# Presentation of Economic Indicators and Revenues

To

Management and Fiscal Policy Committee

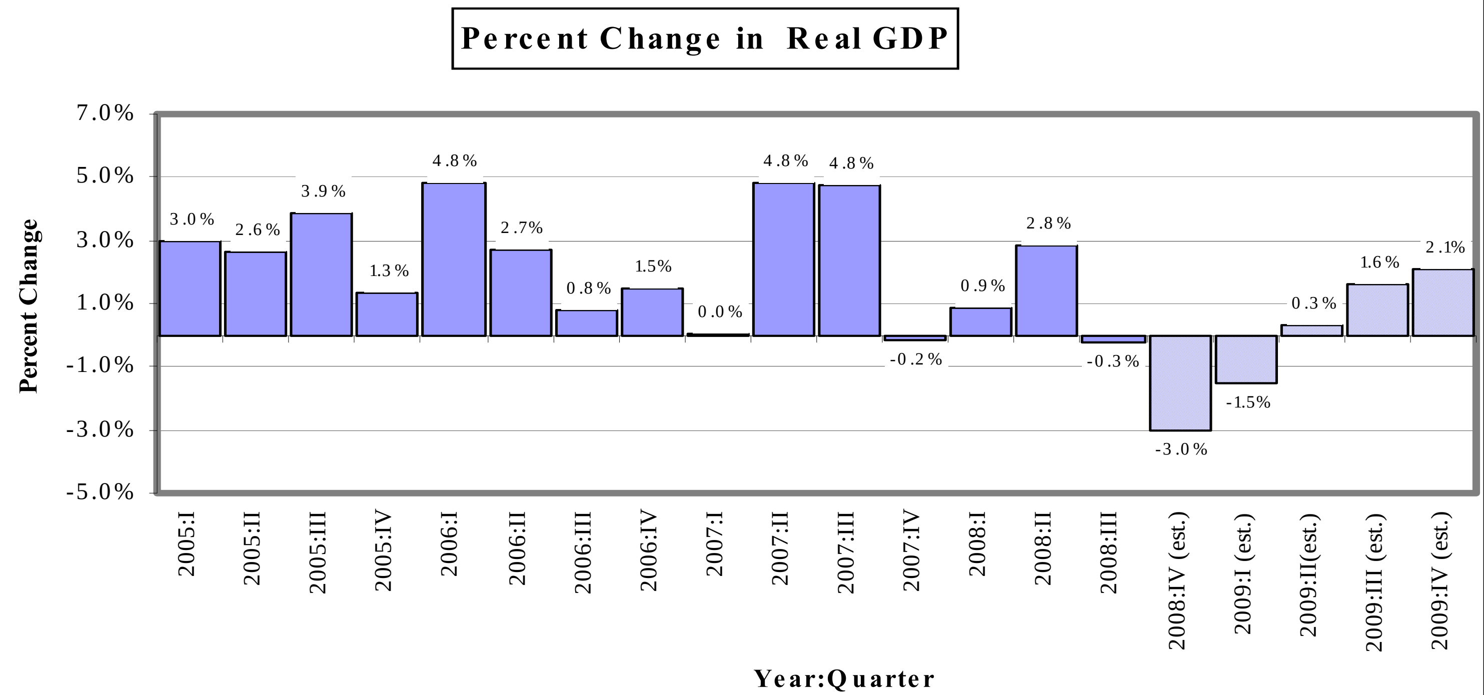
By the

Montgomery County Department of Finance

November 24, 2008

# National Economic Indicators

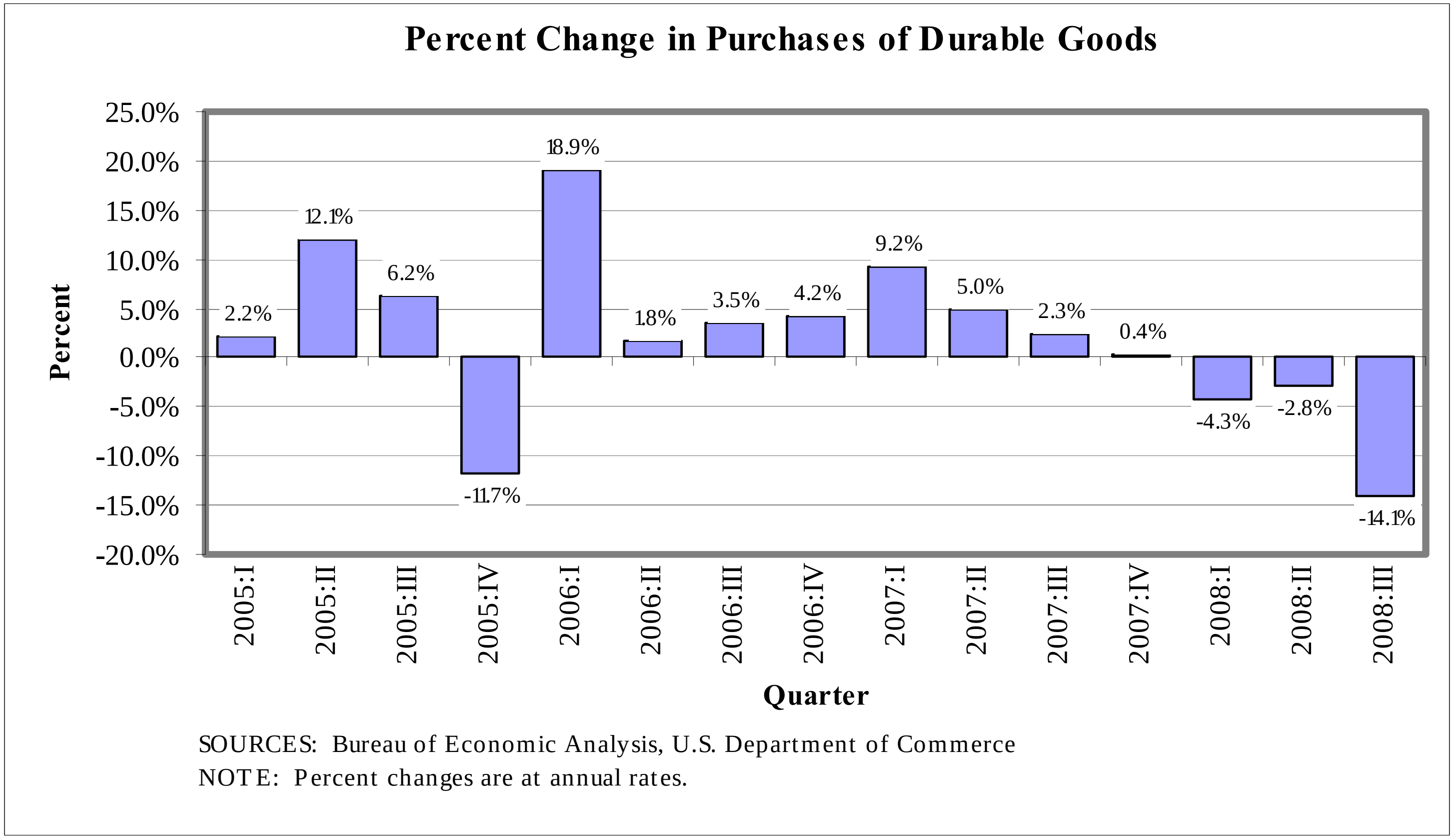
**BEA reported that real GDP decreased 0.3 percent during 3rd qtr. 2008. On average the 54 economists surveyed by *The Wall Street Journal* expect GDP to decline 3.0 during the 4th qtr. and another 1.5 percent during the 1st qtr. 2009. By the 3rd qtr. of next year, a recovery will be under way.**



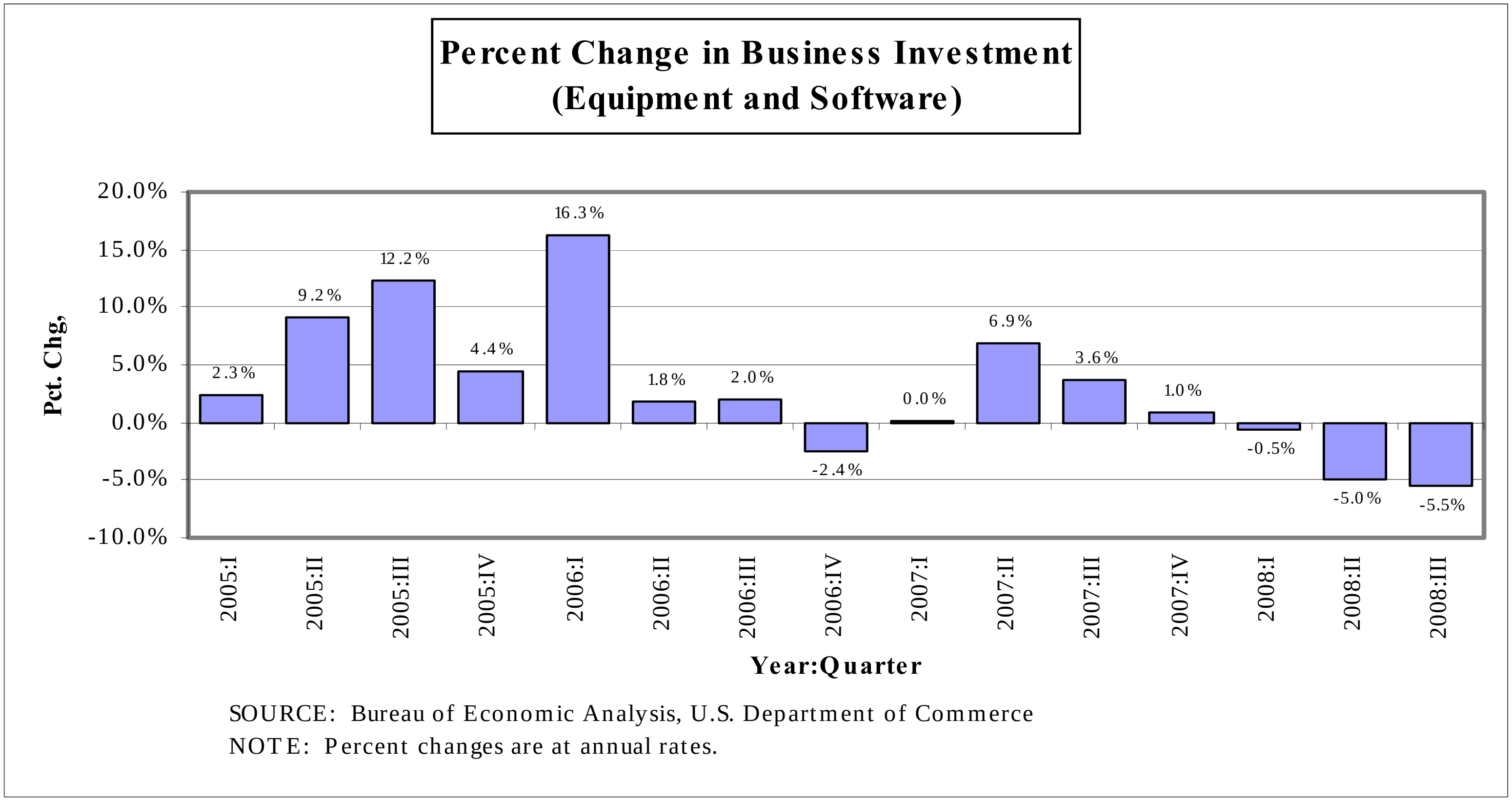

SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Hatched bars from *Wall Street Journal* survey conducted November 7-10.

