

Presentation of Economic Indicators

to

Management and Fiscal Policy Committee

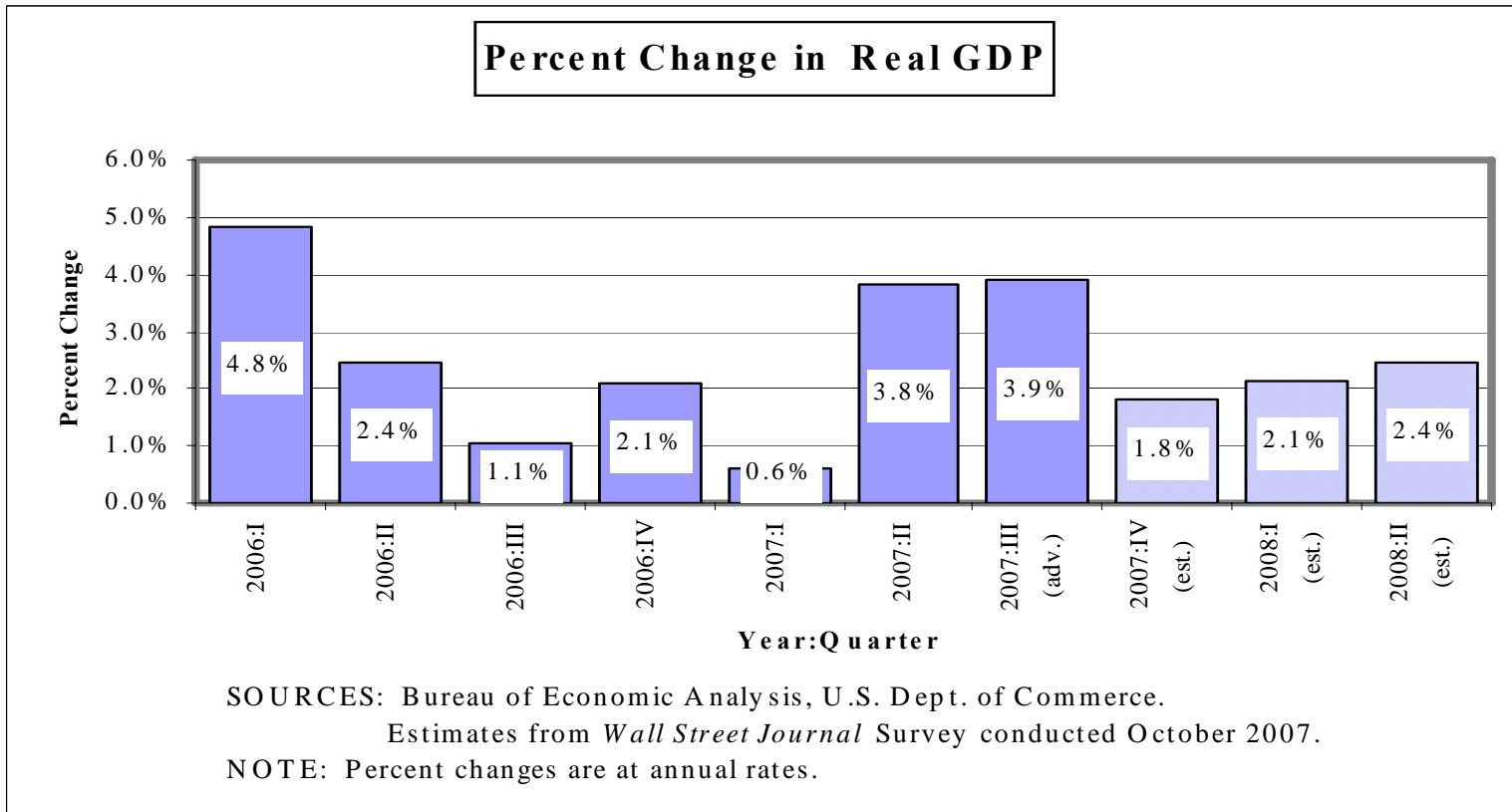
by the

Department of Finance

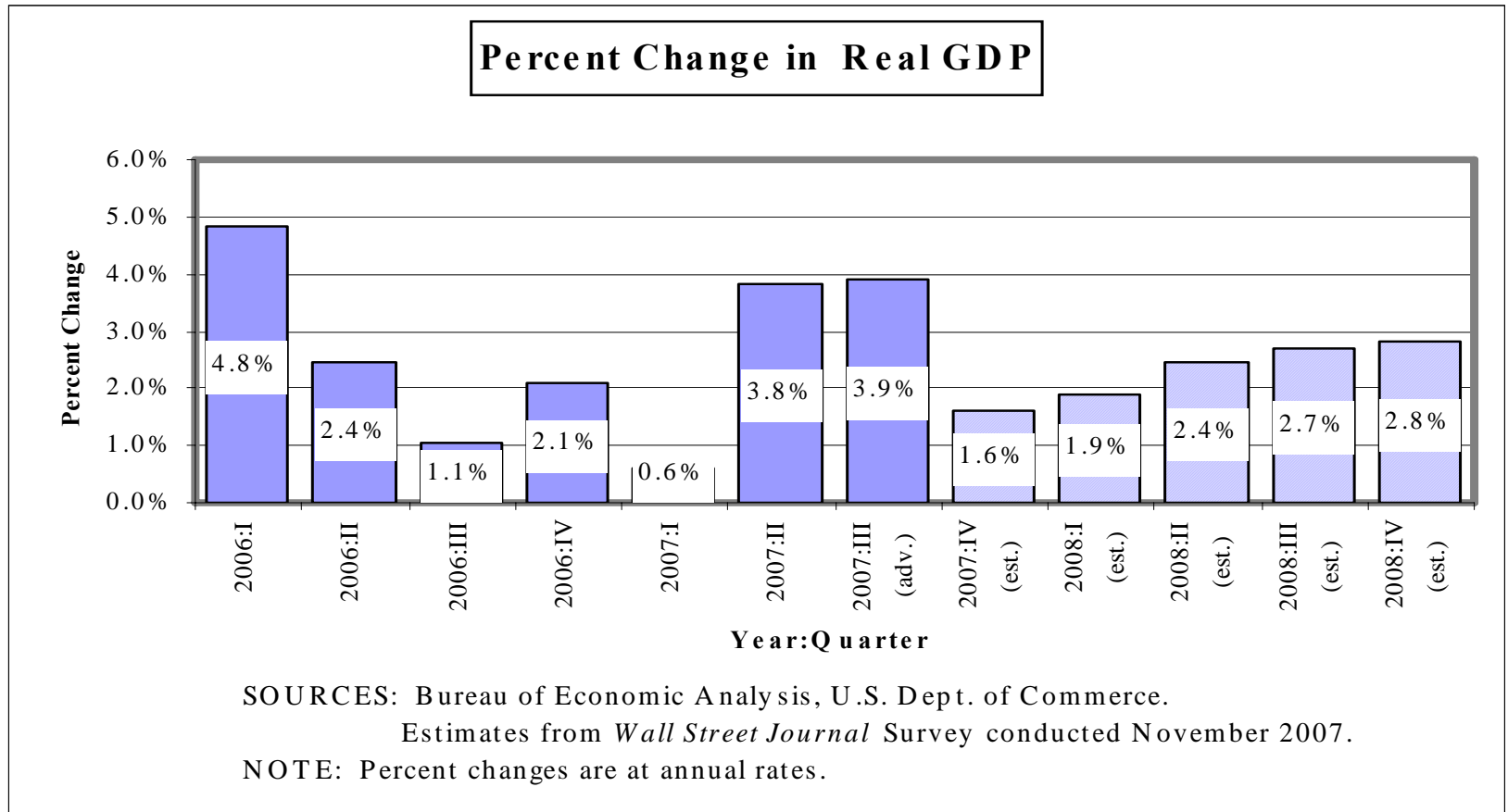
November 26, 2007

National Economic Indicators

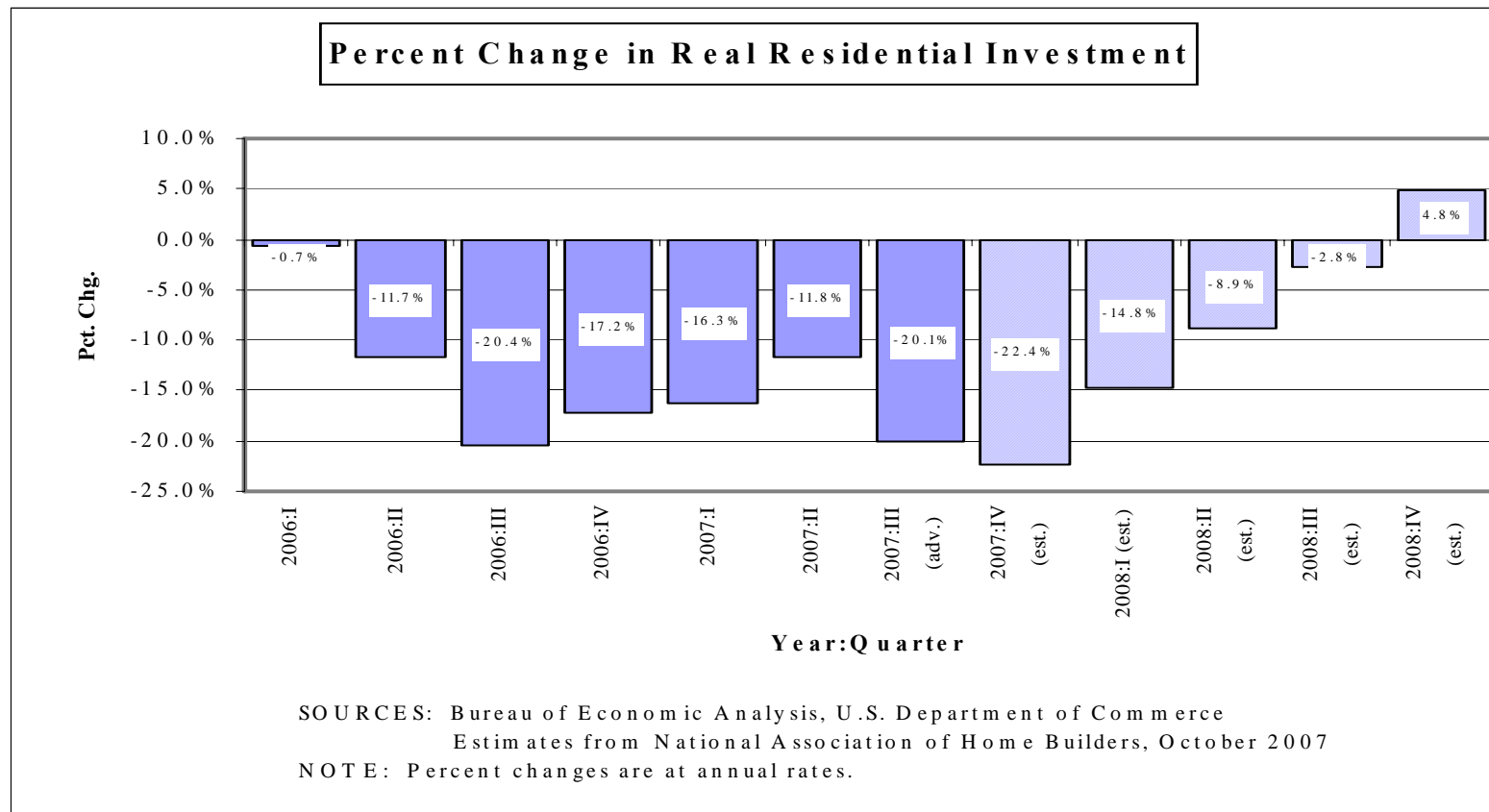
Survey of 50 Economists by the Wall Street Journal expect Gross Domestic Product to increase a meager 1.8 percent during the fourth quarter and 2.1 percent during the first quarter of 2008 – rates well below the 3.1 percent between 2004 and 2006.



