



DEPARTMENT OF FINANCE

Marc Elrich
County Executive

Michael Coveyou
Director

April 5, 2023

Honorable County Executive
Members of the Montgomery County Council

I am please to present the findings of the Twenty-Fourth Annual Business Advisory Panel that was convened on February 10, 2023. The enclosed report was prepared by the County's Department of Finance pursuant to Article XI, Section 20-61, of the Montgomery County Code.

The report consists of a summary of the panel's advice, a list of the panelists, the information package that the Department of Finance ("Department" or "Finance") sent to the panelists in advance of the meeting, and a presentation prepared for the panel by Dr. Terry L. Clower, Director of the George Mason University Center for Regional Analysis. The information packet includes the agenda for the meeting, concise statements by the Department on the County's economic outlook, and the framework for discussion.

The accompanying materials reflect the economic advice given by the Business Advisory Panel.

Sincerely

Michael J. Coveyou

Department of Finance

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**FINDINGS OF THE TWENTY-FOURTH ANNUAL
BUSINESS ADVISORY PANEL
FEBRUARY 10, 2023**

Pursuant to Article XI, Section 20-61, of the Montgomery County Code, the Department of Finance (“Finance”) convened a meeting of the Business Advisory Panel (“BAP”) on February 10, 2023. The County Council of Montgomery County established the BAP in 1999 to seek the advice of industry experts in key sectors of the County’s business community concerning the current and future state of the County’s economy and the impact on revenues. The law requires that the Director of Finance convene the panel annually and relay the panel’s advice to the County Executive and County Council. The panel was convened in person in the Montgomery County Executive Office Building at 101 Monroe Street, Rockville, MD. The following report summarizes the BAP panel’s discussion and advice.

The BAP members representing various sectors of Montgomery County’s economy were joined by County Executive Marc Elrich and Council President Evan Glass.

The meeting was structured to allow all participants to participate in a briefing on local, state, and regional economic trends and to share their insights about future economic prospects in the County. The participants also discussed Finance’s economic forecasts. For purposes of this report, the results of the discussions are presented in two parts. The first part presents the key economic trends (Finance’s economic assumptions and a presentation of key regional trends by Terry Clower, Ph.D., Director for Regional Analysis, Schar School of Public Policy and Government, George Mason University). The second section summarizes the participants’ view of their respective industry sectors.

The County Executive opened the meeting by thanking everyone for attending and looking forward to their input. He discussed the County’s ability to weather the difficult period of the COVID-19 pandemic and how it excelled during this time in the areas of health and overall economic performance. The County Executive noted that even during the pandemic the County improved the operation of County government, including in the Department of Permitting Services (“DPS”) where an ombudsperson was added along with a new department head and within which reforms are continuing. Additionally, discussions are in progress regarding reform to Park & Planning.

On the economic development front, the Global Pandemic Center (“Center”) temporarily resided at the US Pharmacopeia site in Montgomery County. The County Executive highlighted the County’s effort to secure a permanent location for this center in the County by eliminating a requirement in the federal authorizing legislation to locate the facility outside of the DC region. The White Flint/North Bethesda area would be a location for a permanent Center and would also be anchored by the University of Maryland 3 – Institute for Health Computing (‘UM-3-IHC’). This academic research hub expects to move from its temporary facility and will build a permanent facility at a site on the property owned by WMATA adjacent to the North Bethesda Metro.

Currently a record amount of lab space is being built in the County, with about 4 million square feet under construction. The County Executive acknowledged that impact taxes that are not dedicated to making improvements near the project paying these fees are an obstacle to further development by the real estate community. In place of impact taxes, the County Executive is promoting special taxing districts.

Following the opening remarks by the County Executive, Council President Evan Glass stated that he is pleased to be presiding over the largest and most diverse County Council. One of his first actions as Council President was to create the Economic Development Committee (“Committee”) to increase focus on Montgomery County’s economic development. The Committee started work this week by codifying the County’s funding priorities for the State in the State Transportation Priorities letter, with a focus on securing State resources to implement Vision Zero and the bus rapid transit (“BRT”) network that would connect everyone in the 500 square miles of the County. Earlier in the week President Glass released a 7-point economic development plan building off prior work by the County Executive, the Council, and the community. He has requested the Office of Legislative Oversight to produce a report analyzing how best to condense and streamline State, County, and municipal regulations, and how best to cut red tape at the County level at DPS, the Department of Environmental Protection, and Park & Planning. The Council is nearing the end of the process for replacing three planning board positions and President Glass expects them to be filled by the end of February. Filling the remaining two additional positions with permanent board members will be taken up in the spring.

I. Key Regional Economic Trends

Dr. Terry Clower, Ph.D., Director for Regional Analysis, Schar School of Public Policy and Government, George Mason University presented a summary of key regional economic trends. A copy of Dr. Clower’s presentation is included in this report.

National Indicators:

Even though U.S. Gross Domestic Product (“GDP”) was negative for 2 quarters in 2022, the United States was not in a recession. The negative GDP was instead caused by accounting adjustments to the balance of trade rather than a recession.

The U.S. unemployment rate is low at 3.4 percent and the country is near full employment. However, recent layoff announcements have not yet been included in the current unemployment data and the reduced labor force participation rate remains a concern. The labor force participation rate remains below the pre pandemic rate for a number of reasons, such as many women in households with children and eldercare responsibilities not returning to the labor force.

