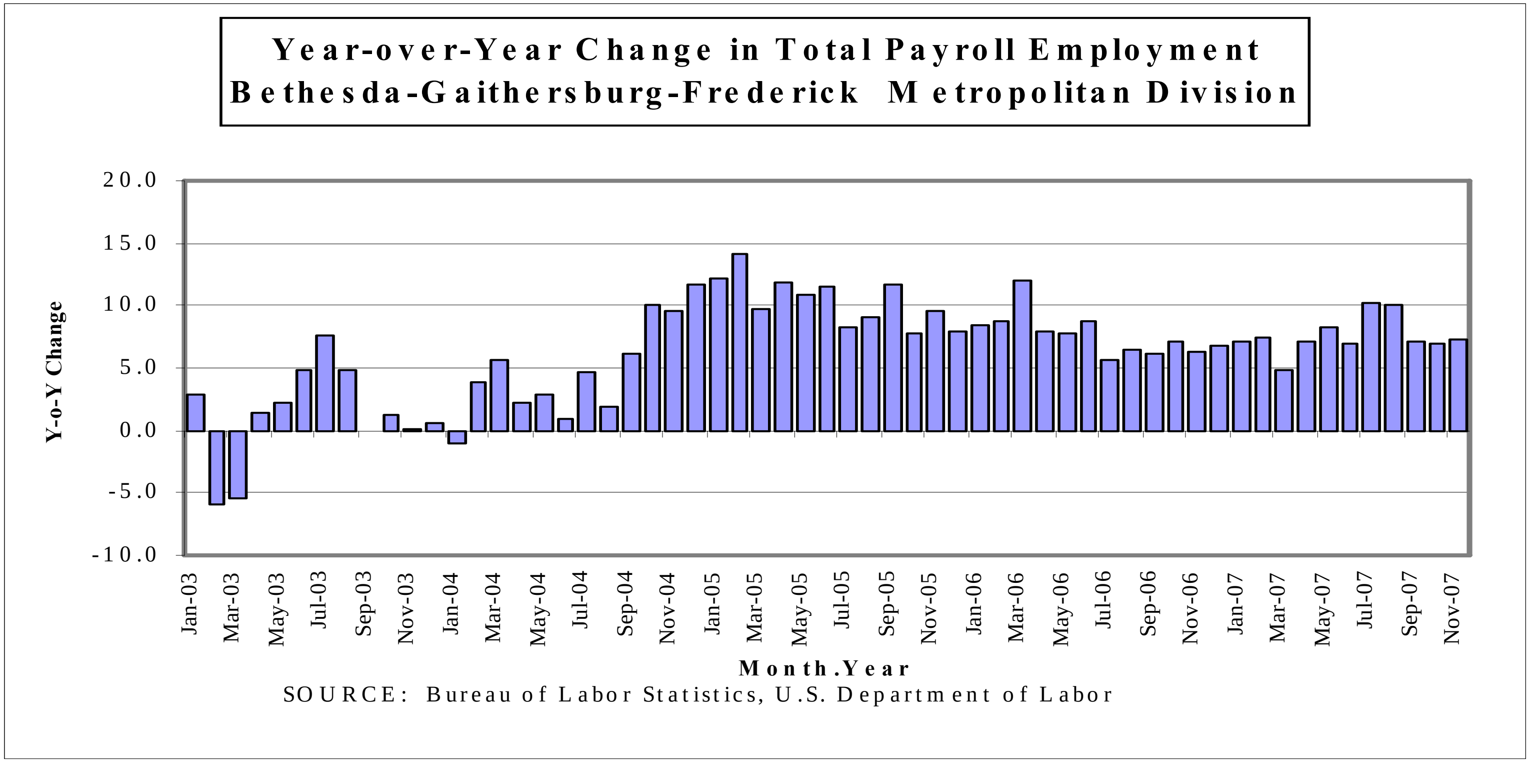


SOURCE: **Washington Post*-Bloomberg Regional Index

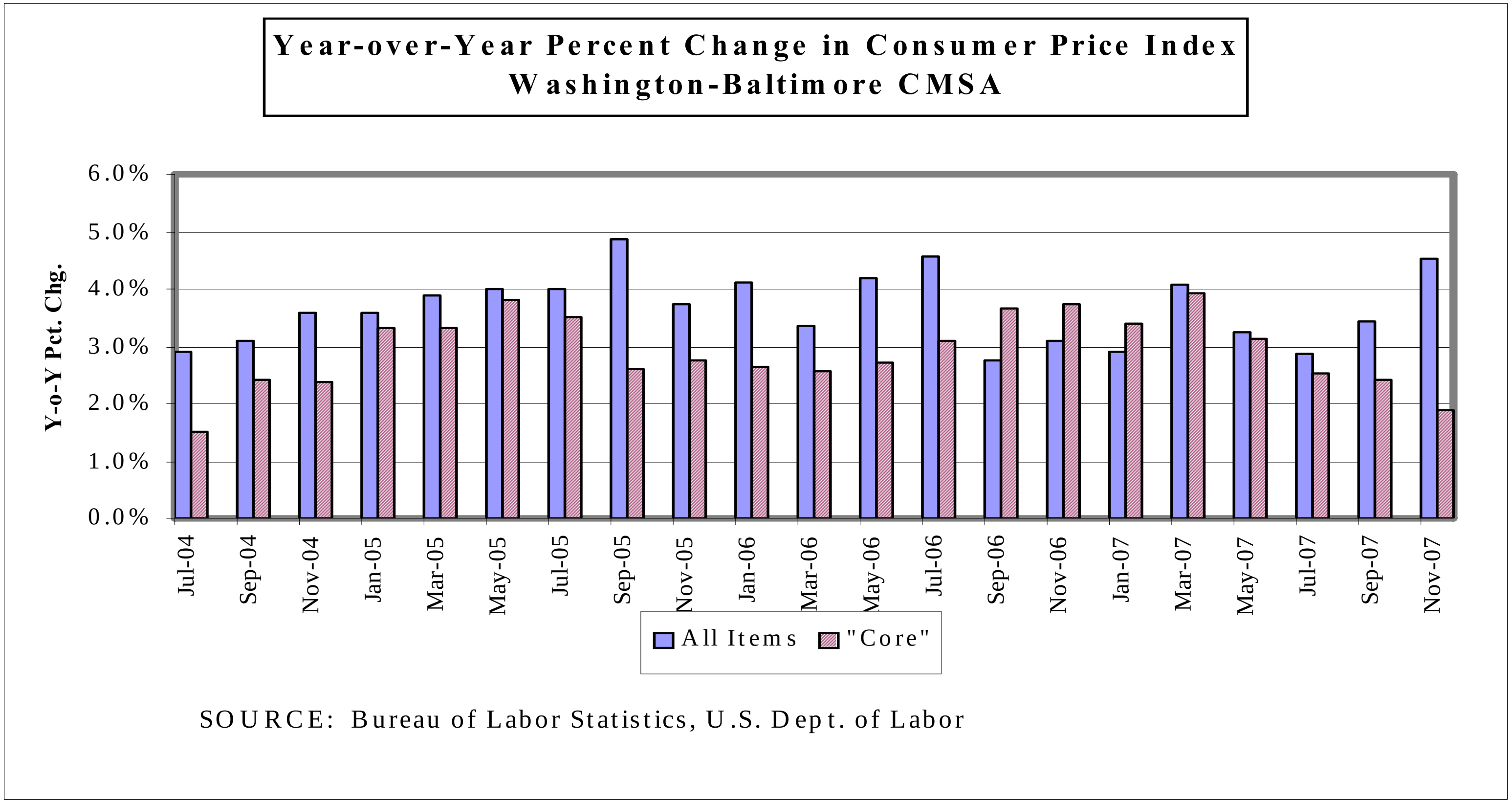
The Washington economy continues to generate new jobs albeit at a much slower rate. Through November, Washington averaged less than 46,000 new jobs, on a year-over-year basis, compared to the average of 62,500 during 2005 and nearly 50,000 during 2006.



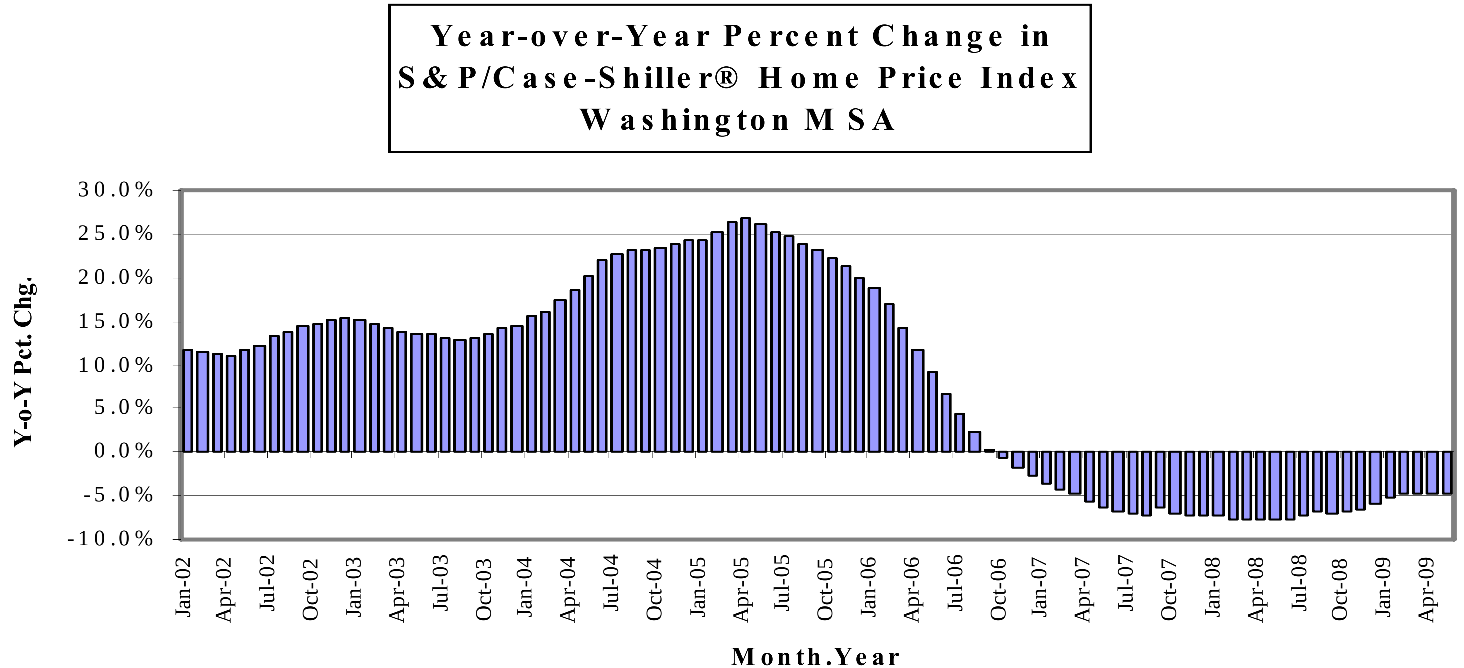
Montgomery and Frederick counties also continued to add jobs but at a slower pace. Through November, the BGF metropolitan division averaged 7,600 new jobs on a year-over-year basis compared to 10,000 during 2005 and less than 8,000 in 2006.



The region's rate of inflation reached its highest level in November of 4.5 percent on a year-over-year basis since September 2005 (4.9%). However, the "core" rate declined from a recent high of 3.9 percent in March to 1.9 percent in November.



