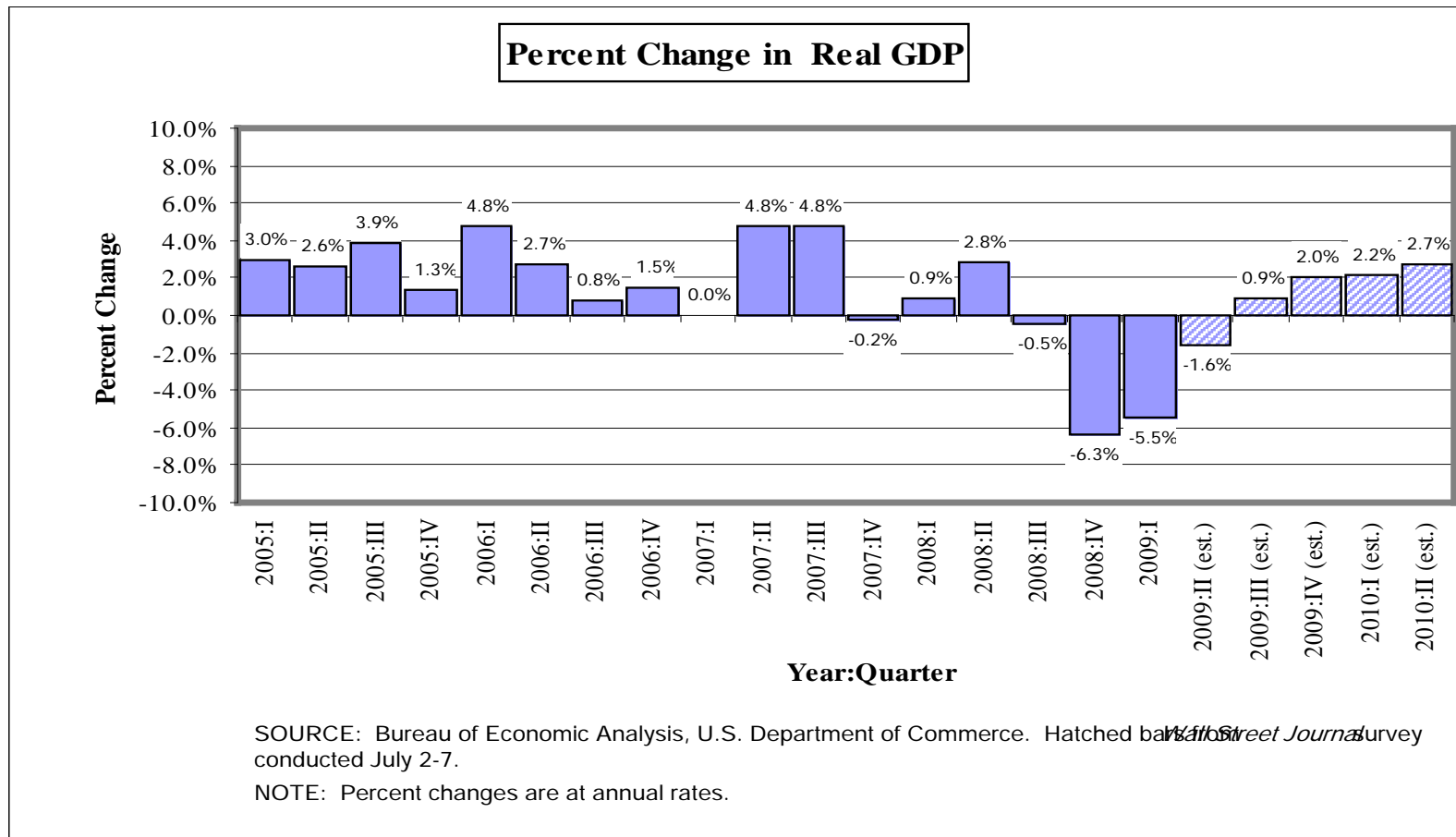


Presentation of Economic Indicators

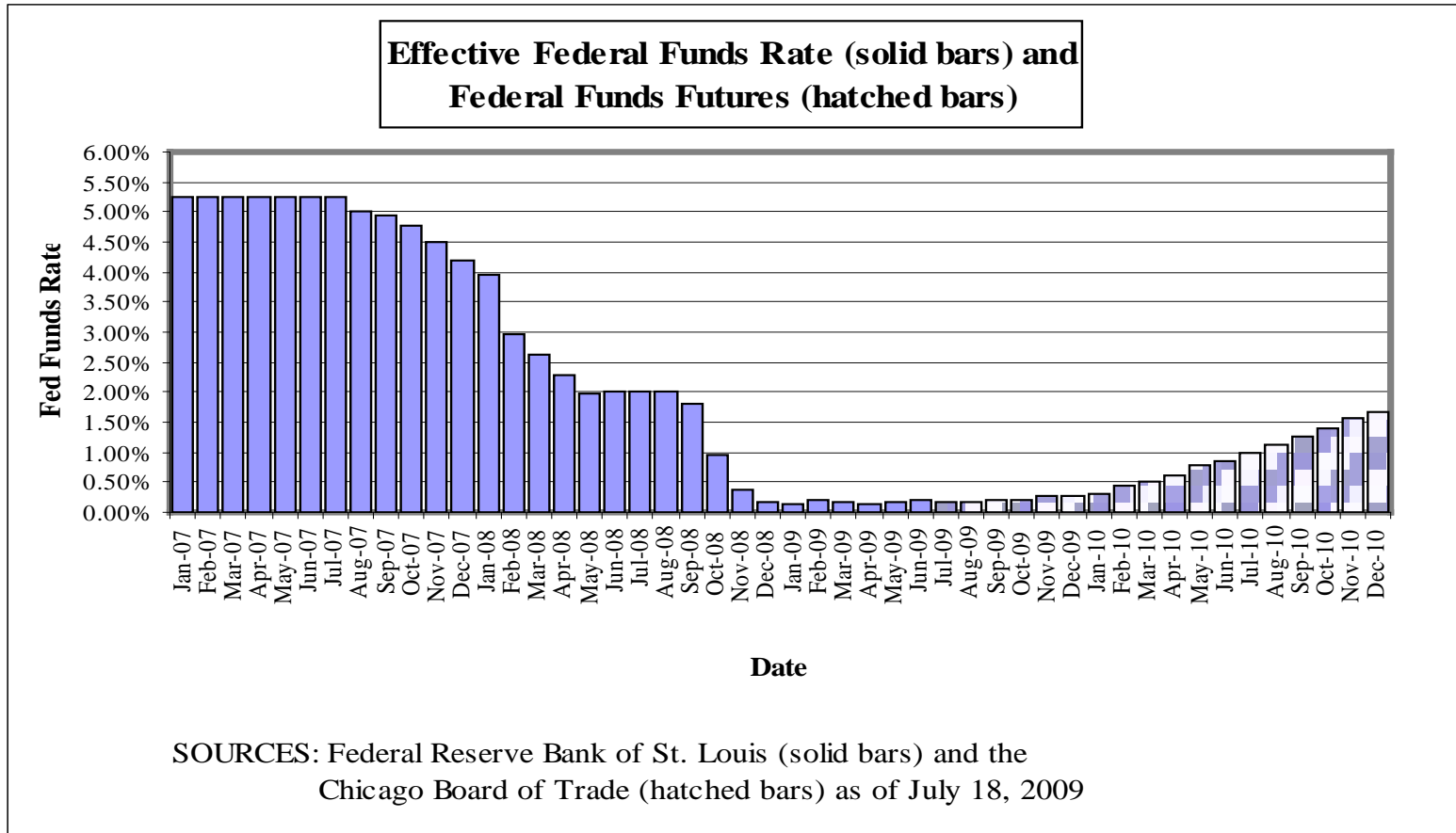
**To the
Montgomery County Council
By the
Department of Finance
July 28, 2009**