Average weekly earnings continue to increase due to the rise in wages for lower wage workers and while inflation has declined from its peak it remains elevated. The Federal Reserve is targeting a 2% inflation rate, but Dr. Clower doesn’t expect that level will be attained until 2025.

The outlook for the U.S. in 2023 is a recession mid-year with job growth turning negative during the third quarter, and the Federal Reserve slowing the pace of interest rate increases while still trying to unwind assets from Quantitative Easing.

The Washington D.C. MSA economy:

The D.C. area leading and coincident economic indicators have been volatile. Structural change in the region is likely as the federal government sheds jobs. While there are no official freezes or announced reductions in federal jobs, decreases in the federal workforce is likely to occur due to retirements and personnel quitting without being replaced.

Federal spending in the D.C. area rose through 2022 – some of which continues to be pandemic related. However, this federal spending may not support local employment as those employers and employees may be located outside of the D.C. area.

The D.C. MSA is experiencing low unemployment rates, but they are still above the national rate. Growth in jobs in the DC region is the lowest among the nation's largest 15 markets. Gross regional product has shifted from growing at a rate equal to or higher than the U.S. GDP growth rate in the 1970's-2000's to being lower in the 2010's. Population in the D.C. MSA had been growing through 2020 but in 2021 experienced net outmigration. The outmigration includes millennial workers who may be leaving due to lack of affordable housing, as evidenced by the inventory of existing homes for sale well below historical levels. Building permits in the D.C. MSA grew in 2021 and 2022 at rates above the prior 9 years, possibly adding to supply.

In the commercial office market, net absorption of Class A office space has been positive in D.C., suburban MD and in northern VA, however, Class B/C net absorption has been negative in D.C., and positive in suburban MD and in northern VA. There may be an imbalance in supply and demand for Class B/C office space in the future. The overall office vacancy rate in December 2022 in the D.C. area trended slightly down from December 2021 (13.7% to 13.6%) but is well above typical vacancy levels experienced since 2013.

The outlook for the D.C. metropolitan statistical area is that if a recession does occur in the region, it will be less of an economic decline than experienced by the national recession. Challenges the region is facing include lack of workforce housing, insufficient public transportation, limited resources for young families, the impact of remote work on the office market, and increasing businesses and local government stress in part due to commercial property value risk.

II. Current Montgomery County Economic Conditions and Future Economic Assumptions

Economic Conditions

Finance staff provided panel participants with a paper prepared by staff that analyzed the County's economy and provided assumptions about the economic outlook. The paper analyzed a number of economic indicators including employment, personal income, real estate, inflation,

construction, and interest rates. The report on the County's economy and economic assumptions is included in the appendix. Summary of those assumptions are:

- Resident employment¹: Resident employment in calendar year (CY) 2022 grew by 14,232 from CY2021 (↑2.75%). This followed declines of 4,470 from CY2020 to CY2021 (↓0.86%) and a drop of 37,288 from CY2019 to CY2020 (↓6.67%) largely due to the COVID-19 pandemic.
- Unemployment: The County's unemployment rate came down from 5.5 percent to 3.6 percent despite an increase in the labor force by 5,559 people. The unemployment rate in CY2022 remains higher than the pre-pandemic rate in CY2019.
- Residential Real Estate: The Federal Reserve raised the federal funds rate 7 times in CY22 by a total of 4.0% to its current target range of 4.25%-4.50% which caused a sharp increase in mortgage rates. This increase in mortgage rates depressed demand for existing homes, with total sales declining by 22.9 percent in CY2022. Despite reduced activity, median sales price for existing homes climbed another 4.72 percent in CY 2022 after increasing by 9.9 percent in CY2021 and 7.1 percent in CY2020.
- Construction Activity: Despite the increase in interest rates depressing housing demand, the construction of new residential units was virtually unchanged in CY2022 as compared to CY2021 and CY2020. However, total value added from new residential units decreased from \$662.0 million in CY2021 to \$613.1 million in CY2022 (↓7.4%). The total value added from non-residential projects increased back to levels attained between 2017 and 2019. Non-residential project value went from \$587.0 million in CY2021 to \$1,772.5 million (↑201.9%) in CY2022.

The employment, real estate demand, and government inflation economic indicators contain mixed signals regarding the County's economy during CY2022 and the potential future trajectory. That performance included an improved labor market, continued production of new building space and housing units, but a sharp decline in residential real estate demand and rising government costs.

Economic Assumptions

Finance forecasts that Montgomery County may experience a slowdown in the labor market in 2023 but will continue to see modest growth in total income. The mild pullback in labor markets would be the result of the significant increase in interest rates depressing investment and job creation nationwide.²

- Finance assumes that payroll employment will increase from CY2021 to CY2026 at an average annual rate of 1.0 percent, including a drop of 1.1 percent from CY2022 to CY2023, with a return to pre-pandemic levels by CY2025.

¹ Resident employment includes those who live here but may be employed inside or outside of the County.

² Finance's future estimates are preliminary and subject to change.