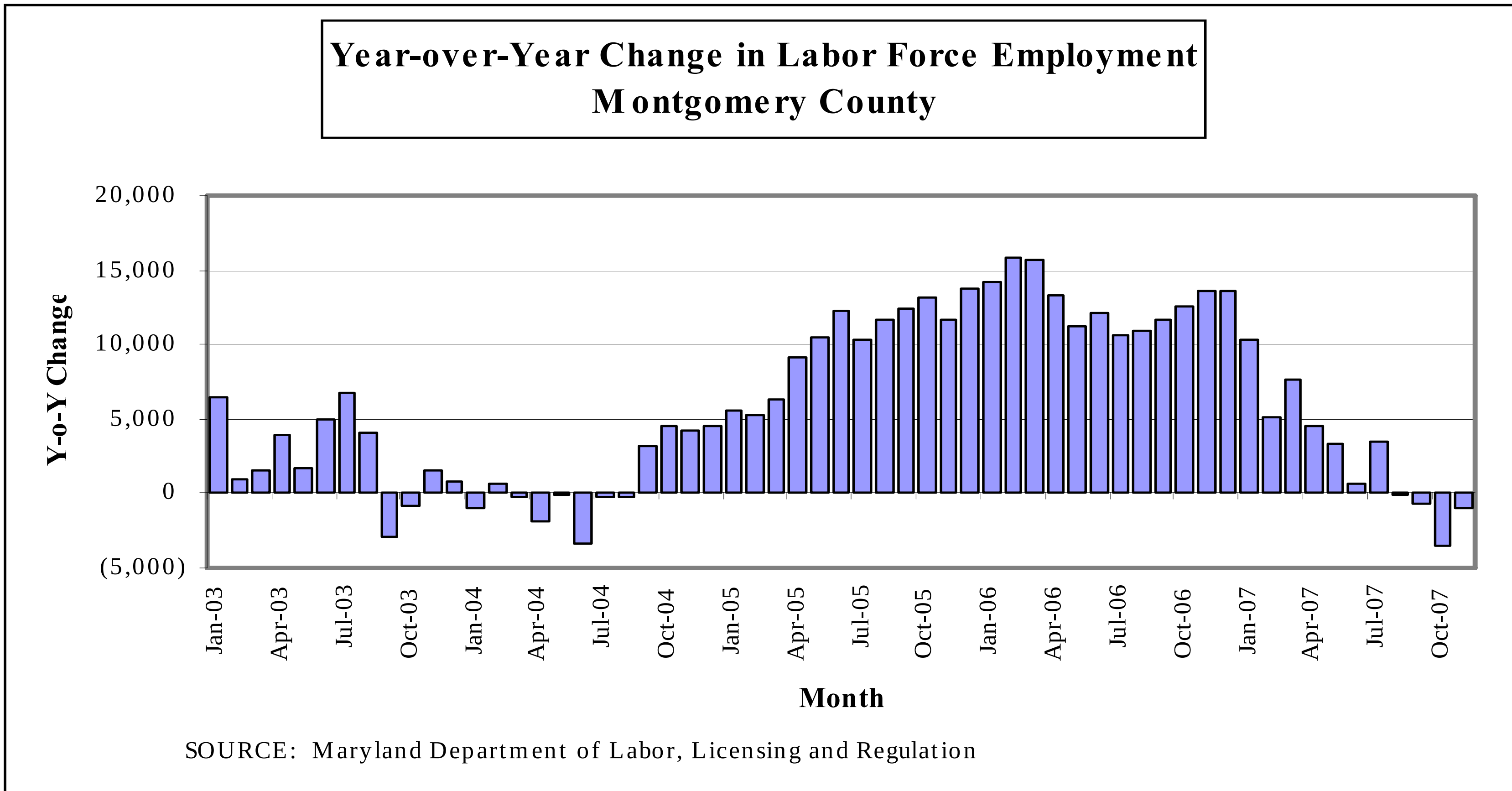
Since October 2006, the S&P/Case-Shiller® index has experienced a year-over-year decline and, according to CME futures, is expected to continue to decline through 2008.



