Presentation of Economic Indicators

to the

Management and Fiscal Policy Committee

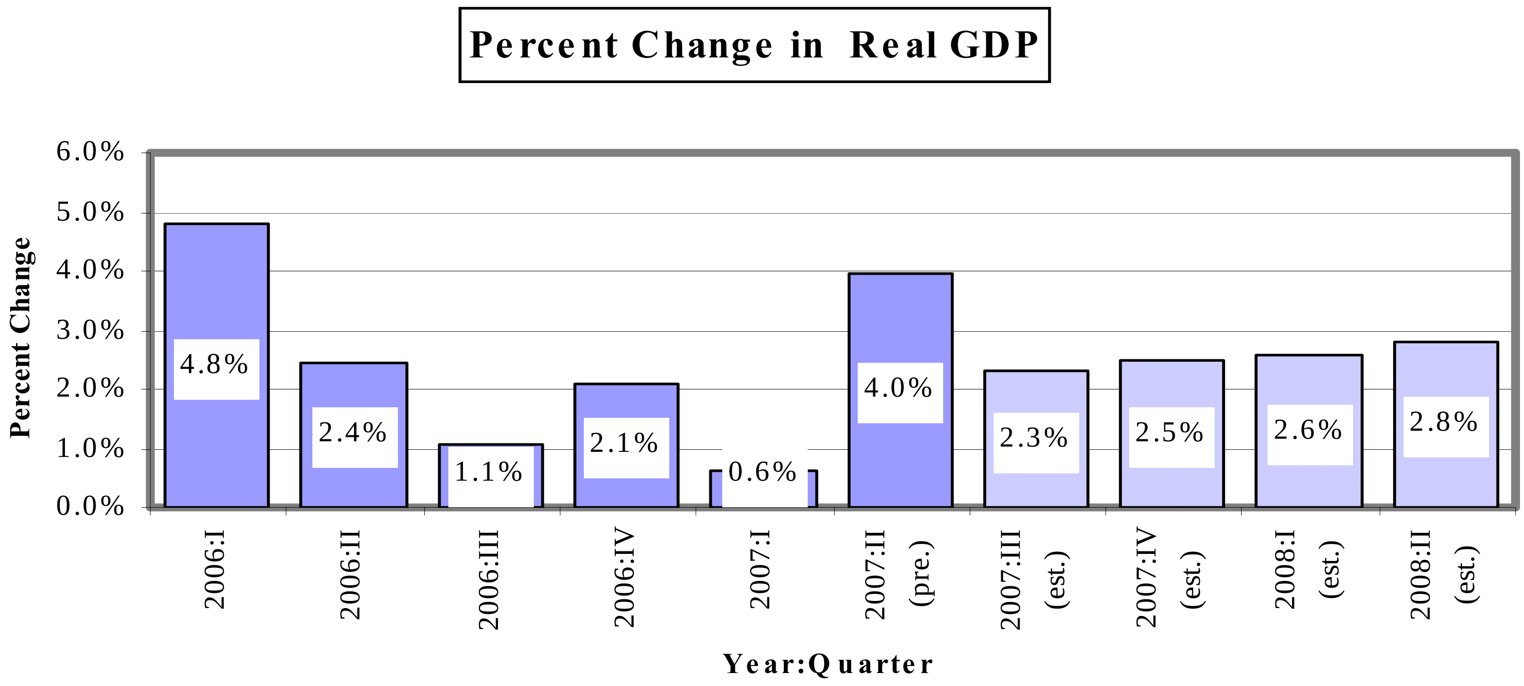
by the

Department of Finance

September 24, 2007

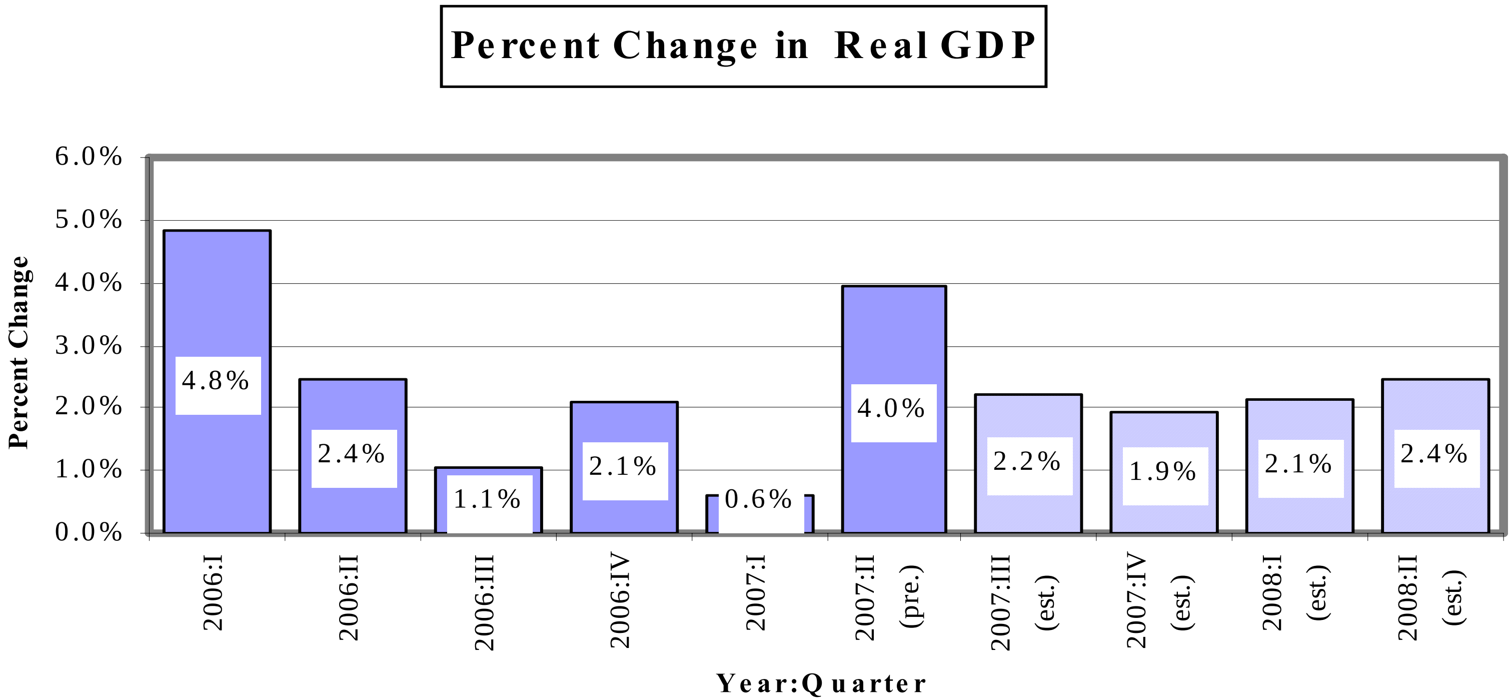
National Economic Indicators

Based on a preliminary estimate, the national economy, as measured by real gross domestic product, increased 4.0 percent during the second quarter. The August *WSJ* survey estimated real GDP to increase between 2.3 and 2.5 percent per quarter during the second half of this year.



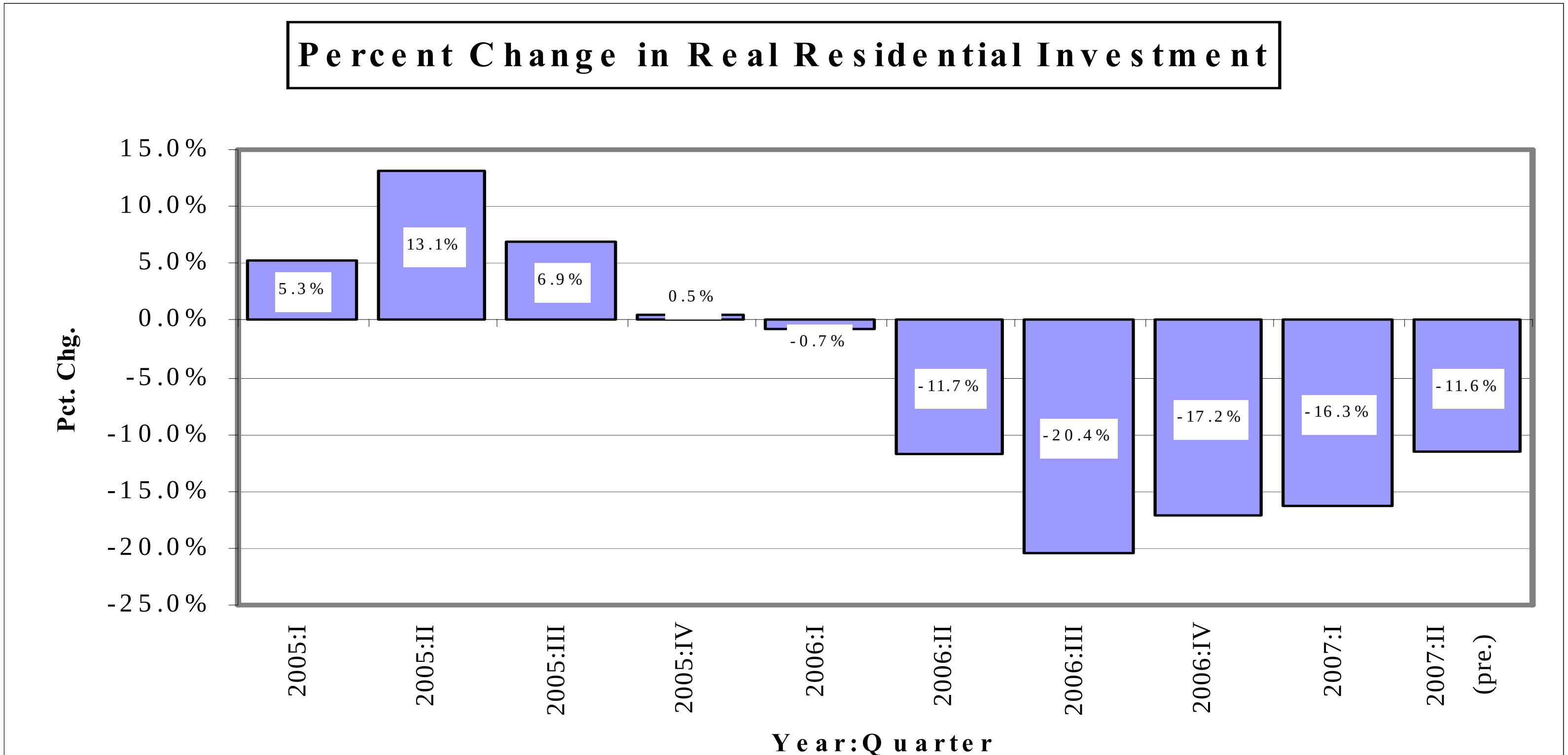
SOURCES: Bureau of Economic Analysis, U.S. Dept. of Commerce
Estimates from *Wall Street Journal* Survey conducted **August** 2007.

However, because of the continued credit crisis exacerbated by the subprime market in late August and early September, the most recent *WSJ* survey now estimates real GDP to increase between 1.9 and 2.2 percent per quarter during the second half of this year.



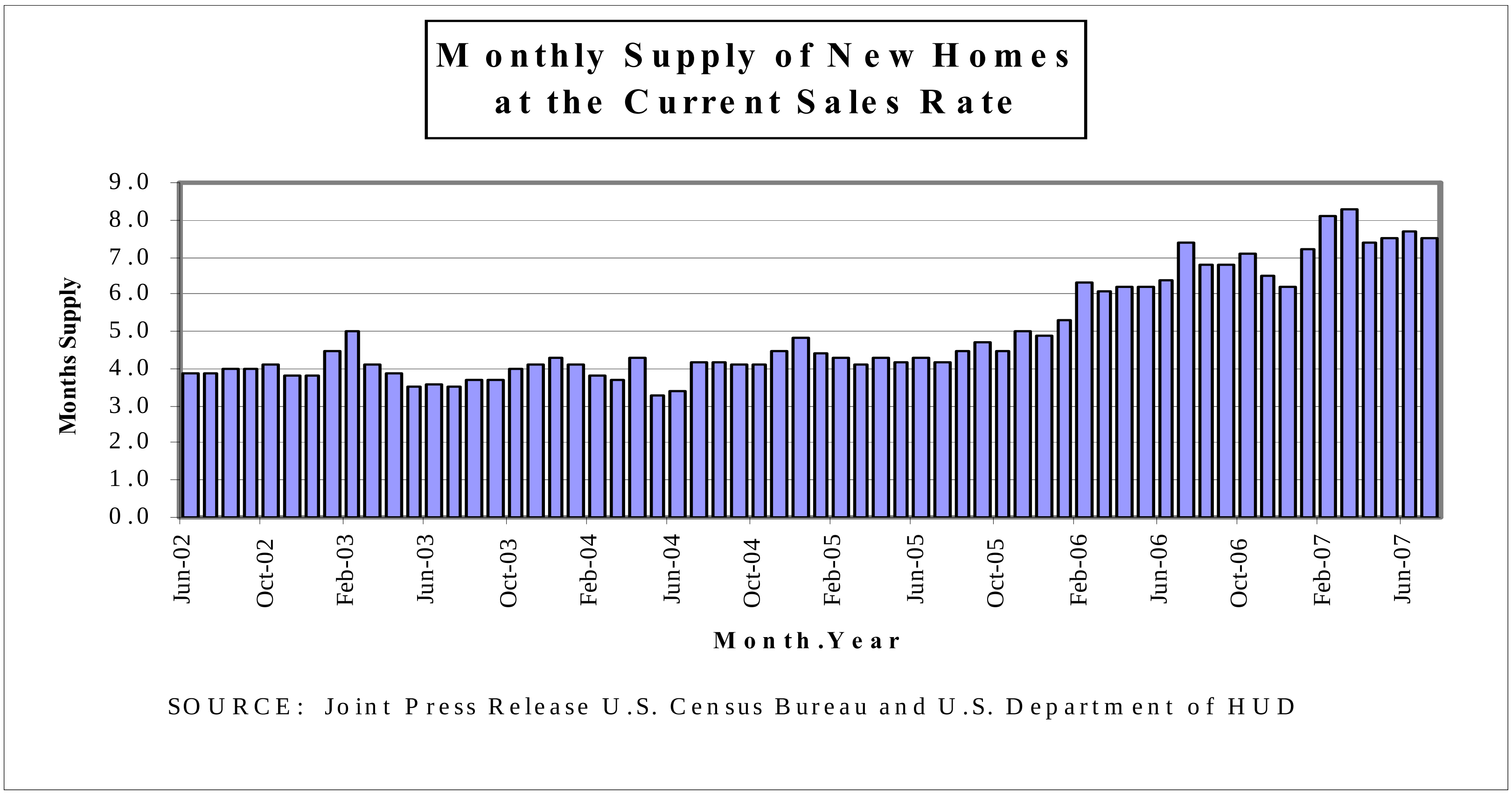
SOURCES: Bureau of Economic Analysis, U.S. Dept. of Commerce.
Estimates from *Wall Street Journal* Survey conducted **September** 2007.
NOTE: Percent changes are at annual rates.