National Economic Indicators

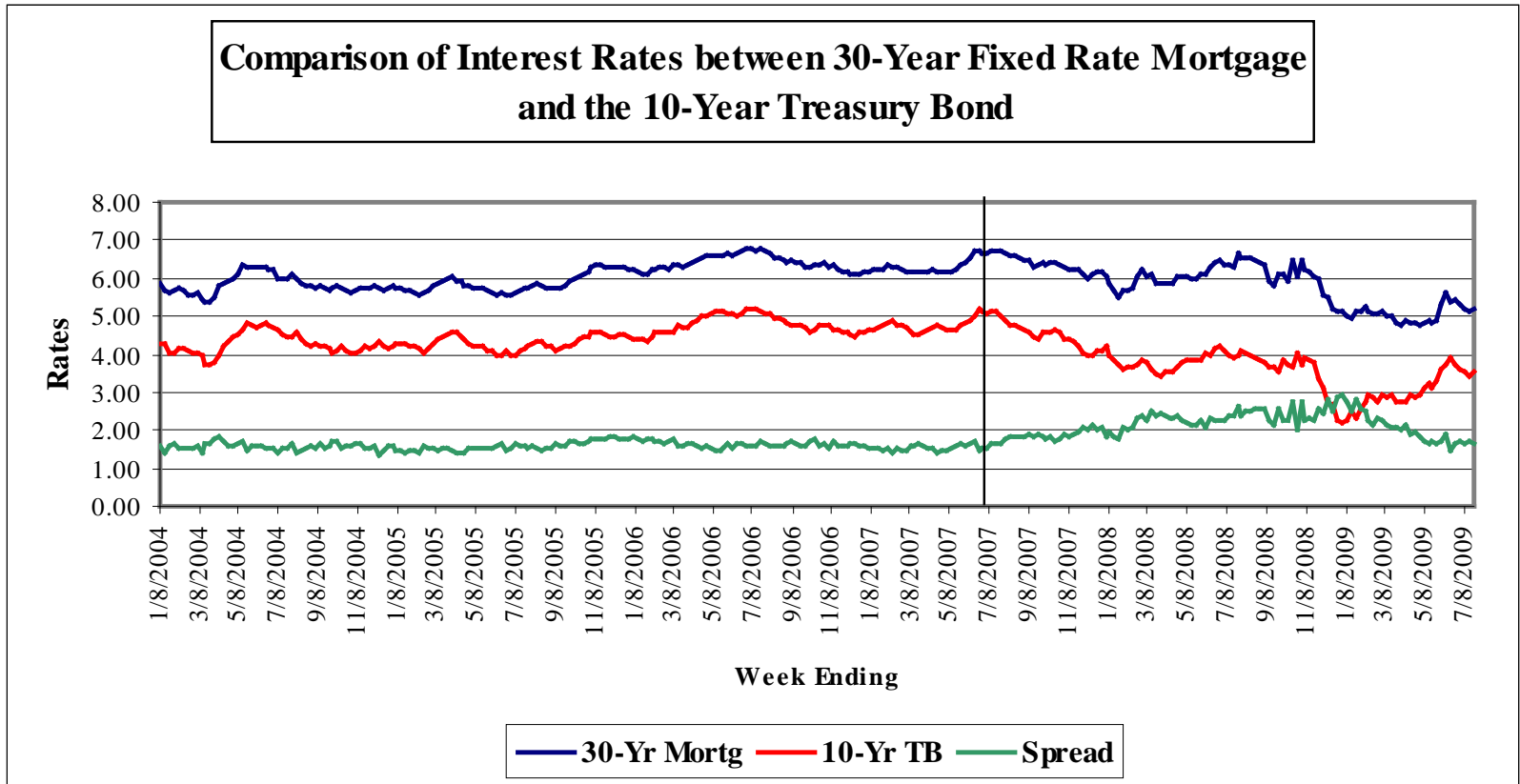
BEA reported that real GDP decreased 5.5 percent during the first quarter. On average over 50 economists surveyed by *The Wall Street Journal* earlier this month expect GDP to decline 1.6 percent the second quarter and increase 0.9 percent and 2.0 percent during this quarter and the fourth quarter, respectively.



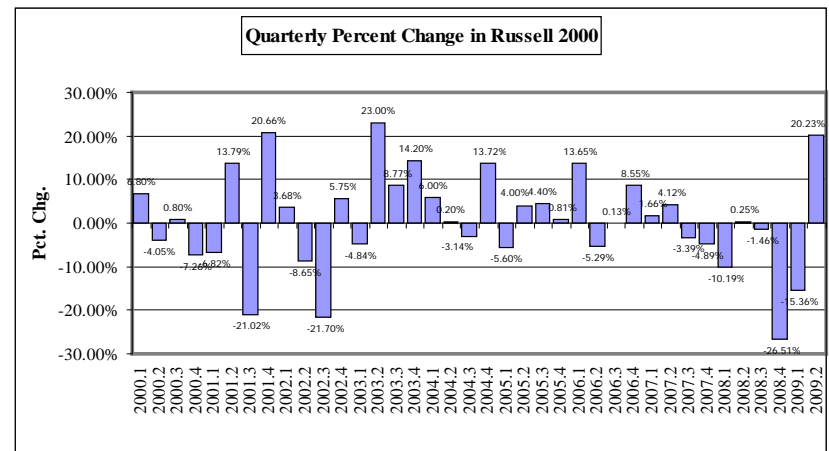
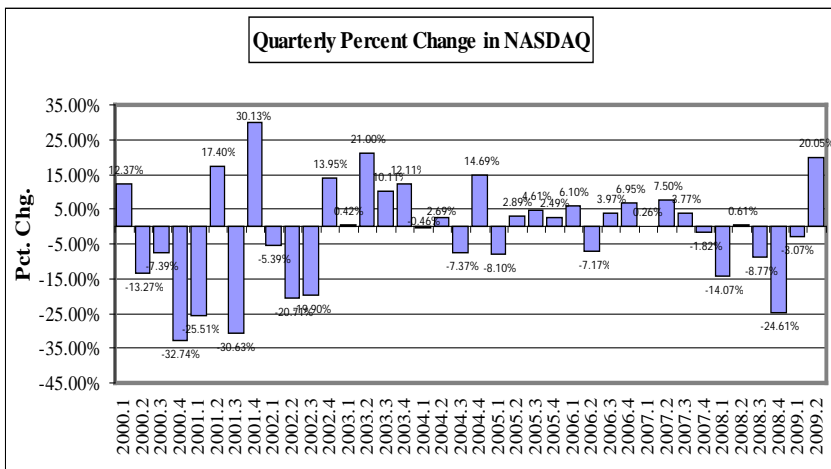
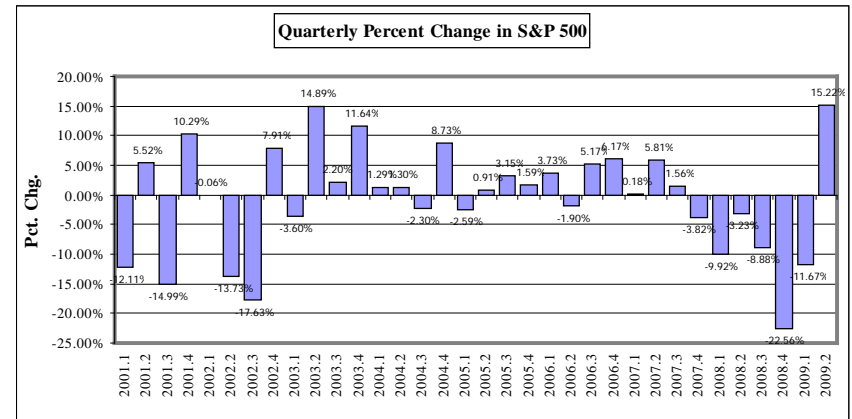
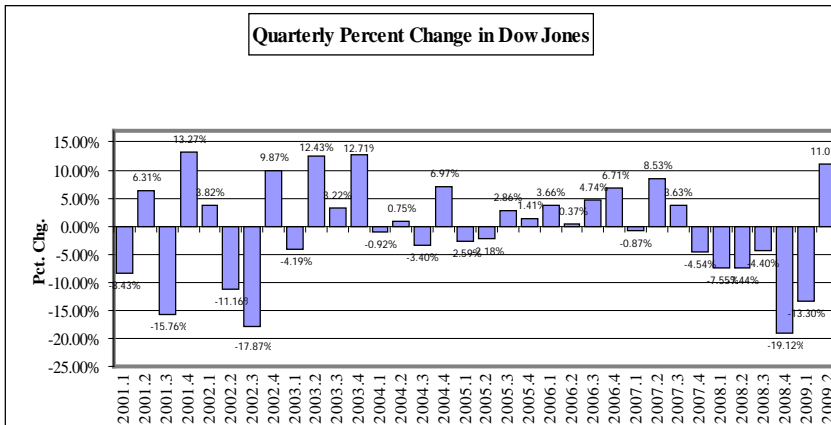
On June 24th, the Federal Open Market Committee of the Federal Reserve decided to keep its target range for the federal funds rate at 0.00 to 0.25 percent. The futures market anticipates no changes to the target range until the beginning of next year.



The 30-year fixed mortgage rate was 5.20 percent as of July 23rd – down from its recent peak of 5.59 percent on June 11th. Since August 2007, the spread between the weekly 30-year rate and the 10-year Treasury Bond yield averaged nearly 200 basis points (bps) compared to an average of nearly 160 bps prior to August 2007.