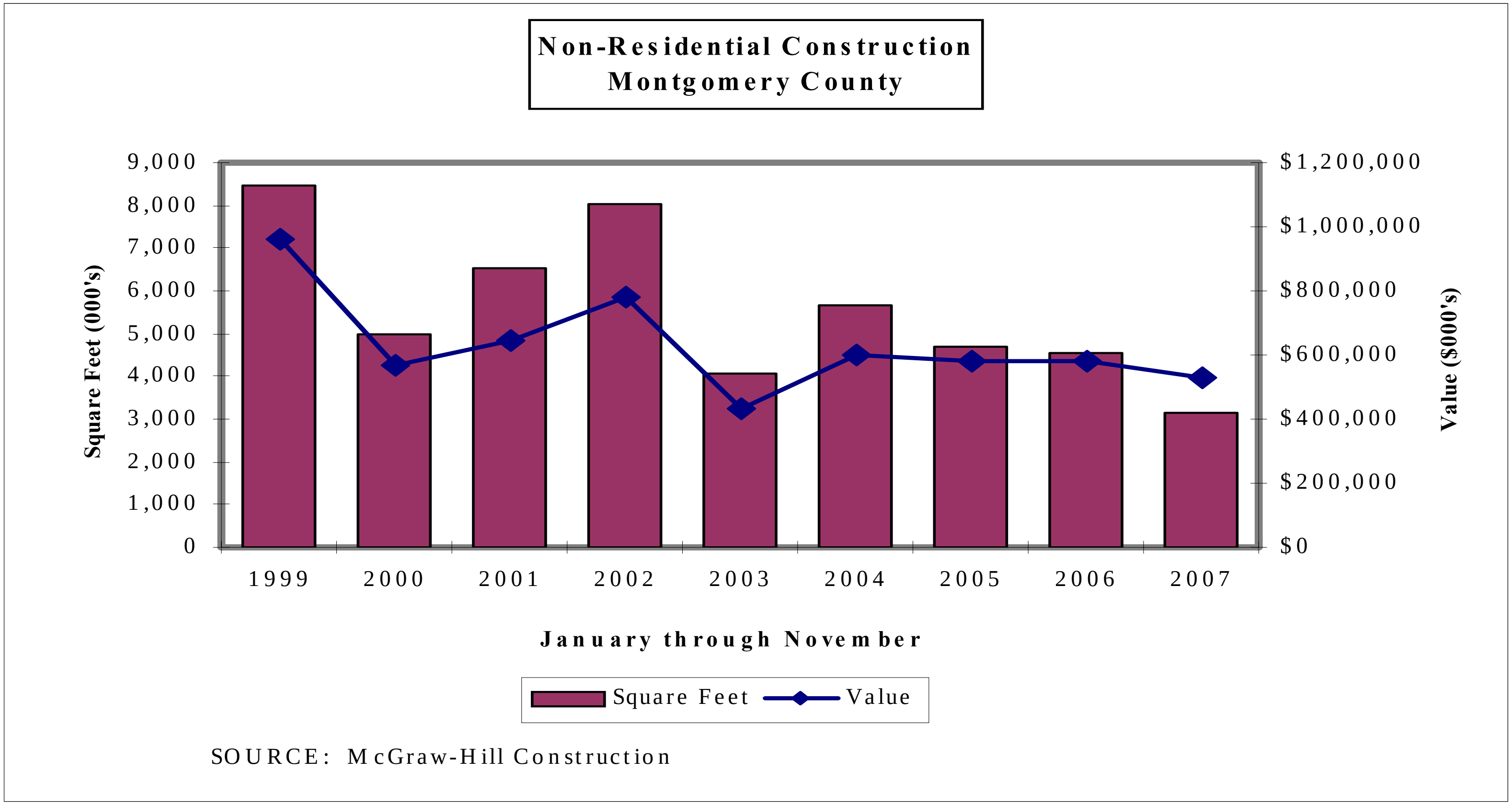
NOTE: S&P/Case-Shiller price index is a registered trademark of Standard and Poor's. Data from September 2007 to November 2008 extrapolated from Chicago Mercantile Exchange futures data.

Montgomery County
Economic Indicators

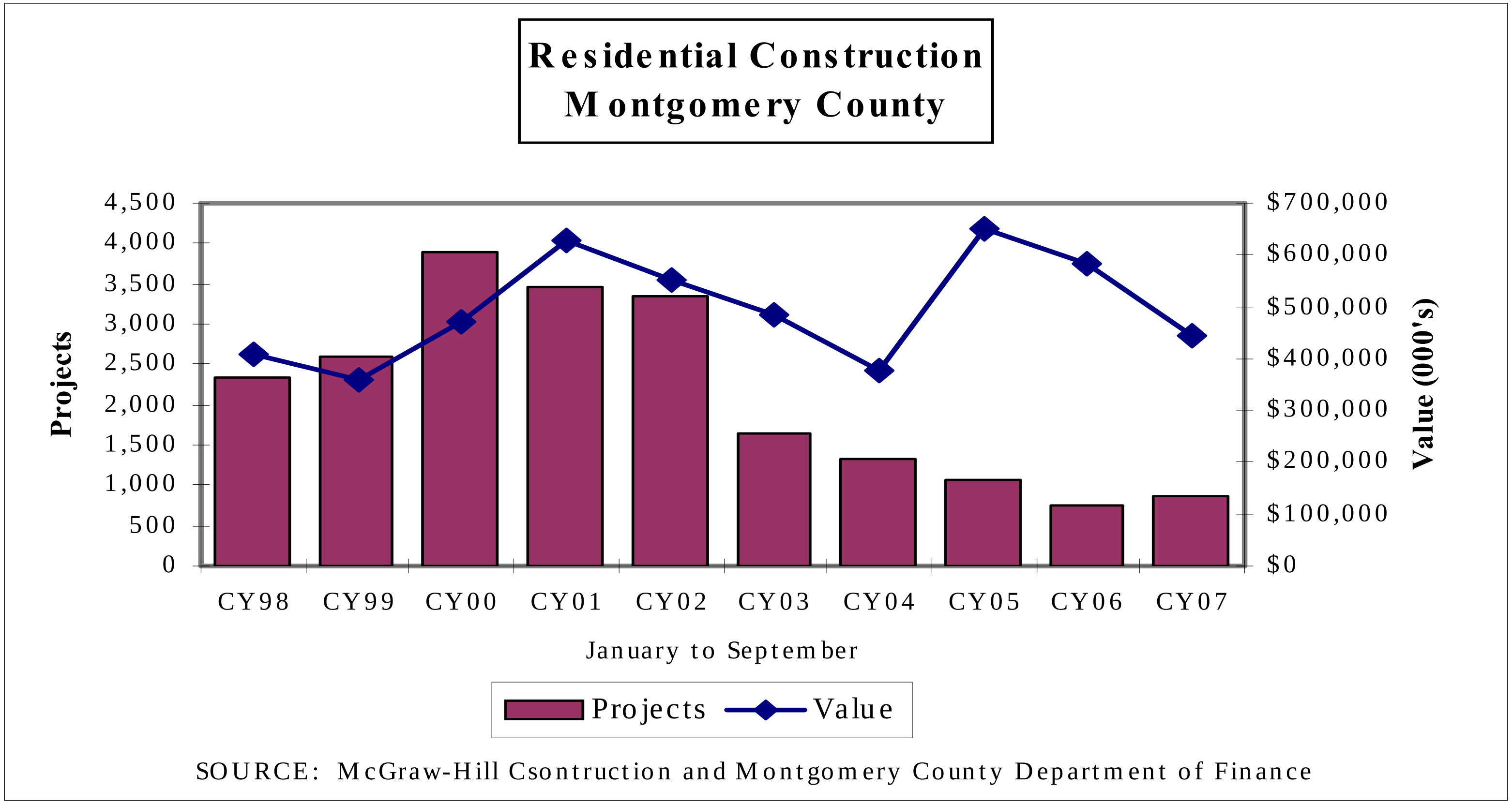
Employment in the County as measured by the labor force series (survey of households) has declined the past year.