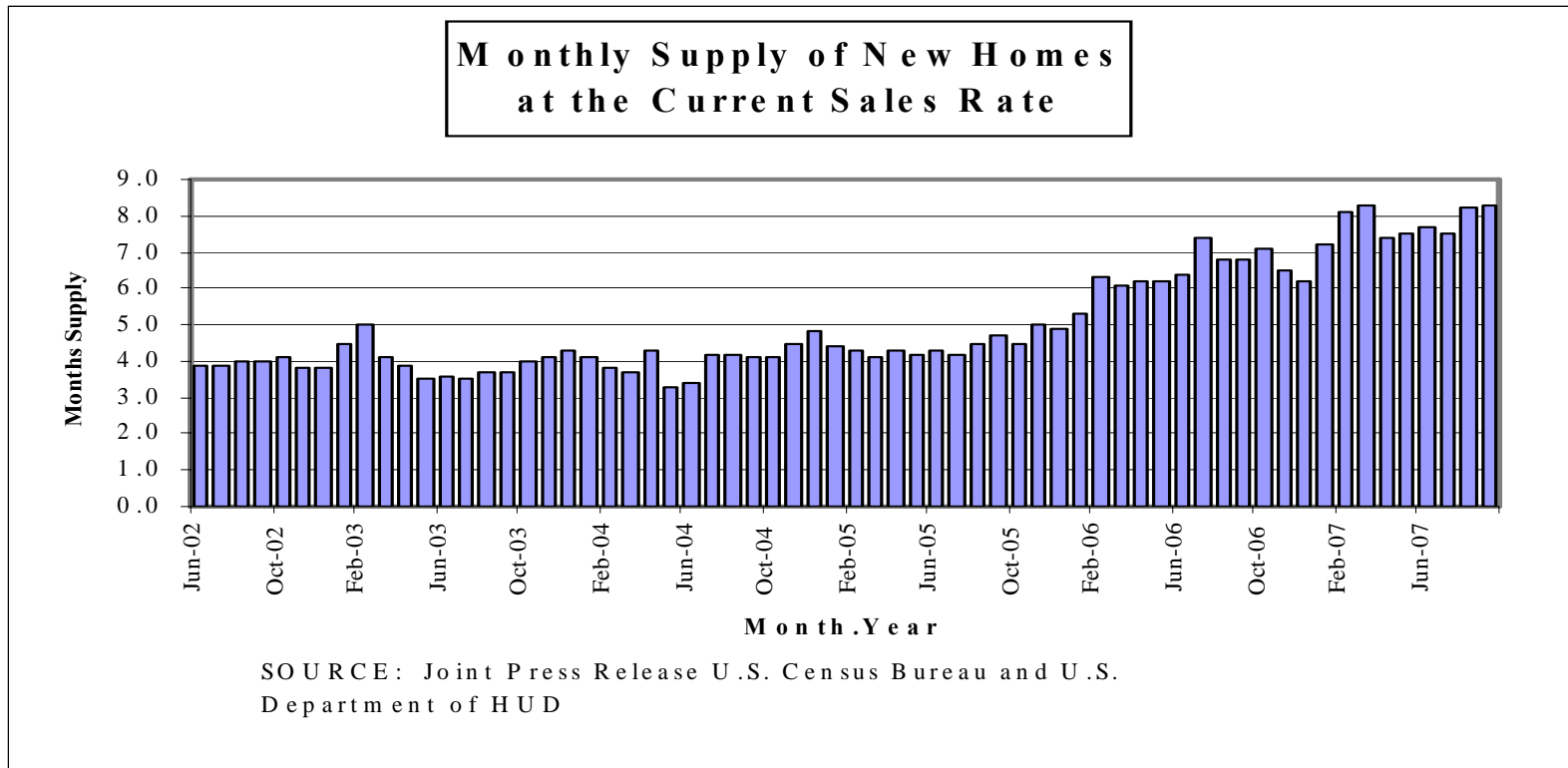
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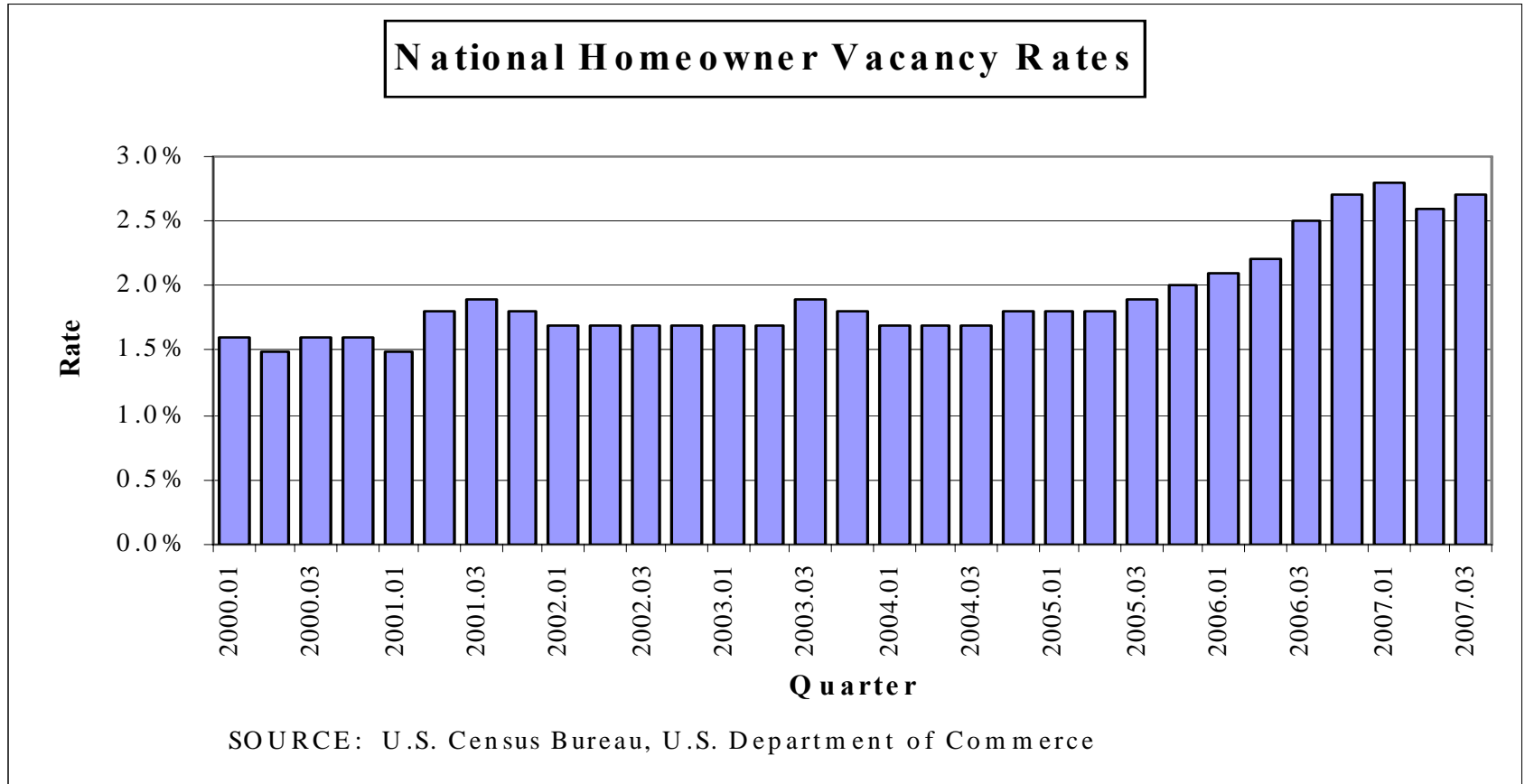
Residential construction continues to be a drag on the overall economy and will not improve until late 2008. Over the past seven quarters, the decline in residential investment subtracted an average of nearly one percent from GDP growth.



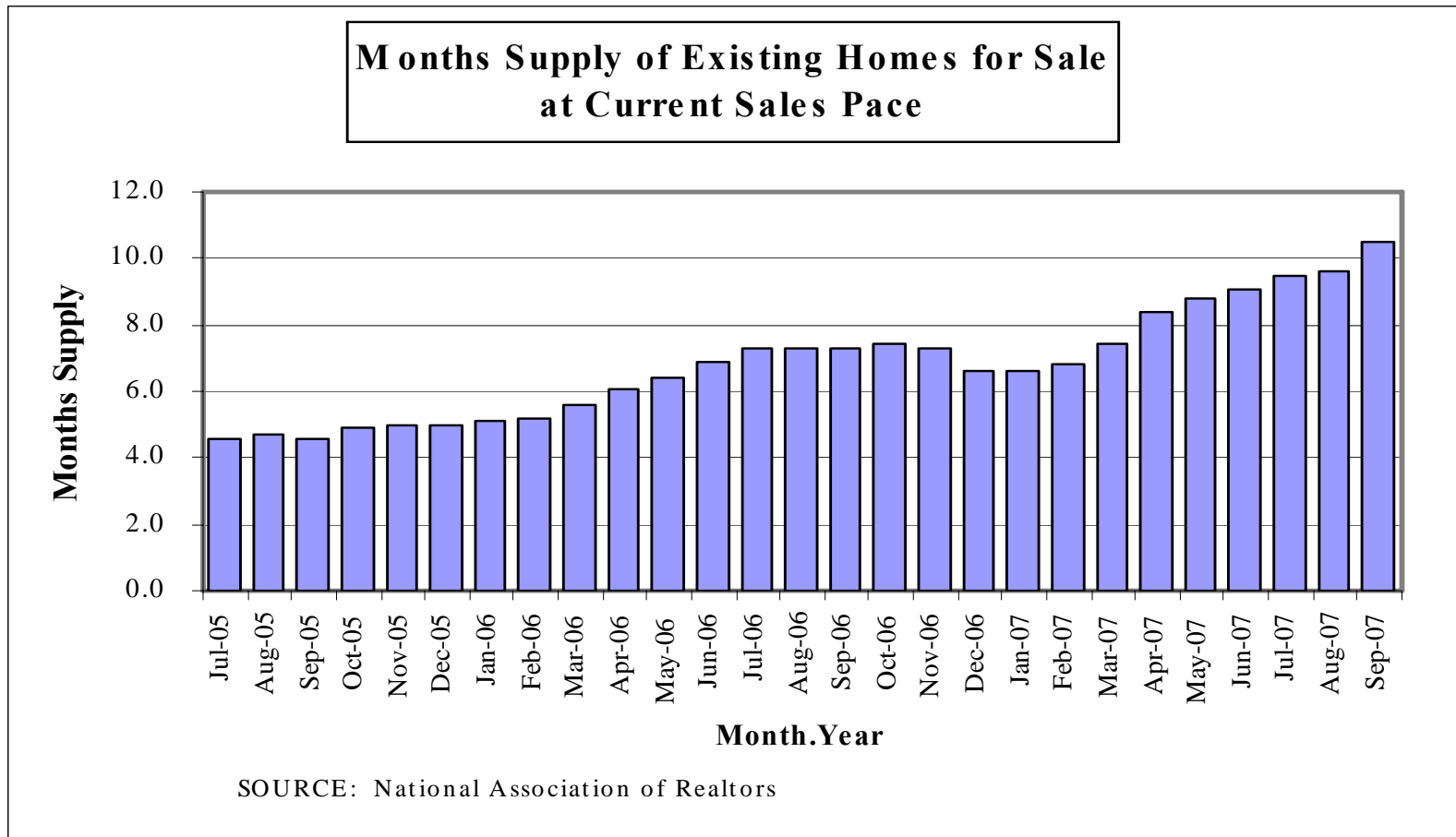
The decline in new residential construction reflects the high inventory of unsold new homes. Since February 2006, inventory has exceeded a six-month supply every month and stood at over 8 months in September.