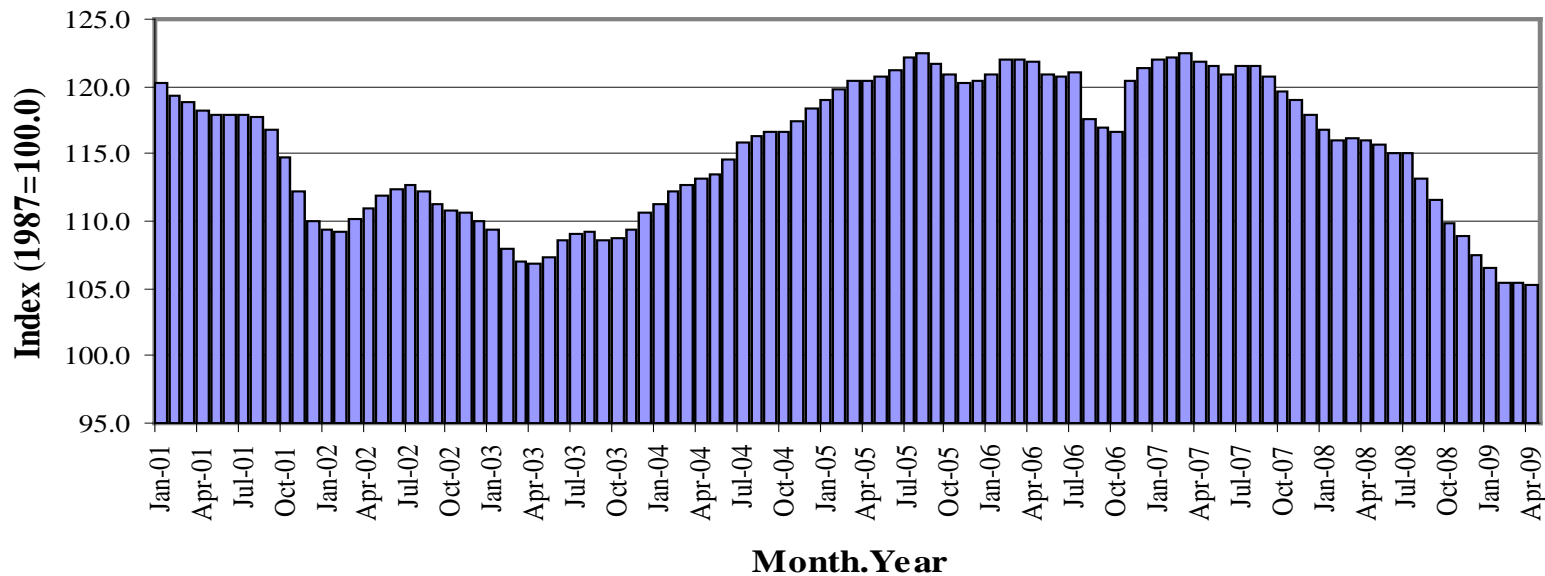
After six quarters of decline, the stock market experienced a strong performance during the second quarter. The Dow Jones increased 11.0 percent and the S&P 500 increased 15.2 percent. But the most dramatic increases occurred with the NASDAQ and Russell 2000 indices (↑20.1% and ↑20.2%, respectively).



Regional Economic Indicators

The Washington region's coincident economic indicator increased 0.6 percent in April over March for the second consecutive month. However, even with the recent improvement in the indicator, CRA states that the region's economy experienced its worst performance during the first quarter since 1991.

Three-Month Moving Average of the Washington MSA Coincident Economic Indicator

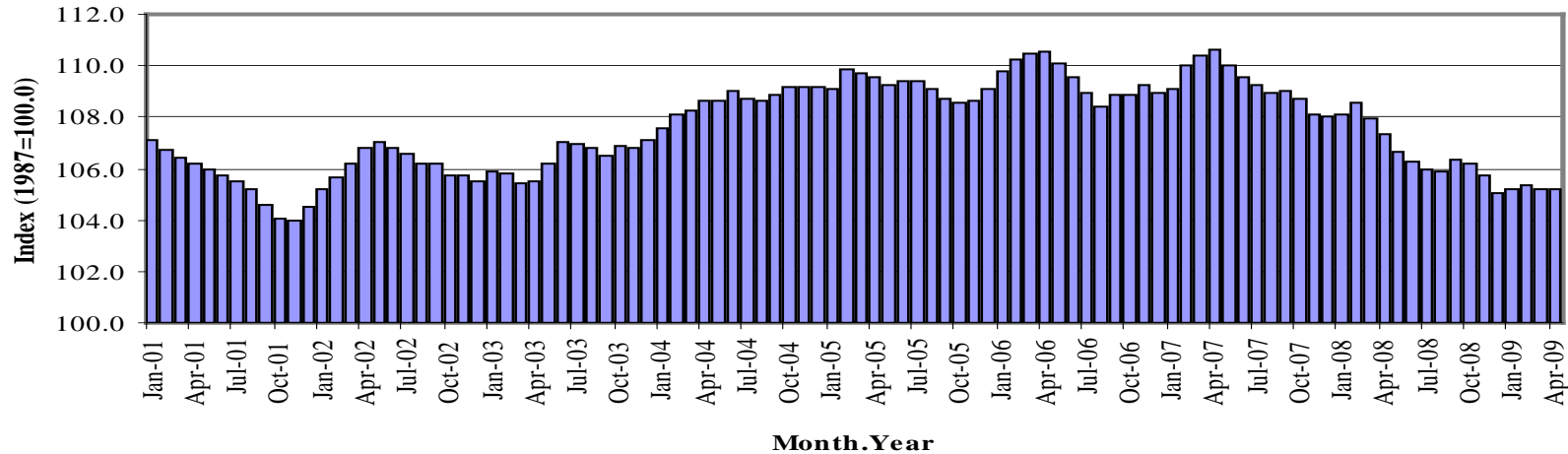


SOURCE: Center for Regional Analysis(CRA), George Mason University

NOTE: Coincident indicator represents the current state of the economy and includes total wage and salary employment, consumer confidence, domestic airport passengers, and purchases of nondurable goods.

Although the leading index increased 1.1 percent in April over March, it has declined 4.9 percent since its peak in April '07. The Center for Regional Analysis estimates that the recent rate of decline has decelerated and the region's economy has begun to improve albeit the recovery may be a slow and lengthy process.

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

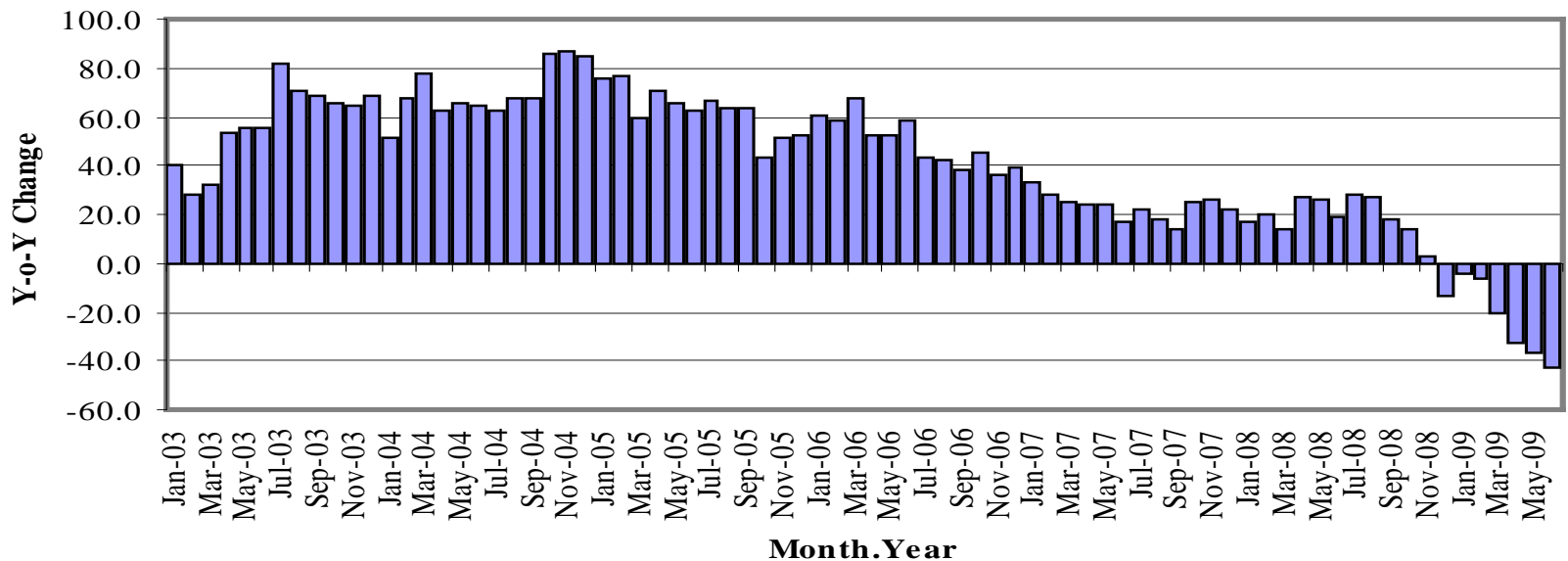


SOURCE: Center for Regional Analysis(CRA), George Mason University

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.

While CRA suggests that the region's economy has begun to improve, payroll employment, which is a lagging economic indicator, continues to show weakness. Employment in the metropolitan region stood at nearly 2.990 million in June compared to 3.032 million in June '08 - decline of 42,500.