- Finance assumes that resident employment will increase at an average annual rate of 1.3 percent from CY2021 to CY2026. Even with the average annual increase of 1.3 percent from CY2021 to CY2026, Finance estimates that resident employment will not attain its pre-pandemic levels by CY2026.
- Finance assumes that total personal income in Montgomery County will increase at an average annual rate of 3.3 percent from CY2021 to CY2026 compared to an average annual growth rate of -1.2 percent from CY2017 to CY2021. The forecast indicates that personal income will continue growing despite a potential decline in employment in CY2023, indicating continued growth in wages and non-wage income.
- The wage and salary portion of total personal income is assumed to grow increasing at an average annual rate of 4.5 percent from CY2021 to CY2026. The non-wage income component of total personal income is assumed to increase at an annual average rate of 2.2 percent from CY2021-CY2026 following a decrease of 5.3 percent from CY2021 to CY2022.
- The overall regional inflation index for the Washington–Arlington–Alexandria, DC–VA–MD–WV metropolitan statistical area is assumed to moderate from 6.6 percent in CY2022 to 4.0 percent in CY2023 and will then approach the more long-term trend of 2 percent annual inflation in CY2024 through CY2026.
- The yield on the County’s short-term investments is highly correlated with the federal funds rate. As a result, the County earned an average of 0.3 percent in investment income on its short-term portfolio for FY2022. Rate increases to the targeted federal funds rate by the Federal Open Market Committee of the Board of Governors of the Federal Reserve System in response to inflation pressures is anticipated to increase yields, rising to 2.9 percent in FY2023 and then to 3.3 percent in FY2024.

III. Discussion Topics in Specific Industry Sectors

Real Estate Market

The panel discussed the shortage of affordable single-family housing in Montgomery County. Even in cases where building permits have been secured, building is not occurring at this time due to higher mortgage rates and high costs of construction. The National Association of Realtors estimates the national median age of first-time homebuyers is 36 years old, the highest ever. This is due to reduced equity build-up and an increase in multi-generational housing. Even if interest rates decrease, housing prices are not likely to decrease because of lack of supply, particularly in the workforce housing sector.

The price of new single-family homes is about 10 to 15 percent above the price of existing single-family homes. The cost of construction has gone up substantially with labor prices rising 5-6% already with future increases of 4-6% expected. Lack of labor is problematic with no new workers and difficulty finding skilled workers. The bid pricing for new jobs is up 15%-20% even while the cost of inflation is +7%. The bid prices are high due to the volatility and uncertainty of the costs. However, if new jobs are not occurring and bringing new people to the region, then new houses are less needed.

Commercial building projects are not moving forward even if permits have been issued. There is a misunderstanding of why this is happening. While the Federal Reserve has been increasing interest rates, lenders have also been decreasing their construction lending: developers are having difficulty obtaining financing. The possibility of converting unused commercial buildings to residential housing does not work right now in Montgomery County because cost of conversion exceeds the potential revenue. Panel participants believe that to solve the challenges facing the real estate development sector the County needs to attract additional jobs and the associated highly paid workers that can afford new development. During the discussion of the real estate industry panel participants highlighted three challenges facing the local labor market: i) the County's employment forecast is not showing enough job growth; ii) employment is choked by lack of talent; and iii) lack of sufficient affordable and workforce housing makes it difficult to attract workers.

The future of employment is uncertain and panel respondents were not yet sure how the structural changes to remote work and/or hybrid work will impact the commercial footprint of the County. It remains unclear if future jobs will be located where workers want to live or if workers will live where the jobs are currently located.

Panel participants complimented the work done by the Department of Permitting Services to expedite the process for obtaining building permits.

Local Business

Panel participants stated that difficulties in available labor force and attracting talent were a problem even before the pandemic. The location of federal government agencies has made Montgomery County #2 for small businesses working with the Department of Defense and the Department of Health and Human Services. During the pandemic, many of those small businesses had to diversify and now may have non-federal clients too. There is a large contingent of Health IT firms in Montgomery County but many of these businesses have problems attracting talent due to the insufficient transportation infrastructure and housing supply.

Life Sciences

During tough times the federal government has been an insulating factor in Montgomery County. The competitive positioning of the County should not focus on San Francisco and Boston where costs of living are much higher, but instead focus on similar bio-tech markets like Research Triangle Park in North Carolina. Enhanced workforce development is key to keeping and growing the biotech sector in the County. Panel participants advocated for stronger partnerships with universities and companies, such as changing the focus from the 'typical 4 year student' to non-traditional students and non-traditional solutions.

Small Business

90% of people employed in Montgomery County are employed by small business. Key issues for small business employers are transportation, affordable housing and education support.

IV. Conclusion

The panel participants expressed concerns regarding the County economy and the regional economy due to high inflation, labor shortages and a possible recession. The major challenges highlighted by the panel members are lack of sufficient affordable/workforce housing, attracting and developing talent, and the need for more jobs in the County.