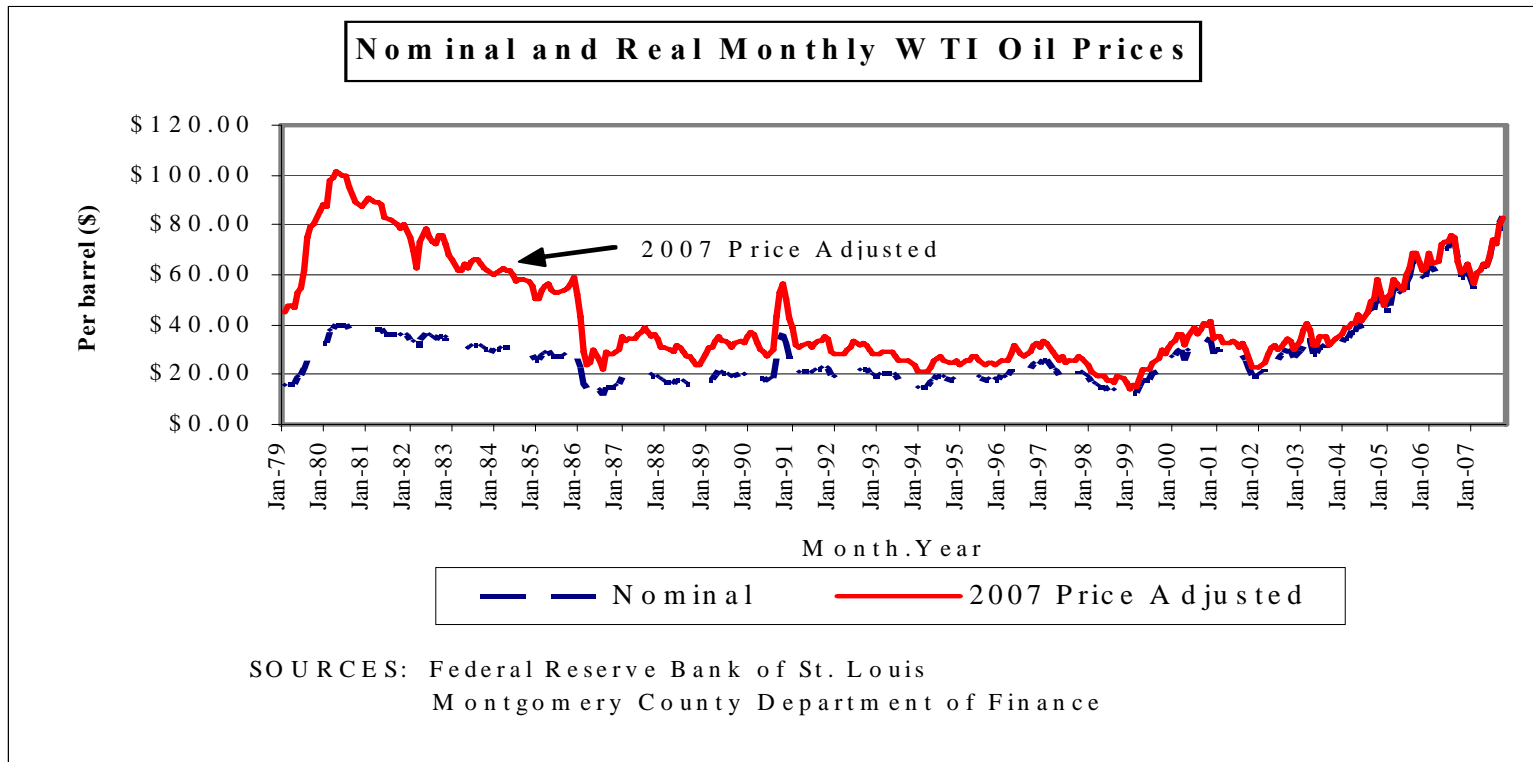
The high inventory of unsold new homes is also reflected in the dramatic increase in homeowner vacancy rates since the second quarter of 2005. Since that time, the rate steadily increased from 1.7 percent to 2.7 percent.



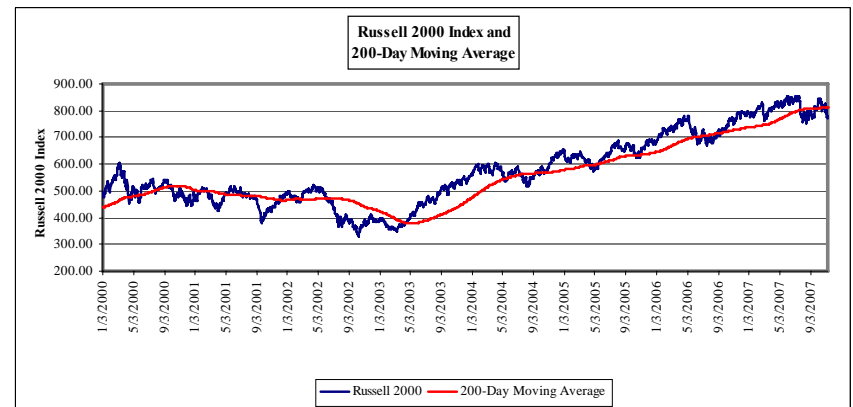
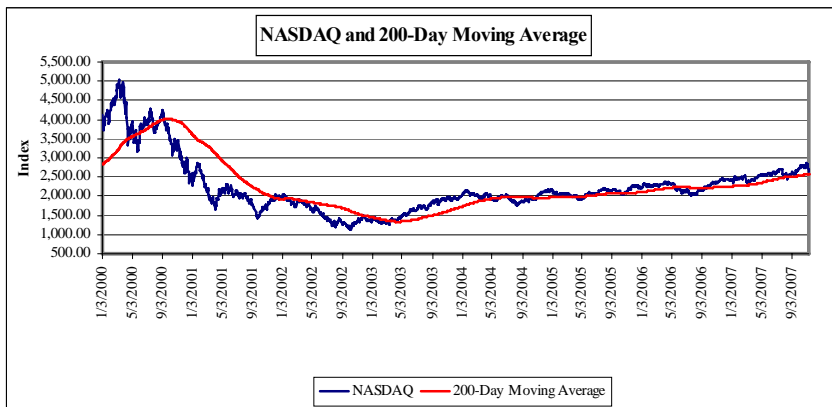
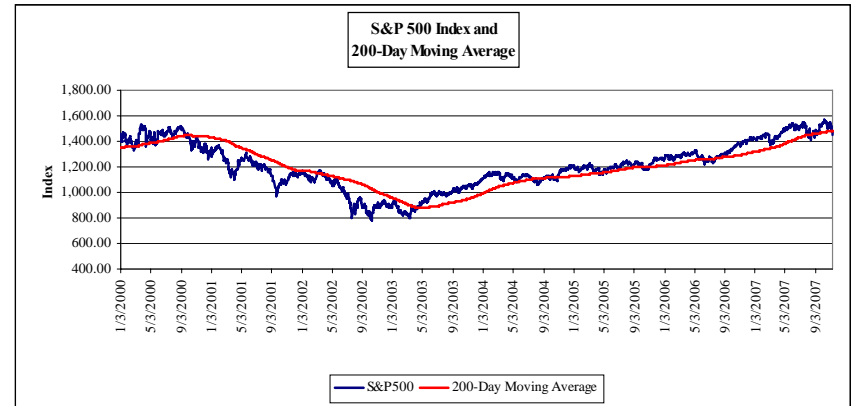
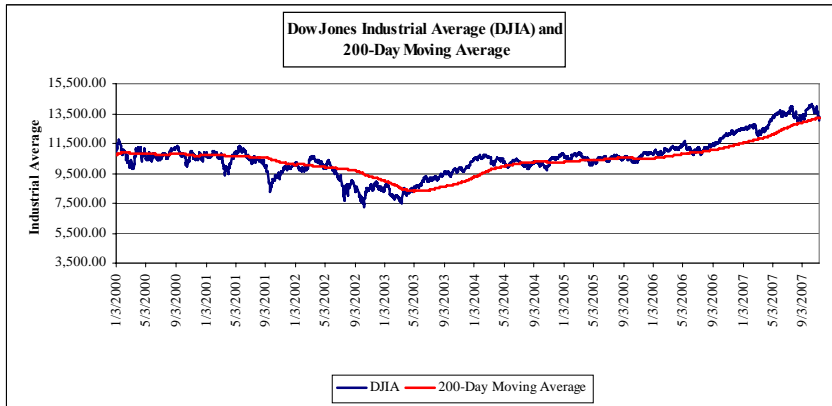
Since February 2006, inventory of existing homes has exceeded a six-month supply every month and stood at over 10 months supply in September – the highest level this decade.