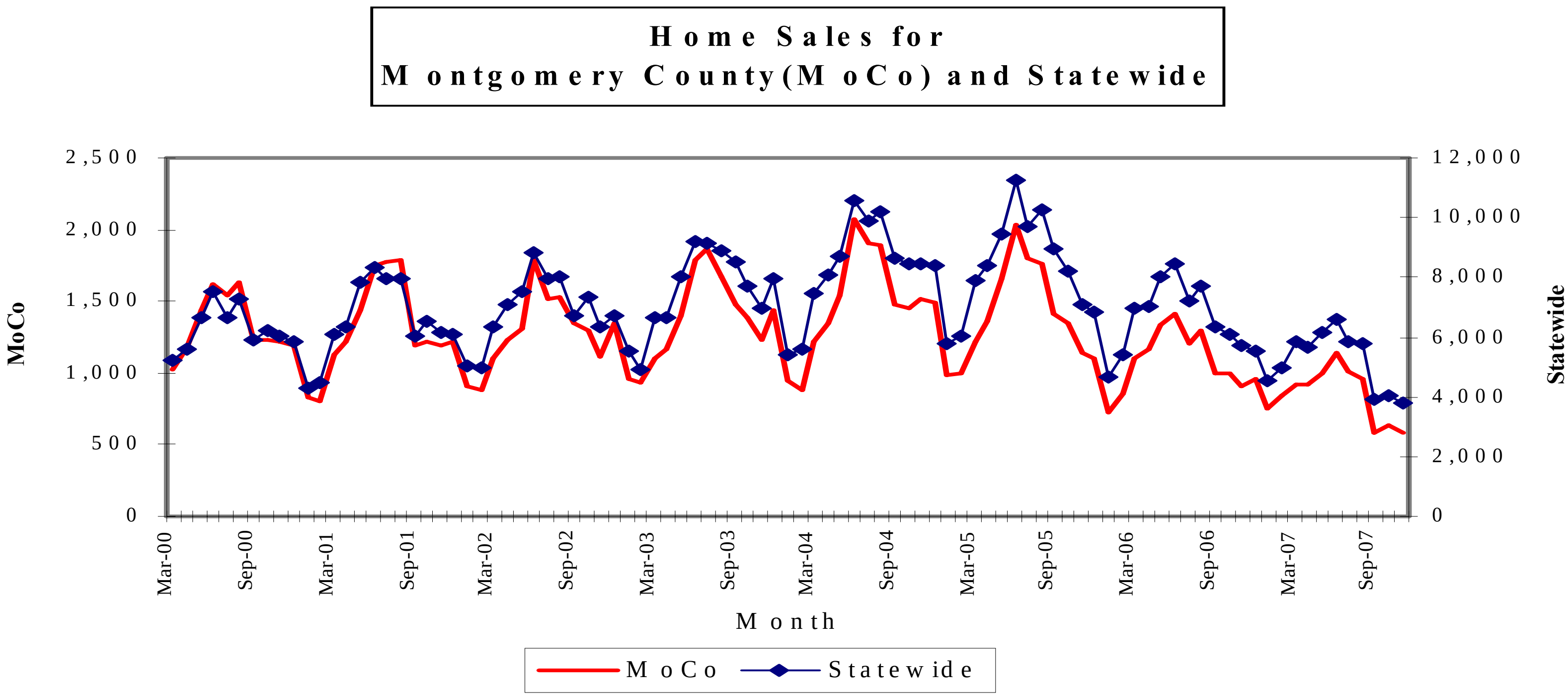
Non-residential construction activity in the County has experienced a slowdown through November. The value of new projects under construction is 13 percent below the average value during the 2000-04 period.



Residential construction activity continued to decline through November. The value of new projects under construction was down 26.4 percent compared to the average value during the 2000-04 period.