**Business Advisory Panel
February 10, 2023**

The Honorable Marc Elrich
County Executive

The Honorable Evan Glass
County Council President

The Honorable Kate Stewart
County Council, Chair of Government Operations and Fiscal Policy Committee

Mr. Richard Madaleno
Chief Administrative Officer
Office of the County Executive

Mr. Michael Coveyou
Director
Department of Finance

PANELISTS

Mr. Andy Chod
Co-President
Minkoff Development

Mr. Paul Chod
Chariman
Minkoff Development

Dr. Terry L. Clower
Director
Center for Regional Analysis, George Mason University

Mr. Paul Desjardin
Director of Community Development
Metropolitan Washington Council of Governments

Mr. Anthony Featherstone
Executive Director
WorkSource Montgomery

Mr. Douglas Firstenberg
Principal
Stonebridge

Ms. Janice Freeman
President/CEO
African-American Chamber of Commerce

Ms. Georgette Godwin
President/CEO
Montgomery County Chamber of Commerce

Ms. Kelly Groff
President/CEO
Visit Montgomery

Ms. Anne Khadamian
Executive Director
The Universities at Shady Grove

Mr. Ed Krause
CEO
Greater Capital Area Association of Realtors

Mr. Omar Lazo
Member of the Board of Trustees, Montgomery College
Vice President, Wheaton & Kensington Chamber of Commerce
Owner, Los Chorros Restaurant

Mr. Ken Mills
Founding President & Chief Executive Officer
REGENXBIO

Mr. Ken O'Connell
President
Montgomery County Small Business Association

Ms. Liz Price
Vice President of Real Estate and Parking
Washington Metropolitan Area Transfer Authority

Dr. Sanjay Rai
Senior Vice President for Academic Affairs
Montgomery College

Mr. Jerry Staford
Economic Development Lead
Montgomery County Economic Development Corporation

Ms. Cindy Stewart
Rivarde Chief Executive
Officer
Rockville Economic Development, Inc.

Ms. Sarah Van De Weert
Director of Government and Board Relations
Worksource Montgomery

Dr. Keith Waters
Assistant Director
Center for Regional Analysis, George Mason University

COUNTY STAFF

Ms. Joy Champaloux
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Fiscal and Policy
Analyst
Montgomery County Department of Finance

Ms. Nancy Feldman
Chief, Fiscal
Management
Montgomery County Department of Finance

Mr. Dennis Hetman
Fiscal and Policy Manager
Montgomery County Department of Finance

Mr. David
Platt Chief
Economist
Montgomery County Department of Finance

Mr. Gene Smith
Manager, Montgomery County Business Center
Office of the County Executive

Mr. Dale Tibbitts
Special Assistant
Montgomery County Office of the County Executive

Mr. Jake Weissmann
Assistant Chief Administrative Officer
Office of the County Executive

MONTGOMERY COUNTY
24th ANNUAL
BUSINESS ADVISORY PANEL



FEBRUARY 10, 2023

MEETING

WHERE: EOB Lobby Auditorium

WHEN: FRIDAY, FEBRUARY 10, 2023

AGENDA

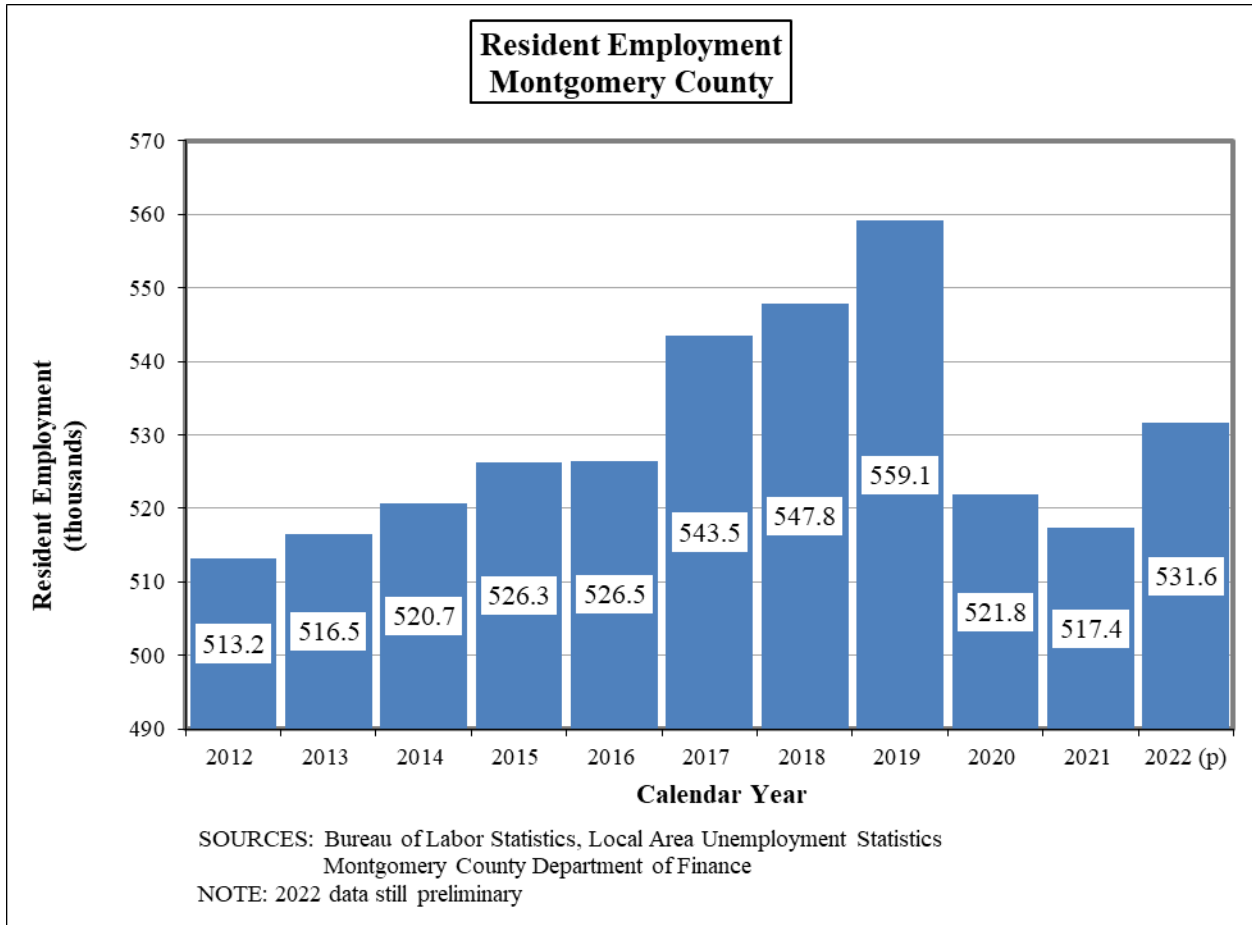
- 9:30 A.M. Introduction, Michael Coveyou, Director,
Montgomery Department of Finance
- 9:35 A.M. Opening Remarks by Marc Elrich, County Executive
- 10:00 A.M. Dr. Terry Clower, Director, Center for Regional Analysis, Schar School of
Policy and Government, George Mason University
- 10:15 A.M. Presentation of Department of Finance: Montgomery County economic
update and outlook
- 10:30 A.M. Roundtable discussion by participants
- 12:00 P.M. Adjournment