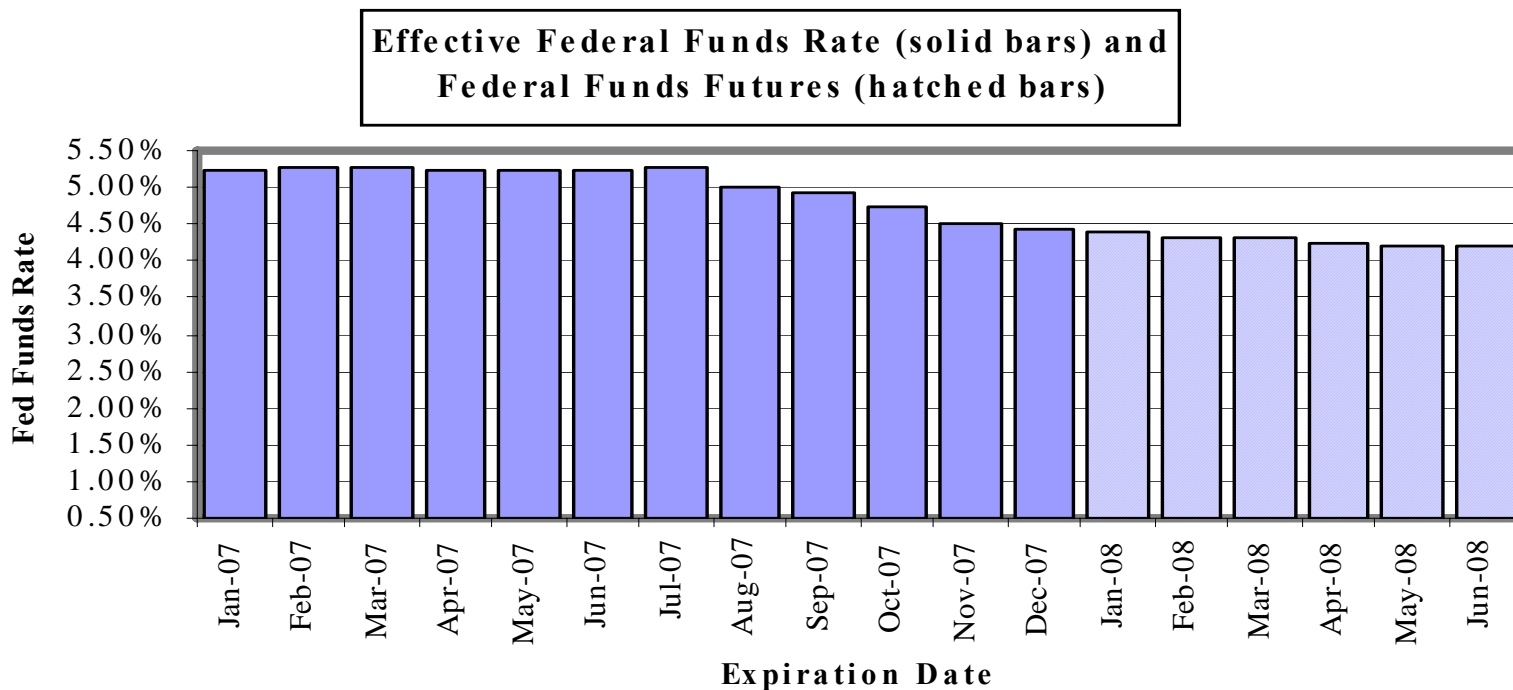
Crude oil prices are near the record highs experienced during the 1979-1980 period.



The stock market continues to experience significant volatility since mid-August, the DJIA and S&P 500 have had modest increases this year. (DJIA \uparrow 4.7%, S&P 500 \uparrow 2.5%, NASDAQ \uparrow 8.8% week ending 11/09)

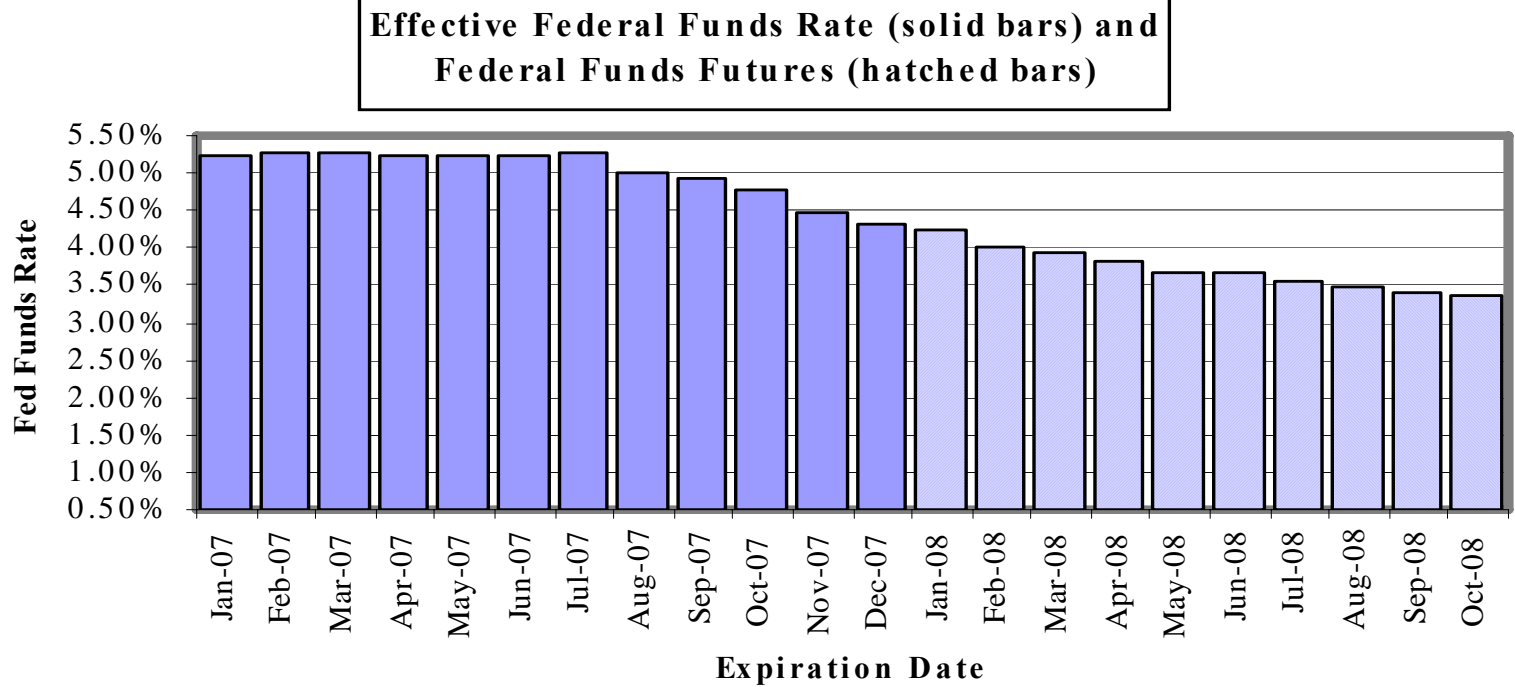


Since August 17, the Federal Reserve Board has cut interest rates to ease the concerns about the health of the economy. The Fed cut the discount rate by 50 basis points on that date followed by two cuts to the federal funds rate and discount rate – 50 basis points (bps) cut in September and 25 bps in October.



SOURCES: Federal Reserve Bank of St. Louis (solid bars) and the Chicago Board of Trade (hatched bars) as of October 31, 2007

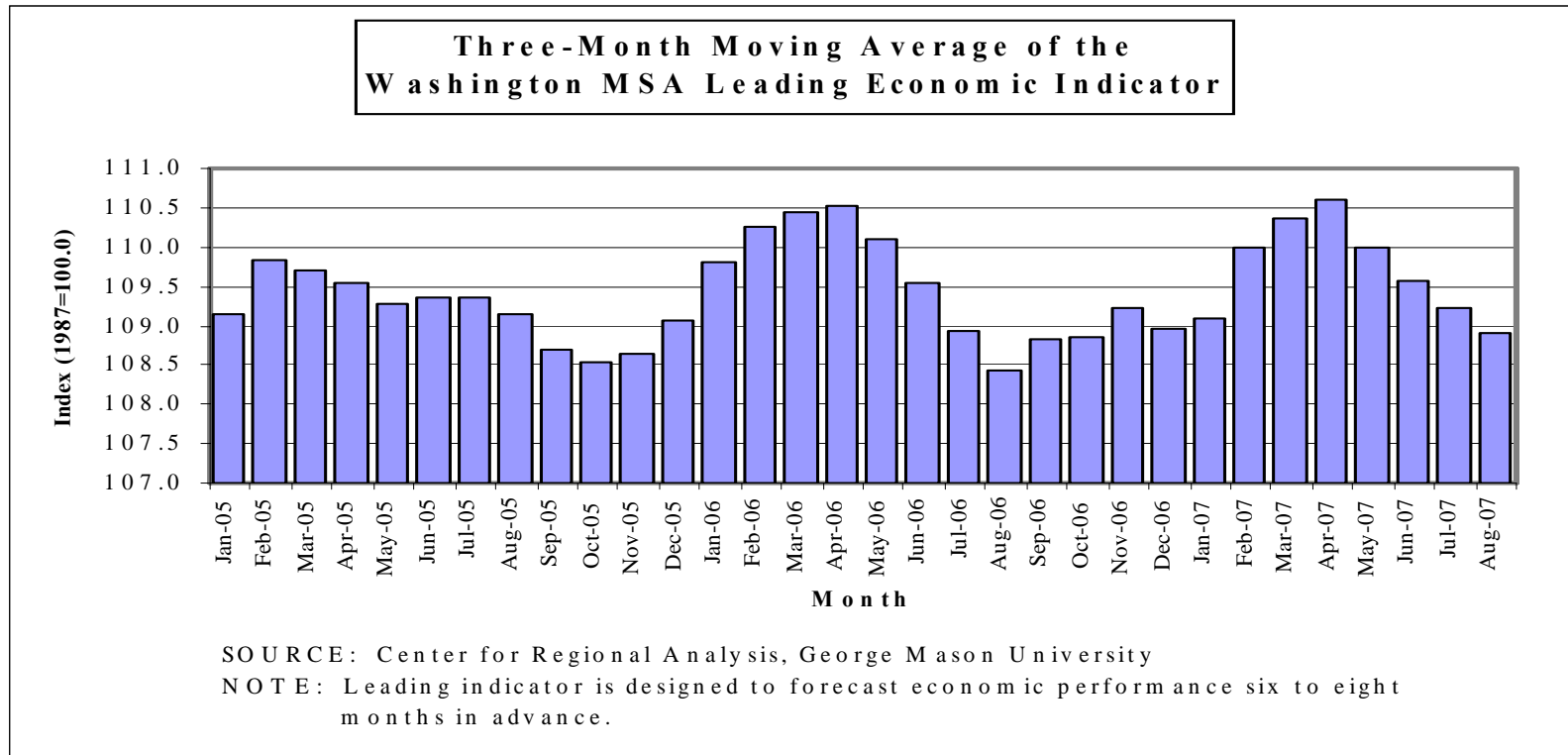
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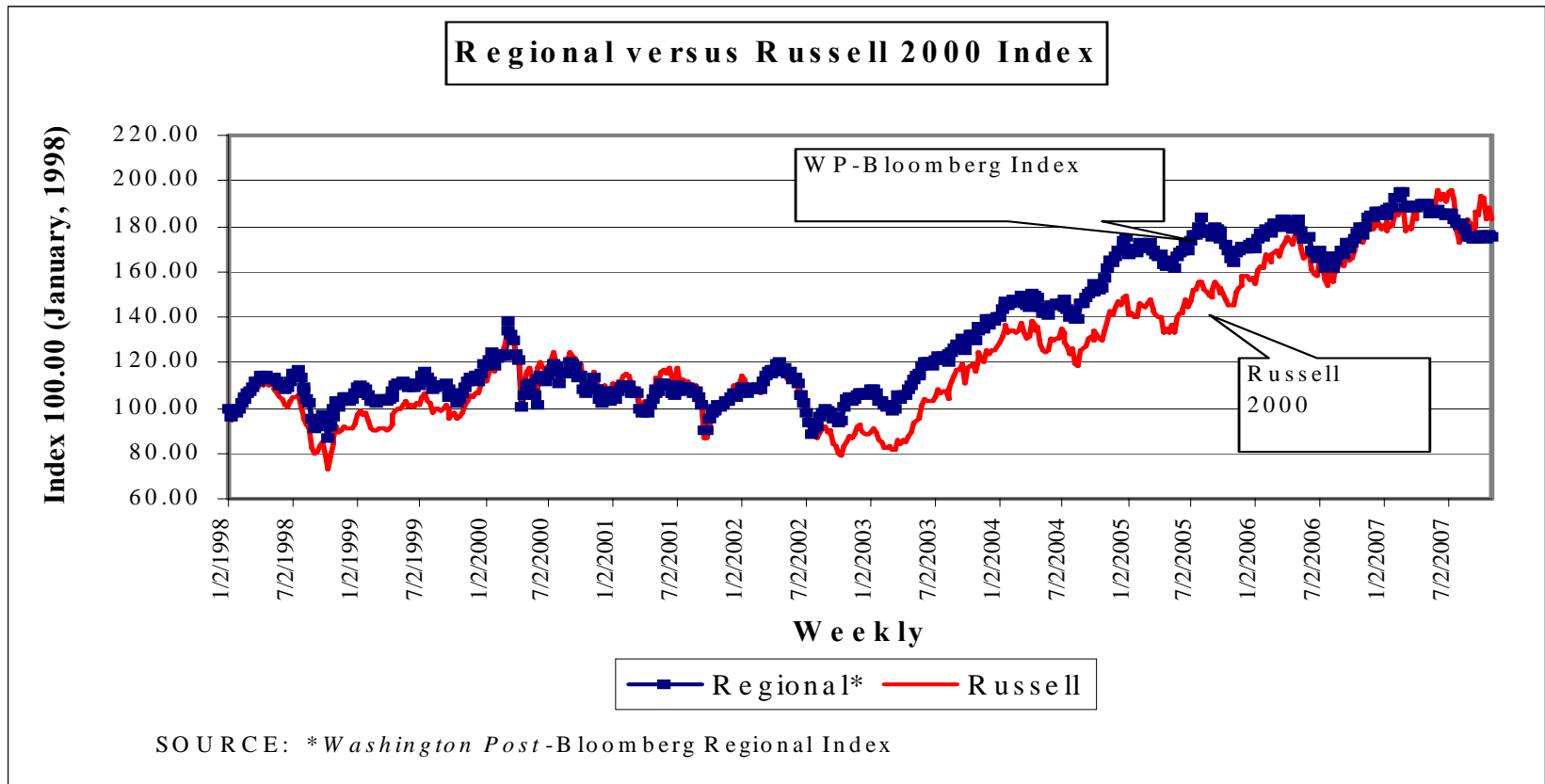
SOURCES: Federal Reserve Bank of St. Louis (solid bars) and the Chicago Board of Trade (hatched bars) as of November 23, 2007