NOTE: Percent changes are at annual rates.

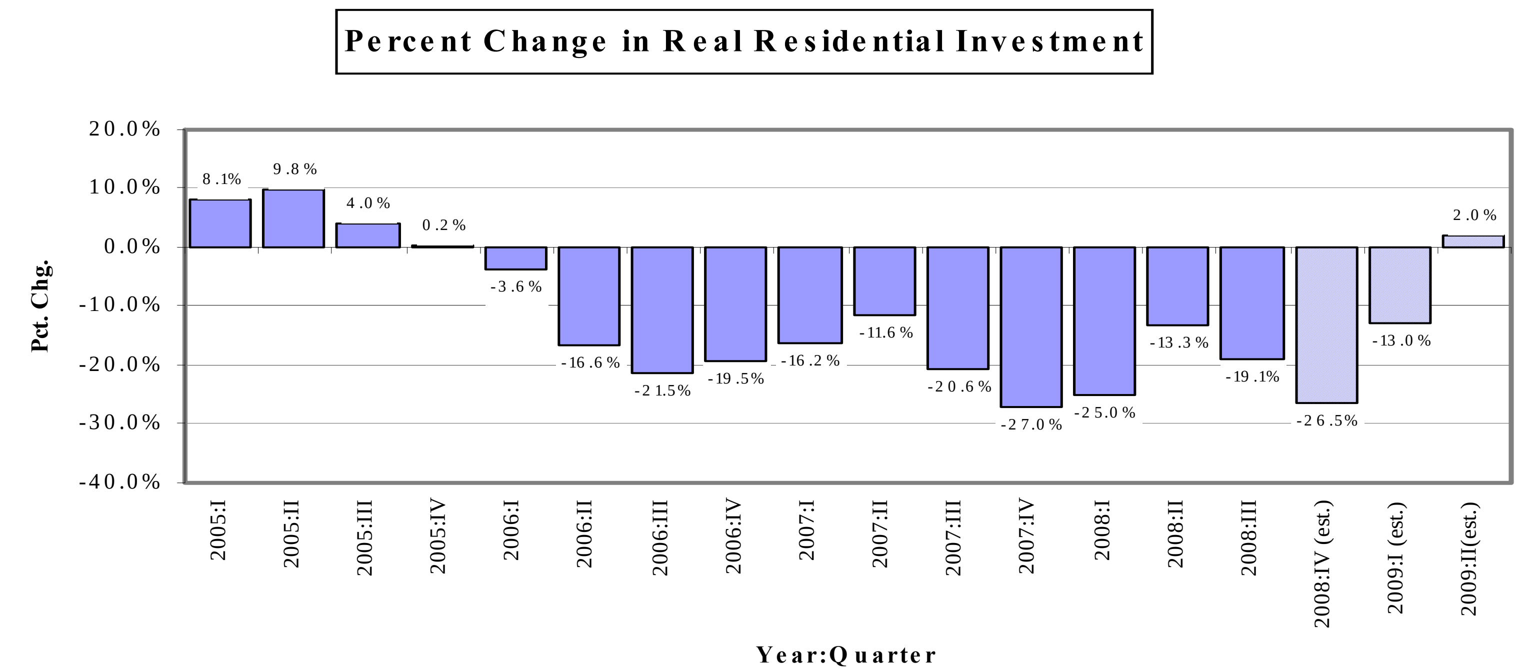
## One of the contributing factors to the decline during the 3 qtr. was the 3.1 percent decline in consumer spending led by a 14.1 percent decrease in purchases of durable goods.



## Second, business investment in equipment and software declined for the third consecutive quarter. Such declines suggest business pessimism about the near term prospects for an economic recovery.



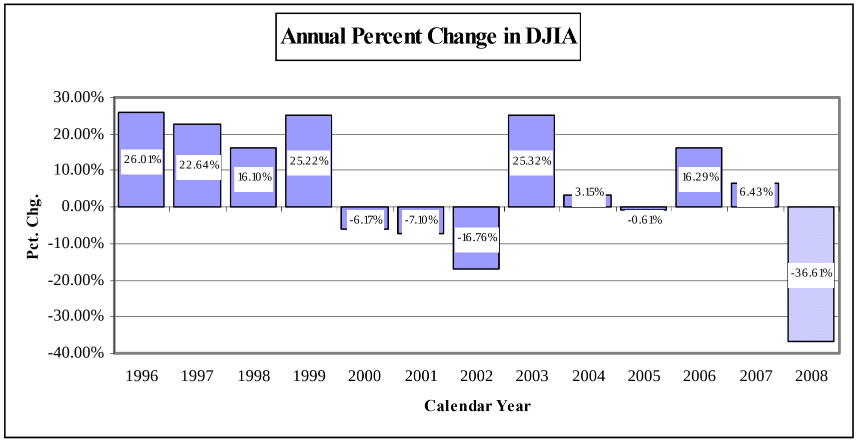
**Finally, homebuilding remains a significant drag on the economy. Residential investment has declined eleven consecutive quarters. The National Home Builders Association expects housing construction not to increase until the second quarter of 2009.**

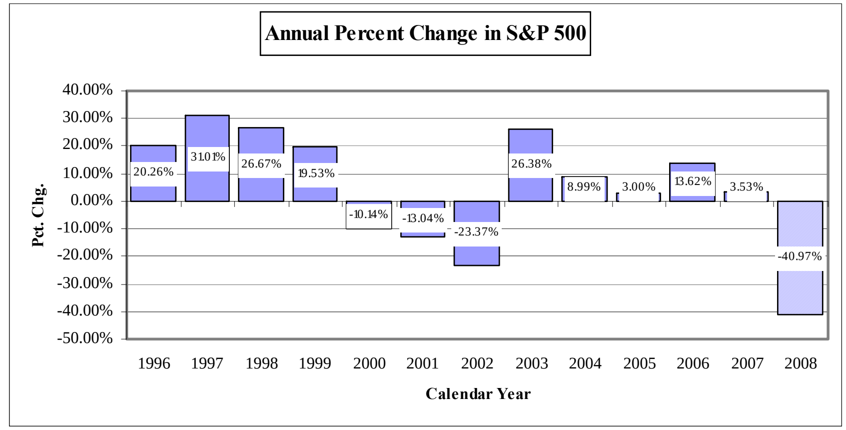


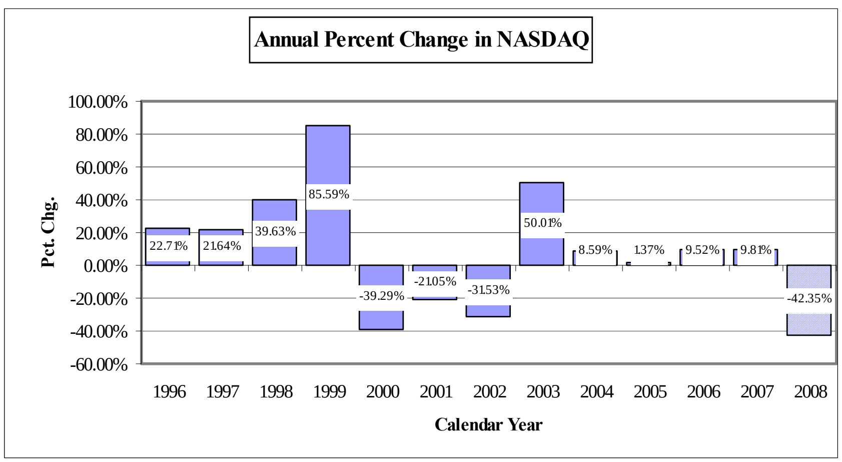

SOURCES: Bureau of Economic Analysis, U.S. Department of Commerce and hatched bars are October forecast from the National Association of Home Builders

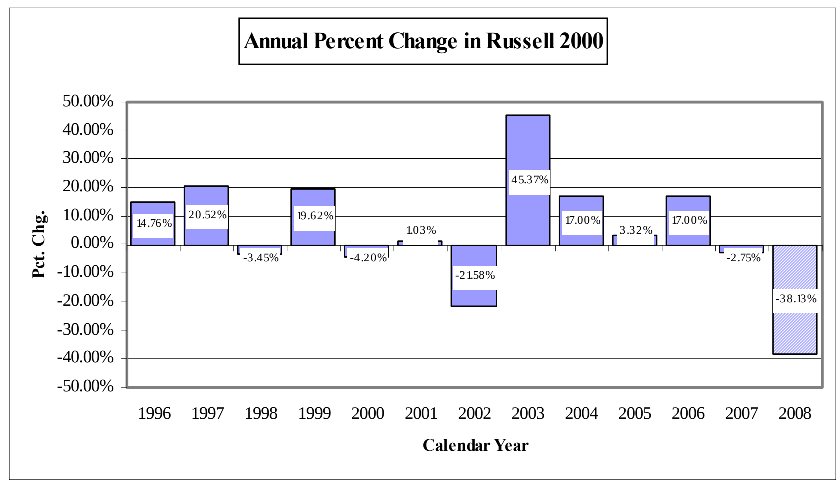
NOTE: Percent changes are at annual rates.

# Based on data through November 7th, all four stock index measures are expected to experience significant declines by the end of the year. (DJIA ↓36.61%; S&P 500 ↓40.97%; NASDAQ ↓42.35%; R2000 ↓38.13%)