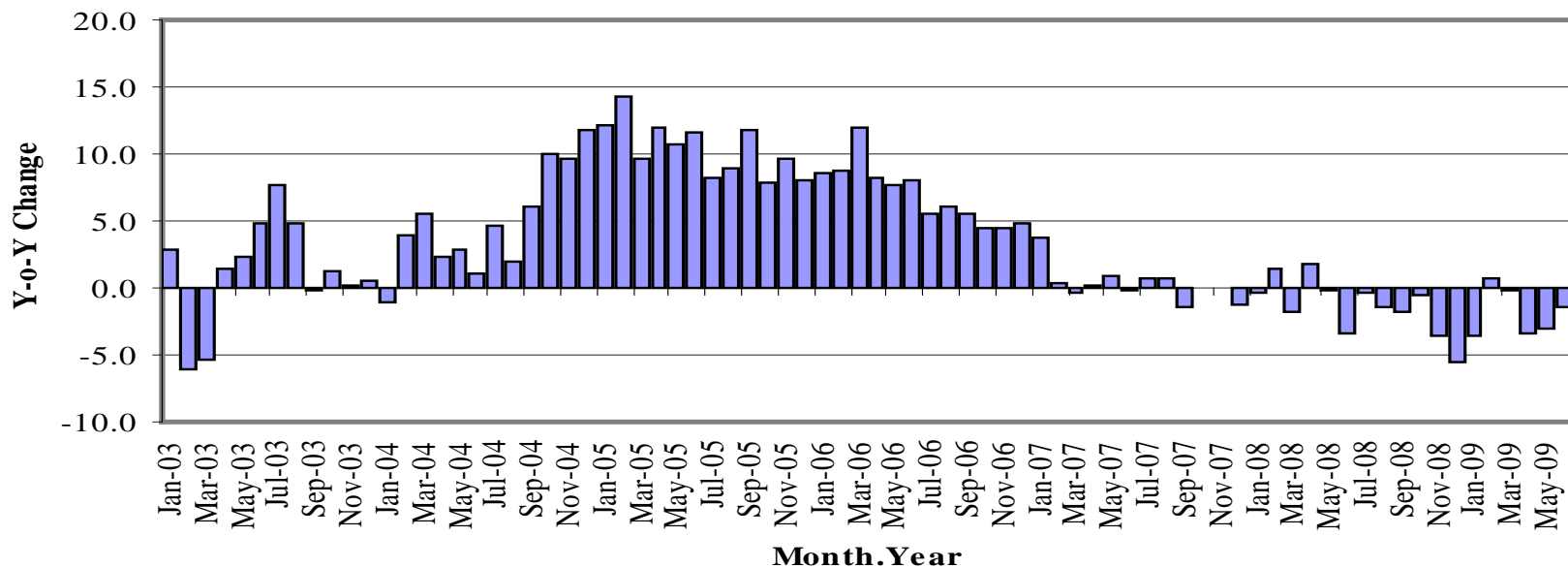
**Year-over-Year Change in Payroll Employment
Washington DC Metropolitan Area**



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

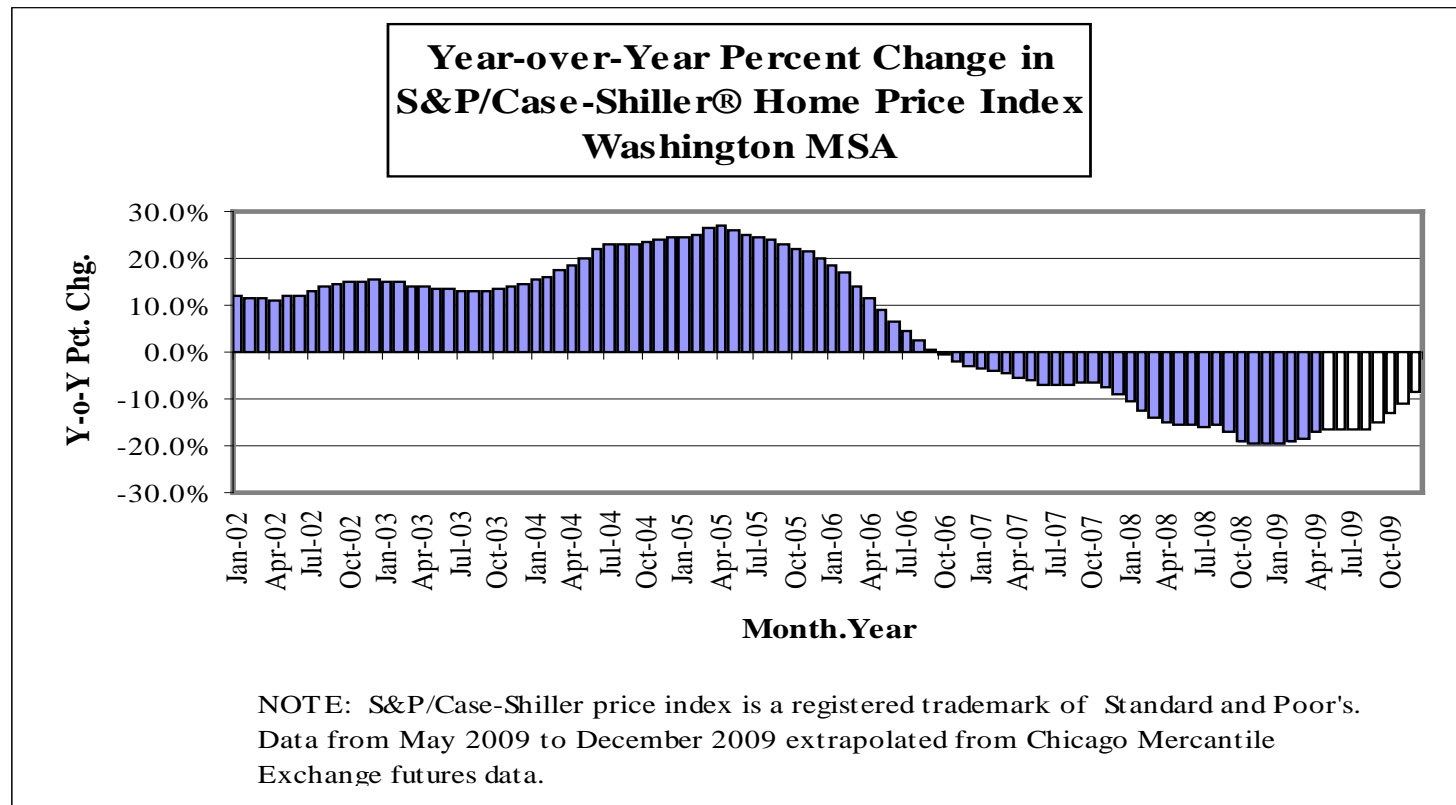
Payroll employment for Montgomery and Frederick counties stood at 578,200 in June - a decline of 1,500 jobs since June '08. For the first half of this year, monthly payroll employment averaged 571,800 – a 0.3 percent decline over the monthly average for the same period last year.