Regional Economic Indicators

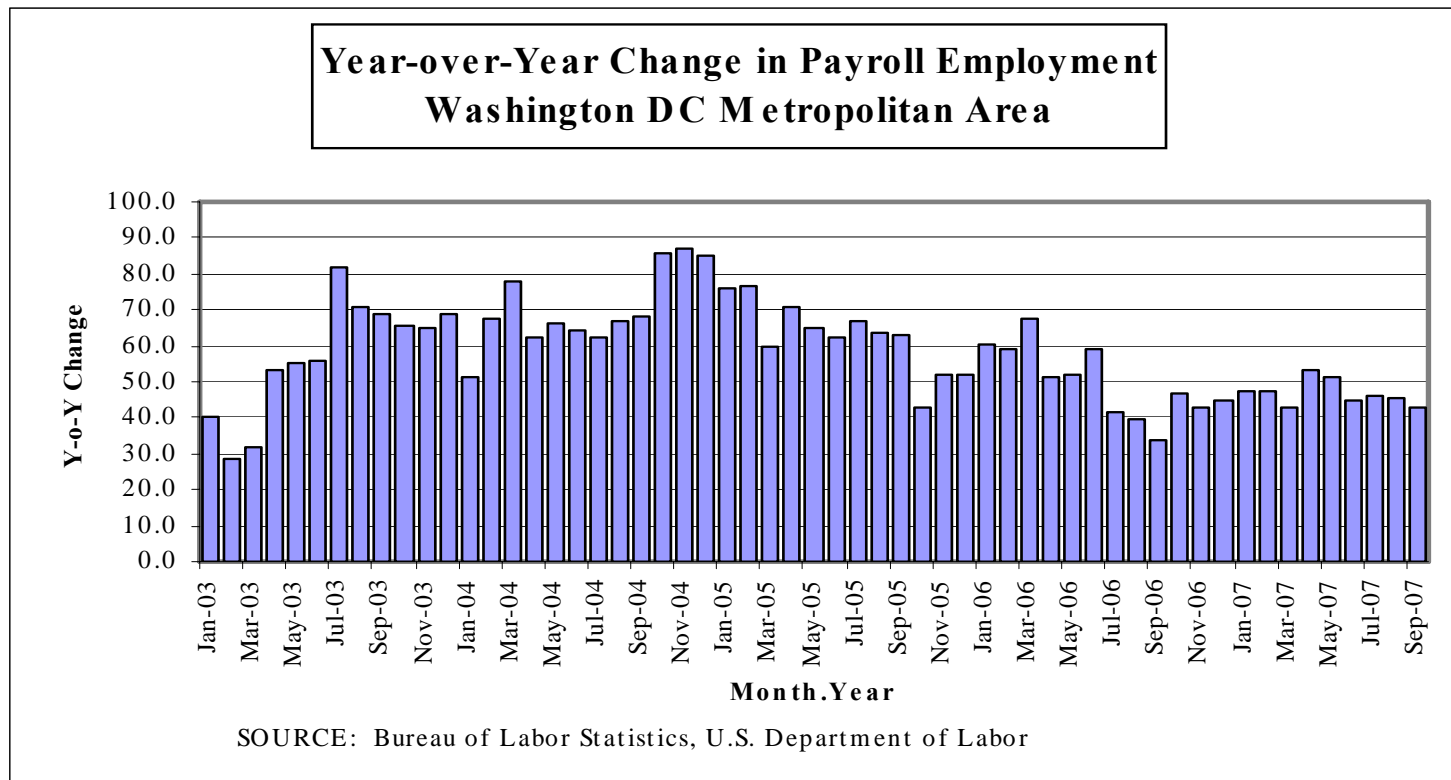
The leading economic indicator for the Washington region has declined over the four-month period ending in August. That decline suggests that the region's economy will experience slower economic growth over the next six to eight months.



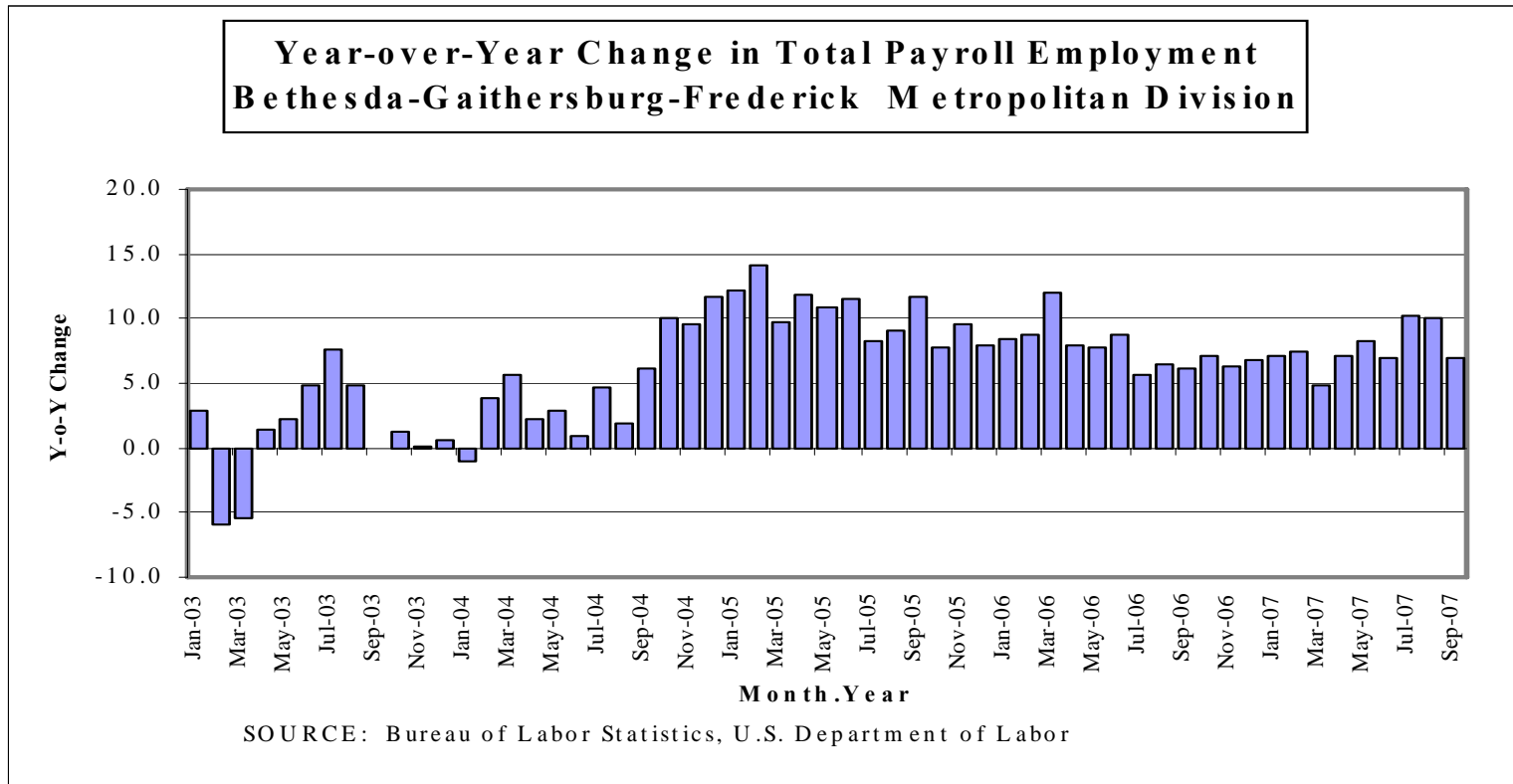
The regional stock index also confirms an economic slowdown in the region's economy with the index declining nearly 9 percent since the beginning of the year.