While the national economy continued to grow, residential investment has not. Since early 2006, investment has declined at a double-digit annual rate in each of the last five quarters.

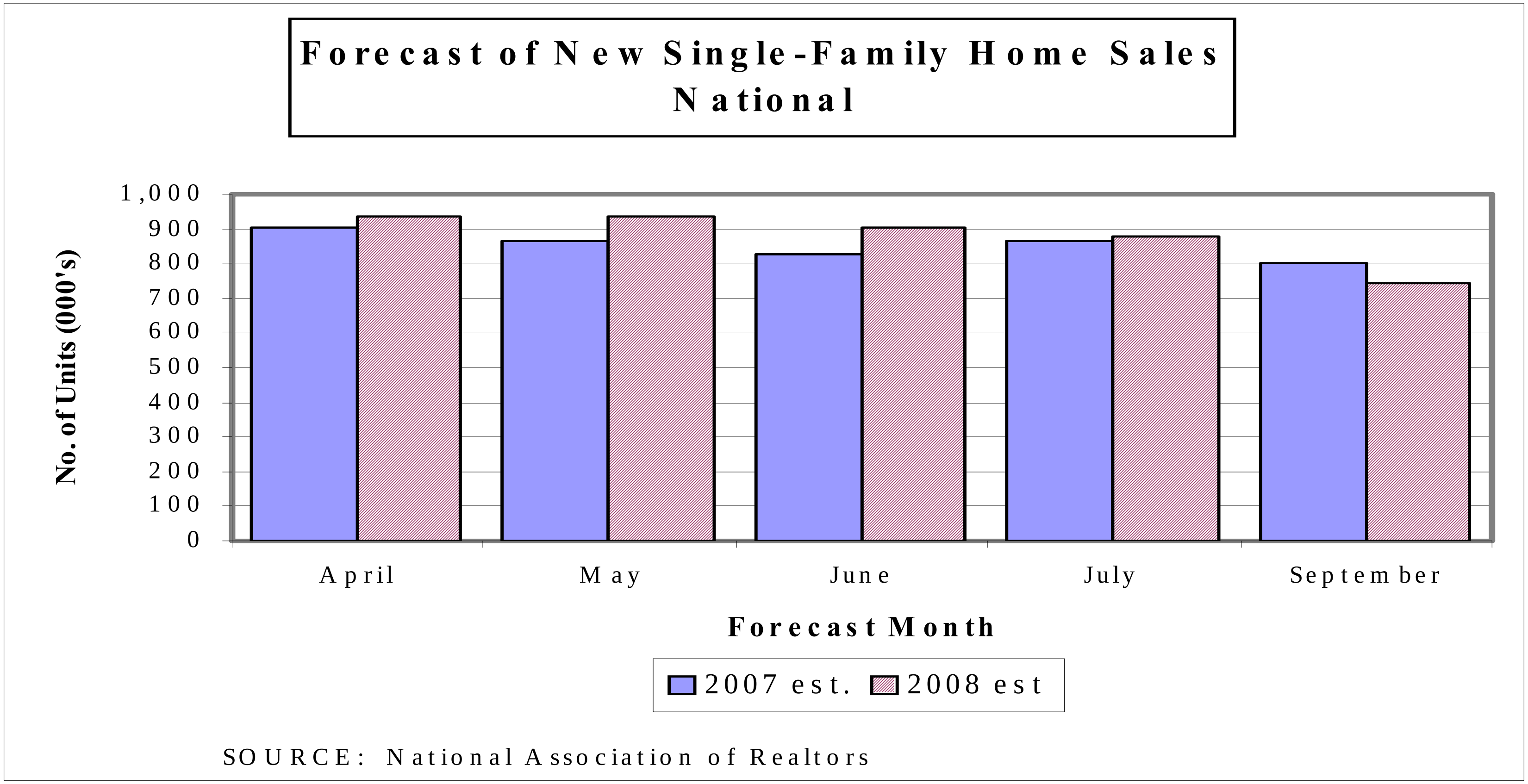


SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce
NOTE: Percent changes are at annual rates.

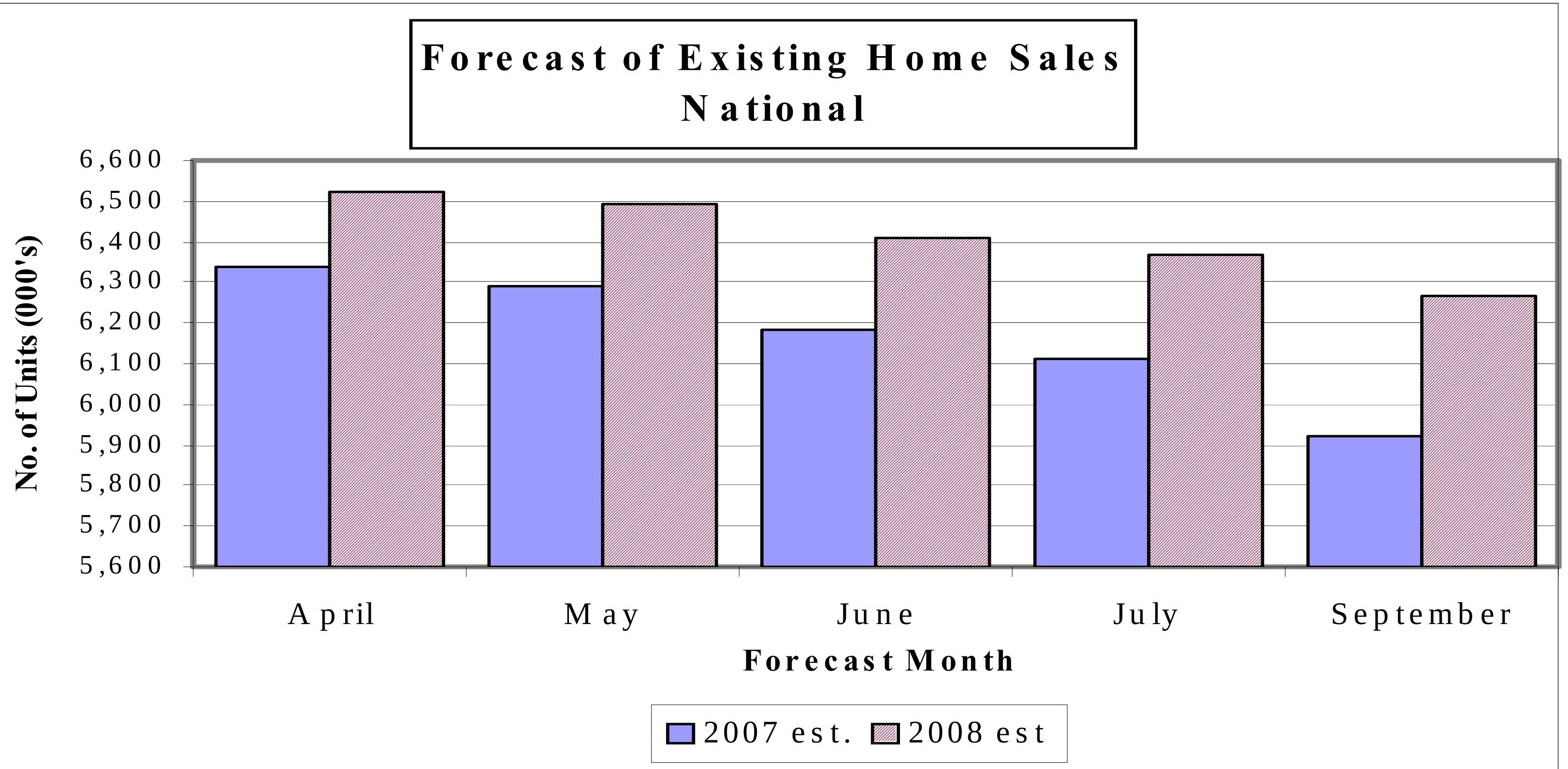
The decline in new residential construction reflects the high inventory of unsold new homes. Since February 2006, inventory has exceeded a six-month supply every month and stood at 7.5 months in July.



Because of the continued housing recession, the National Association of Realtors adjusted its 2007 and 2008 forecasts of new home sales every month since April. Latest NAR forecast is a drop of 23.8 percent in 2007 and another 7.5 percent in 2008.

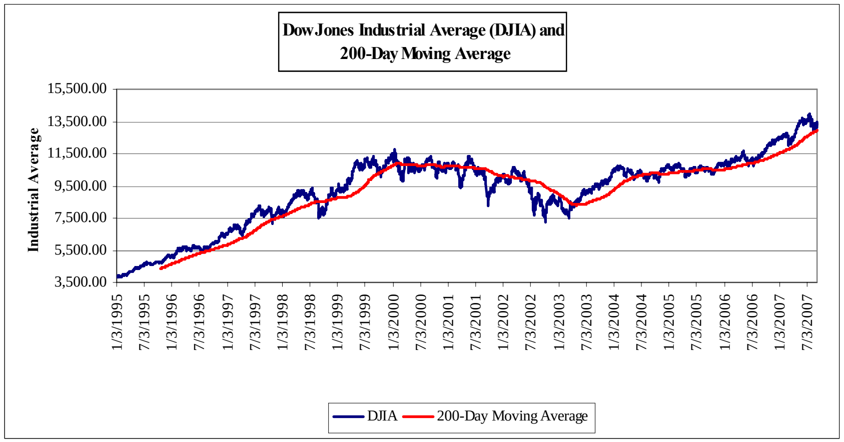


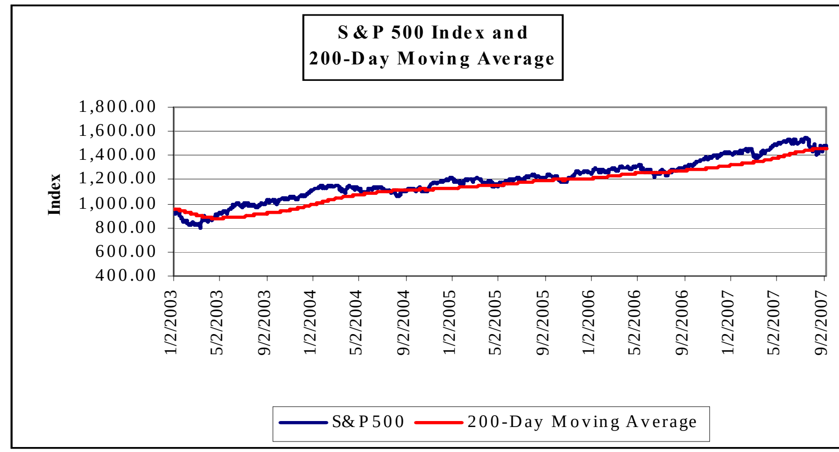
NAR also revised its 2007 and 2008 forecasts of existing home sales. Sales are expected to decline 8.6 percent in 2007 but increase 5.8 percent in 2008 albeit at a lower volume compared to previous forecasts.