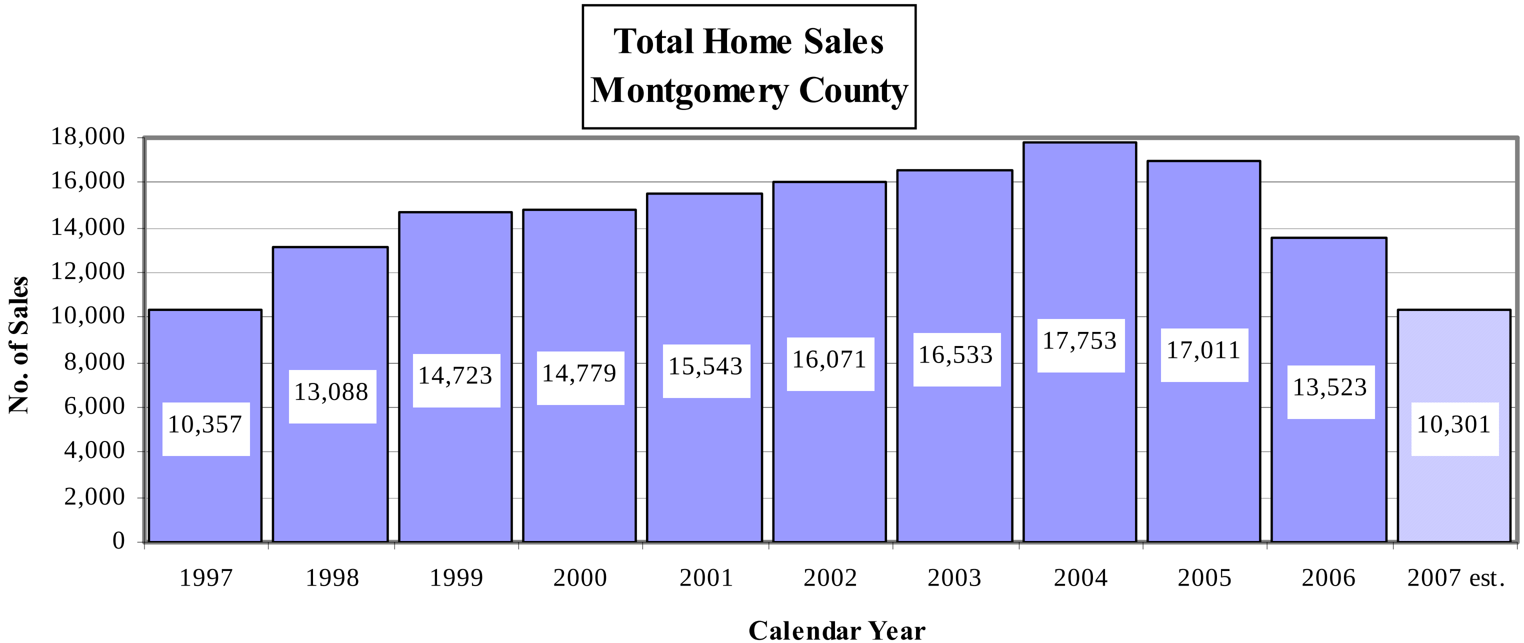


The monthly home sales in the County and statewide show very similar trends with the peak in sales occurring June 2005. By November 2007, sales declined 71 percent from the peak for the County and 66 percent statewide.



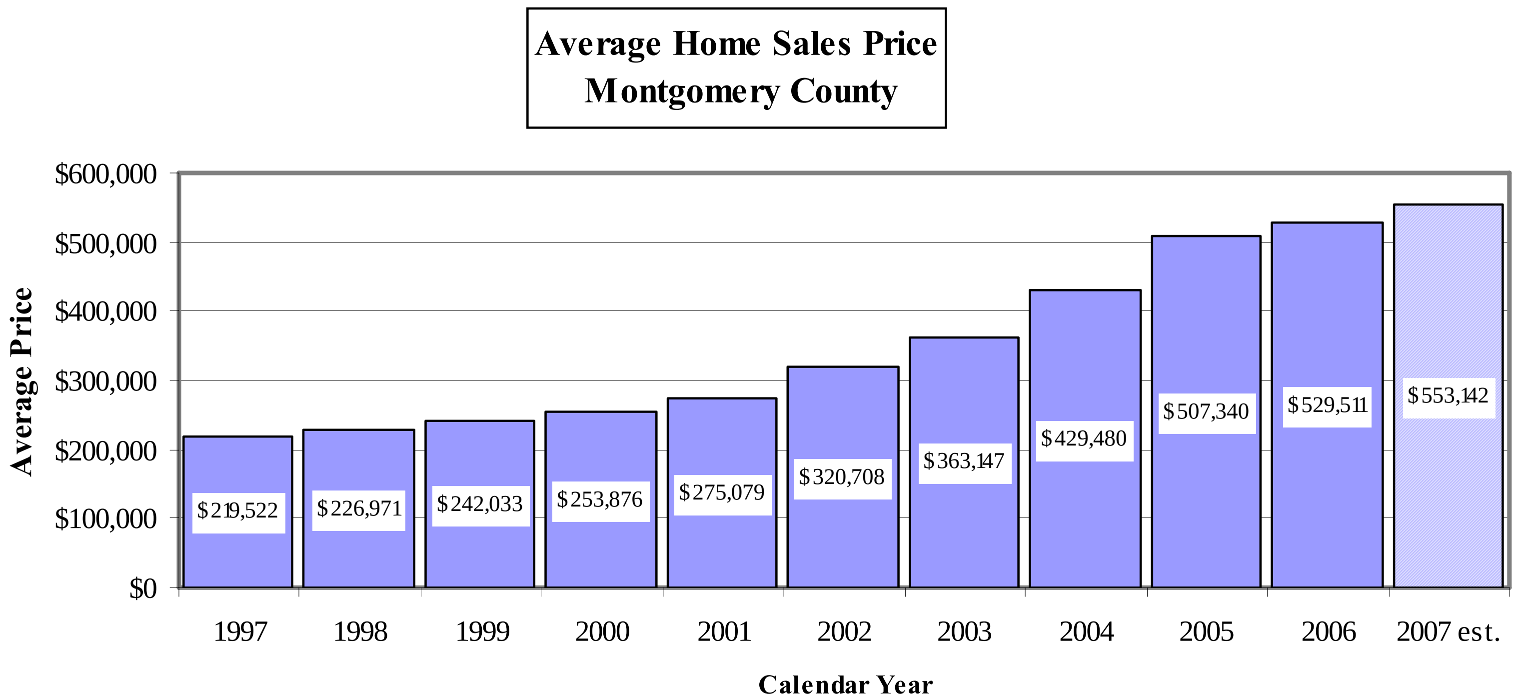
SOURCES: Maryland Association of Realtors (Statewide)
Metropolitan Regional Information System, Inc. (MoCO

Home sales for the County are expected to decline to 10,300 units in calendar year 2007 – the lowest number on record and a decline of nearly 24 percent from the previous year.