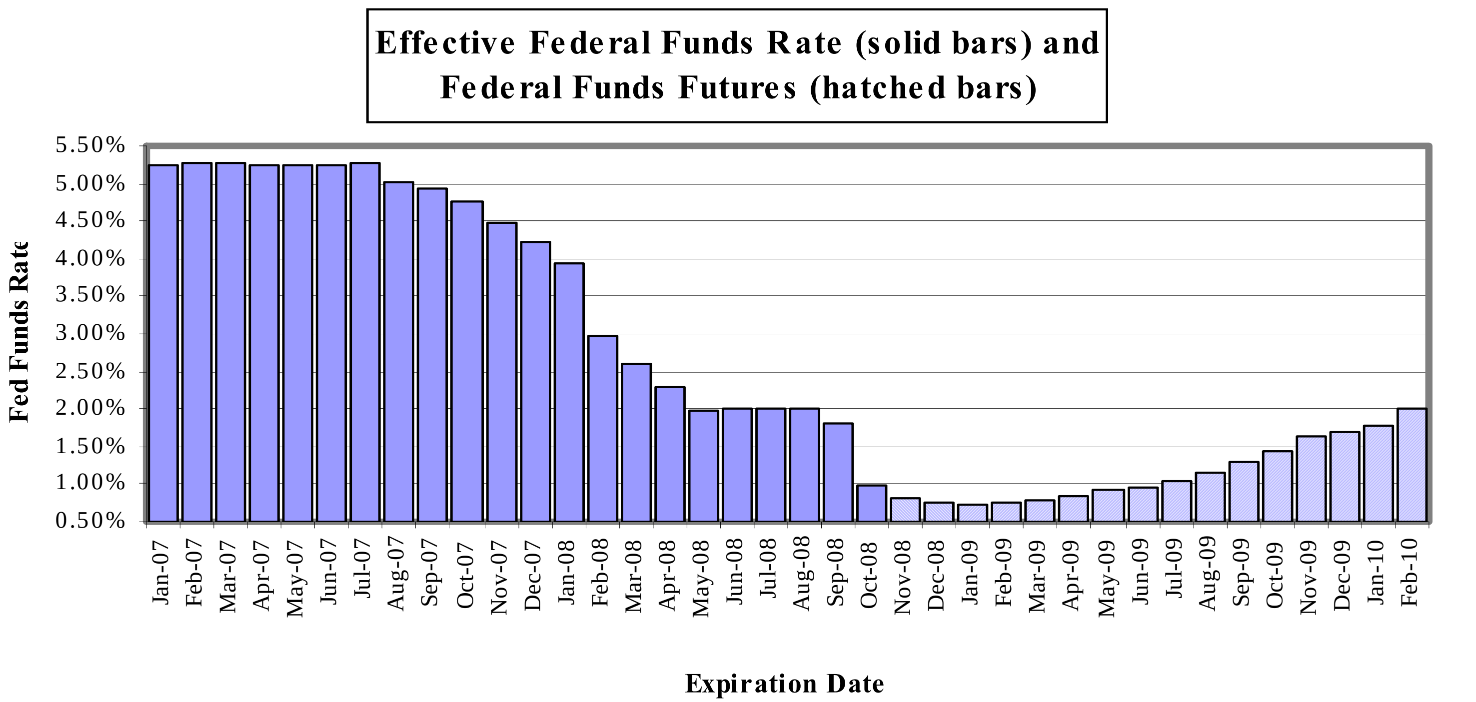


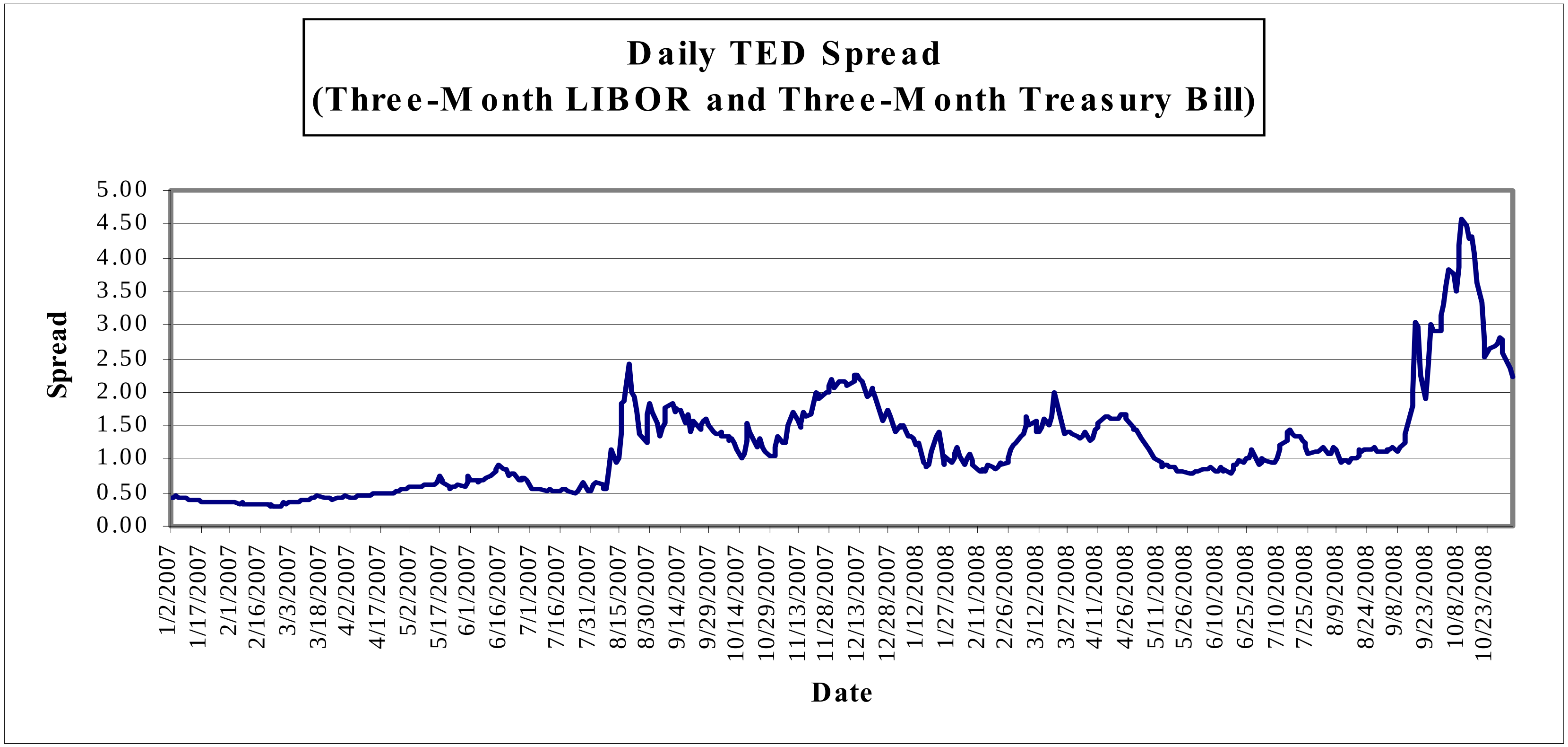



## On October 29, the Federal Open Market Committee of the Federal Reserve cut the federal funds target rate to 1.0 percent. The futures market anticipates another quarter-point cut in December.




SOURCES: Federal Reserve Bank of St. Louis (solid bars) and the Chicago Board of Trade (hatched bars) as of October 30, 2008

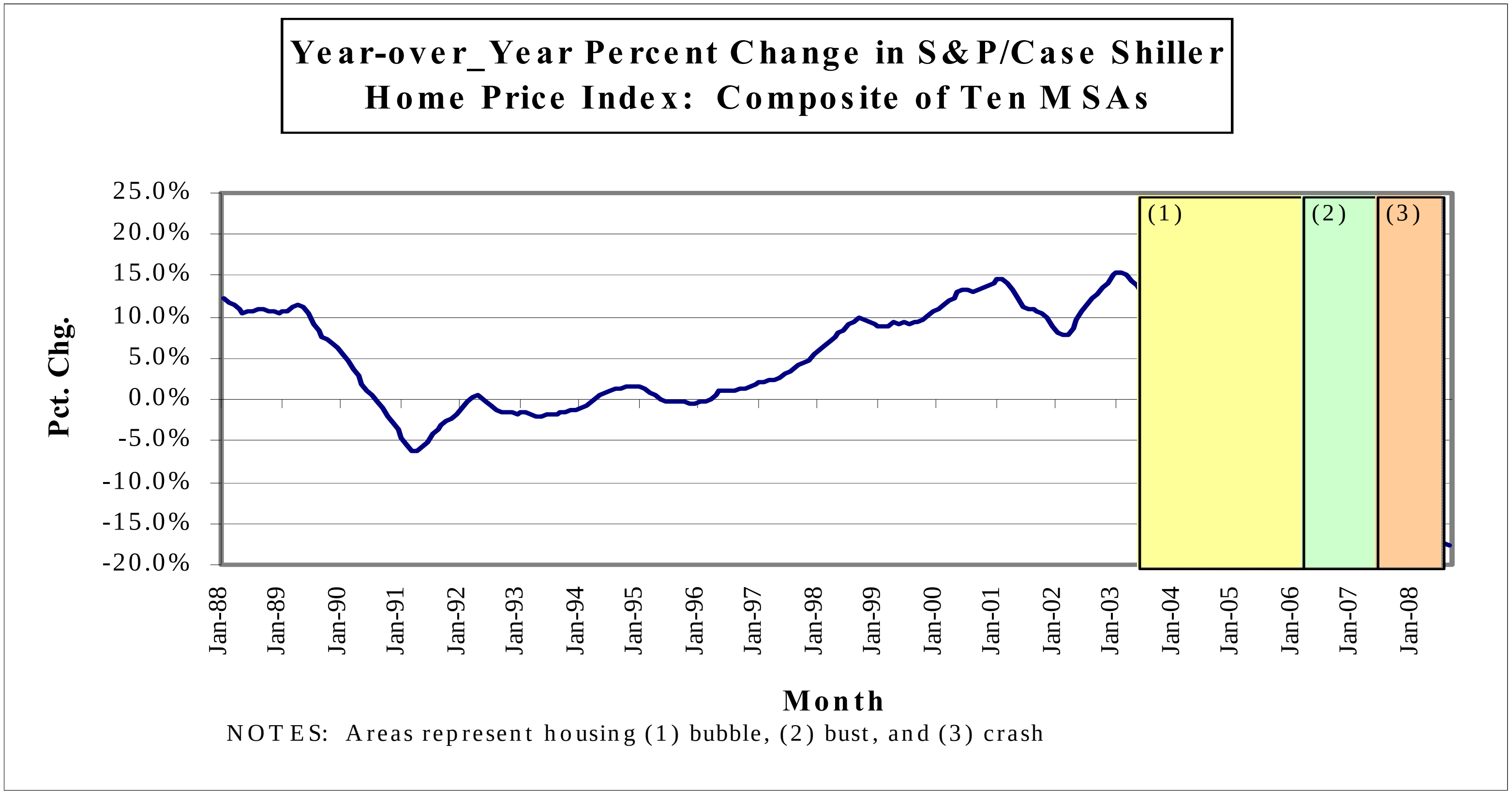
**Since the start of the credit crisis (July '07), the spread between the 3-month LIBOR rate and the 3-month Treasury bill increased from 50 basis points (bps) to nearly 460 bps on October 10th. Since that time, aggressive action by international central banks reduced that spread by half.**



# Mark Zandi, co-founder of Moody's Economy.com and an expert in national and regional housing markets, identifies the start of three recent housing market cycles

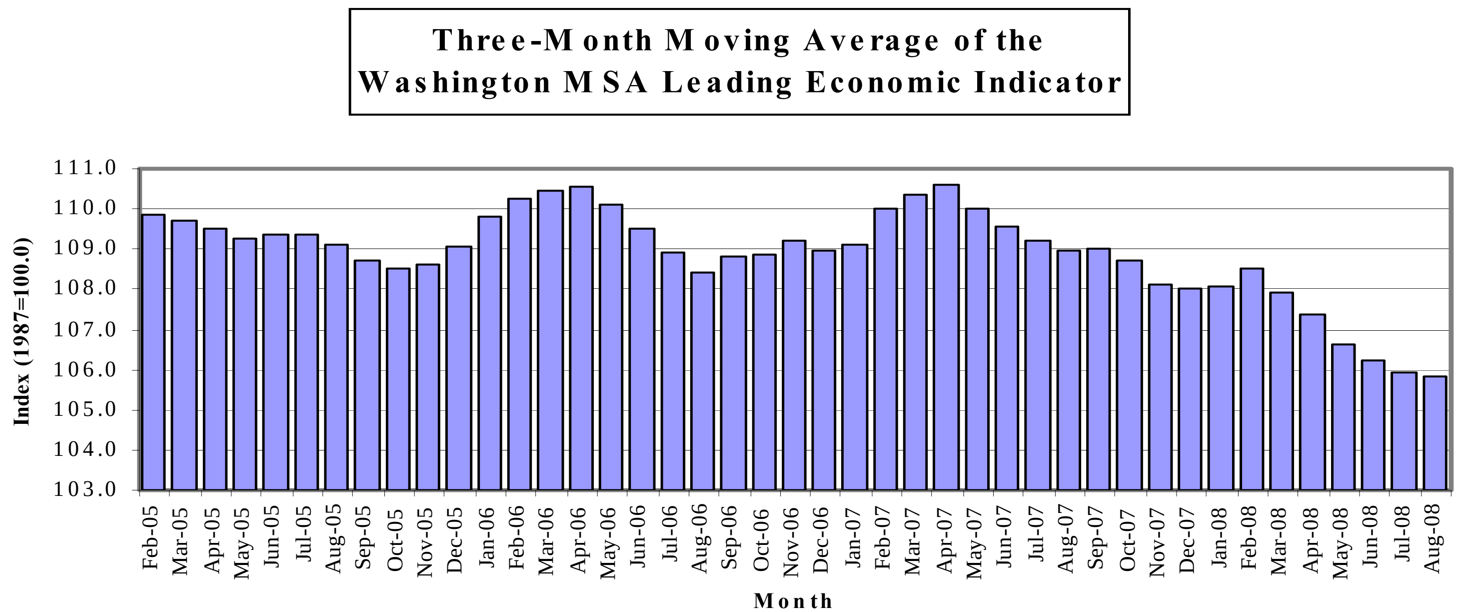
- Housing bubble: July 4, 2003
  - The bubble developed when buyers purchased homes not simply because of a place to live, i.e., shelter, but because housing was a great investment. A bubble develops when an asset's price becomes disconnected from its fundamental value. Housing's fundamental value is based on the future value as shelter or from the rent it generates.
- Housing bust: April 10, 2006
  - At this time, speculators stopped buying and started to sell. When they could not find buyers, they defaulted on their loans, many of which were probably subprime loans. The pace of defaults rose from 775,000 at the end of 2005 to nearly 1 million by the end of 2006. Most of those who defaulted were "flippers."
- Housing crash: July 30, 2007
  - Bear Stearns closed to hedge funds and mortgage securities trading began to slowdown and stop. Mortgage lenders could not make loans and home sale plunged. The national average price dropped from 3.9 percent between April 2006 and July 2007, and dropped another 15.2 percent by April 2008.