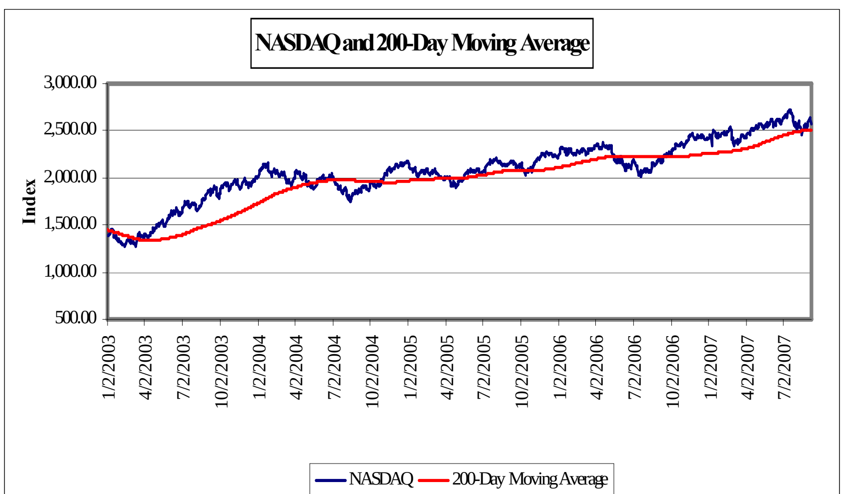


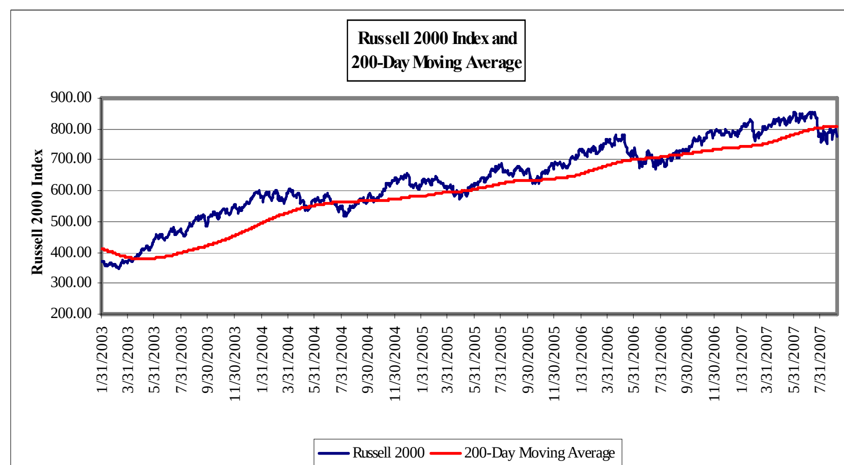
SOURCE: National Association of Realtors

While the stock market experienced significant volatility since mid-August, most indices except the Russell 2000 are up for the year. (DJIA ↑7.9%, S&P 500 ↑4.7%, NASDAQ ↑7.7% week ending 9/14)

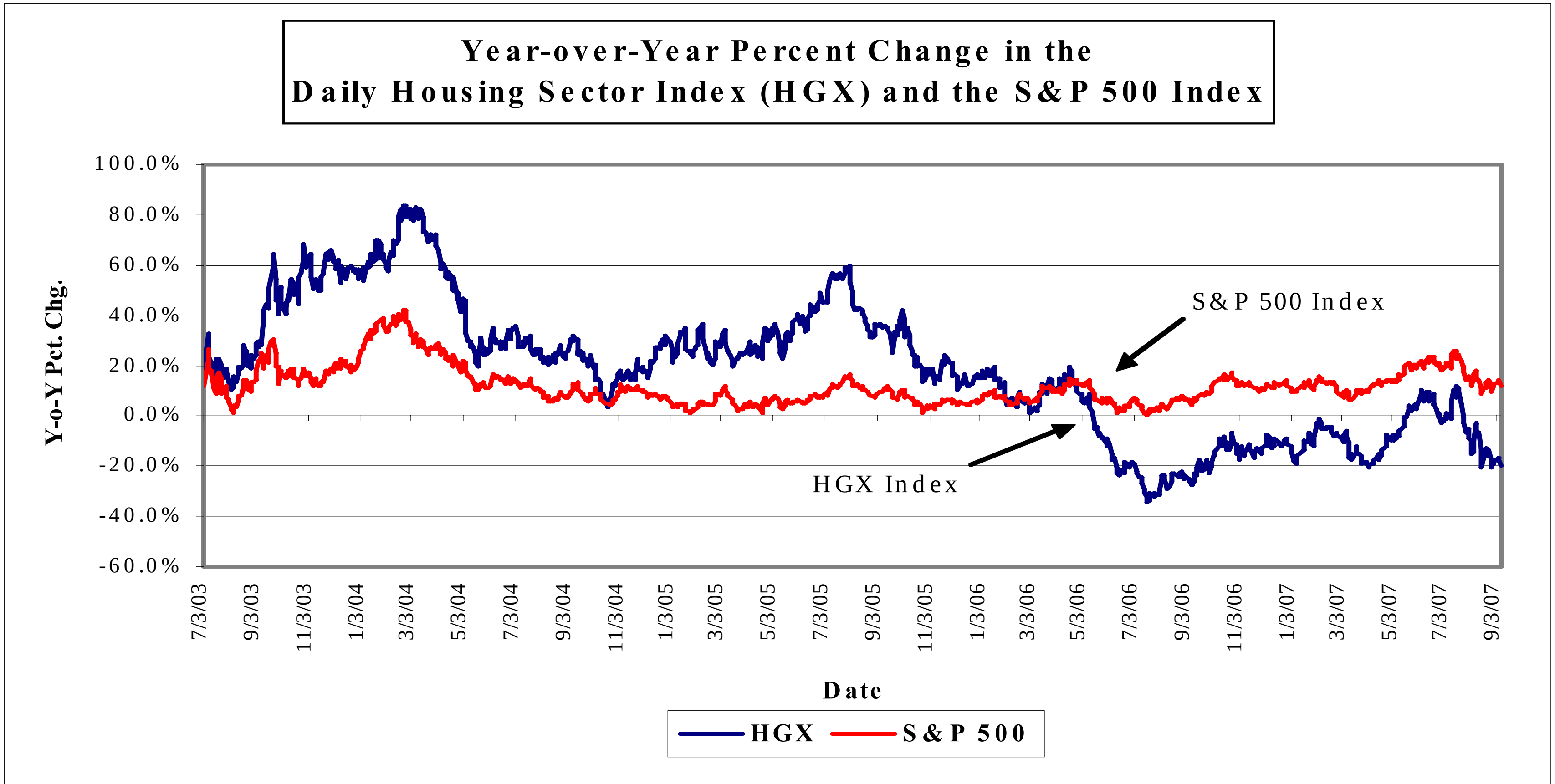






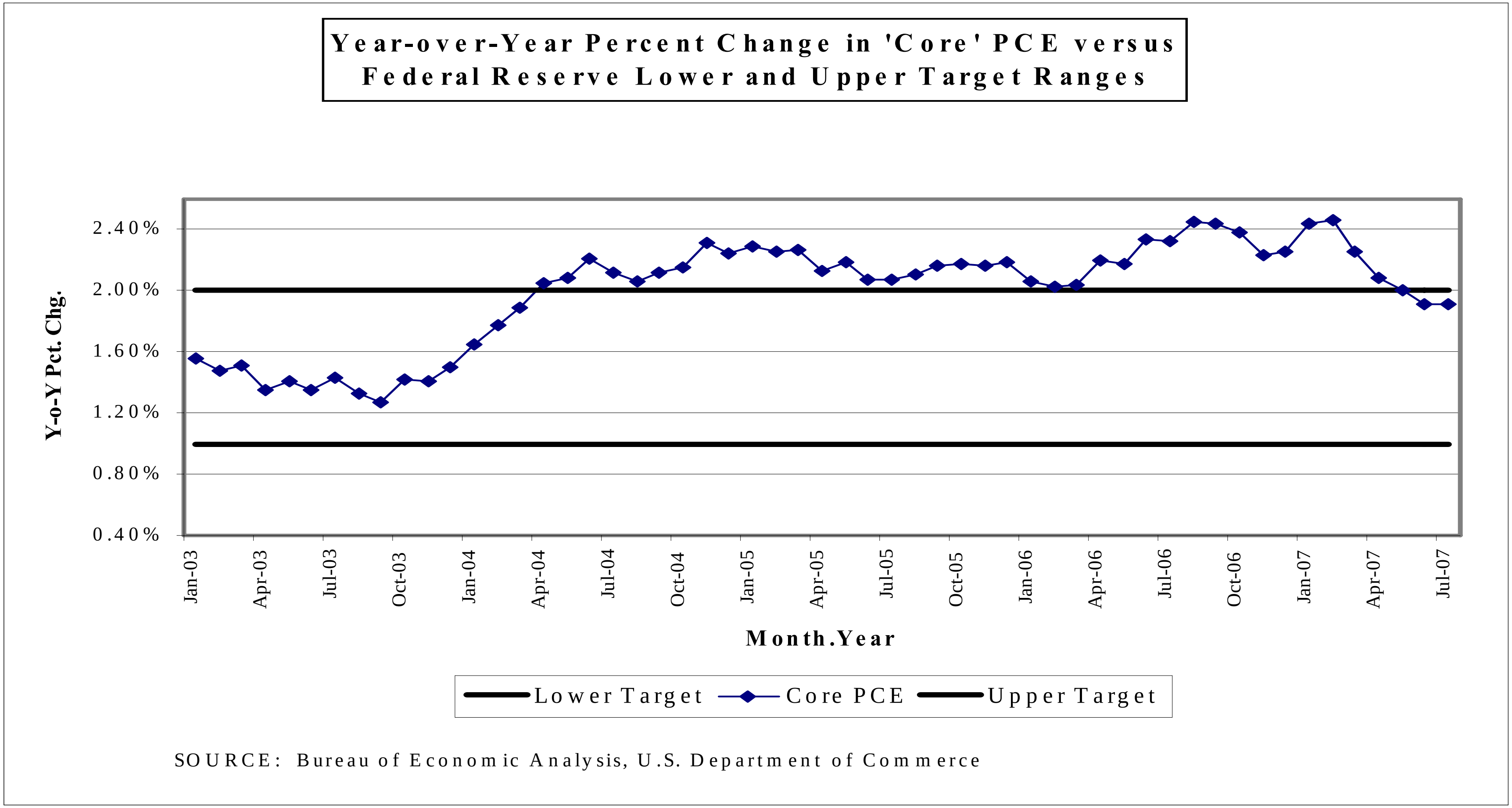


Because of the continued crisis in the housing market attributed to subprime mortgages, the housing sector index (HGX Index: ↓32.1% year to date) continued to underperform compared to the S&P 500 index.

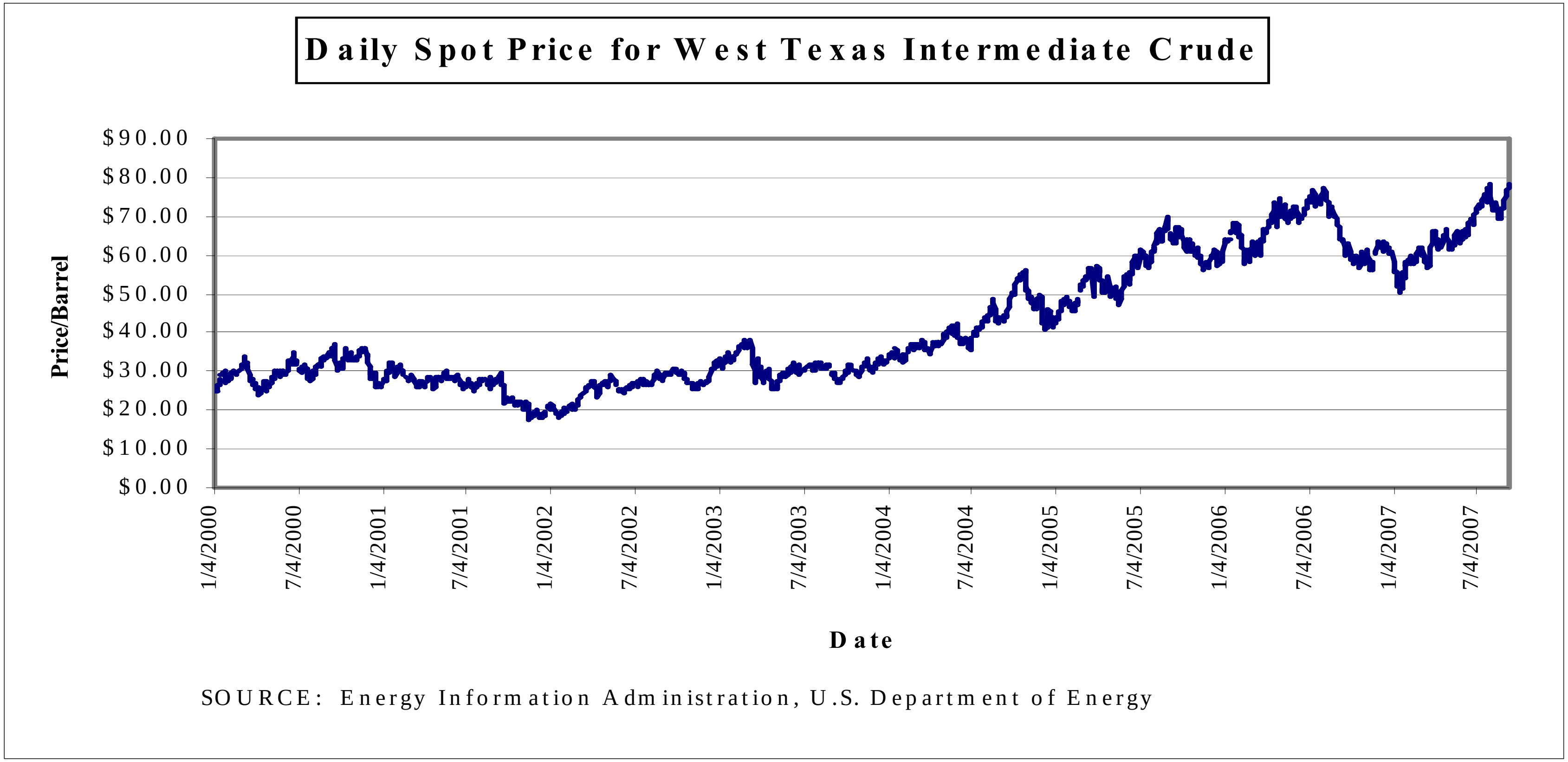


SOURCES: Philadelphia Stock Exchange (HGX) and Montgomery County Department of Finance