ECONOMIC CONDITIONS AND OUTLOOK

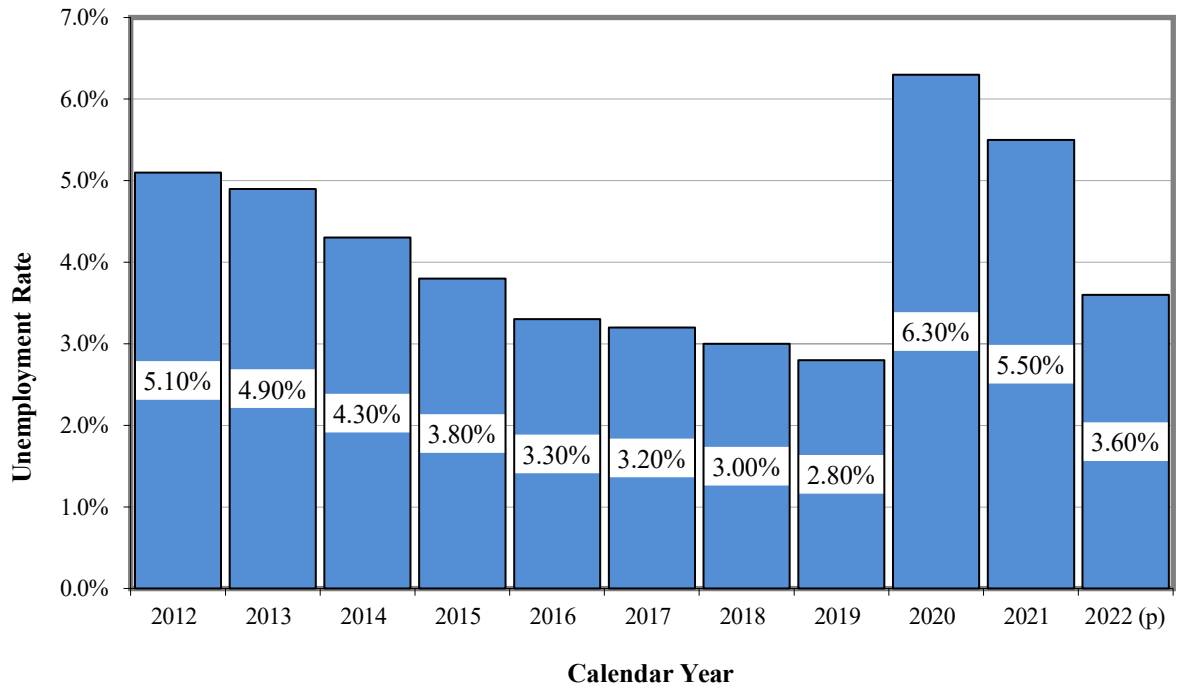
Montgomery County’s economy continued to experience mixed economic performance during calendar (CY) 2022, with strong employment and income growth, but a sharp decline in home sales and reduced construction of residential housing and non-residential projects. The pace of growth of home values moderated from prior years, but prices did not decline despite the sharp drop in sales volume, indicating continued demand to live in Montgomery County.

Resident Employment

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the Bureau of Labor Statistics, U.S. Department of Labor, resident employment (labor force series and not seasonally adjusted) in CY2022 grew, increasing by 14,232 from CY2021 (↑2.75%). This followed declines of 4,470 from CY2020 to CY2021 (↓0.86%) and a drop of 37,288 from CY2019 to CY2020 (↓6.67%). The County’s unemployment rate came down from 5.5 percent to 3.6 percent despite an increase in the labor force by 5,559 people. The unemployment rate in CY2022 remains higher than the pre-pandemic rate in CY2019.