# Based on the S&P/Case Shiller® home price index for ten MSAs, housing prices experienced three cycles since July 2003 ─ housing bubble (July ’03 – Mar. ’06), housing bust (Apr. ’06 – June ’07), and housing crash (since July ’07)



# Regional Economic Indicators

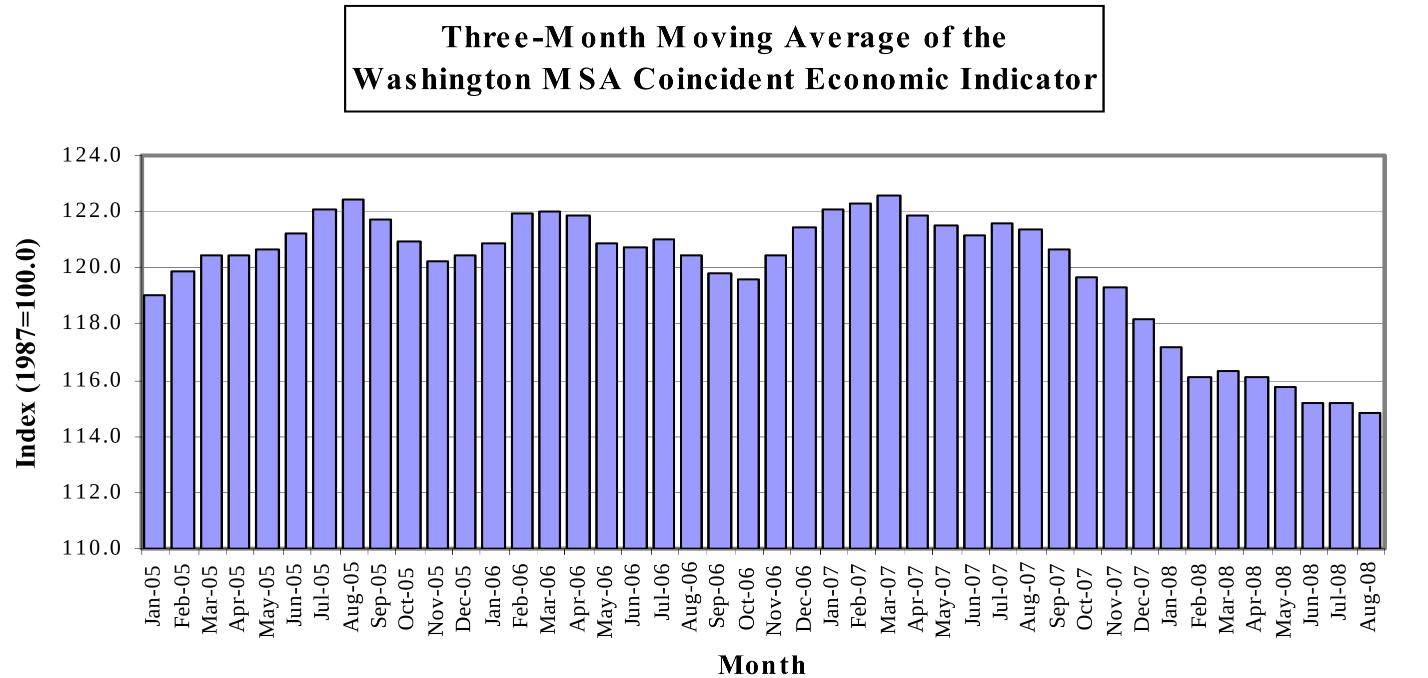
**Except for the slight increase in February, the leading economic indicator for the Washington region has declined steadily since April 2007 (↓4.3%). That decrease suggests the region's economy will experience slower growth during the remainder of 2008 and not "re-accelerate" until spring 2009 ─ which will depend on the breadth and depth of the national recession.**




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.

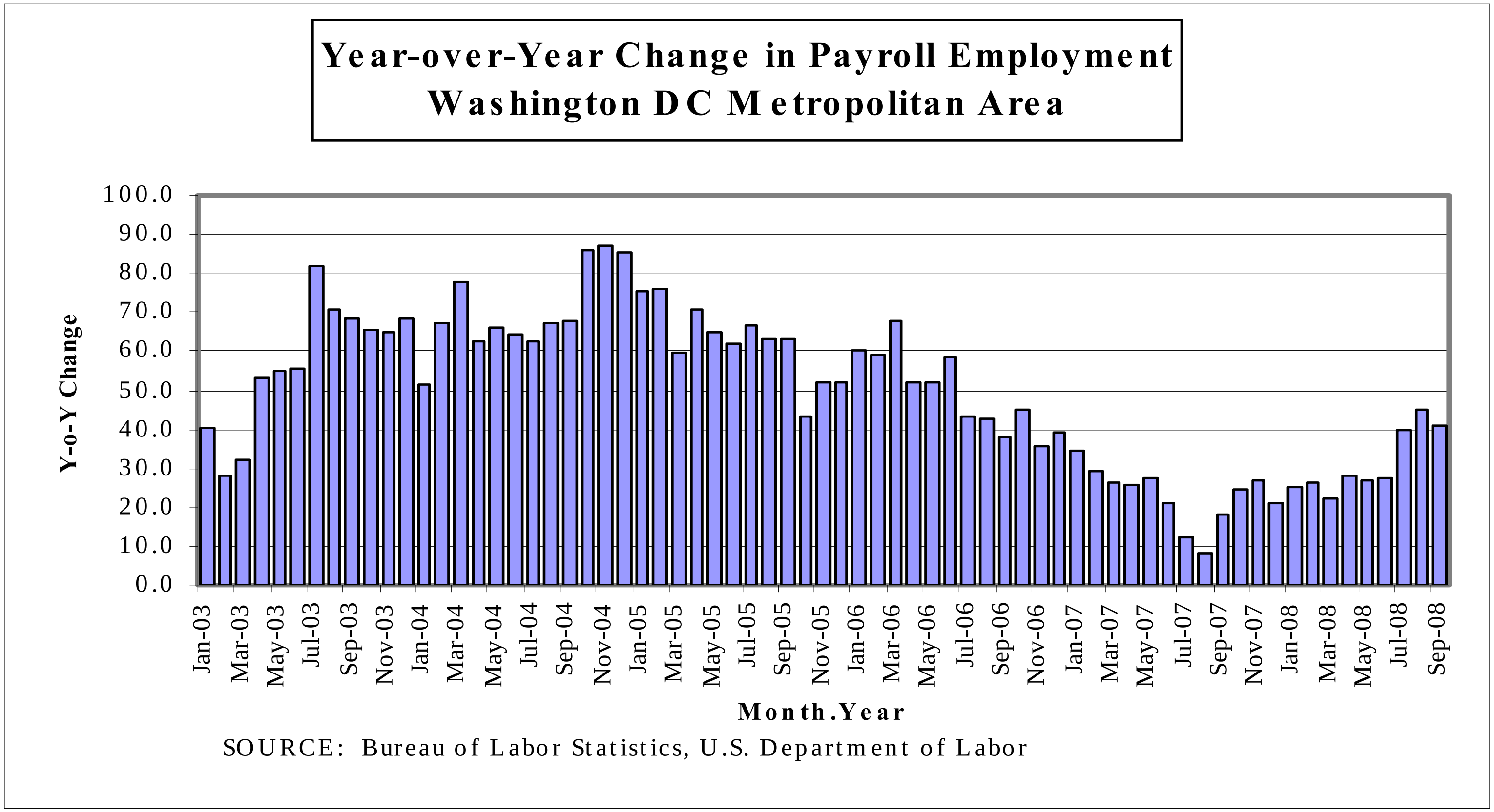
# Led by a decline in consumer confidence since March 2007, the coincident economic indicator, which measures the current performance of the region's economy, declined steadily since then (↓6.3%).