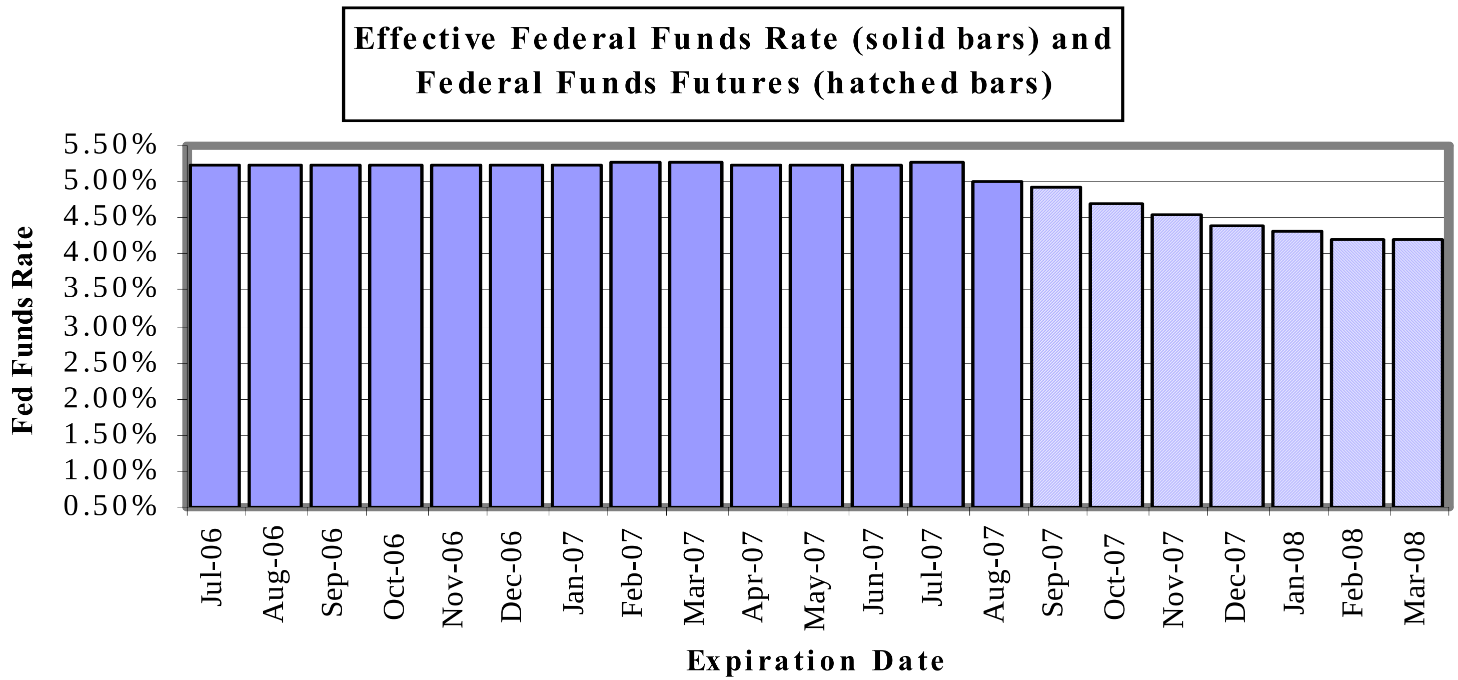
Because of the members of the Federal Open Market Committee concerns about inflationary expectations, the FOMC's preferred measure of inflation has been at or below its upper level target range the past three months.



However, oil prices, as measured by West Texas Intermediate Crude, have reached an all-time high of $78.16 on September 11. Also, days supply of oil and gasoline stocks are at their historic lows (20.6 and 19.9 respectively)

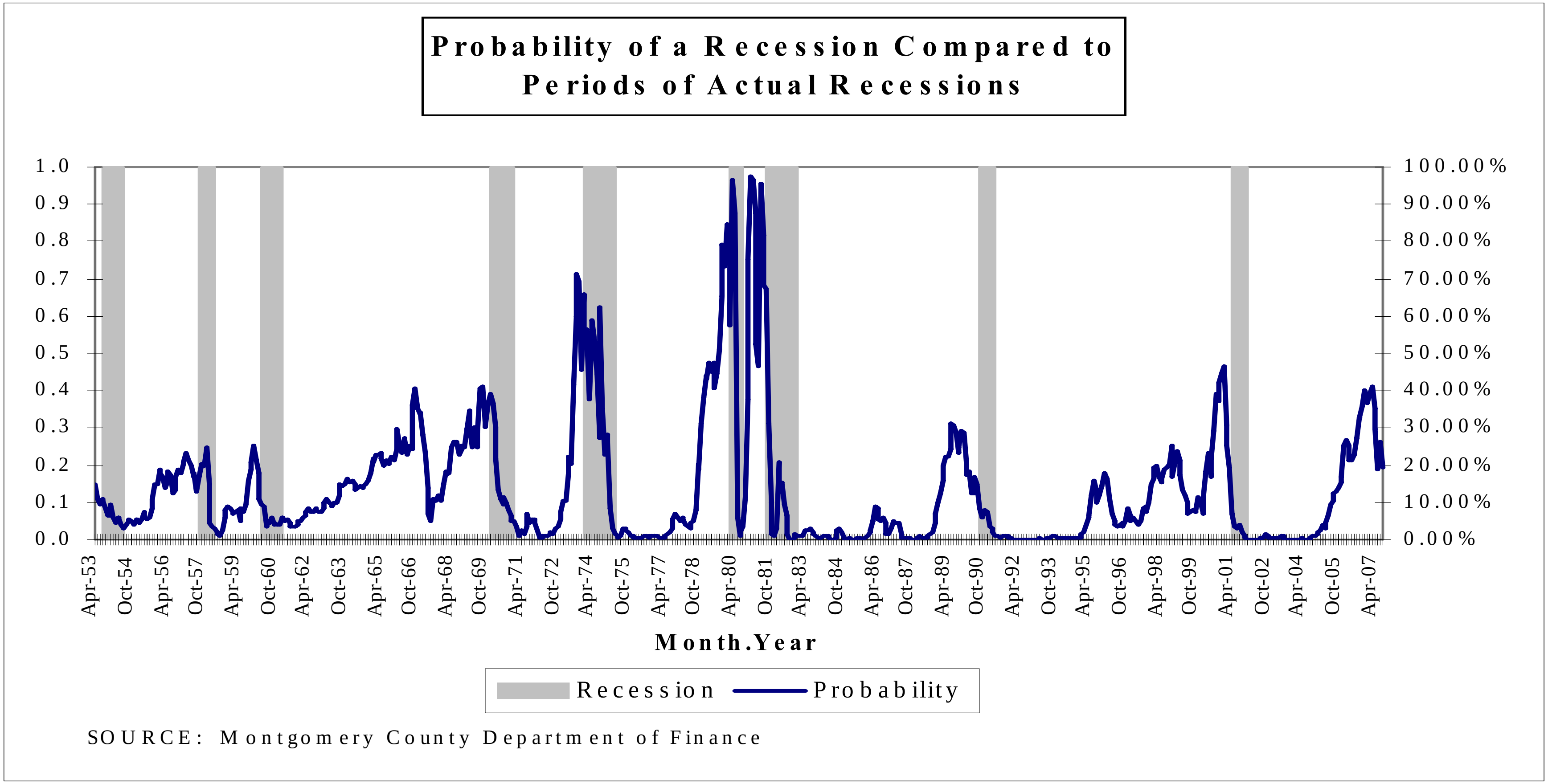


Because of the recent crisis in the credit markets, the Fed cut the federal funds rate by 50 basis points this month. The futures market expects a 25 basis point cut to 4.50 percent in the targeted fed funds rate by December.



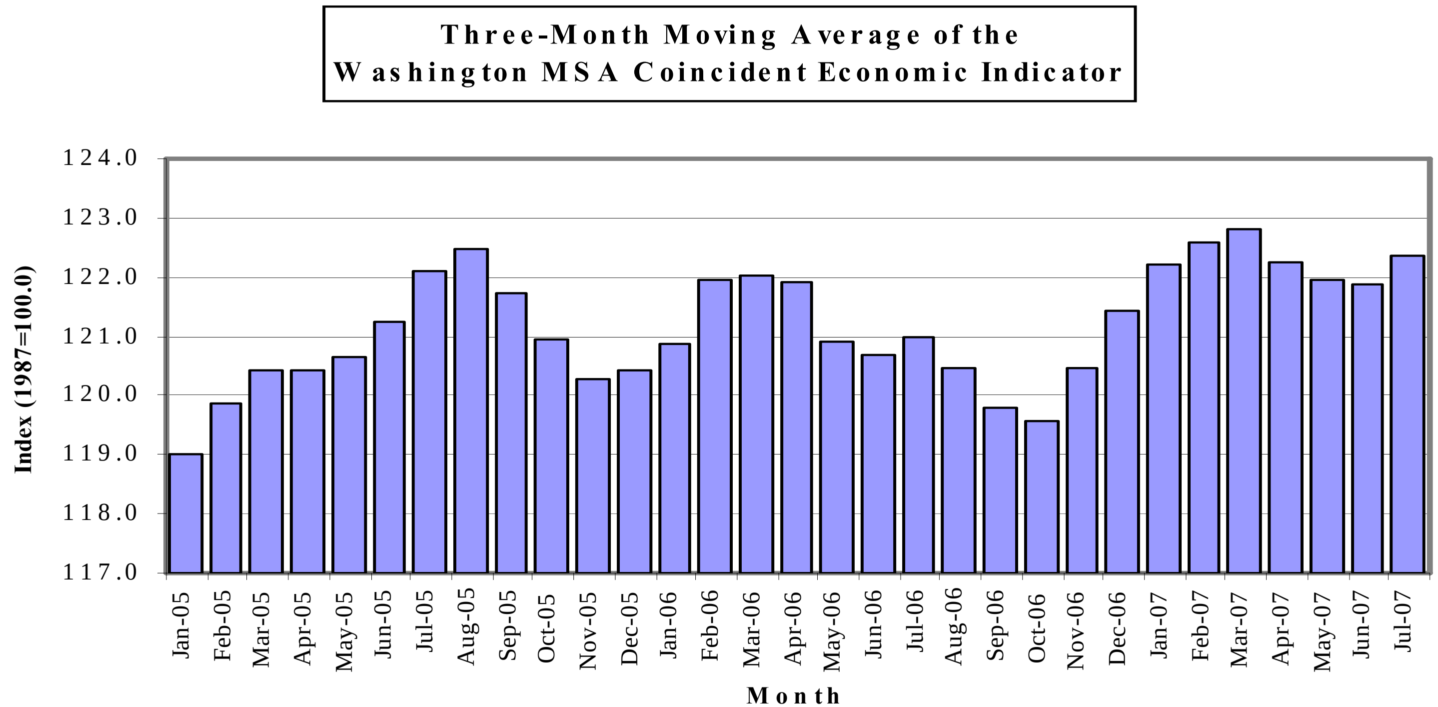
SOURCES: Federal Reserve Bank of St. Louis (solid bars) and the Chicago Board of Trade (hatched bars) as of September 19, 2007

With the rate cut in September of 50 basis points followed by another rate cut this year, the likelihood of a recession is lessened.



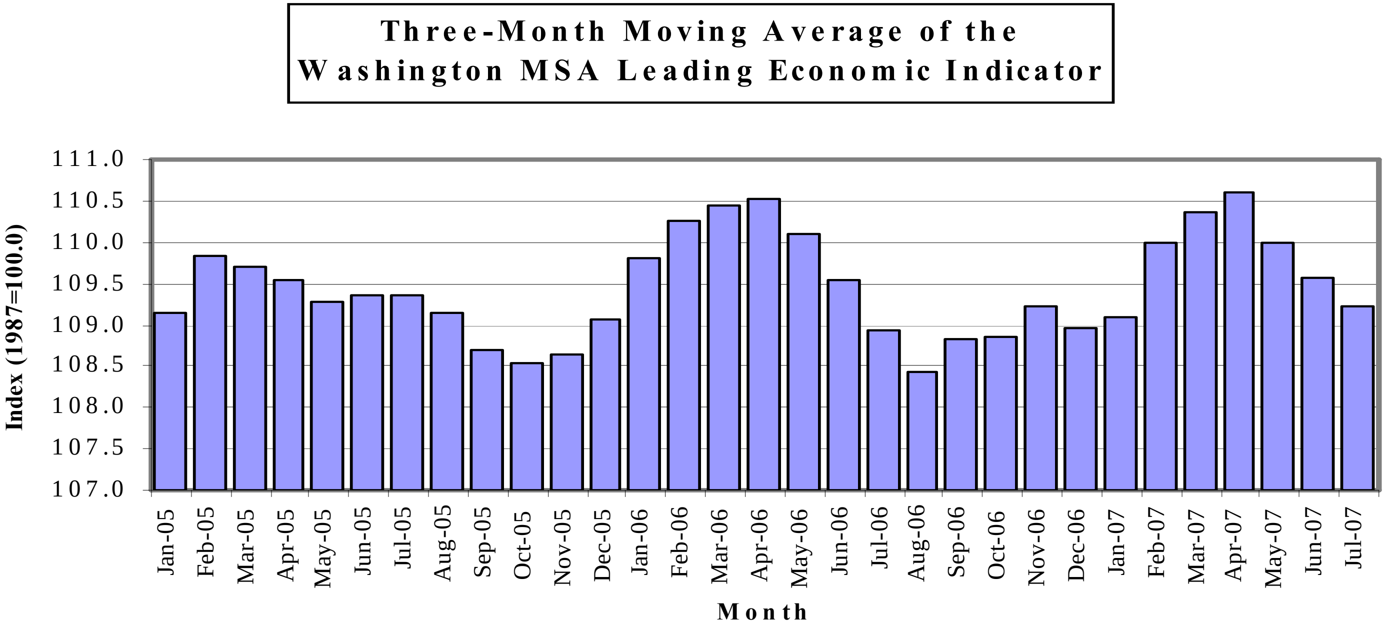
Regional Economic Indicators

The three-month moving average of the Washington Coincident Index increased 0.4 percent in July, the first increase since March. The index's recent performance over the past three months suggests the resilience of the region's economy in spite of the slowdown in residential real estate.



SOURCE: Center for Regional Analysis, George Mason University
NOTE: Coincident indicator respresents the current state of the economy.