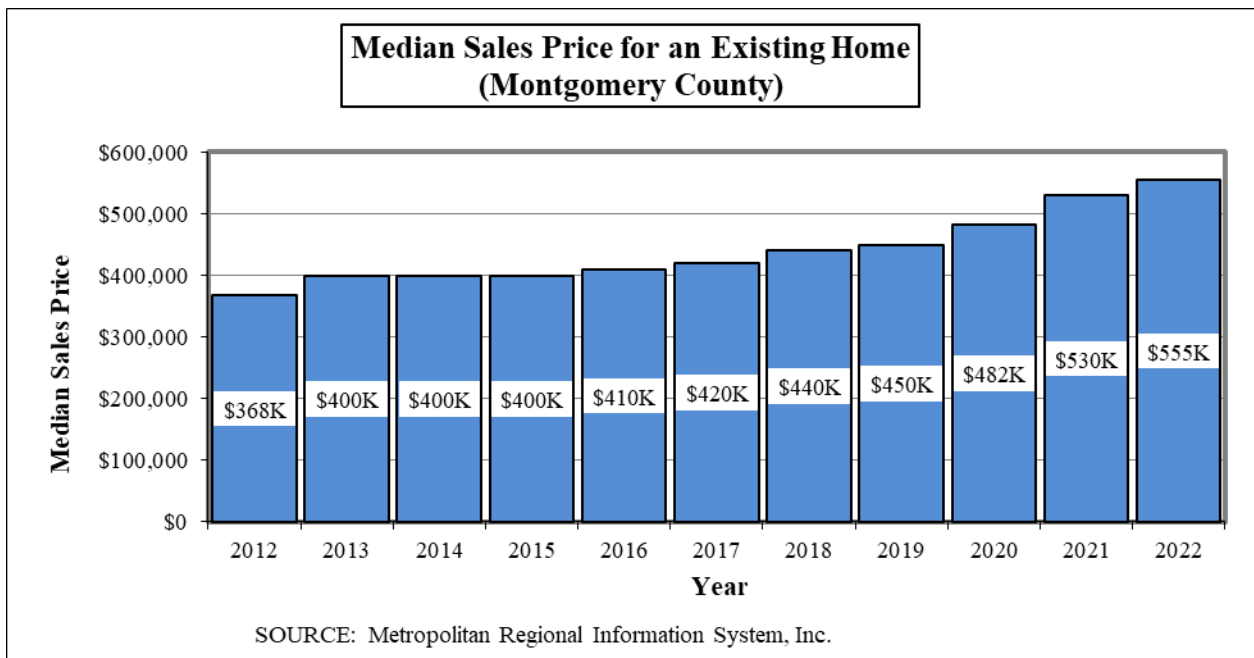
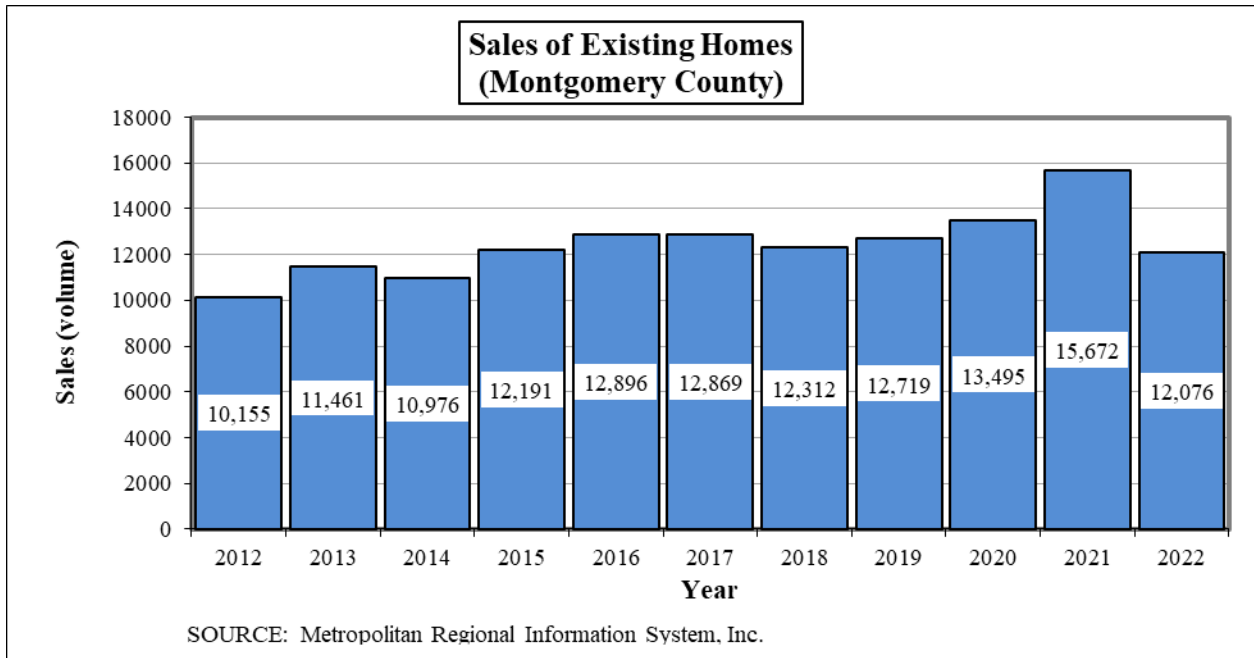
Unemployment Rate Montgomery County



SOURCES: Bureau of Labor Statistics, Local Area Unemployment Statistics
Montgomery County Department of Finance
(p) = 2022 data still preliminary