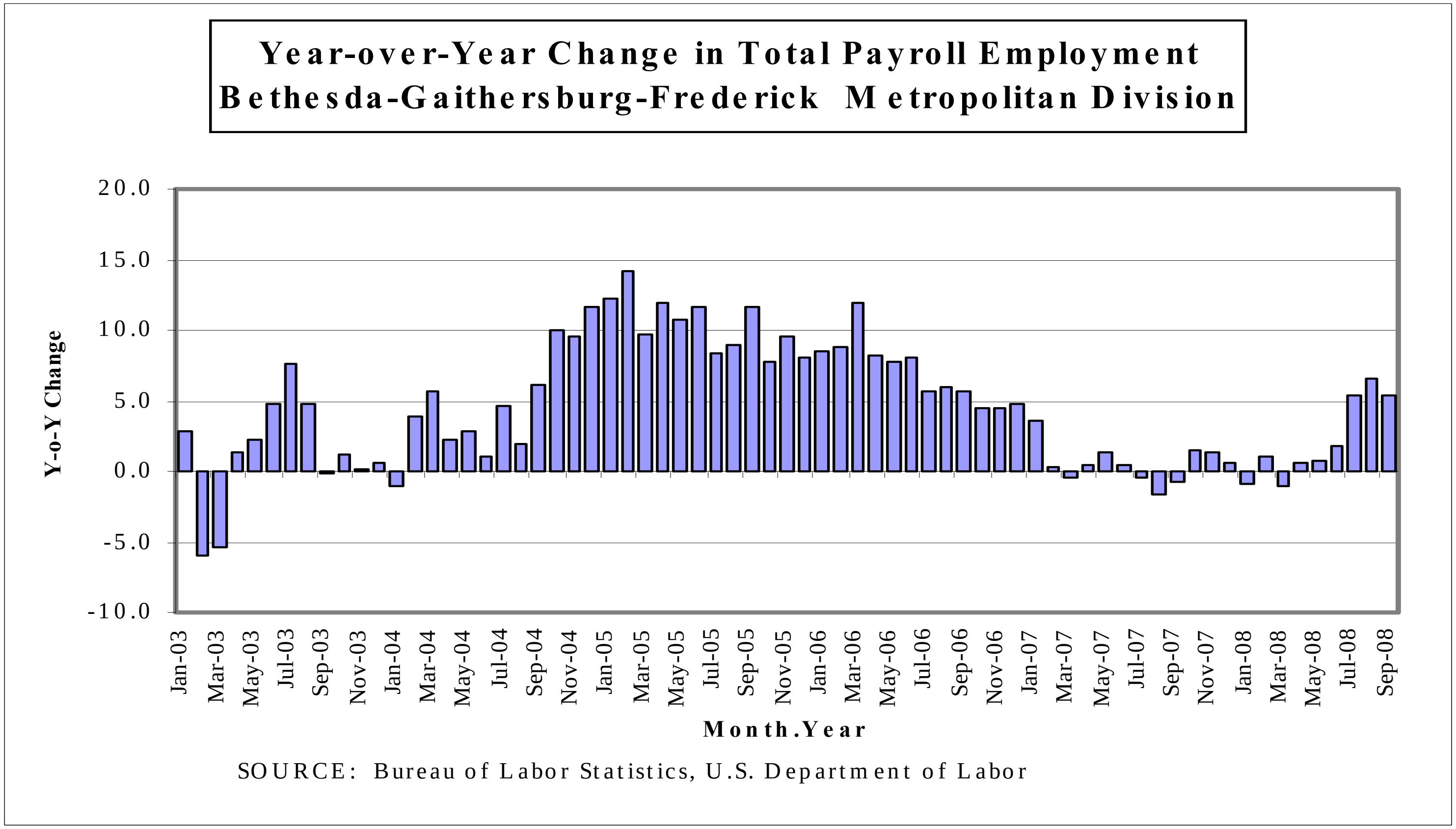

SOURCE: Center for Regional Analysis, George Mason University

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

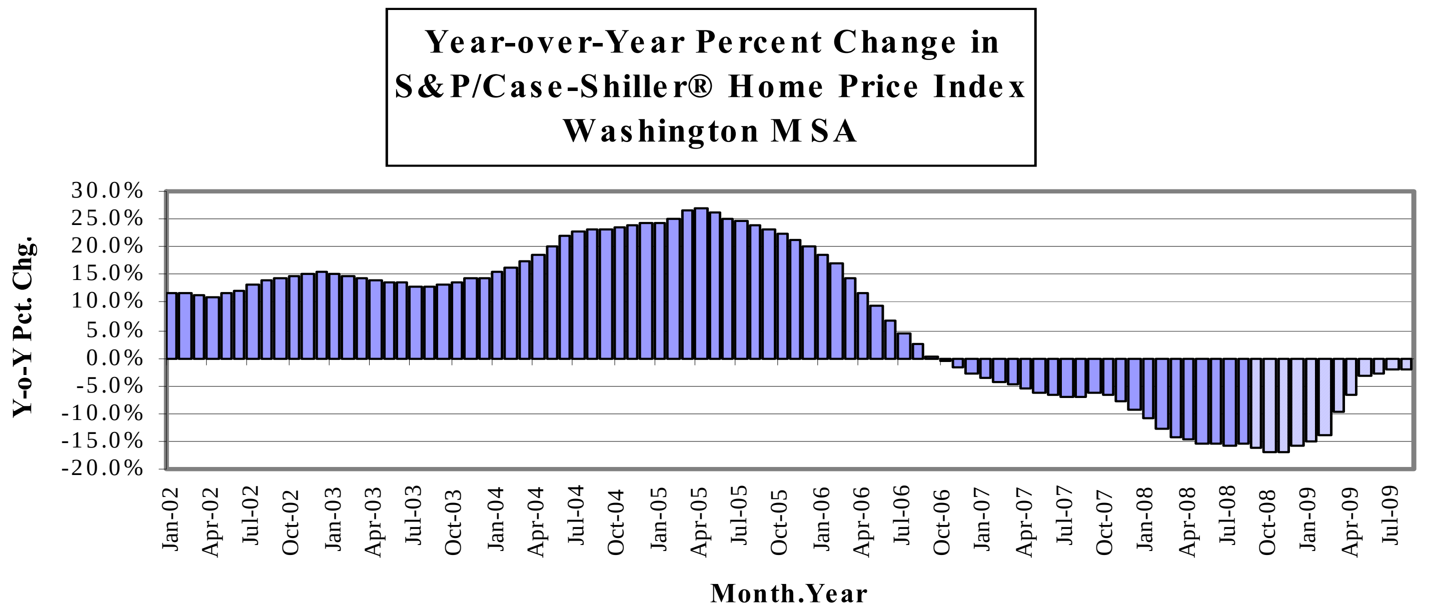
## While the slowdown in the region's economy is reflected in consumer confidence and the weak regional stock market, the region continues to add jobs. Businesses added an average of 31,300 new jobs through the first three quarters of 2008.



**While the region's economy continued to add jobs, Montgomery and Frederick Counties barely added jobs during 2008. Comparing the averages of each monthly payroll employment number for the first nine months of 2007 and 2008, both counties added less than 2,200 payroll jobs.**

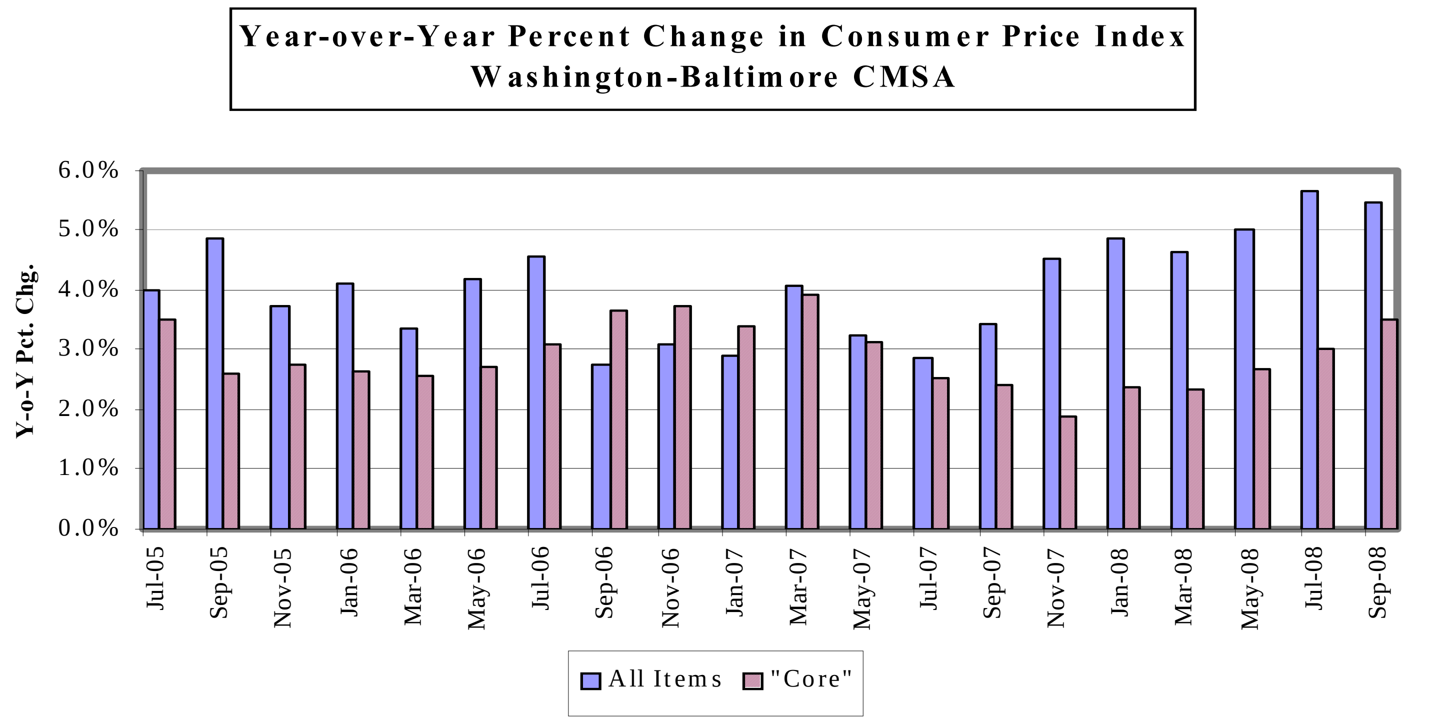


**According to the Center for Regional Analysis, "local residential markets have undermined consumer confidence." The weak housing sector is attributed to the current and expected decline in home prices. Based on the Case-Shiller® index and the futures market, home prices are not expected to increase until second half of '09.**




NOTE: S&P/Case-Shiller price index is a registered trademark of Standard and Poor's. Data from September 2008 to August 2009 extrapolated from Chicago Mercantile Exchange futures data.

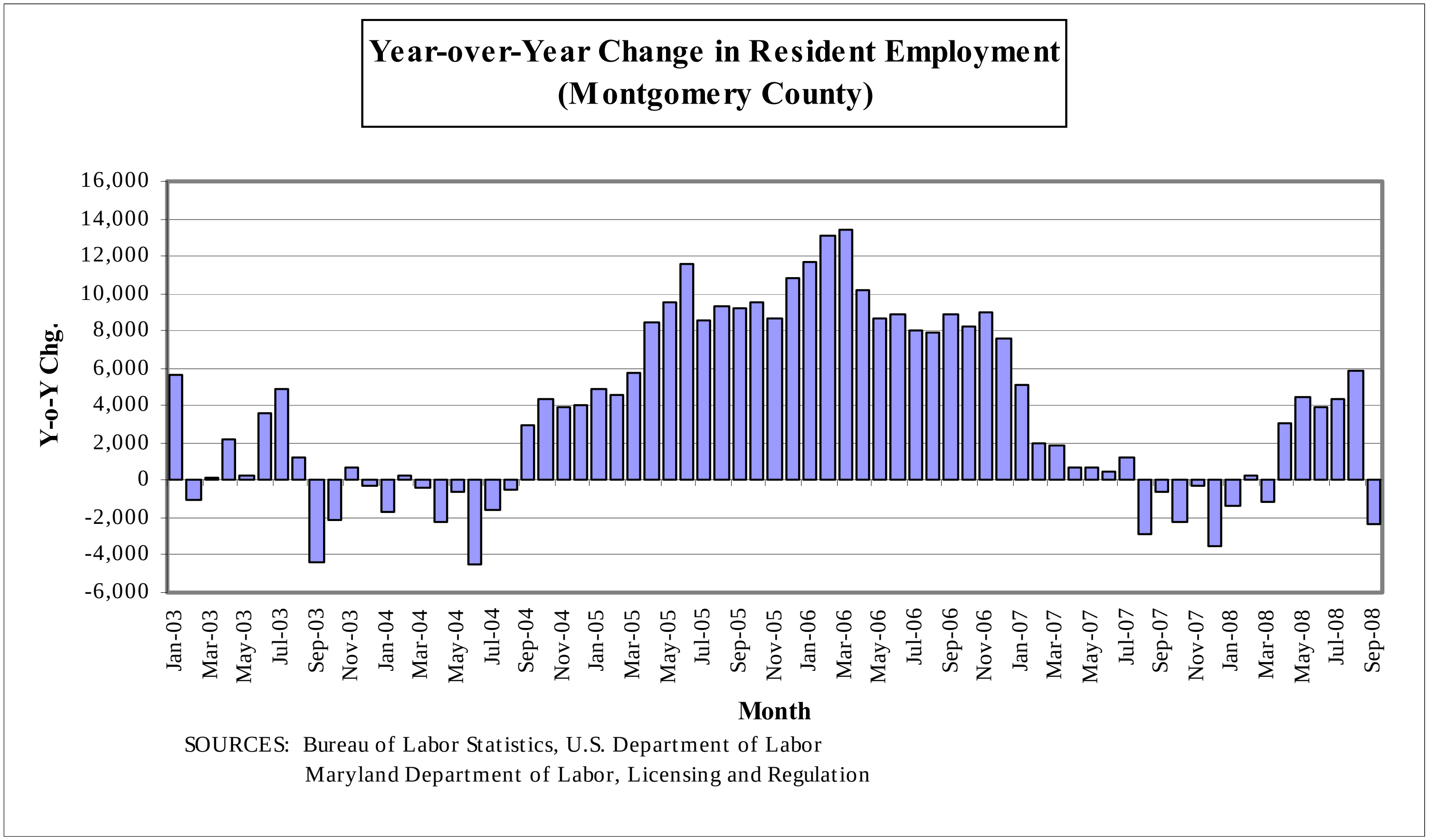
# Inflation as measured by the Consumer Price Index for the Washington-Baltimore region, increased 5.5 percent in September over September '07. Year to date, the region's CPI increased an average of 5.1 percent.