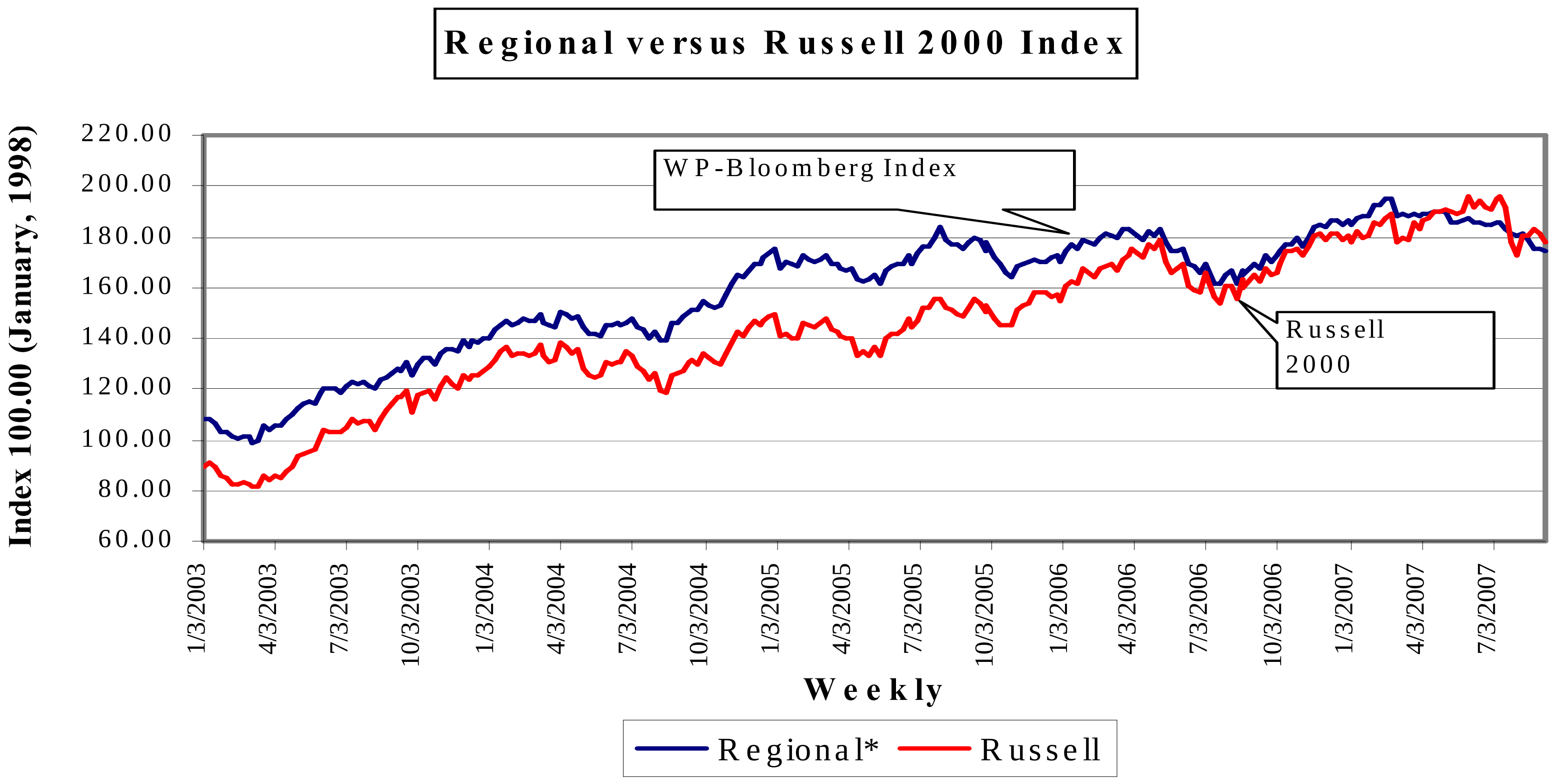
The three-month moving average of the Washington Leading Index decreased 0.31 percent in July. That was the third consecutive decline in the average which followed four consecutive increases. The leading index suggests the economy may experience slow growth over the next six months.



SOURCE: Center for Regional Analysis, George Mason University

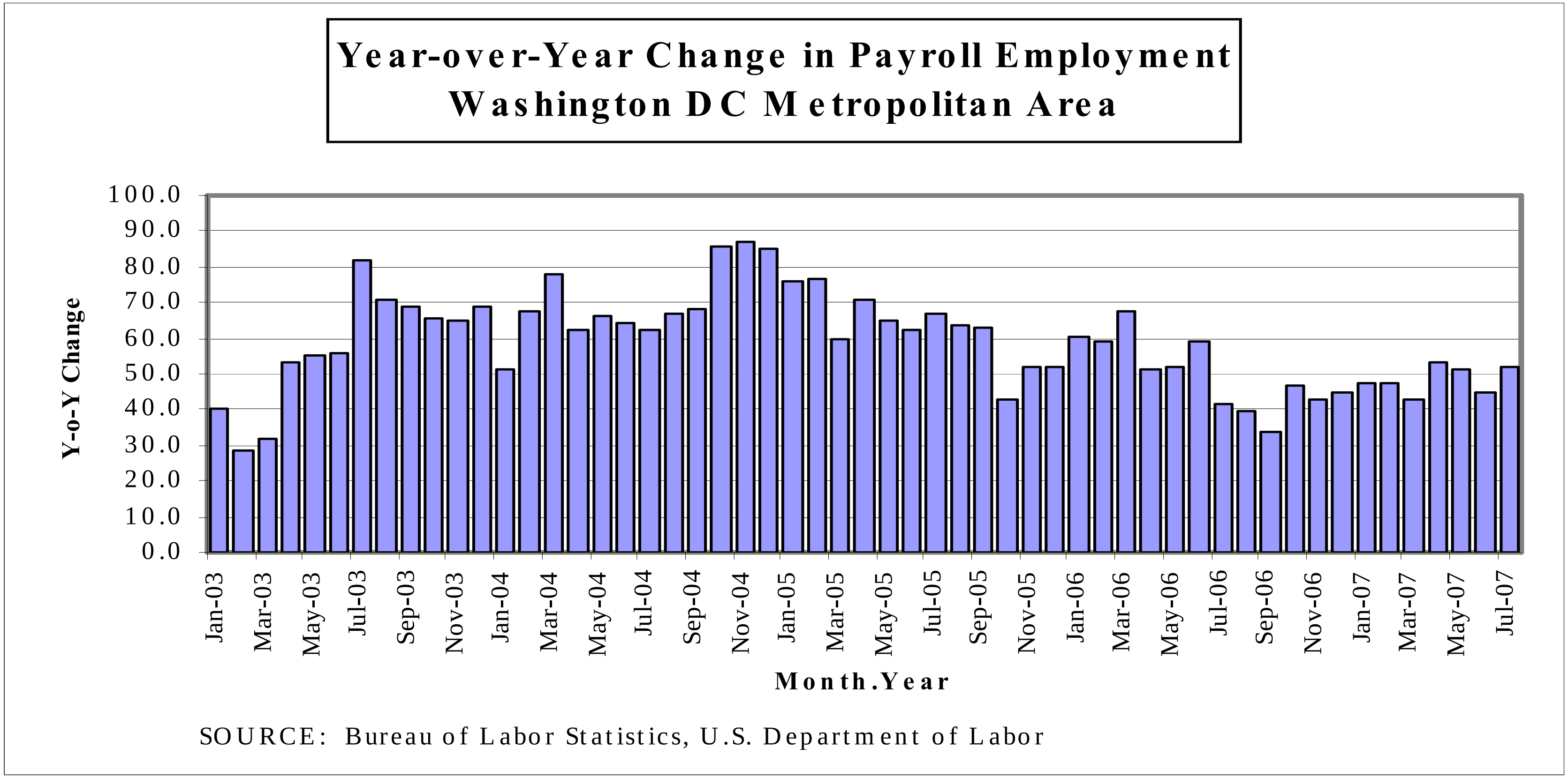
NOTE: Leading indicator is designed to forecast economic performance six to eight months in advance.

The regional stock index also confirms the results of the Washington Leading Index such that the region could experience an economic slowdown over the next six months.

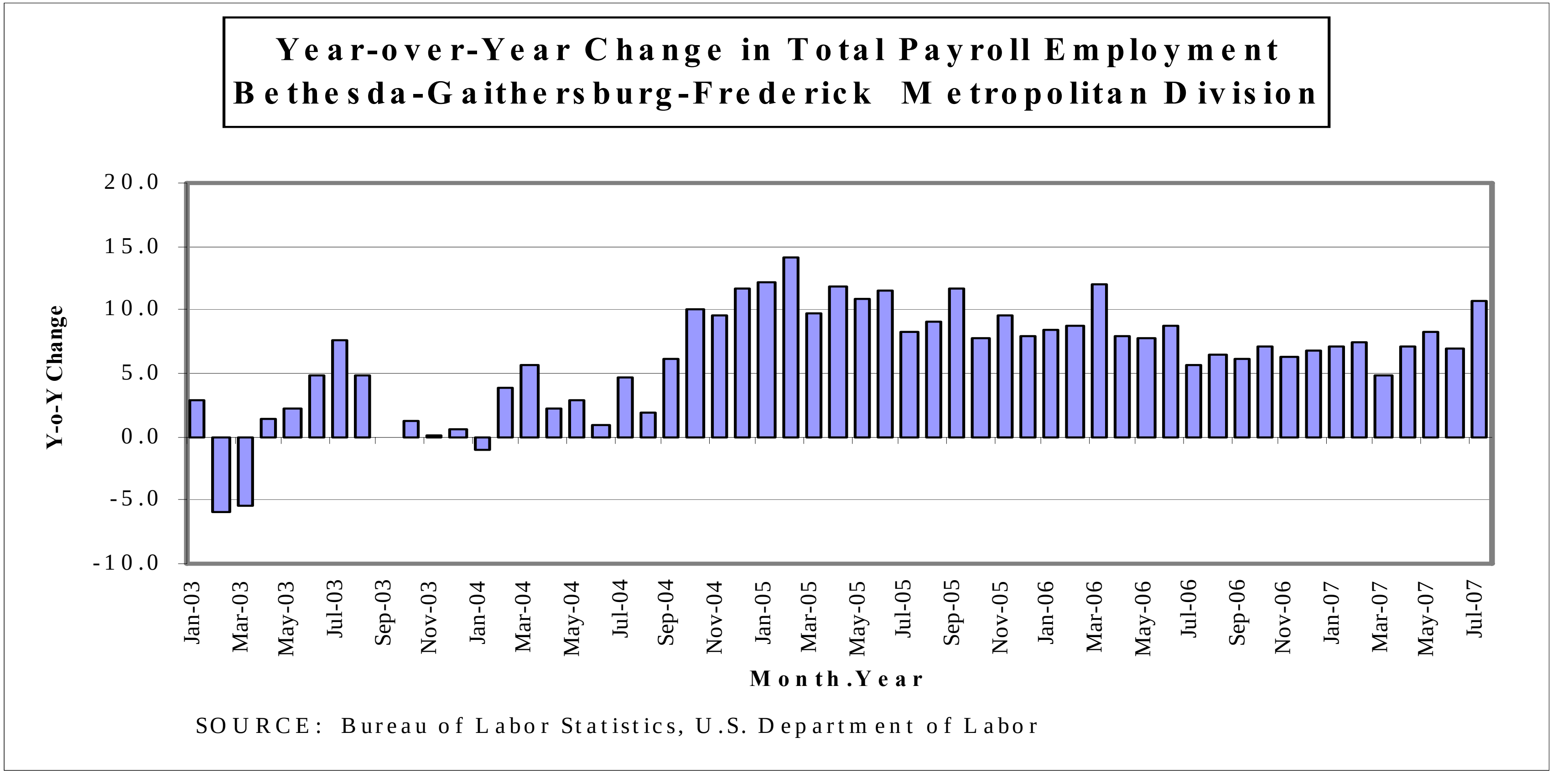


SOURCE: **Washington Post*-Bloomberg Regional Index

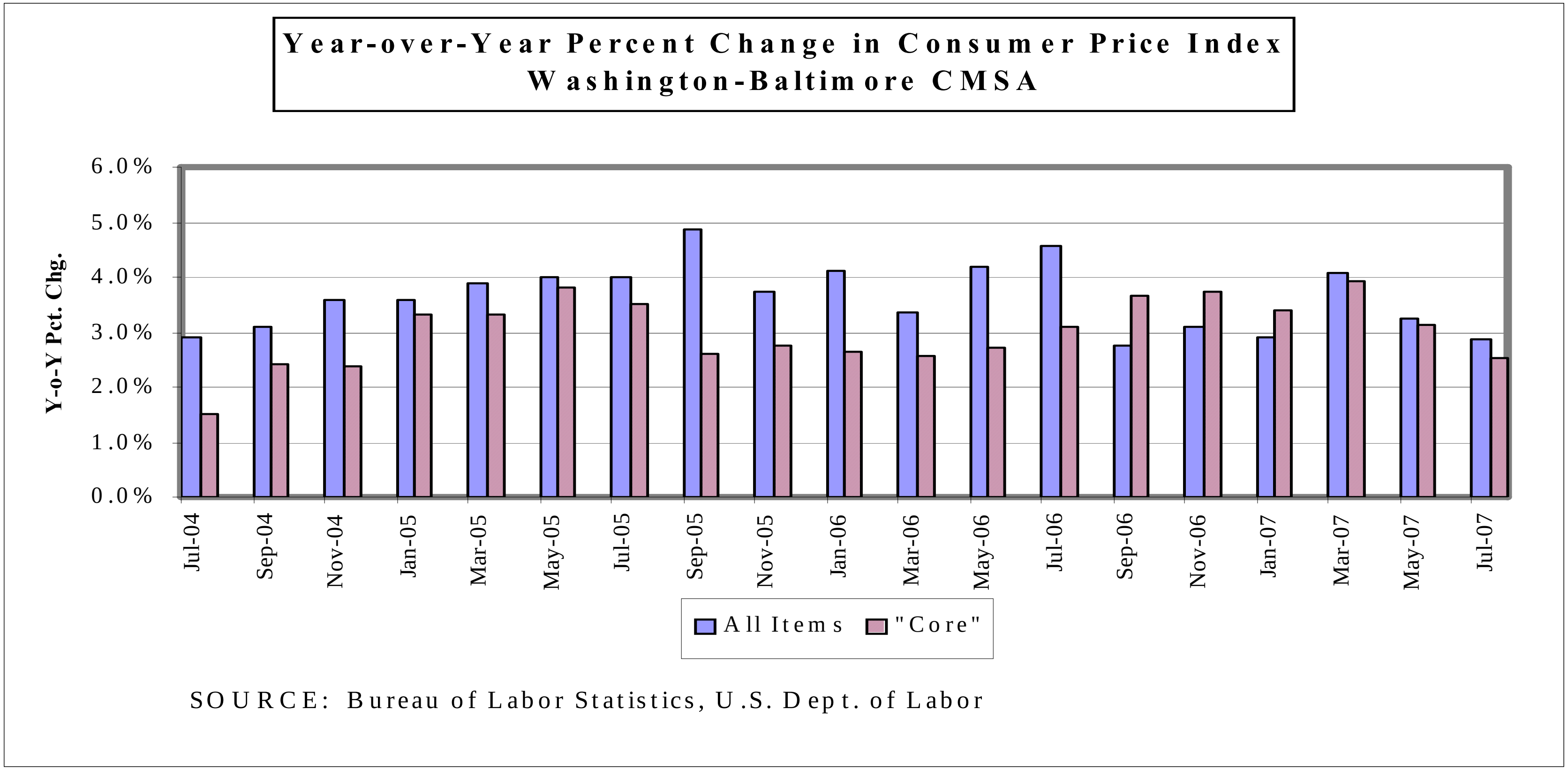
The Washington economy continues to generate new jobs albeit at a slower rate. During the first six months of 2007, Washington averaged nearly 48,000 new jobs, on a year-over-year basis, compared to an average of 56,000 during the same six-month period last year.