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

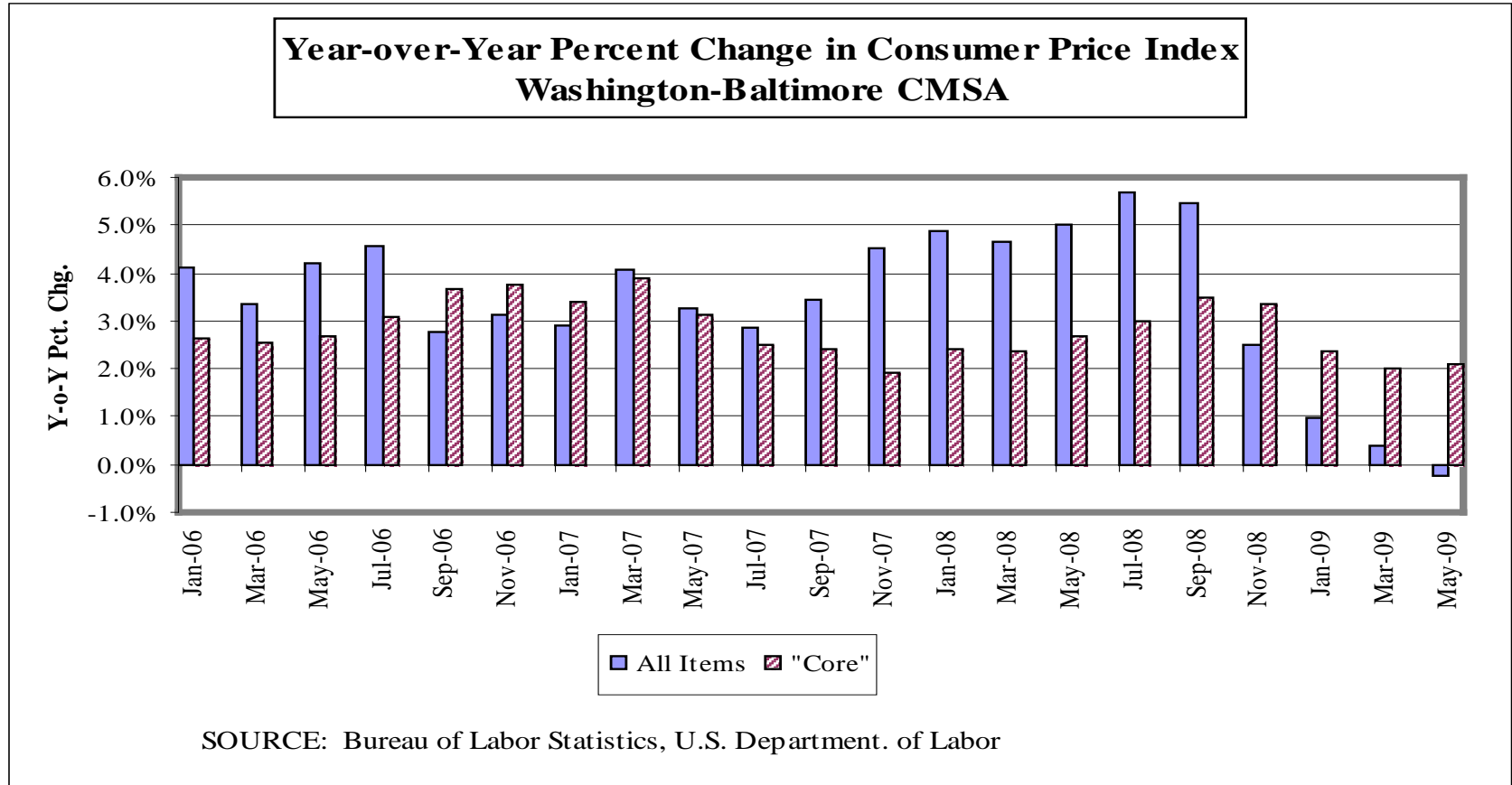


SOURCE: Bureau of Labor Statistics, U.S. Department of Labor

Based on the Case-Shiller® index, home prices in the Washington metropolitan region decreased 14.9 percent in May compared to May '08. The futures market suggests that the region may experience a year-over-year growth in prices by the beginning of next year.

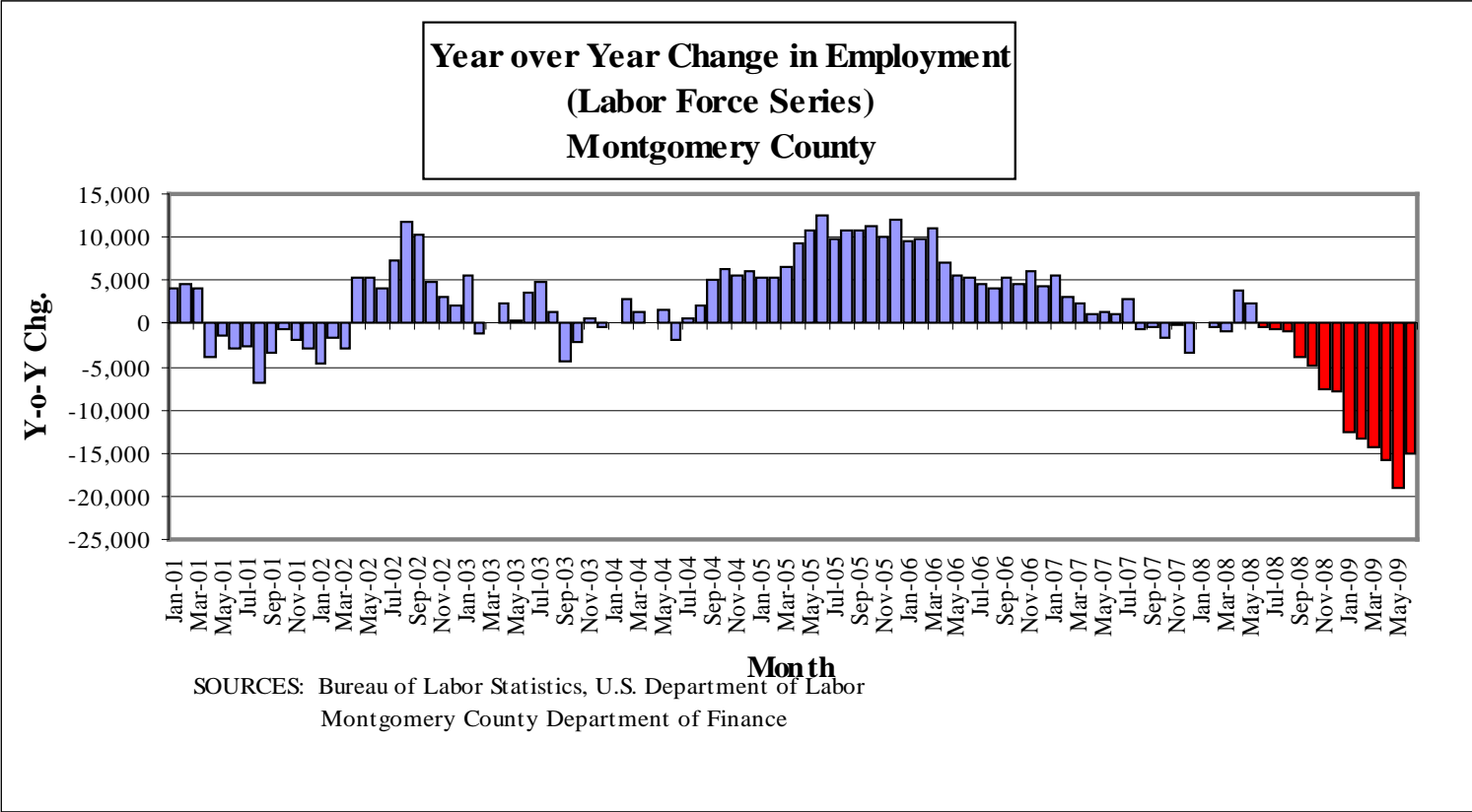


Because of the dramatic decrease in energy prices, the overall consumer price index for the Washington-Baltimore consolidated region declined 0.2 percent in May compared to May '08. For the calendar year (January through May), the index increased a meager 0.4 percent compared to 4.5 percent in 2008.