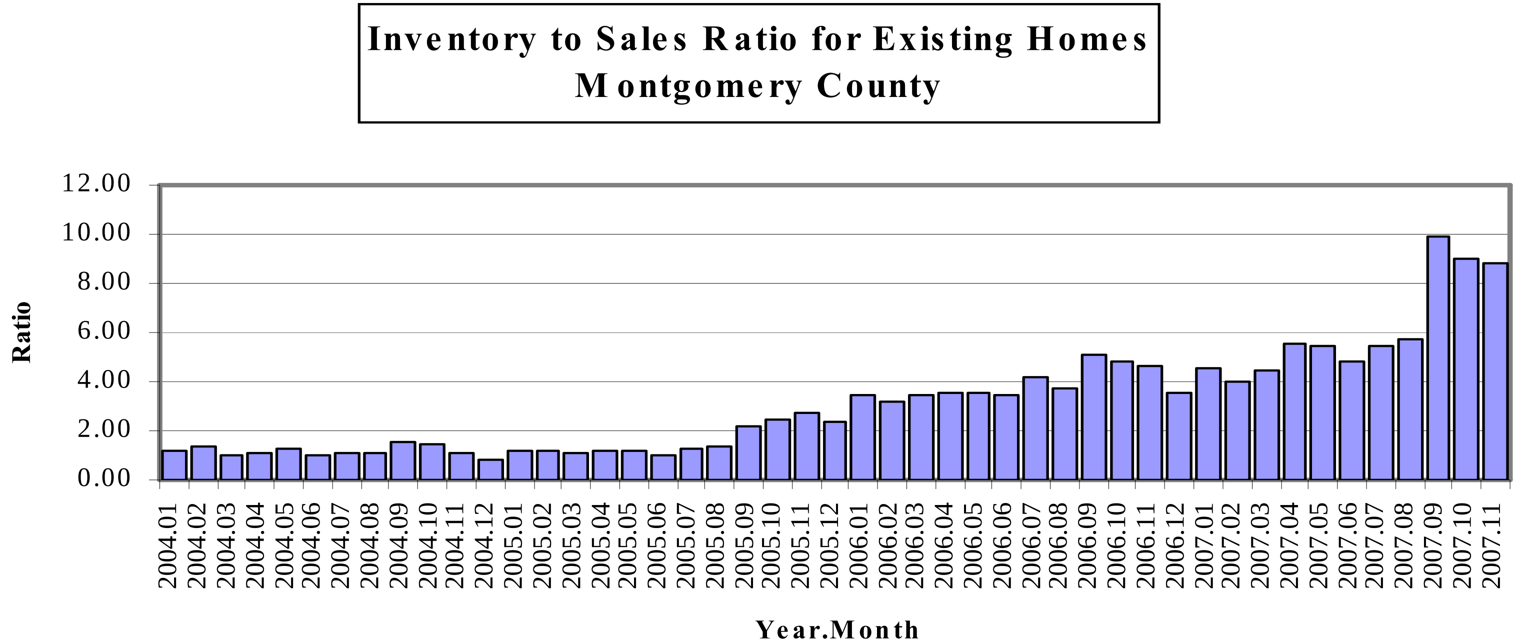
SOURCES: Metropolitan Regional Information System, Inc. and Montgomery County Department of Finance

However, the average sales price of existing homes is expected to increase 4.5 percent in 2007 but significantly below the 15.3 percent average growth between 2002 and 2005.



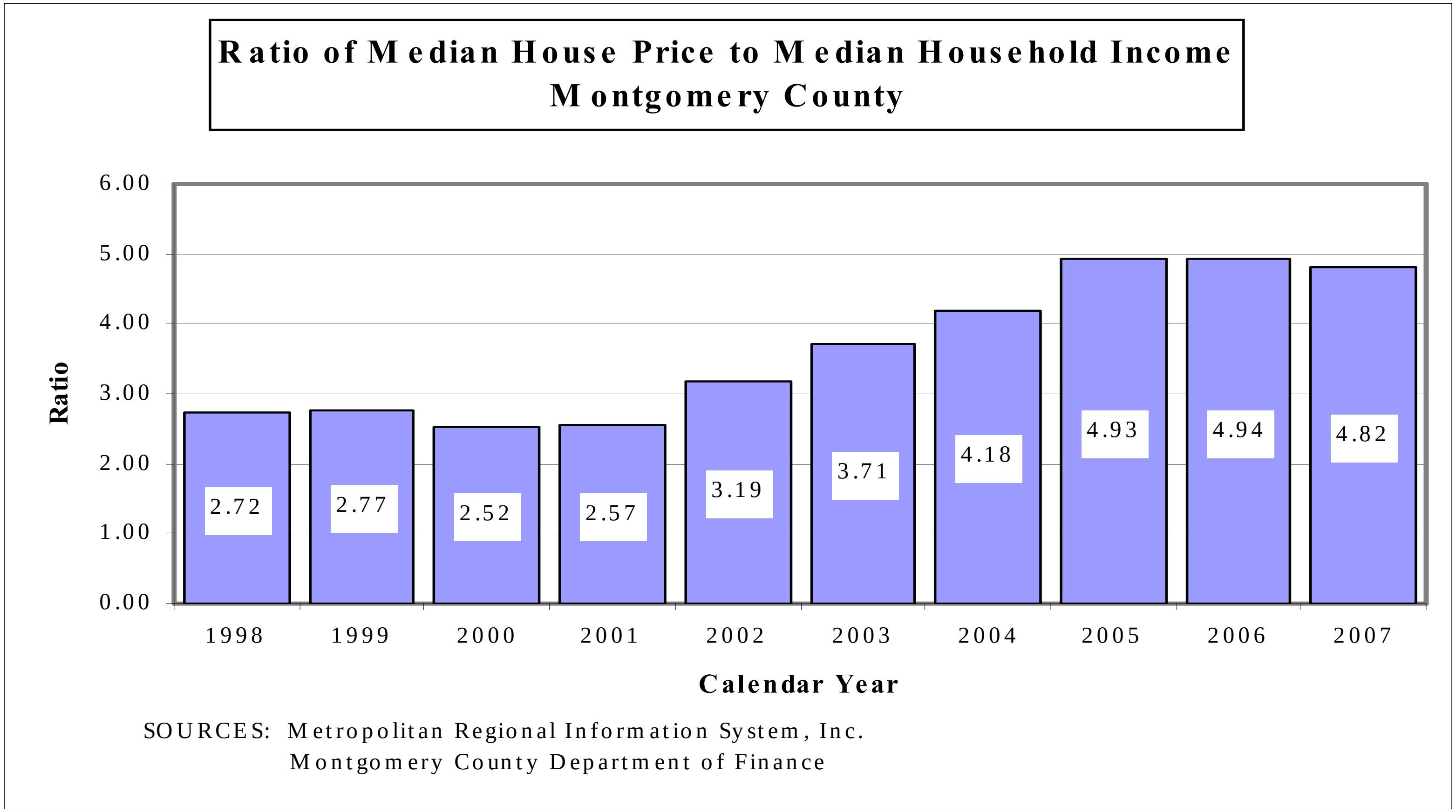
SOURCES: Metropolitan Regional Information System, Inc. and Montgomery County Department of Finance

The outlook for a near-term rebound in home sales is unlikely because of the high inventory of existing homes for sale. Since the beginning of 2006, inventory-to-sales ratio has tripled to a 9-month supply in November.