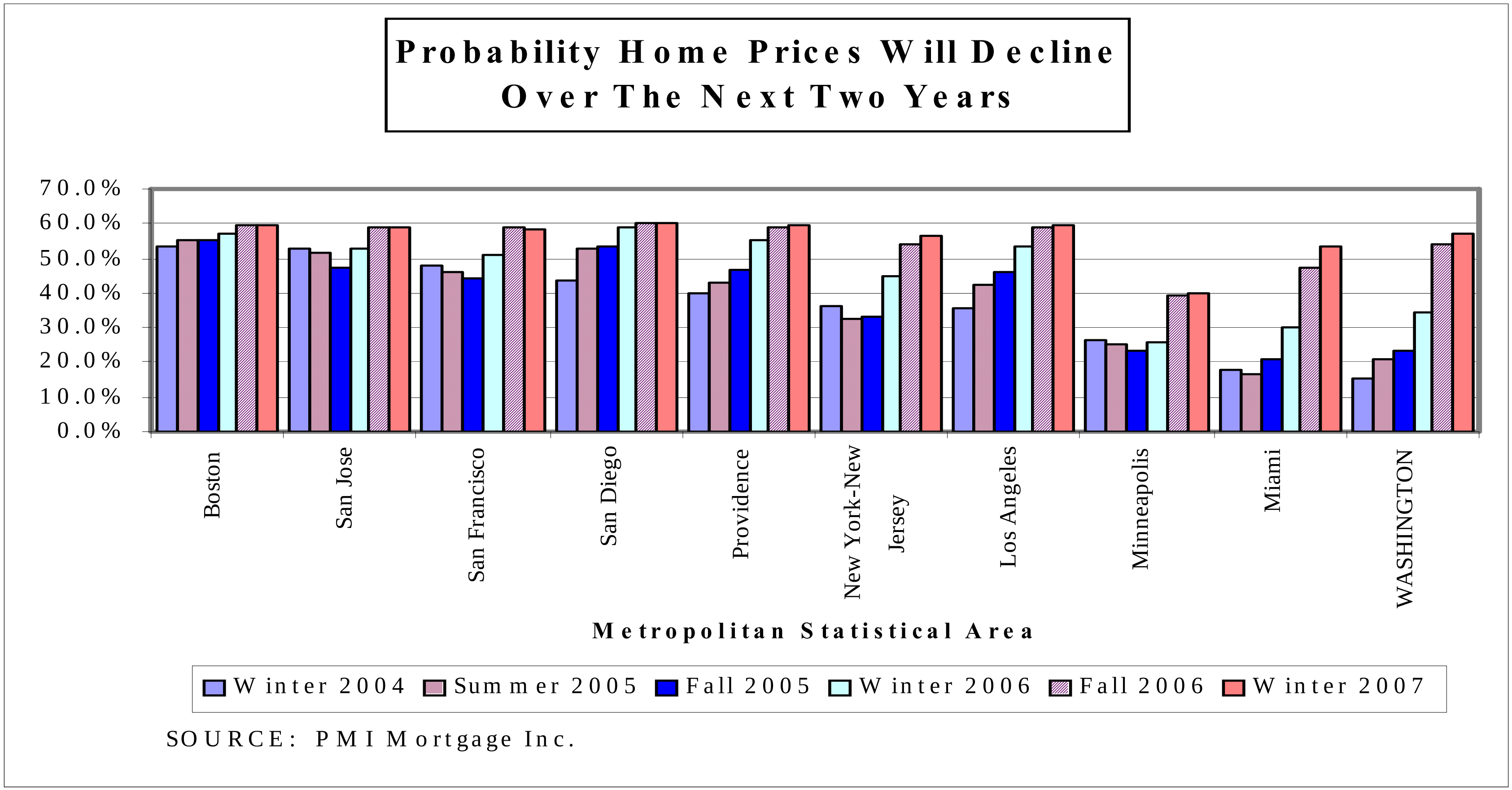
Montgomery and Frederick counties also continued to add jobs during the first half of this year albeit at a slower pace. During the first six months of 2007, the BGF metropolitan division averaged 7,500 new jobs on a year-over-year basis compared to 8,500 during the same period in 2006.



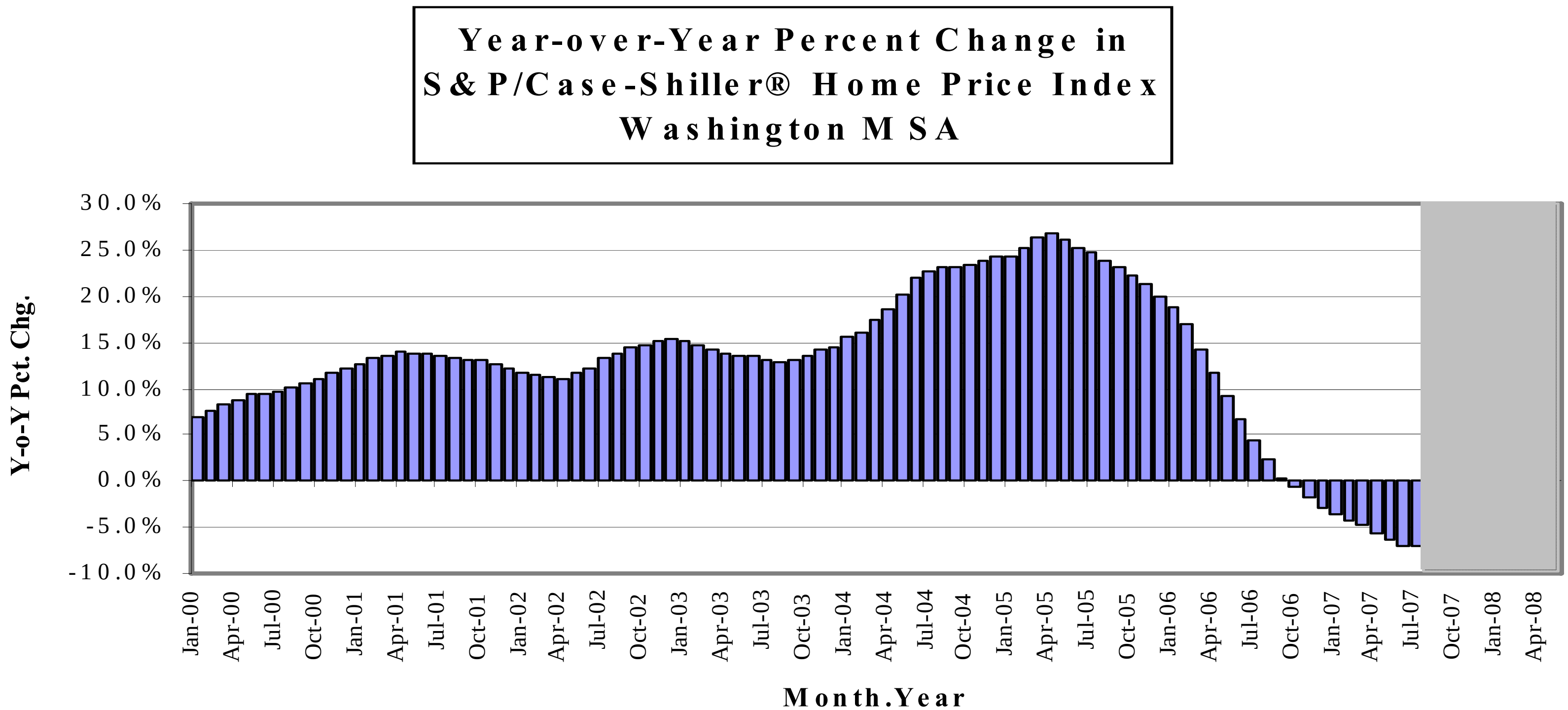
The region's rate of inflation declined from its recent high in March of 4.1 percent on a year-over-year basis to less than 3 percent in July. The "core" rate also declined from 3.9 percent in March to 2.5 percent in July.



However, with strong employment growth and lower inflation, the risk to the regions' economy remains residential housing. Based on the PMI index of the probability of future price declines, the region's index now stands at nearly 57 percent compared to 15 percent three years ago.



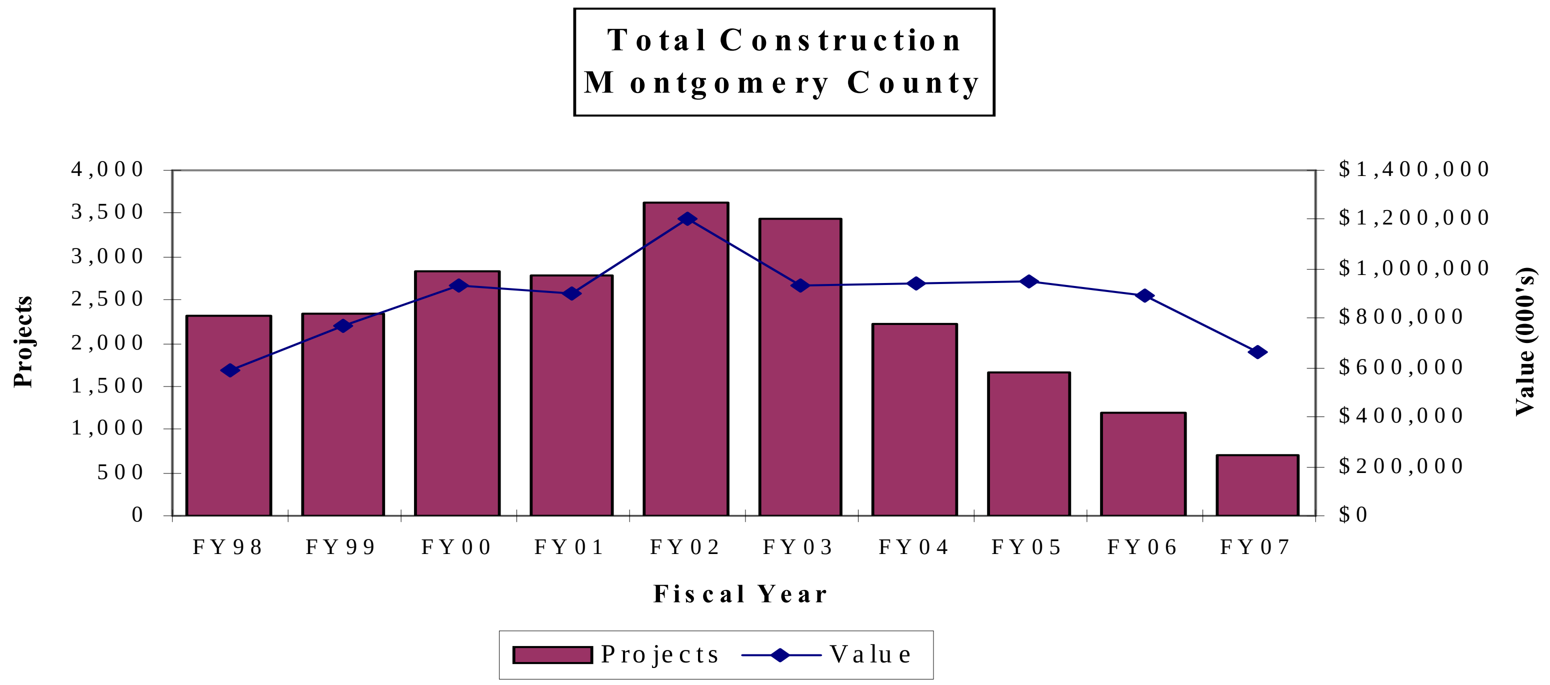
The PMI probability data is confirmed by the S&P/Case-Shiller® home price index for the Washington Region. Since October 2006, the index has experienced a year-over-year decline and, according to CME futures, is expected to continue to decline through the first half of 2008.



NOTE: S&P/Case-Shiller price index is a registered trademark of Standard and Poor's. Data from July 2007 to May 2008 from the Chicago Mercantile Exchange.