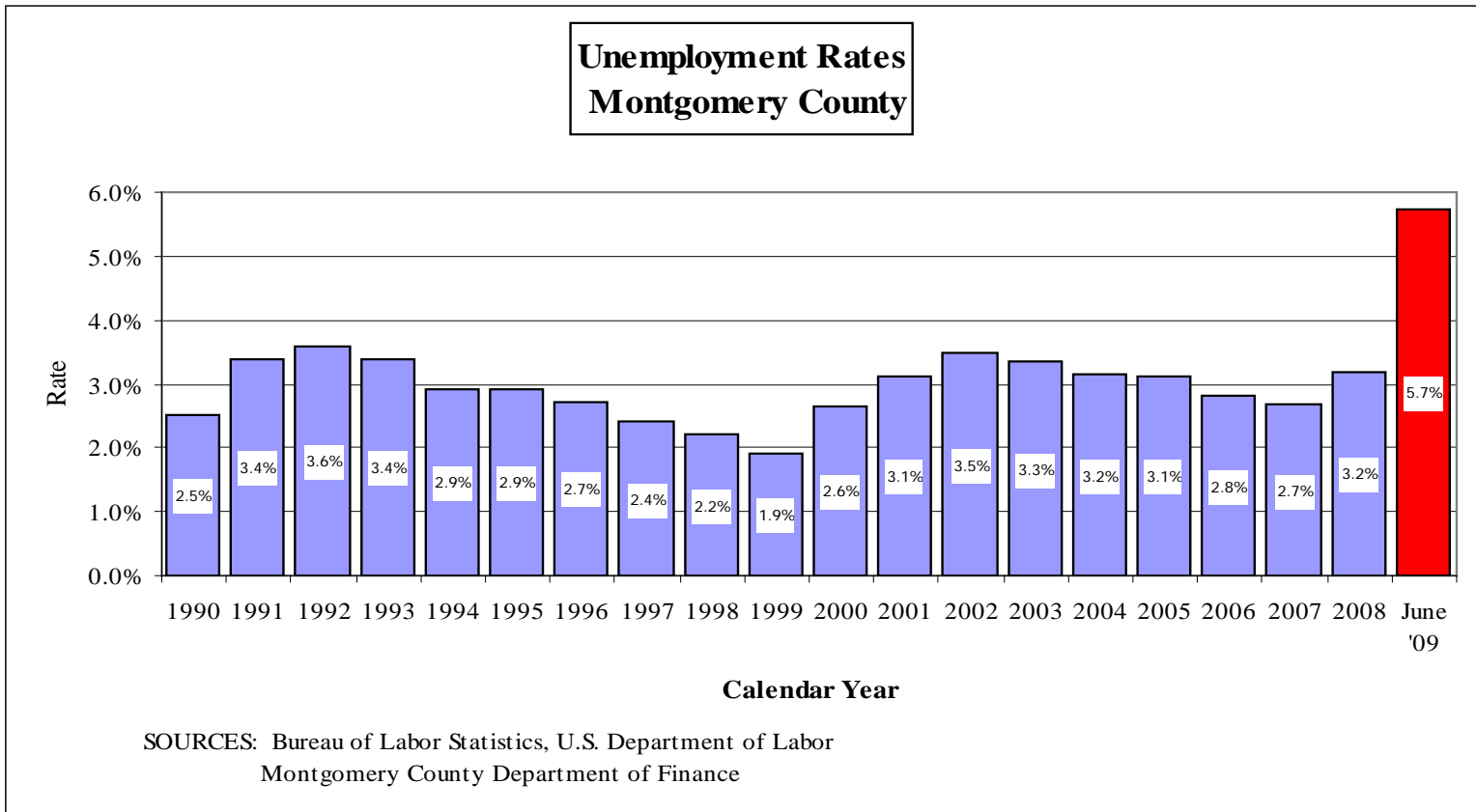


Montgomery County Economic Indicators

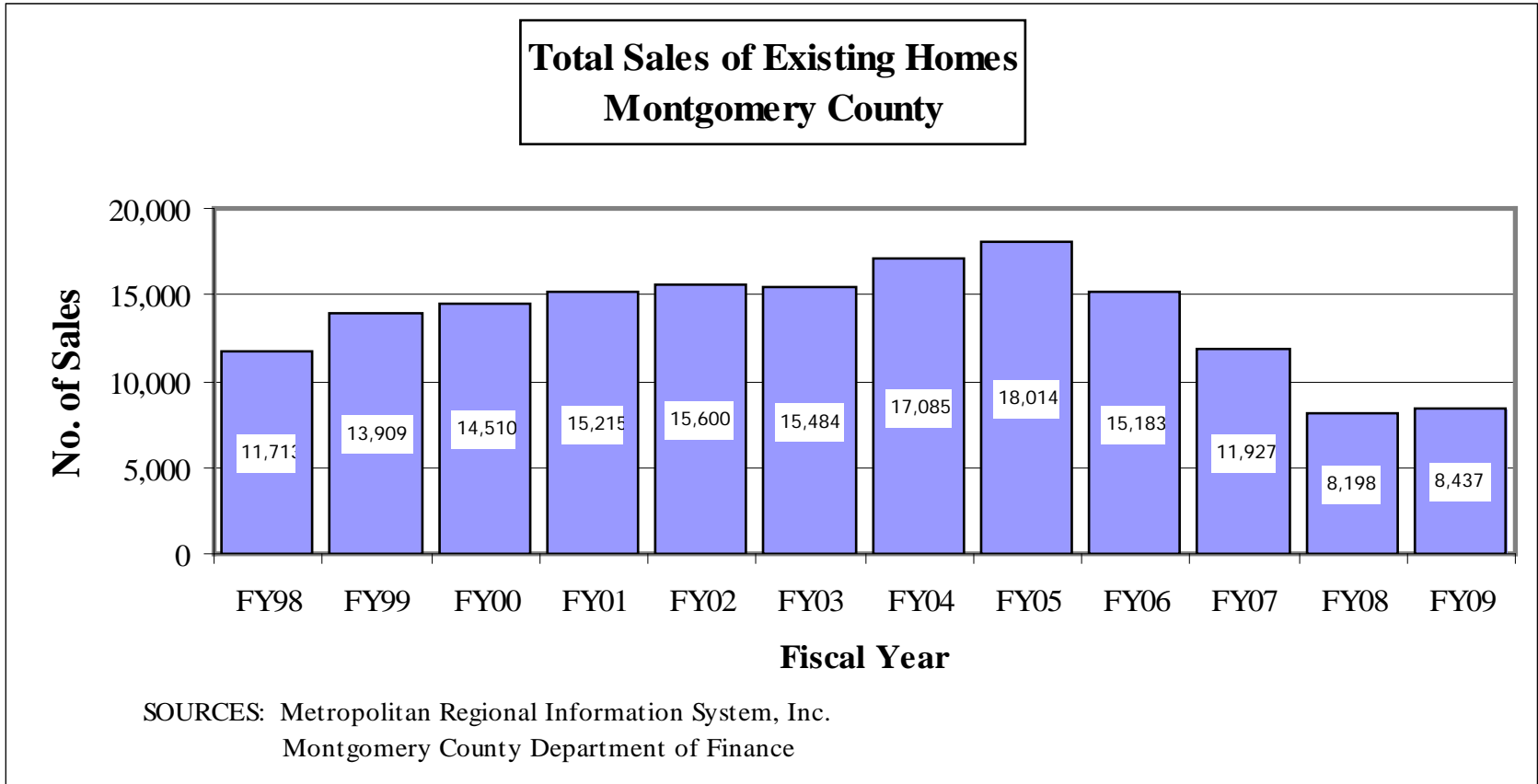
Resident employment in Montgomery County was nearly 486,000 in June compared to almost 501,000 in June '08 - a decline of 15,000. Since May of last year, the year-over-year change in the County's monthly employment declined each month.



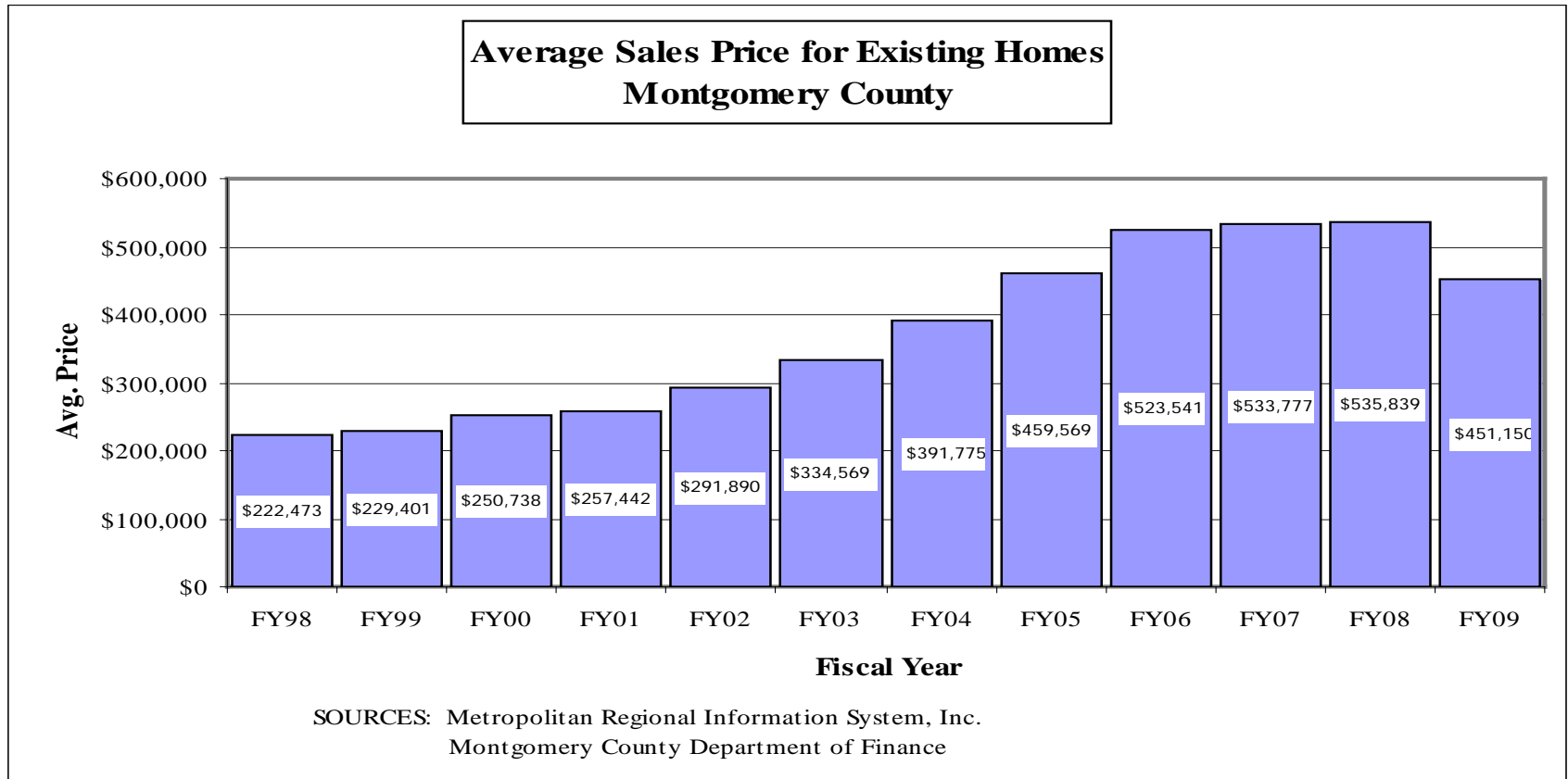
Because of the steady decline in the County's employment, the unemployment rate has jumped from 3.4 percent in June 2008 to 5.7 percent in June of this year.