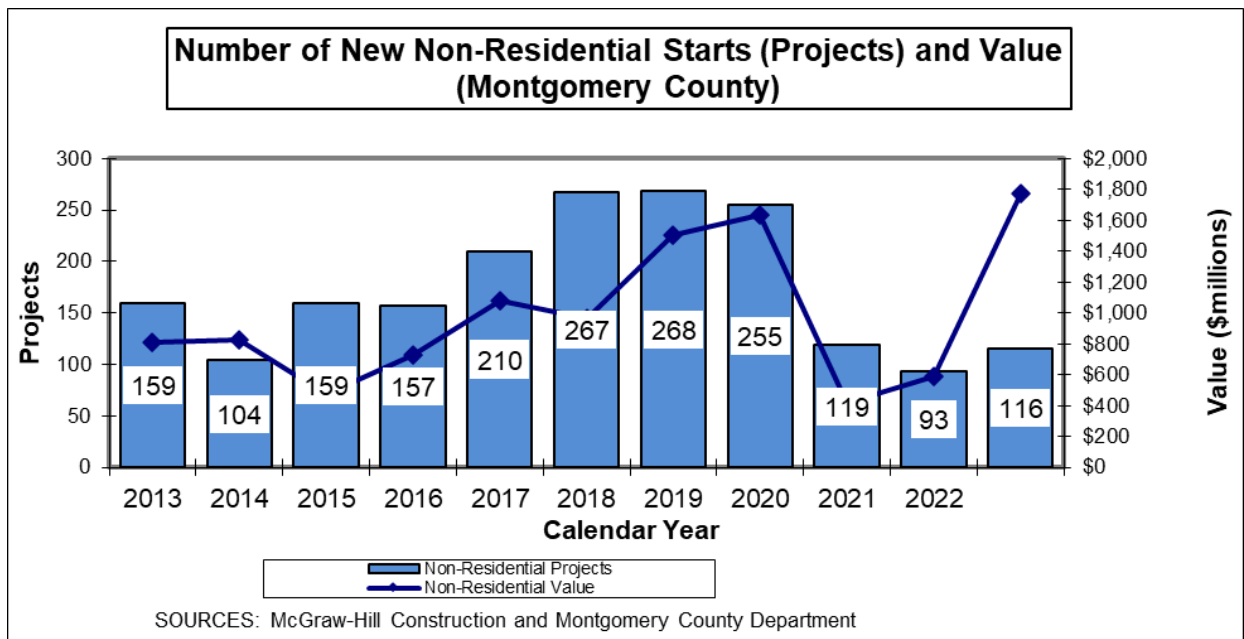
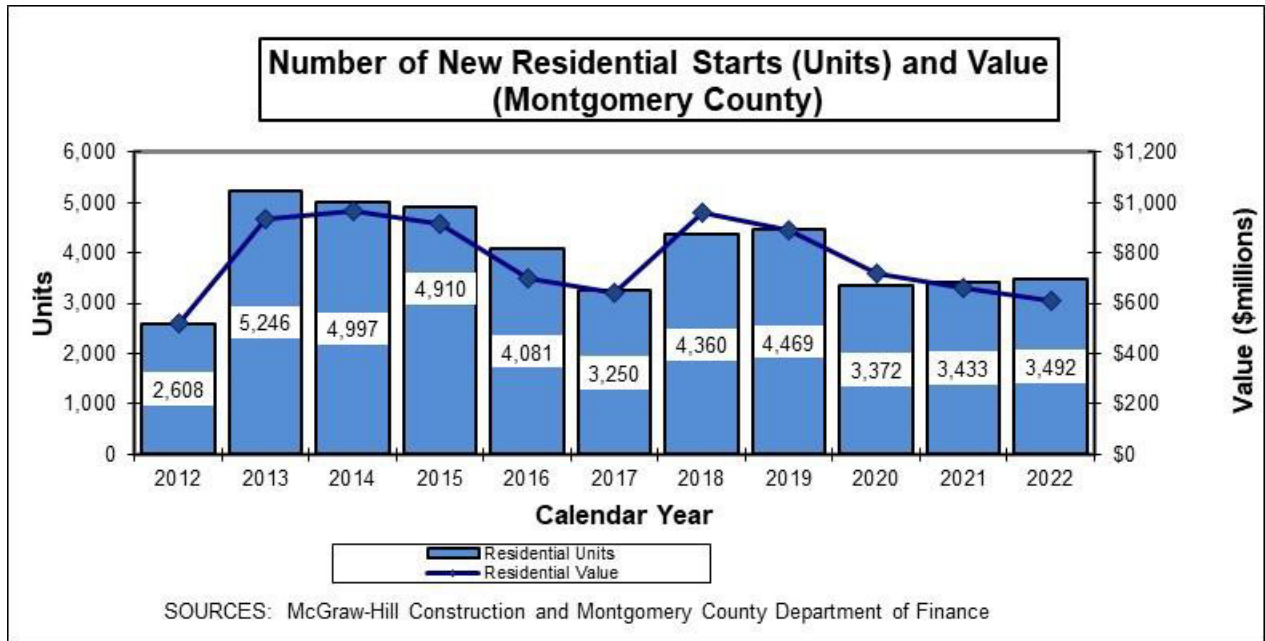
Residential Real Estate

The Federal Reserve raised the federal funds rate a total of 7 times in CY22 by a total of 4.0% to its current target range of 4.25%-4.50% which caused a sharp increase in mortgage rates. This increase in mortgage rates depressed demand for existing homes, with total sales declining by 22.9 percent in CY2022. Despite reduced activity, median sales price for existing homes climbed another 4.72 percent in CY 2022 after increasing by 9.9 percent in CY2021 and 7.1 percent in CY2020.