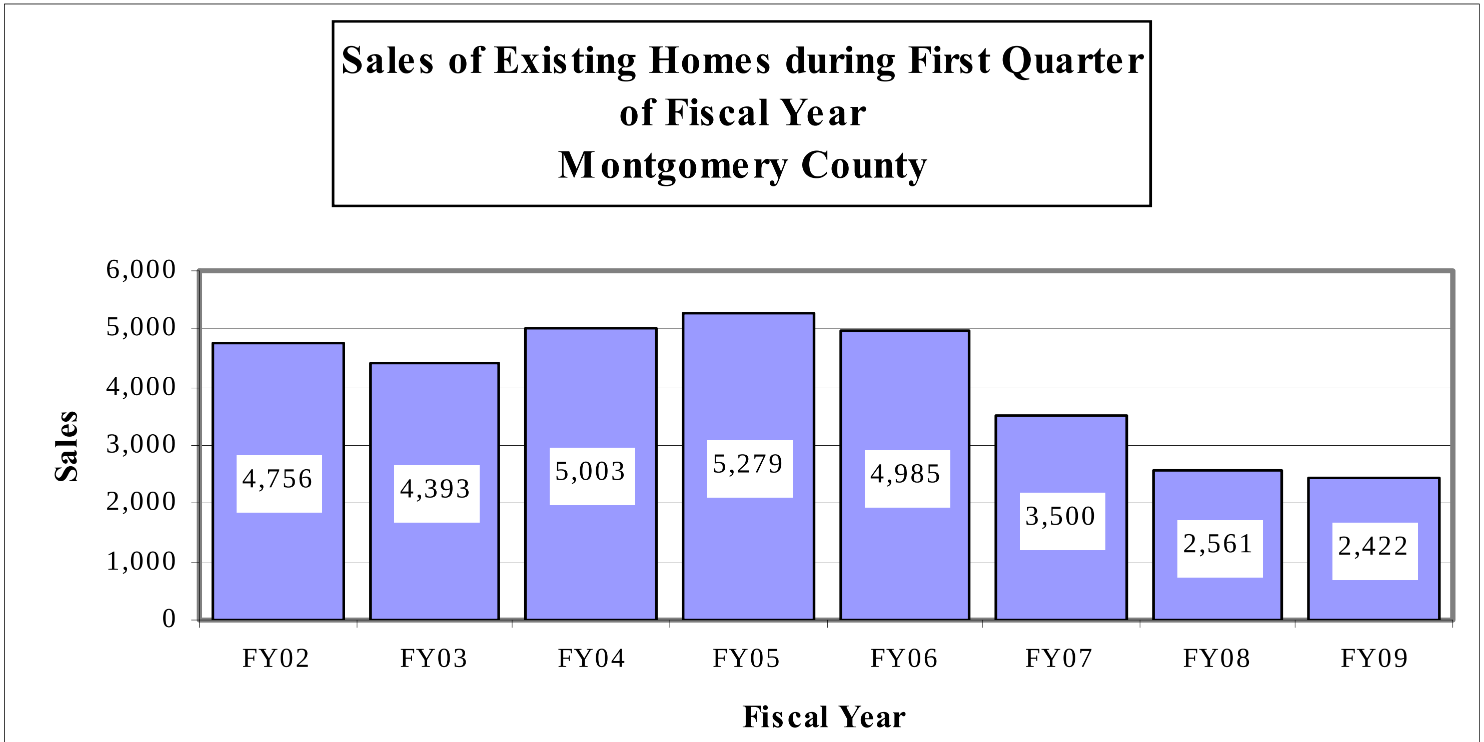

SOURCE: Bureau of Labor Statistics, U.S. Department. of Labor

# Montgomery County
# Economic Indicators

# Comparing the averages of each monthly resident employment number for the first nine months of 2007 and 2008, resident employment in Montgomery County increased 1,900 (↑0.4%)

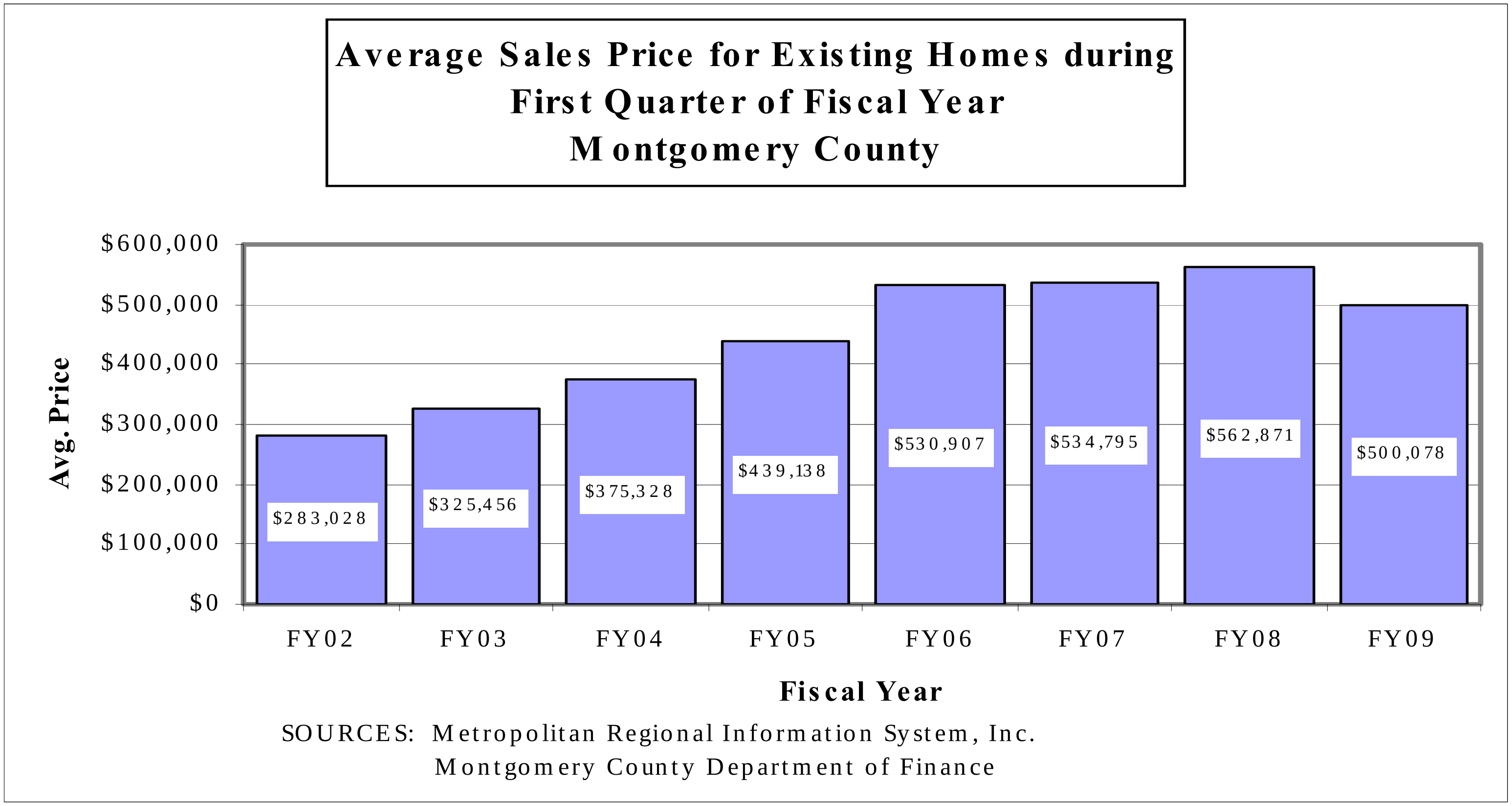


## Existing home sales declined 5.4 percent during the first three months this fiscal year to a level slightly more than 2,400 units or at an annual rate of 8,000 units.

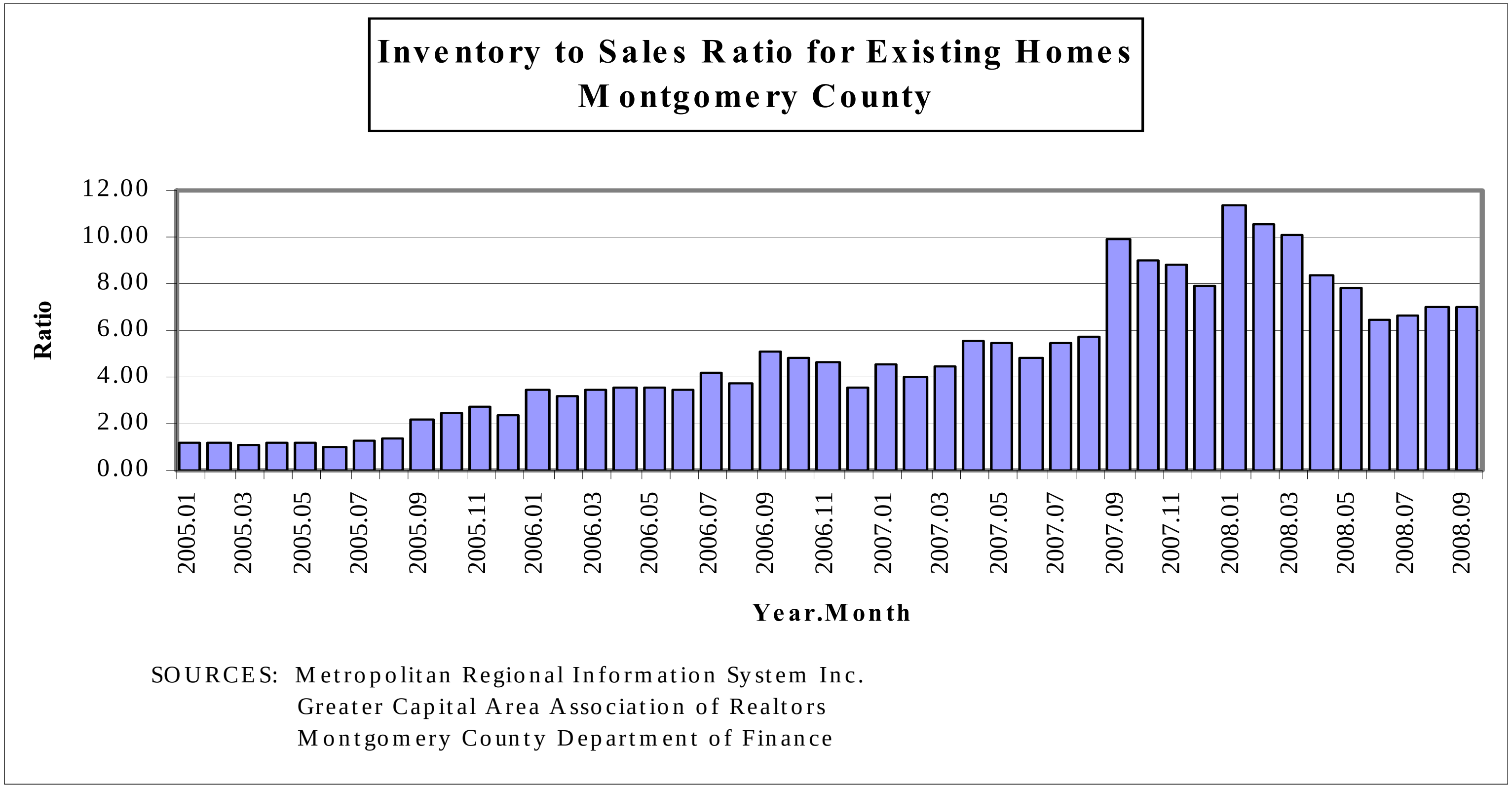



SOURCES: Metropolitan Regional Information System, Inc.
Montgomery County Department of Finance