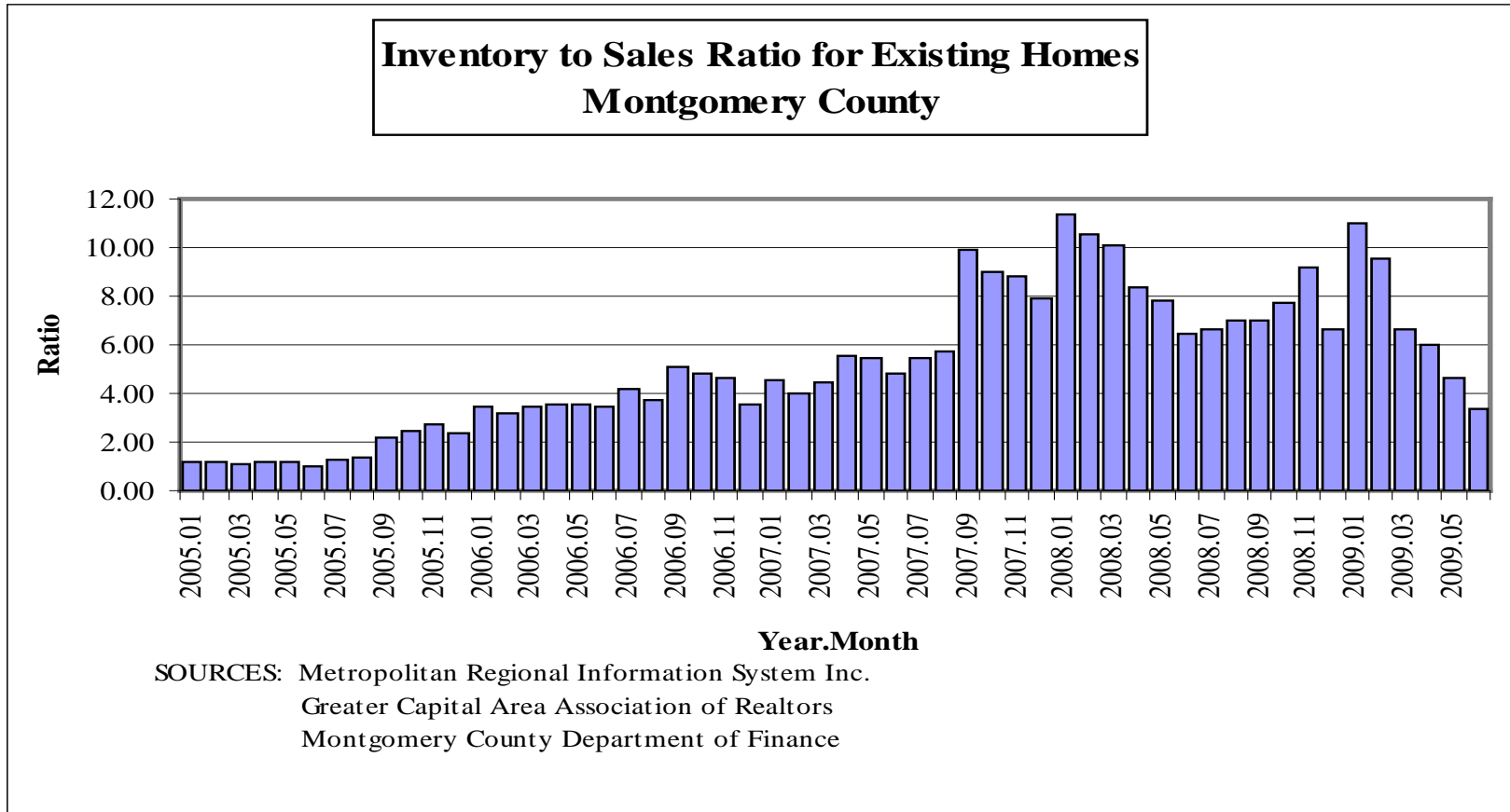
With home sales increasing at an average monthly rate of 100 units between March and June compared to the same period last year, total home sales increased 2.9 percent in fiscal year 2009 compared to declines of 15.7 percent (FY06), 21.4 percent (FY07), and 31.3 percent (FY08).



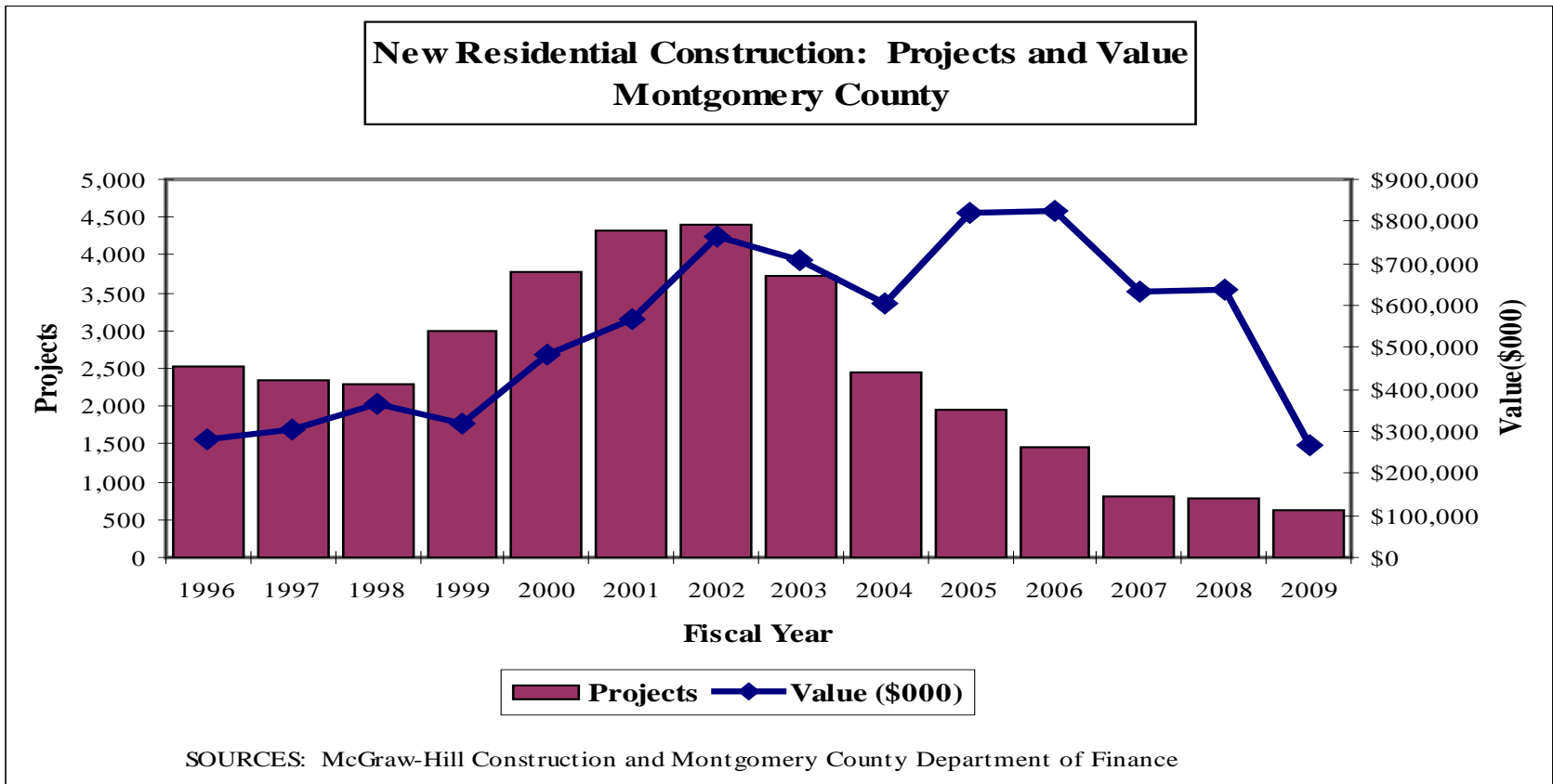
While the sales of existing homes in the County increased slightly in FY09, the average sales price declined 15.8 percent, which followed increases of 13.9 percent (FY06), 2.0 percent (FY07), and 0.4 percent (FY08).



The inventory of existing homes for sale has declined significantly from its recent peak of an eleven-month supply in January to less than a four-month supply in June. While June sales occur during the peak selling period, the latest inventory figure is below the 6-month figure of June 2008.