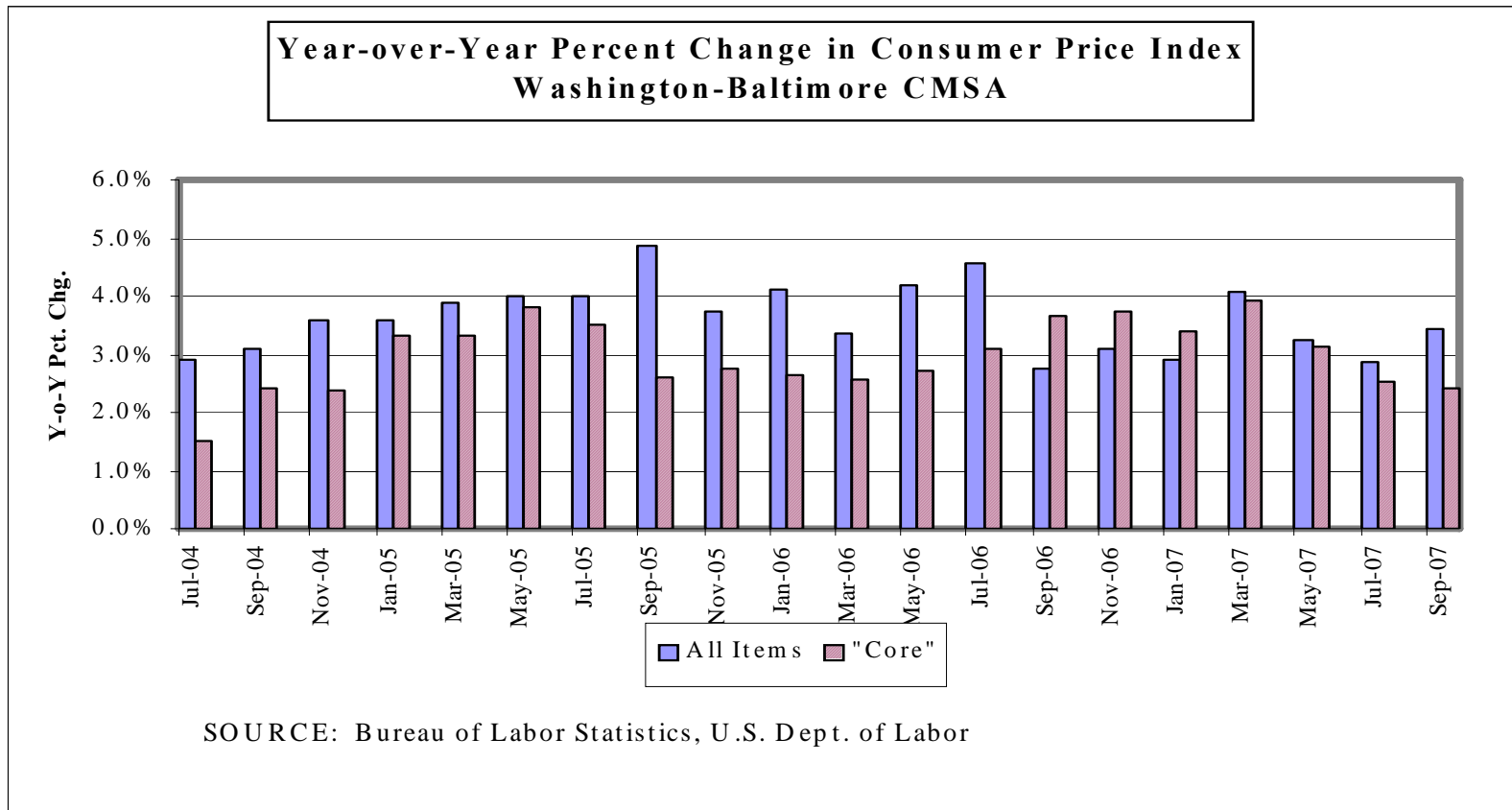
The Washington economy continues to generate new jobs albeit at a much slower rate. During the first nine months of 2007, Washington averaged nearly 46,800 new jobs, on a year-over-year basis, compared to the average of 67,000 during the same nine-month period in 2005.



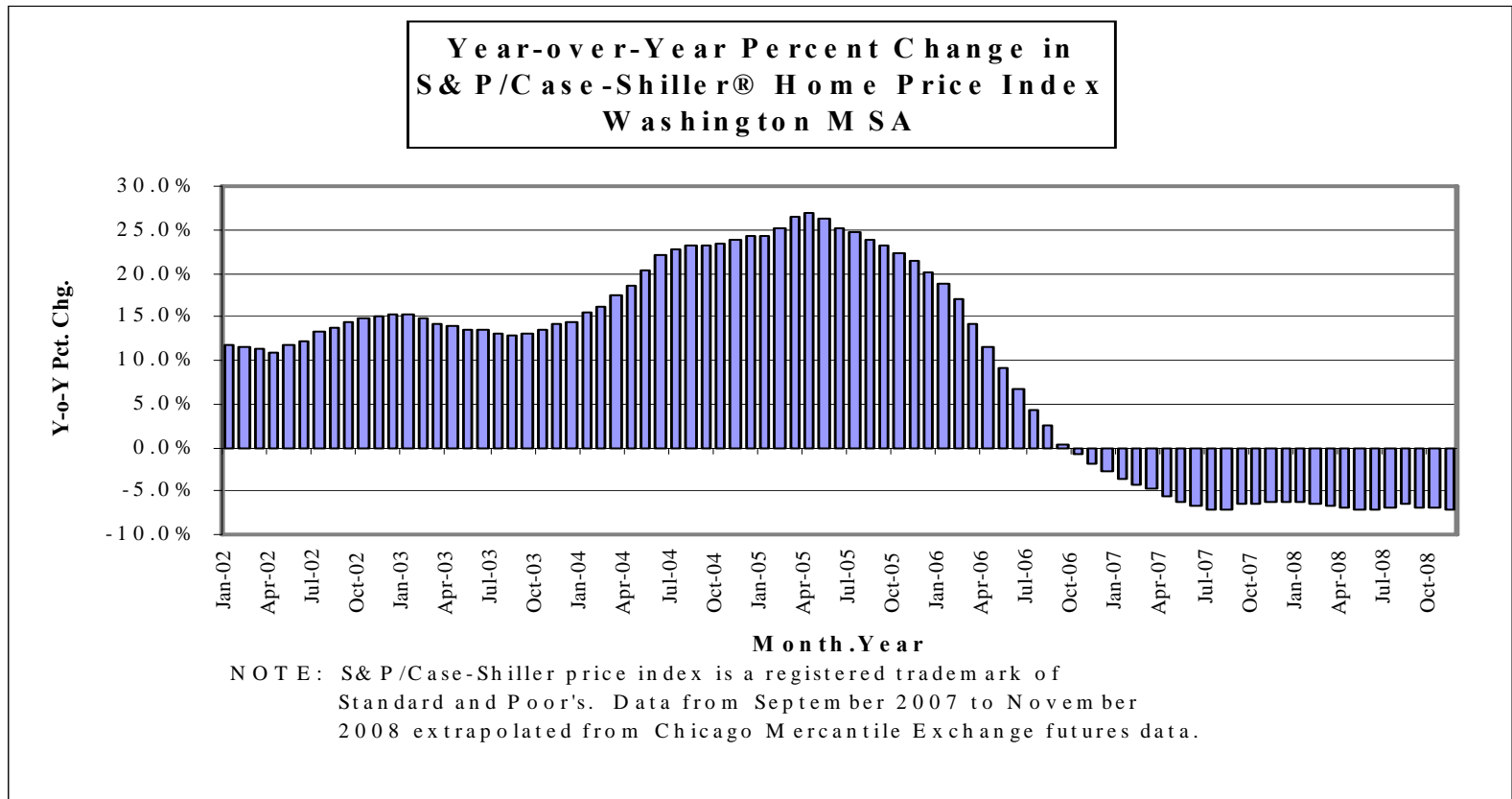
Montgomery and Frederick counties also continued to add jobs but at a slower pace. During the first nine months of 2007, the BGF metropolitan division averaged 7,500 new jobs on a year-over-year basis compared to 11,000 during the same nine-month period in 2005.



The region's rate of inflation declined from its recent high in March of 4.1 percent on a year-over-year basis to above 3 percent in September. The "core" rate also declined from 3.9 percent in March to 2.4 percent in September.

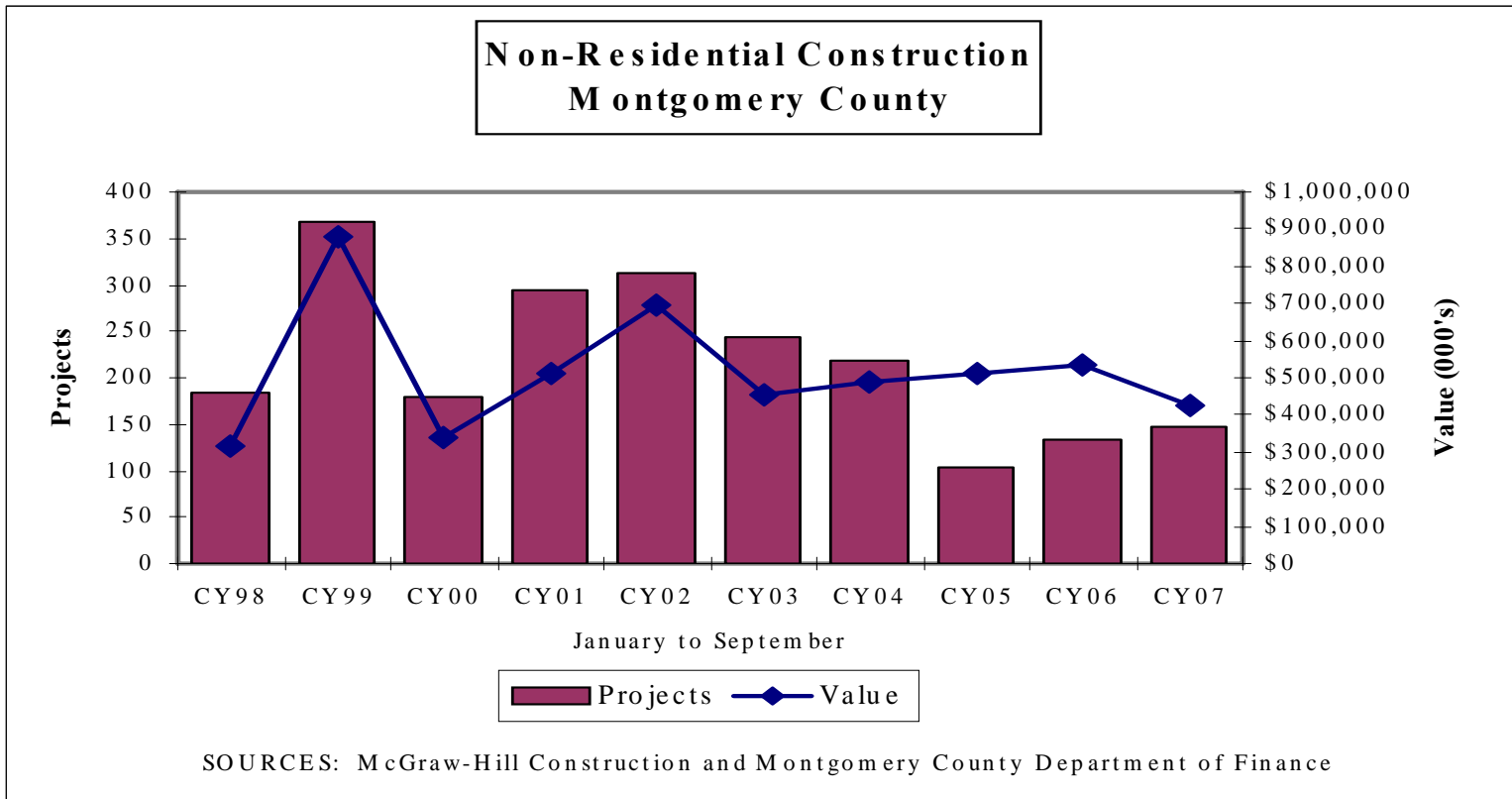


The PMI probability data is confirmed by the S&P/Case-Shiller® home price index for the Washington Region. Since October 2006, the index has experienced a year-over-year decline and, according to CME futures, is expected to continue to decline to October 2008.