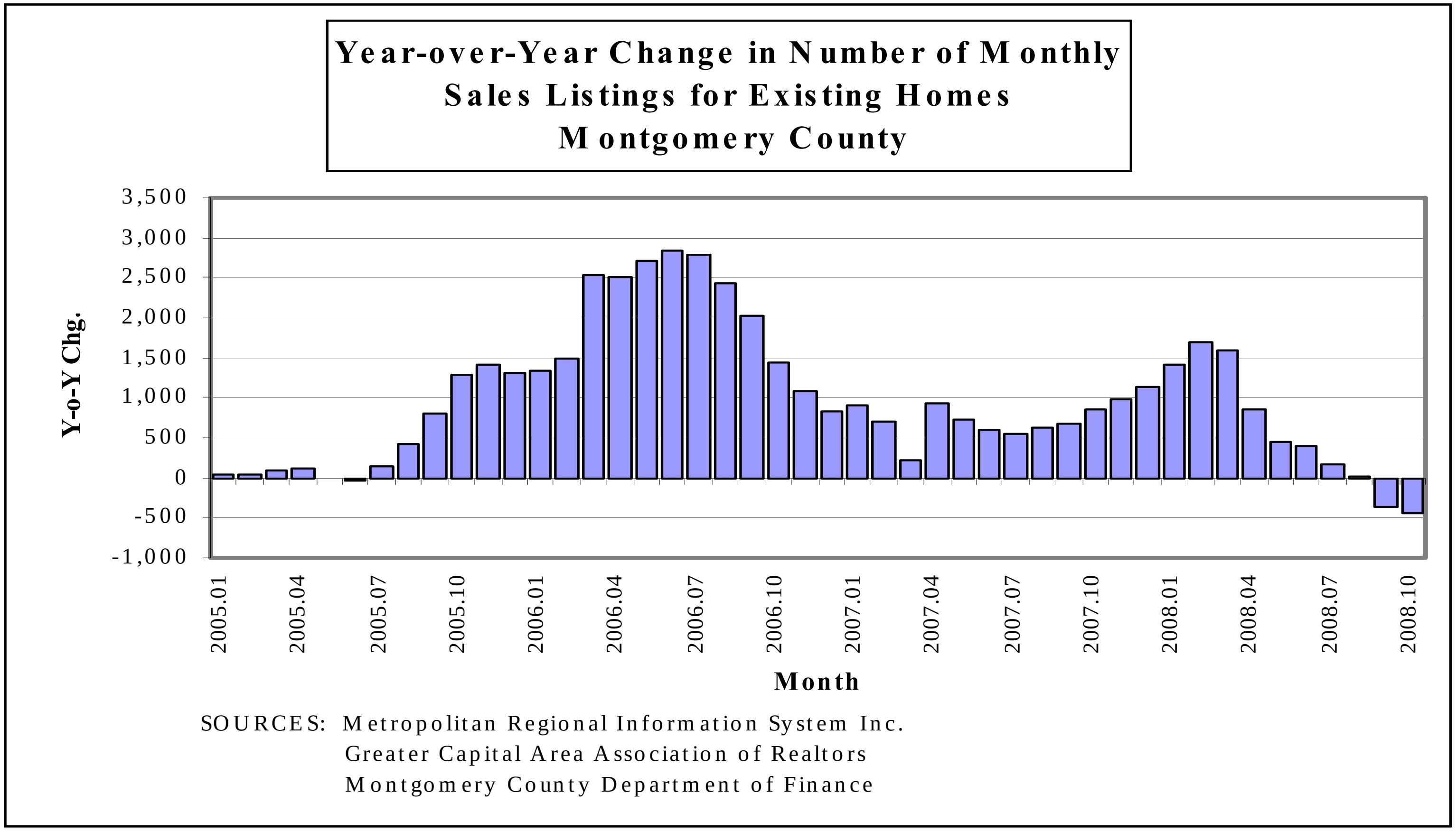
**Based on average sales prices, home prices decreased nearly 11.2 percent during the first three months of this fiscal year. This is well below the +5.2 percent rate during the same period last fiscal year.**



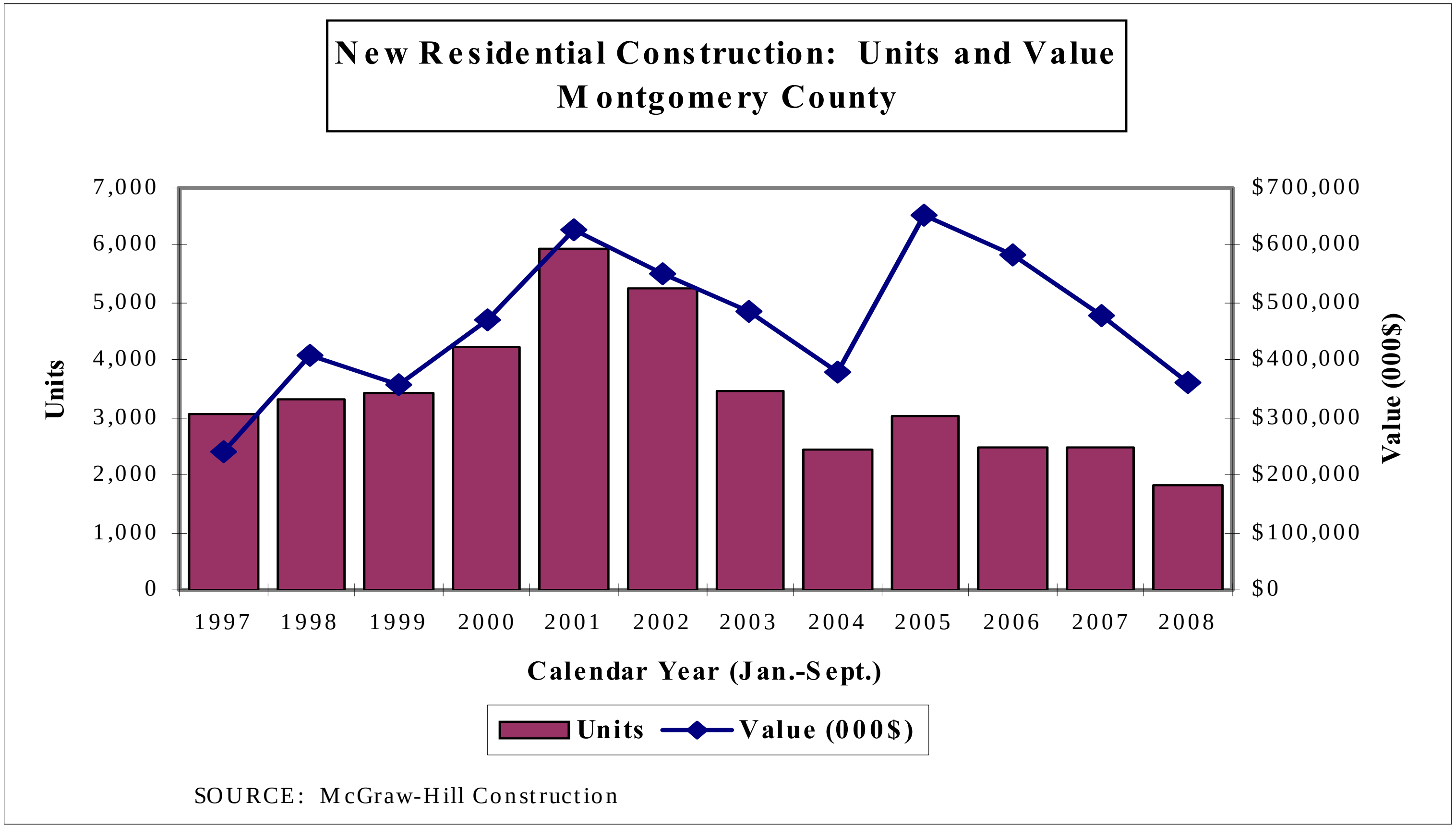
**Housing sales inventory in 2008 remain high compared to previous years. In September, the inventory to sales ratio was 7.0 with January's ratio of 11.4 being the highest in recent history. That ratio suggests there is at least a seven month supply of homes for sale at the current sales pace.**