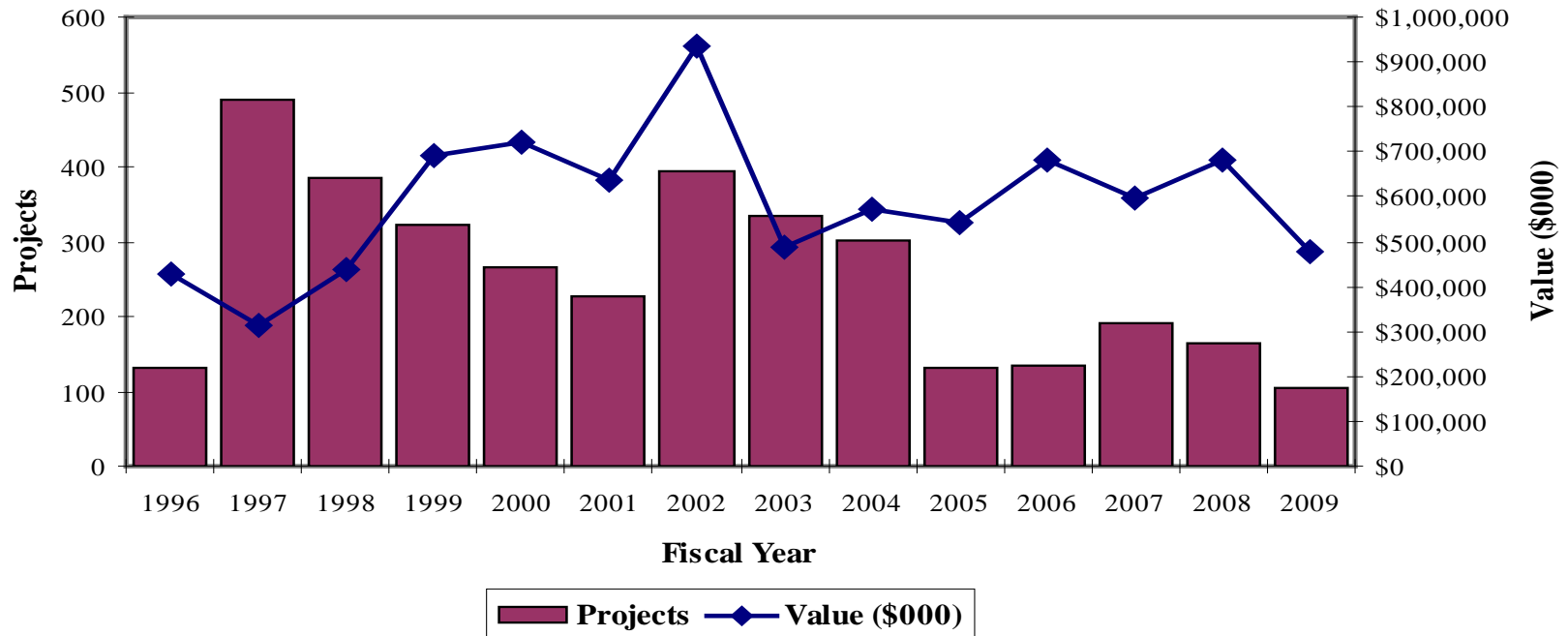


The decline or weakness in home sales over the past four fiscal years coupled with the increase in the inventory of homes for sale has affected new residential construction. The number of projects declined from 1,947 in FY05 (5,400 units) to 633 in FY09 (1,085 units) – a decrease of 67.5 percent (↓79.9% new units).



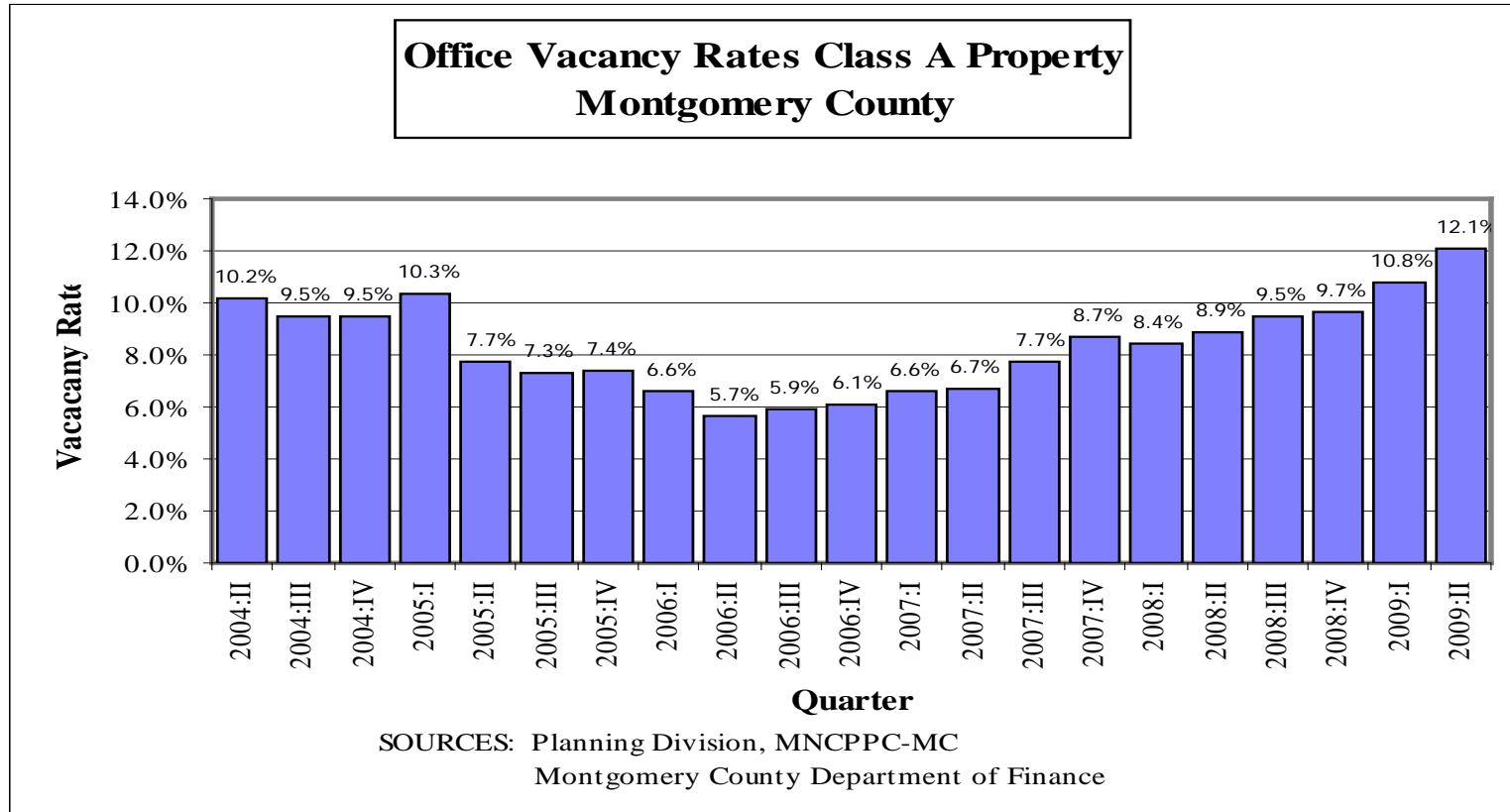
The number of non-residential projects decreased from a four-year average of 154 new projects between FY05 and FY08 to 105 in FY09. The average annual value of new construction during the previous four-year period was \$624.6 million compared to \$480.0 million in FY09 – a decrease of 23.2 percent.

**New Non-Residential Construction: Projects and Value
Montgomery County**



SOURCES: McGraw-Hill Construction and Montgomery County Department of Finance

The decrease in non-residential construction is attributed to the steady increase in the vacancy rates of Class A property in the County. Since the second quarter of 2006, that rate increased from 5.7 percent to over 12 percent during the second quarter of this year.



Summary

- **Employment:**
 - The County’s unemployment rate has risen by over 2 percentage points during the past year (through June) to 5.7%.
 - Because the unemployment rate is a lagging indicator in terms of an economic recovery, it may not improve significantly over the next calendar year. If the economic forecasts are correct in that the national unemployment rate could reach 10 percent by the end of this year (it is currently at 9.5 percent), employment will remain a drag on the economy for the foreseeable future.
 - The County’s resident employment was nearly 486,000 in June – a decline of 15,000 from June 2008. With a decline in resident employment and possibly slow recovery, both factors may have a significant effect on income tax revenues in FY10 and possibly FY11.
- **Construction:**
 - With the combined values of new construction for residential and non-residential projects below \$750 million in FY09, additional property assessments from new construction could be at their lowest level by FY11 in over 10 years.
- **Inflation:**
 - While the recent figures for inflation are a welcome relief to the local consumer, it may have an effect on the amount of property tax revenues under the Charter Limit in FY11. Currently the index is less than a 0.4 percent annual rate for calendar year 2009.
- **Housing Sales and Average Sales Prices:**
 - Home sales increased 2.9 percent in FY09 which was attributed to strong sales in March through June. That rate is consistent with Finance’s assumption for sales growth in FY10.
 - Average sales prices decreased 15.8 percent in FY09. That decline and the futures market for the Case-Shiller index is consistent with Finance’s assumption that prices will continue to decline, albeit at a decelerating rate, through the first half of FY10.