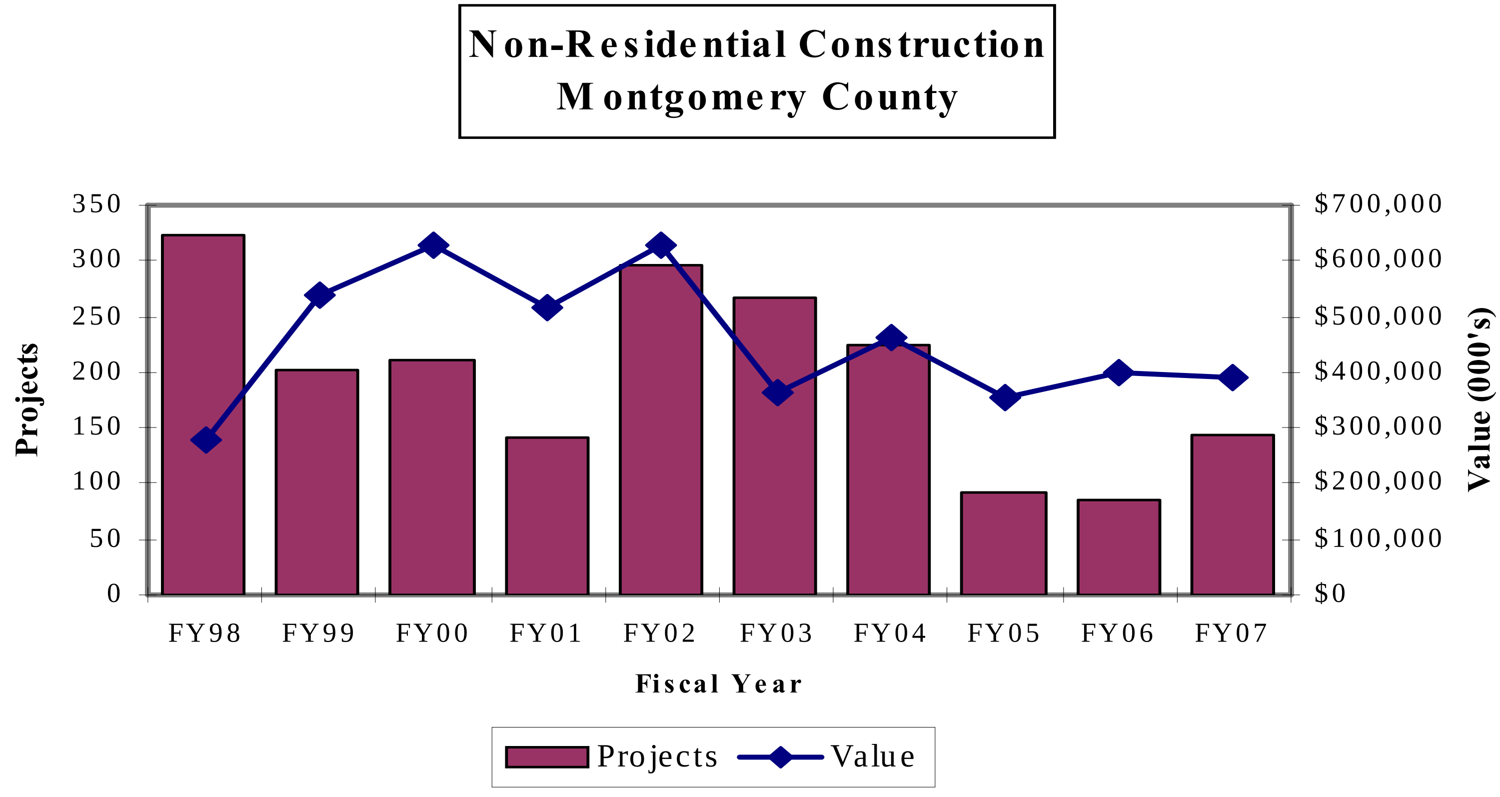
Montgomery County
Economic Indicators

Construction activity in the county has experienced a slowdown that began in FY02 and continued through FY07. However, that slowdown occurred mostly in the residential sector rather than in the more volatile non-residential sector.



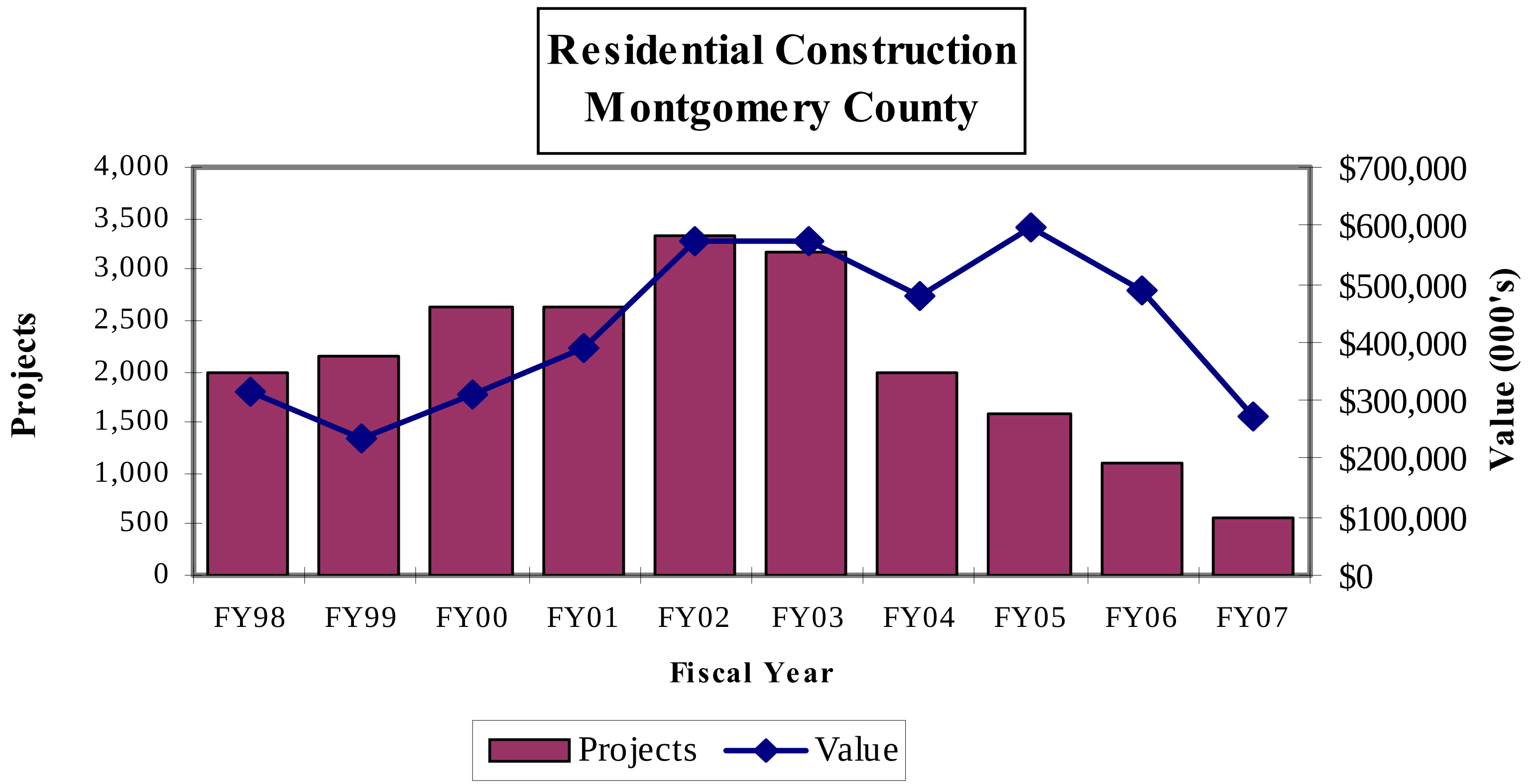
SOURCES: McGraw-Hill Construction and Montgomery County Department of Finance

Non-residential construction projects were up nearly 70 percent in FY07 while their value reached nearly $390 million.



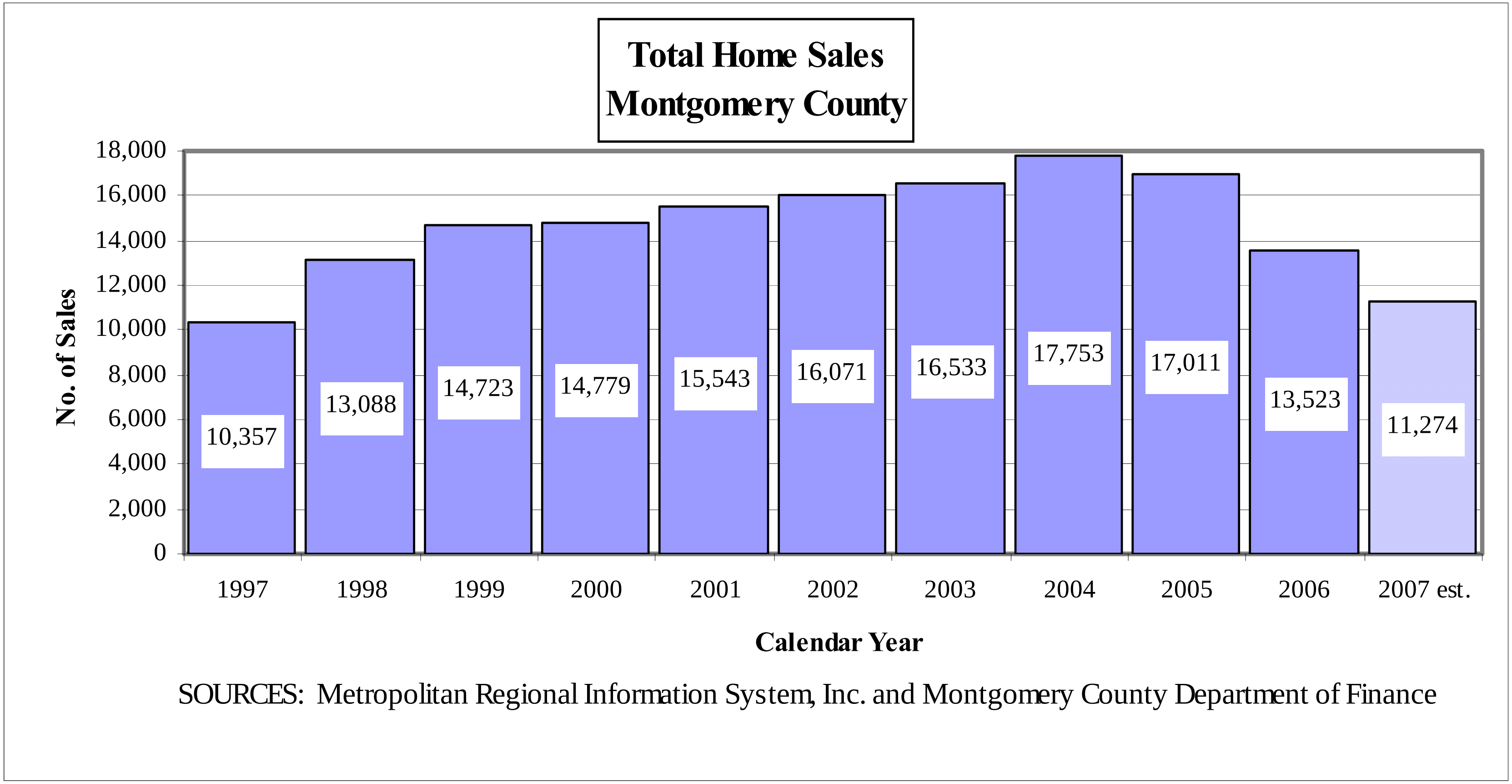
SOURCES: McGraw-Hill Construction and Montgomery County Department of Finance

However, residential construction activity continued to decline in FY07 with the number of project down nearly 50 percent and the additional value to total property value was down 44 percent.

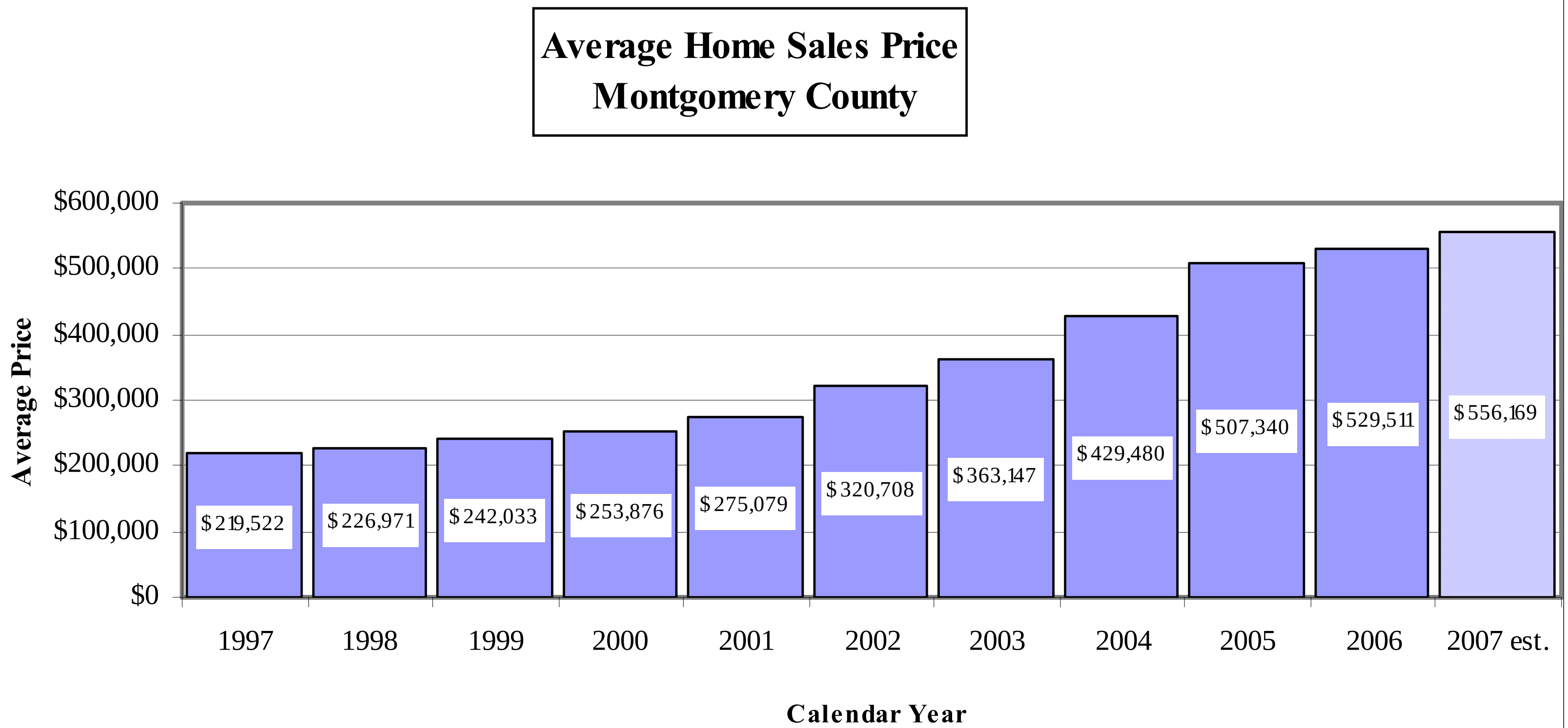


SOURCES: McGraw-Hill Construction and Montgomery County Department of Finance

Home sales for the County are expected to decline to slightly above 11,200 units in calendar year 2007 – the lowest amount since 1997 and a decline of nearly 17 percent from the previous year.