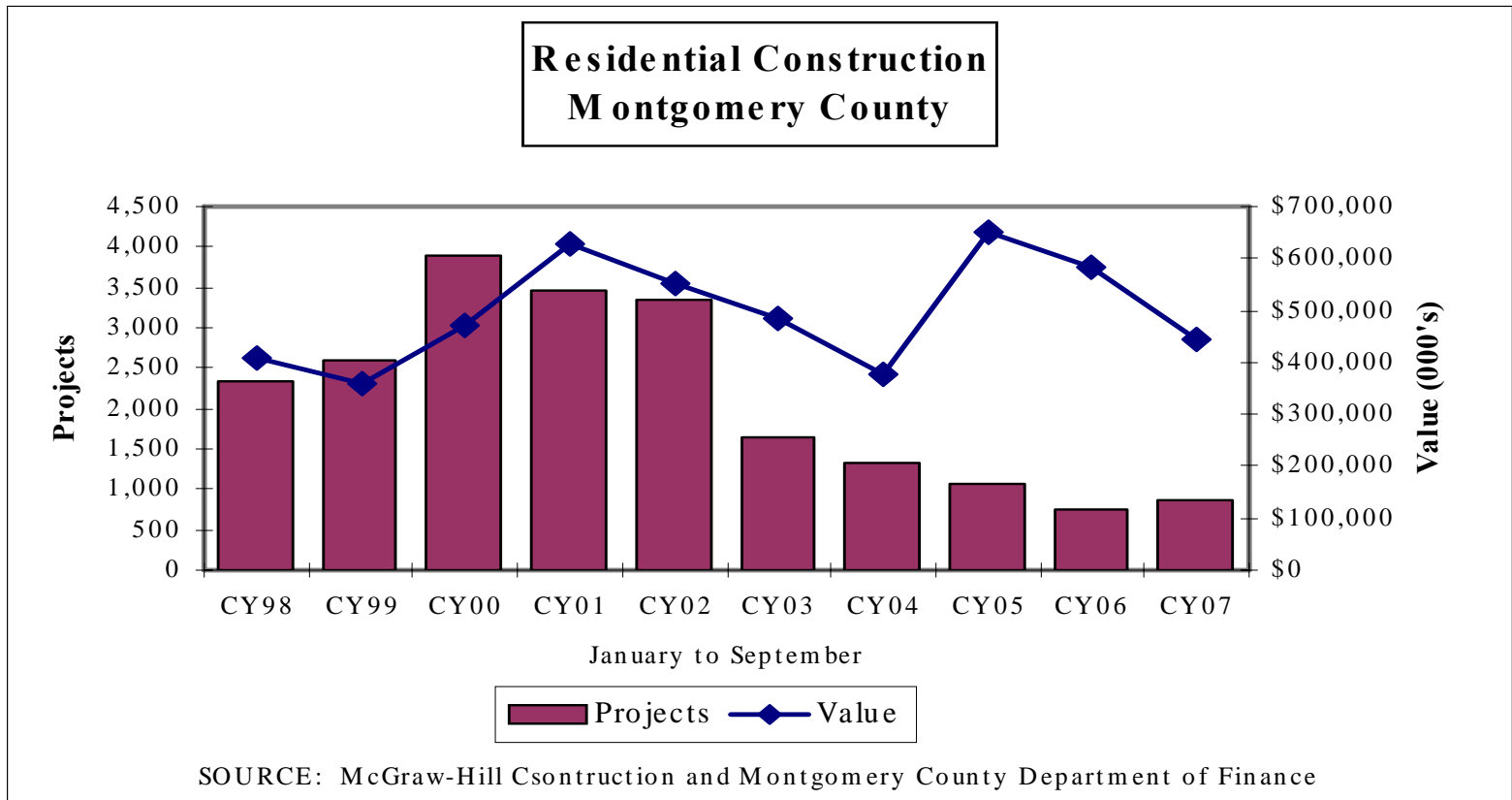


Montgomery County Economic Indicators

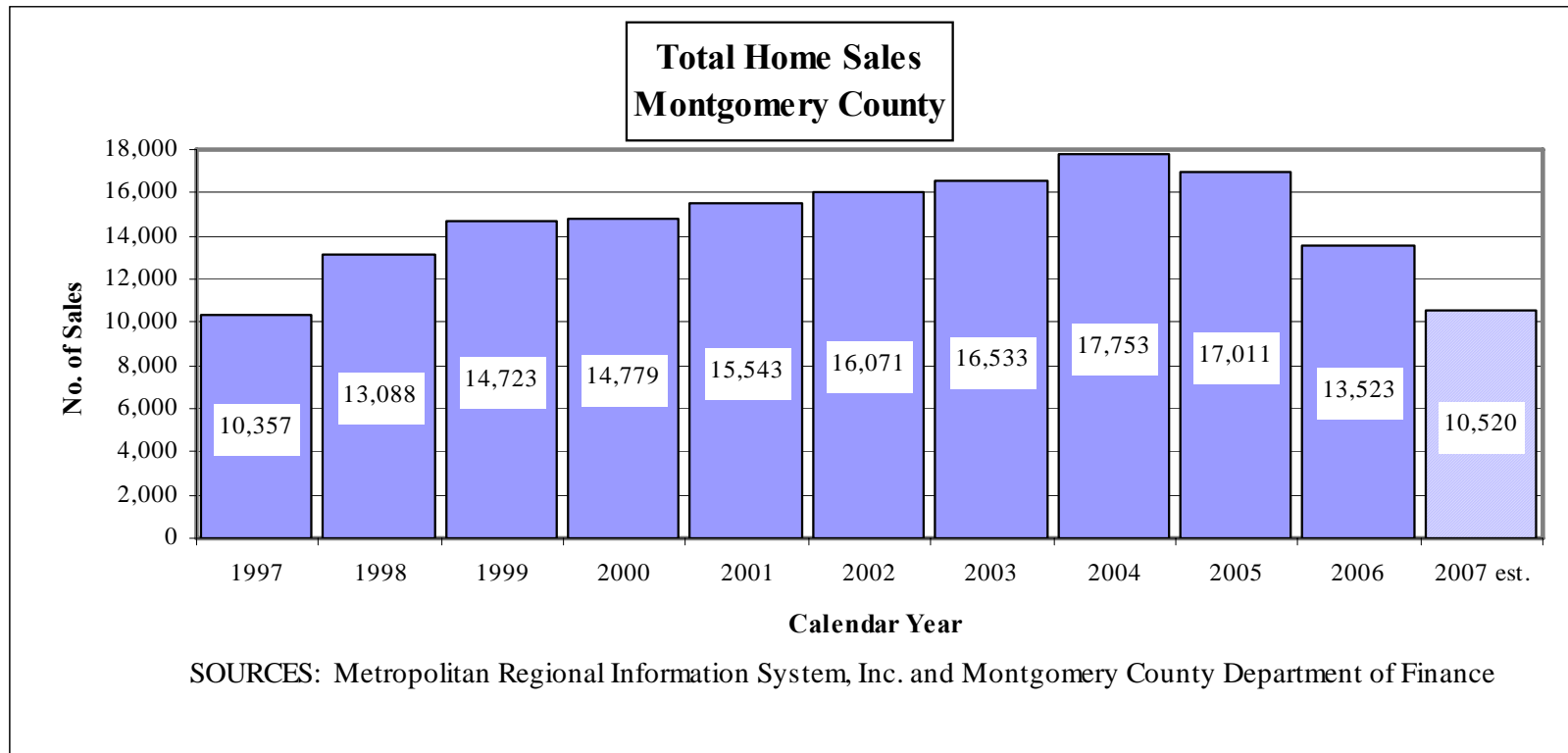
Non-residential construction activity in the County has experienced a slowdown during the first nine-months of this year. The number of projects under development is 42 percent below the average construction activity that occurred during the 2001-04 period.