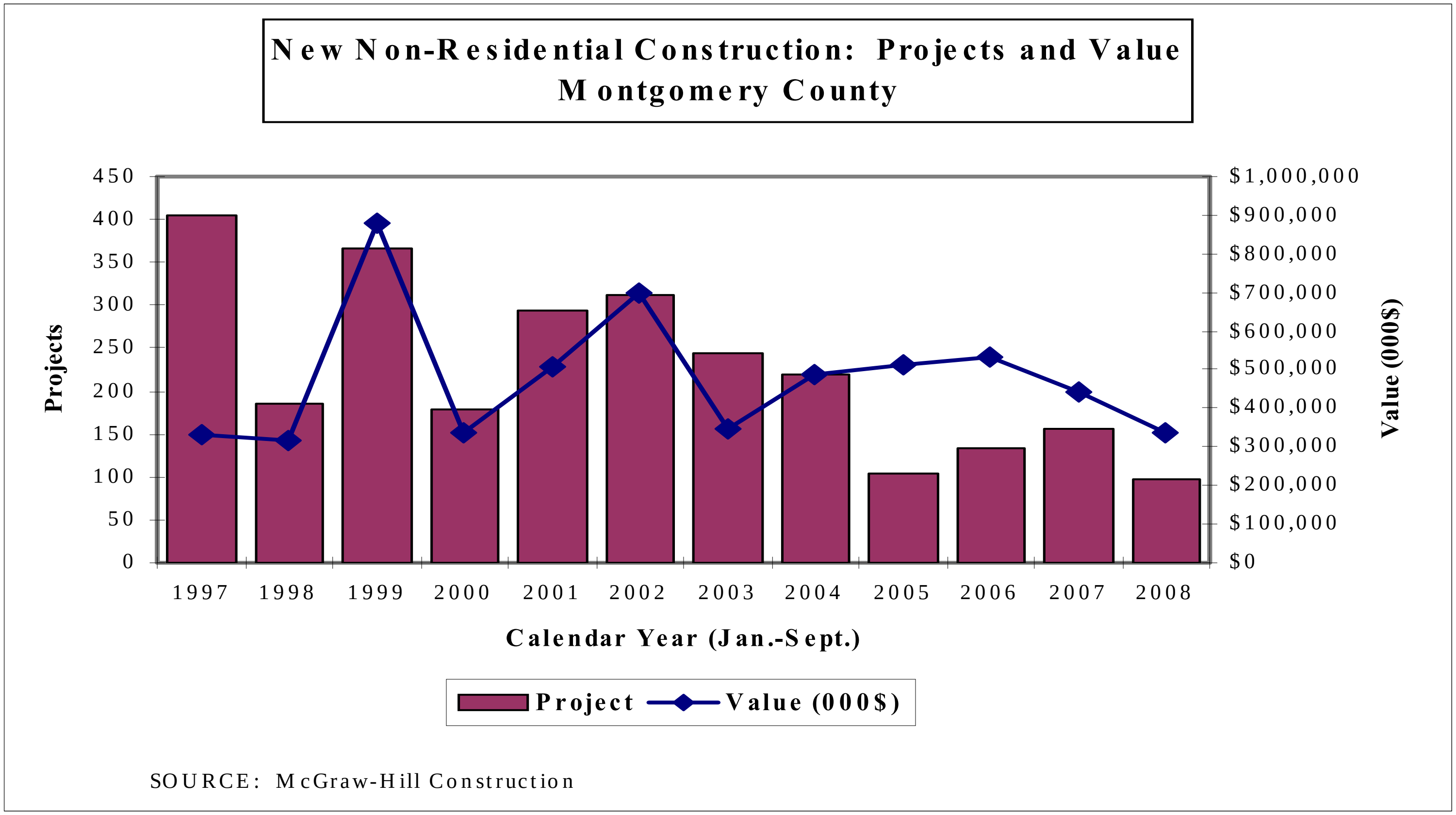
# A major factor contributing to the decline in the inventory-to-sales ratio has been the year-over-year drop in the number of listings in September and October.



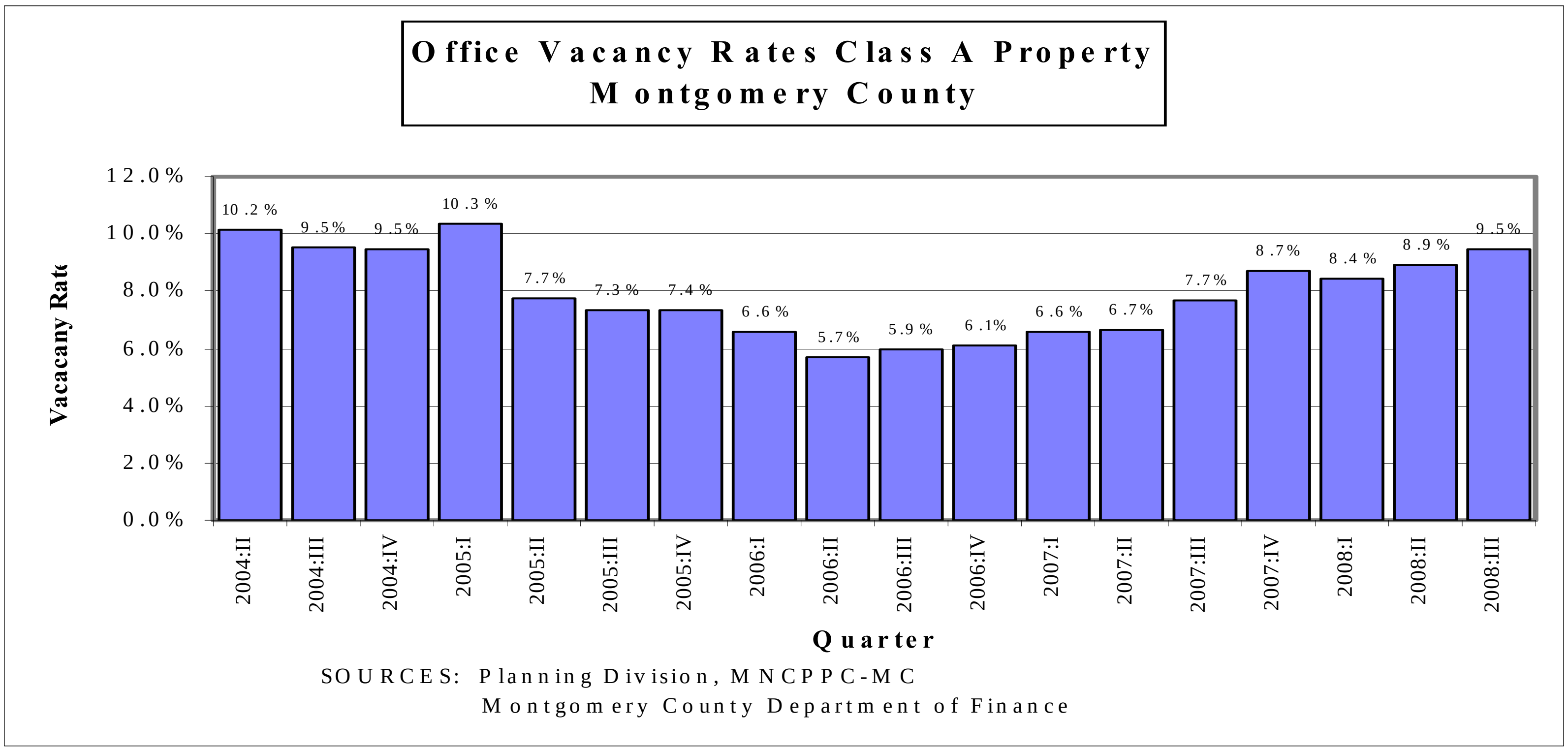
**Residential construction remained weak during the first three quarters compared to the previous three years. The number of units declined from 2,500 during the same period in 2007 to 1,800 units for the same period in 2008. The value of new construction was the lowest since 1999.**



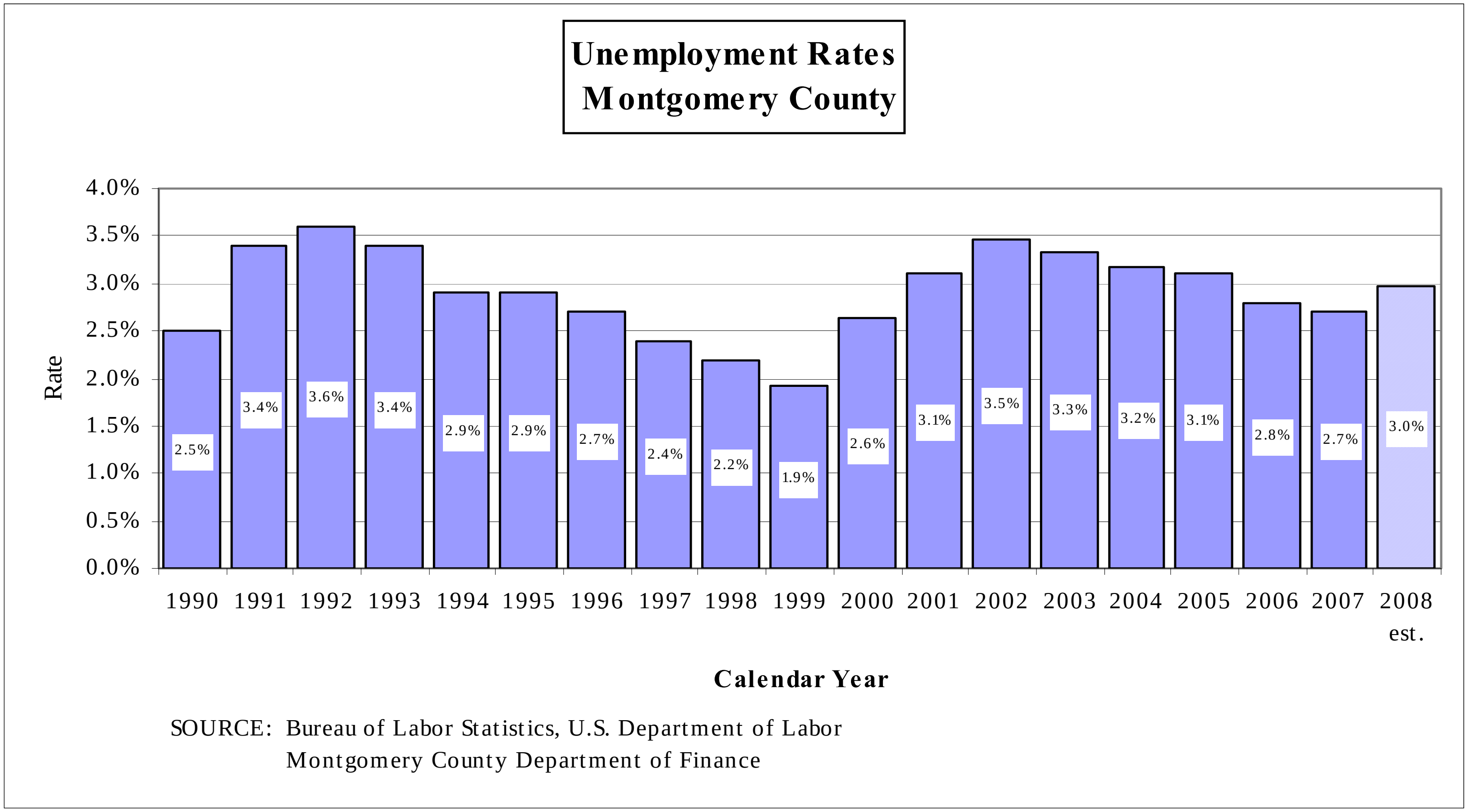
**Non-residential construction also experienced a slowdown during the first three quarters of this year. The number of projects decreased from 160 during the same period last year compared to less than 100 this year.**



# The slowdown in non-residential construction can be attributed to weak payroll employment in 2008 and an increase in the vacancy rate for Class A property in the County



**The County's unemployment rate was 3.3 percent in September − up from 3.2 percent in August and up from 2.7 percent in September '07. The County's unemployment rate remains one of the lowest in the State and well below the State's average of 4.5 percent.**



# SUMMARY/RED ALERTS

- The County will continue to face economic challenges into the first half of CY2009. Those challenges include:
  - The County continues to have the lowest unemployment rate in the State. However, the rate has steadily increased from 2.7% in September ‘07 to 3.3% in September ’08. Along with the rising unemployment rate, growth in employment remains weak with rates for both payroll (establishment survey) and resident (labor force survey) are 0.4% for the first three quarters of this year. **RED ALERT:** Because of the low growth rate in employment, any increase in income tax withholdings will be attributed to wage growth and not employment.
  - Sale prices for existing homes during the first four months of this fiscal year have fallen compared to the same period last fiscal year. Average prices dropped 10.5% and median prices decreased 13.8%. Regional prices based on the S&P/Case-Shiller® index have declined 15.4%. **RED ALERT:** If prices in the County continue to decrease at the rate experienced in the region, collections from the transfer and recordation taxes may be below the September estimate.
  - **RED ALERT:** With the drop in home prices, the reassessment rate for residential properties for Group 3 may show a significant decline in FY2010 (Levy Year 2009) for the first time since FY2005 (Levy Year 2004).