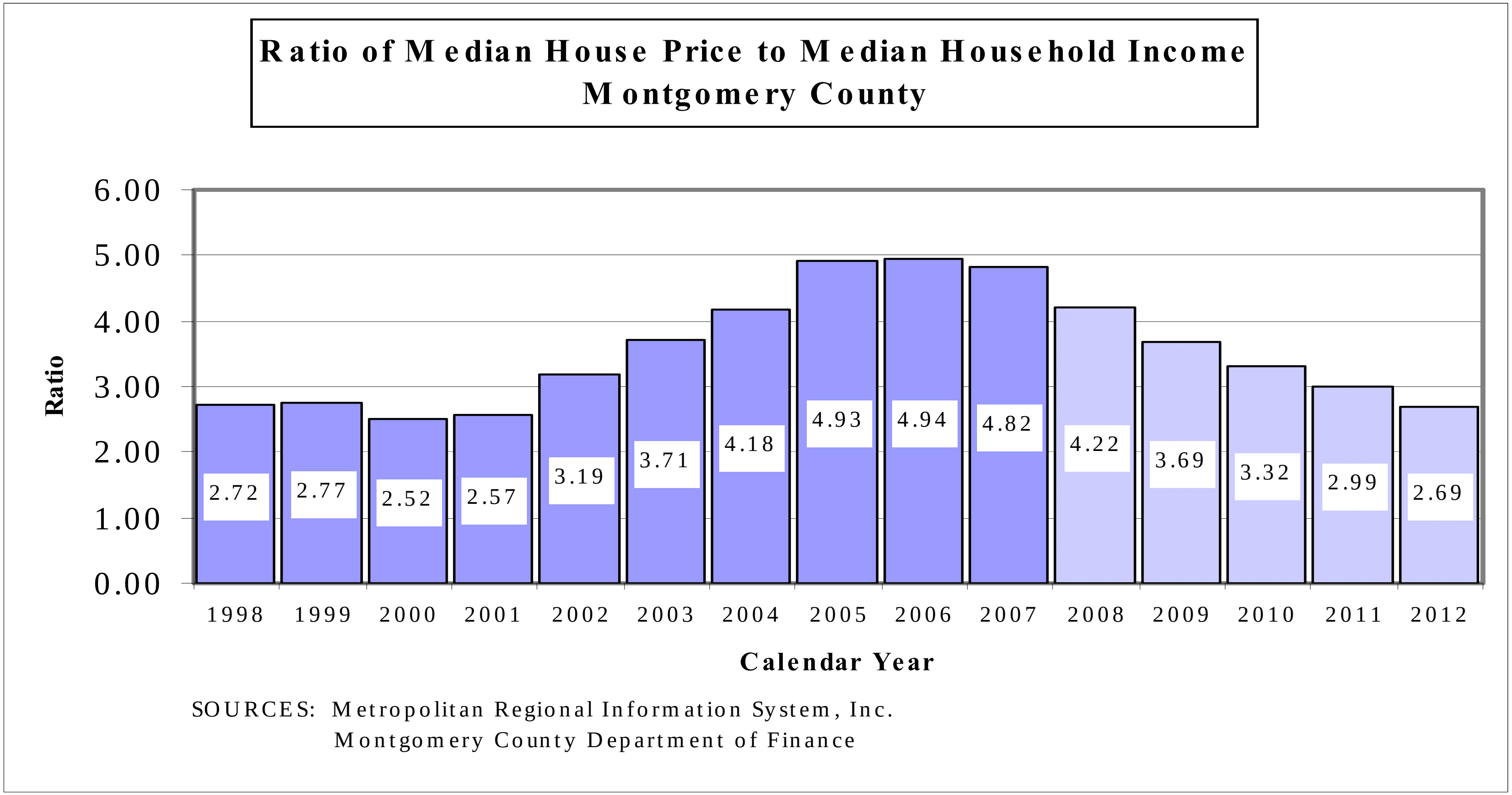


SOURCES: Metropolitan Regional Information System Inc.
Greater Capital Area Association of Realtors
Montgomery County Department of Finance

The ratio of median house price to median household income reached a peak in 2005 and 2006 (nearly 5.00) with a slight decline expected in 2007 (4.82) but well above long-term recent average (1998-2001) of 2.65



If median household income grows at the average annual rate of 3 percent per year and median home prices *decline 10 percent per year*, the 1998-2001 ratios would not be reached until 2012.



Summary

- It is currently anticipated that in the immediate future, the County will experience a slowdown in economic growth due to the following:
  - Payroll employment (establishment survey) will continue to grow at a much slower rate compared to previous years. However, employment based on household survey data suggest employment in the County is stagnant.
  - Housing sales are not expected to rebound until the latter part of 2008 (fiscal year 2009) because of the situation in the mortgage and credit markets.
  - Because of meager housing sales and a dramatic increase in the inventory-to-sales ratio, residential construction is expected to continue to decline through the remainder of this fiscal year.
  - Continued interest rate cuts by the Federal Reserve means that income from County's investments are expected to decline based on estimates prior to the recent mortgage and credit crisis.
  - The large spread between LIBOR and fed funds rate between August and December, which led to a deterioration in credit conditions, appears to have returned to its historic spread (12 bps) during the week of January 7.