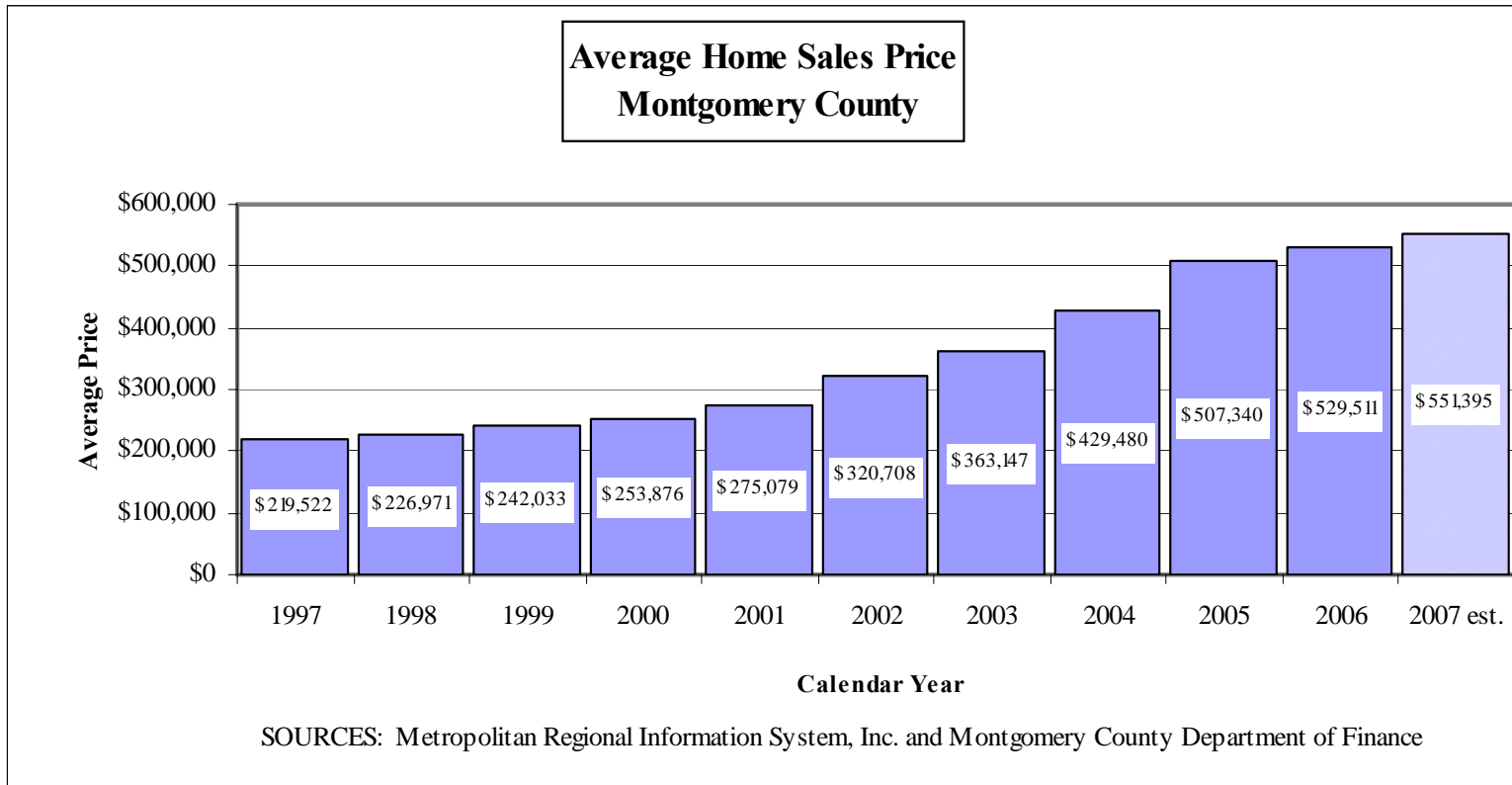
Residential construction activity continued to decline during the first nine months of this year with the number of projects down nearly 76 percent from the peak activity during 2000-02 and the additional value to total property value was down 24 percent from 2006.



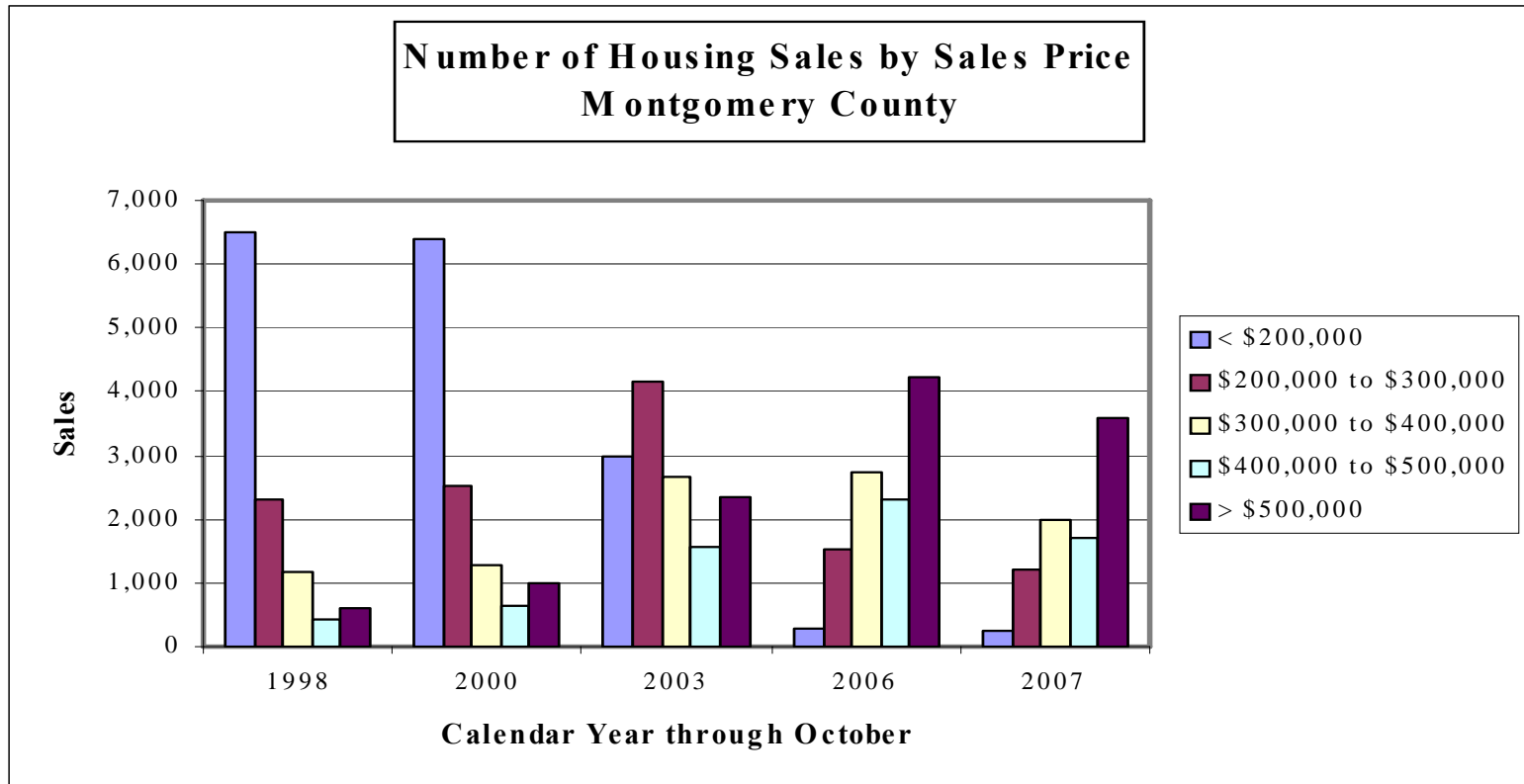
Home sales for the County are expected to decline to less than 11,000 units in calendar year 2007 – the lowest number since 1997 and a decline of nearly 21 percent from the previous year.



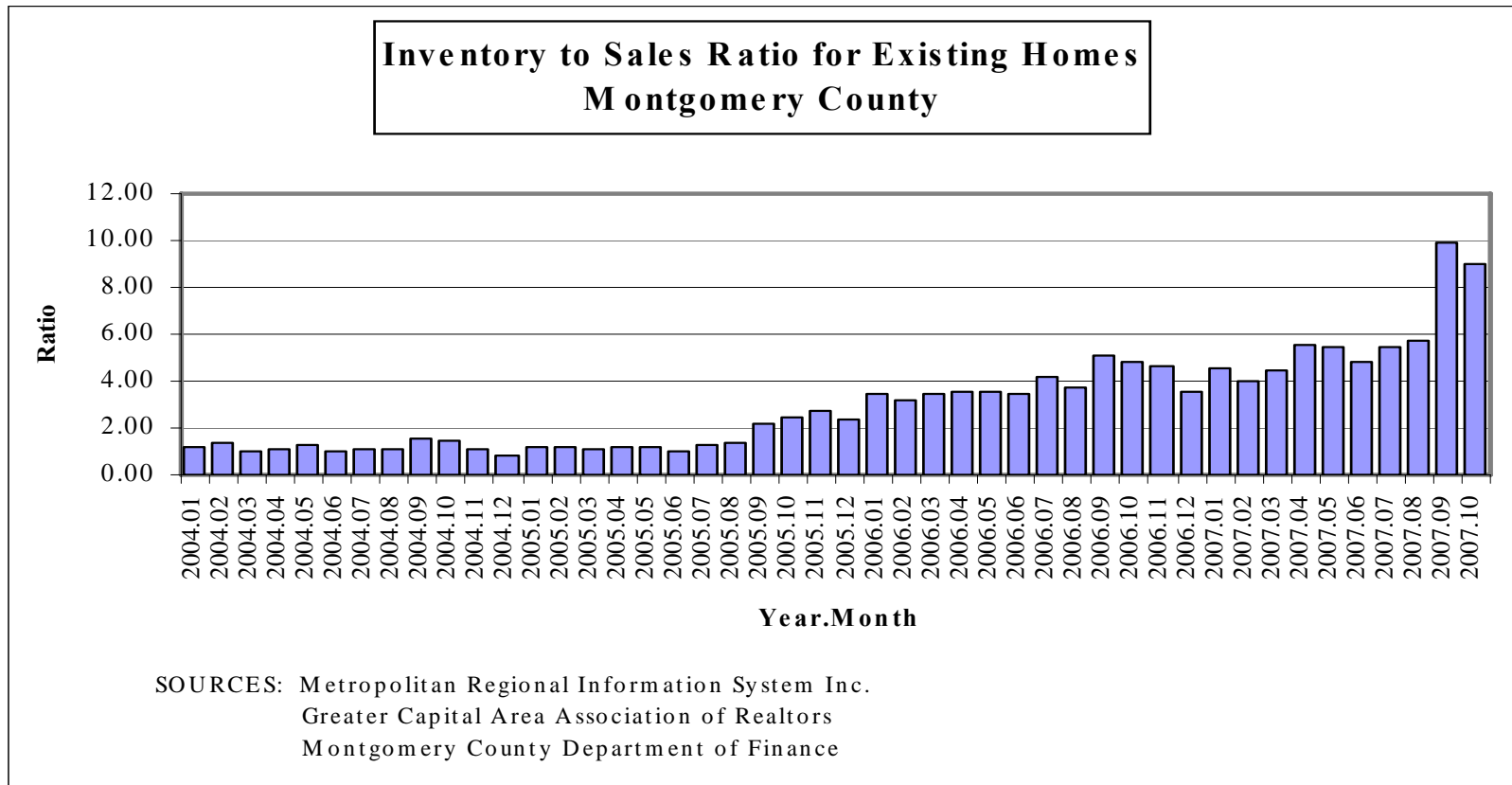
However, the average sales price of existing homes is expected to increase 4.1 percent in 2007 and significantly below the 15.3 percent average between 2002 and 2005.



The reason for the increase in average sales price in the County can be seen by the number of sales by sales price. In 1998 and 2000, over 6,000 sales had prices less than \$200,000. By 2006 and 2007 to date, the combined total is less than 550.



The outlook for a rebound in home sales remains problematic because of the high inventory of existing homes for sale. Since the beginning of 2006, inventory sales ratio increased from an over 3-month supply to nearly a dramatic 9-month supply in October.



Summary

- It is currently anticipated that in the immediate future, the County will experience a slowdown in economic growth due to the following:
 - Employment has and is expected to grow at a much slower rate.
 - 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.
 - Recent 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.
 - A drop in consumer confidence and in the housing market suggests that households are likely to reduce spending on durable goods.