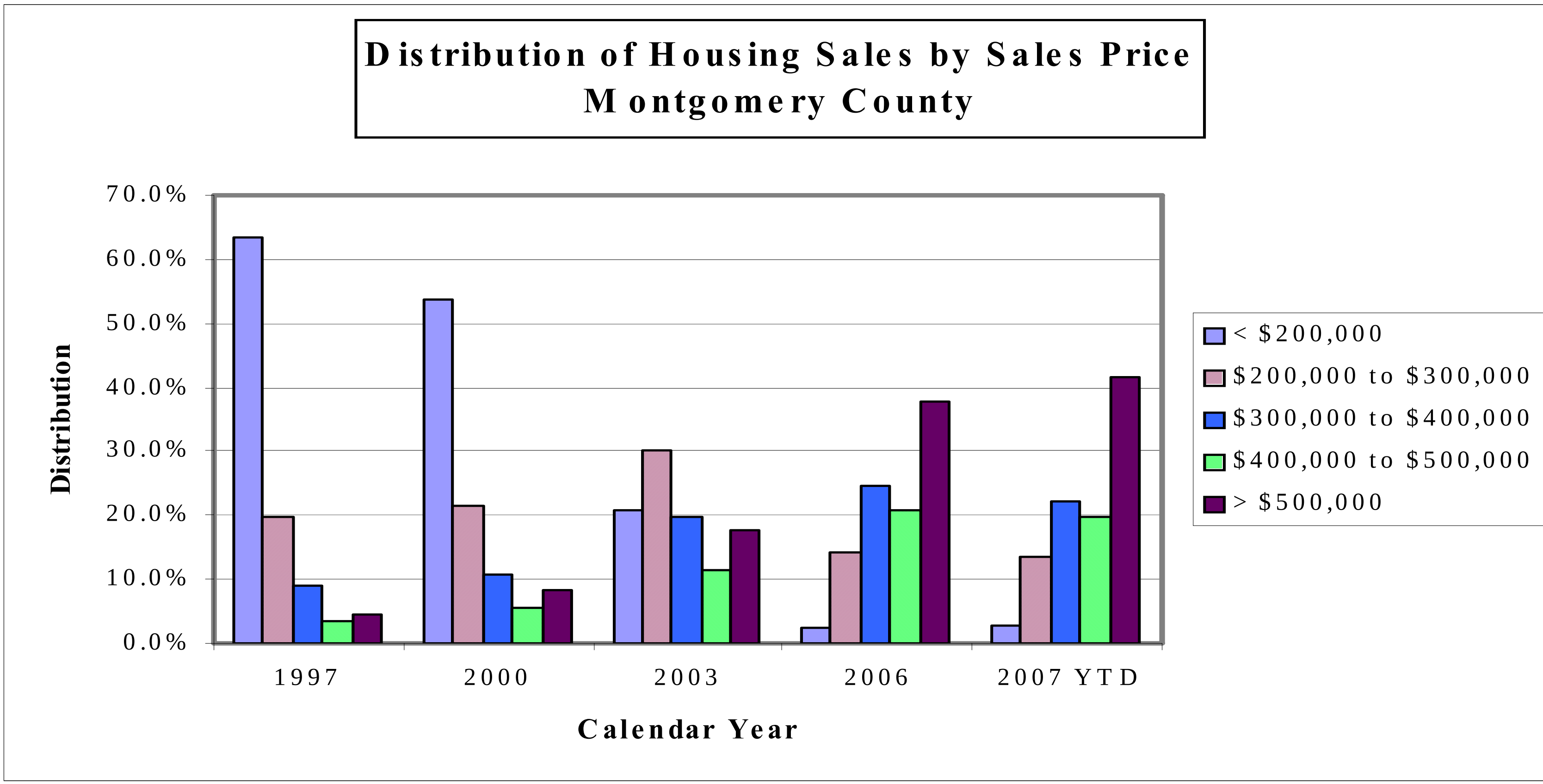


However, average home prices are expected to increase 5 percent in 2007 up slightly from the 4.4 percent rate in 2006 but significantly below the 15.3 percent average between 2002 and 2005.

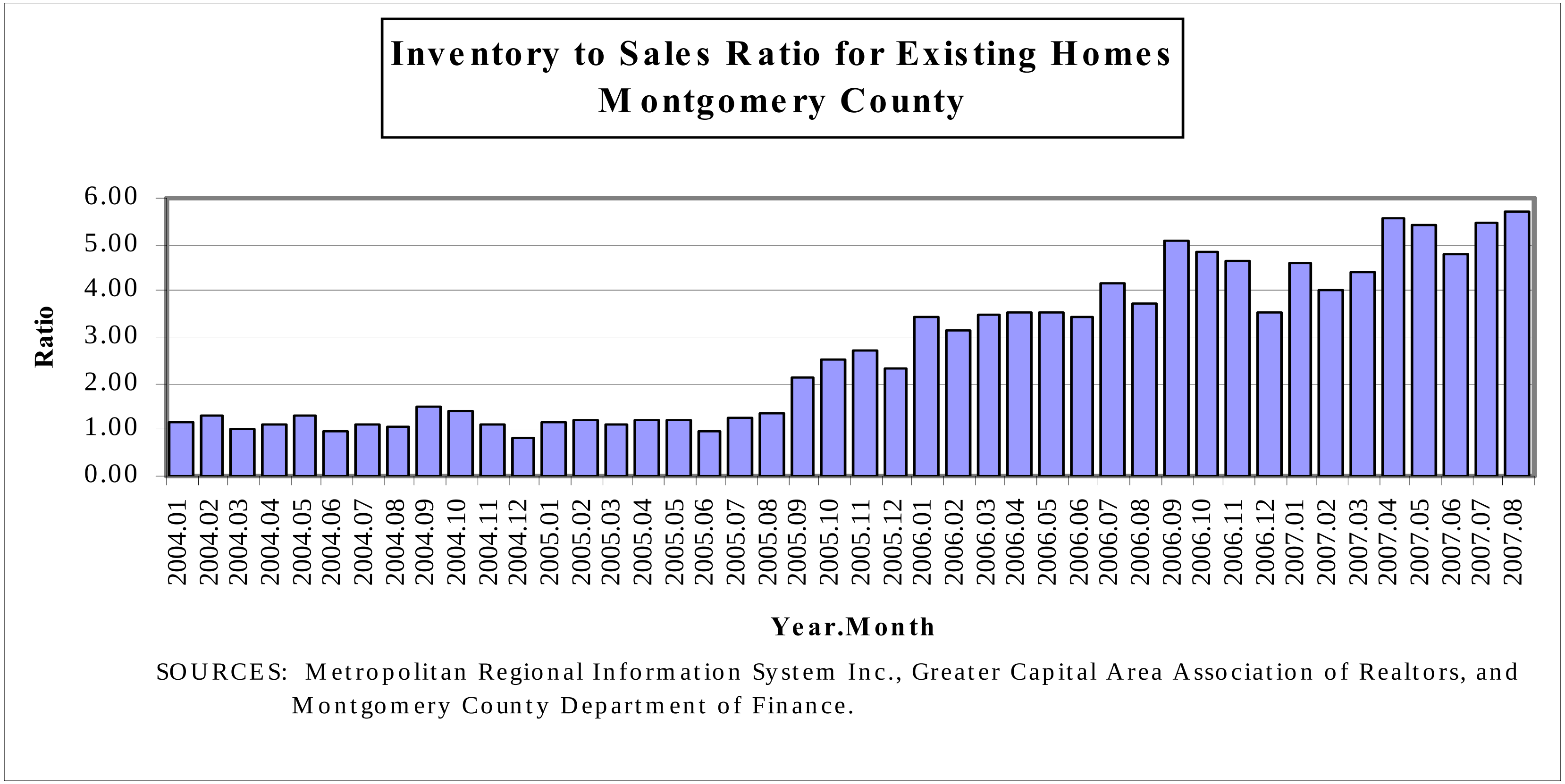


SOURCES: Metropolitan Regional Information System, Inc. and Montgomery County Department of Finance

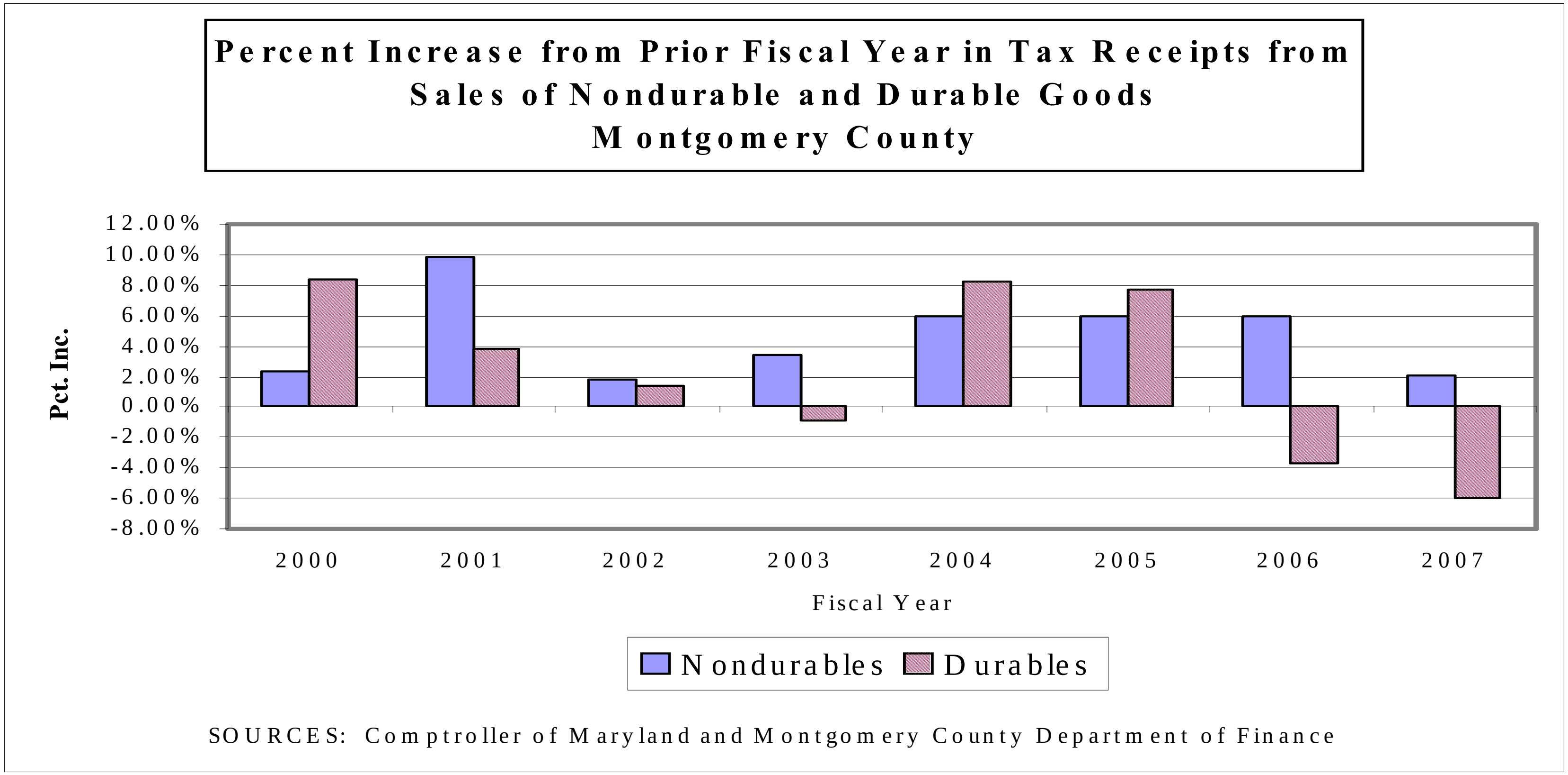
The reason for the increase in average home prices in the County using realtor data can be attributed to the dramatic change in the distribution of sales by sales price. So far in 2007, home sales with prices above $500K constituted 47.7 percent of total sales compared to 37.7 percent in 2006.



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 6-month supply in August.



The decline in home sales is reflected in sales of durable goods in the County for FY06 and FY07. While sales of non-durable goods were up during those years, sales of durable goods led by purchases of furniture and appliances were down 3.7 and 6.0 percent, respectively.



SUMMARY

- Home sales have declined 17 percent so far this calendar year.
- Home prices have increased 5 percent over the past nine months compared to the same period last calendar year.
- However, the inventory of existing homes for sale has risen to a 6 months supply compared to a 3-month supply in early 2006.
- Purchases of durable goods, primarily furniture and appliances were down 6.0 percent in FY07, which follows a decline of 3.7 percent in FY06.
- Construction of new homes continued to decline in FY07.
- Based on estimates derived by Finance, payroll employment grew 1.3 percent during the January-July period compared to the same period in 2006.
- At 3.2 percent, Montgomery County continues to have one of the lowest unemployment rates in the State.