Construction Activity

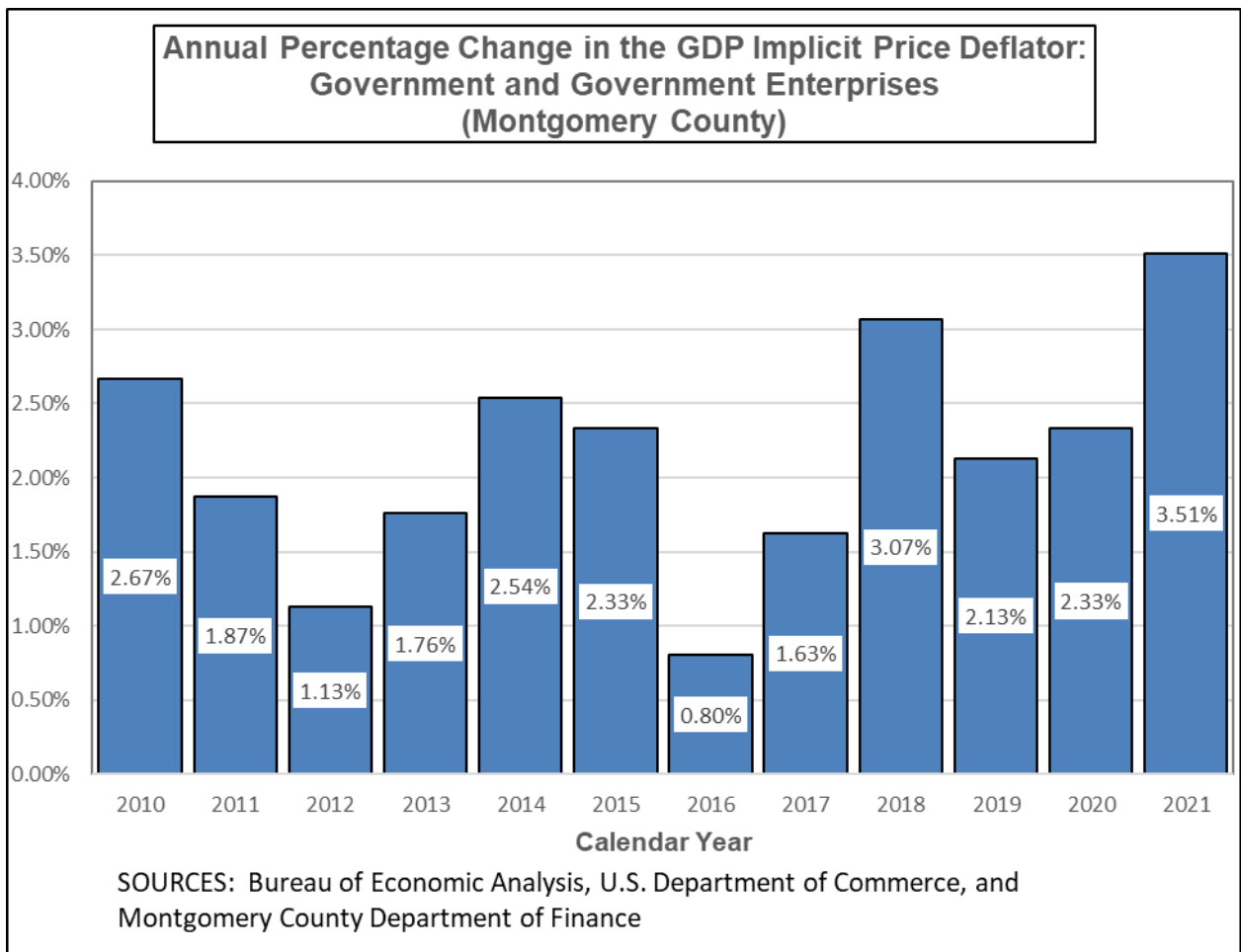
Despite the increase in interest rates depressing housing demand, the construction of new residential units was virtually unchanged in CY2022 as compared to CY2021 and CY2020. However, total value added from new residential units decreased from \$662.0 million in CY2021 to \$613.1 million in CY2022 (↓7.4%). The total value added from non-residential projects increased back to levels attained between 2017 and 2019. Non-residential project value went from \$587.0 million in CY2021 to \$1,772.5 million (↑201.9%) in CY2022.



GDP Implicit Price Deflator – Government consumption expenditures and gross investment: State and local (implicit price deflator): Montgomery County

Government consumption expenditures and gross investment measures the portion of gross domestic product (GDP), or final expenditures, that is accounted for by the government sector. Government consumption expenditures consist of spending by government to produce services to the public such as public school expenditures. Gross investment consists of spending by government for fixed assets that directly benefit the public such as highway construction, or that assist government agencies in their production activities such as purchasing vehicles and equipment.

The GDP implicit price deflator for state and local government consumption expenditures and gross investment was 3.5 percent for Montgomery County in CY2021 (the latest year of available data). This was higher than any year since 2010 and indicates rising costs to operate municipal government.



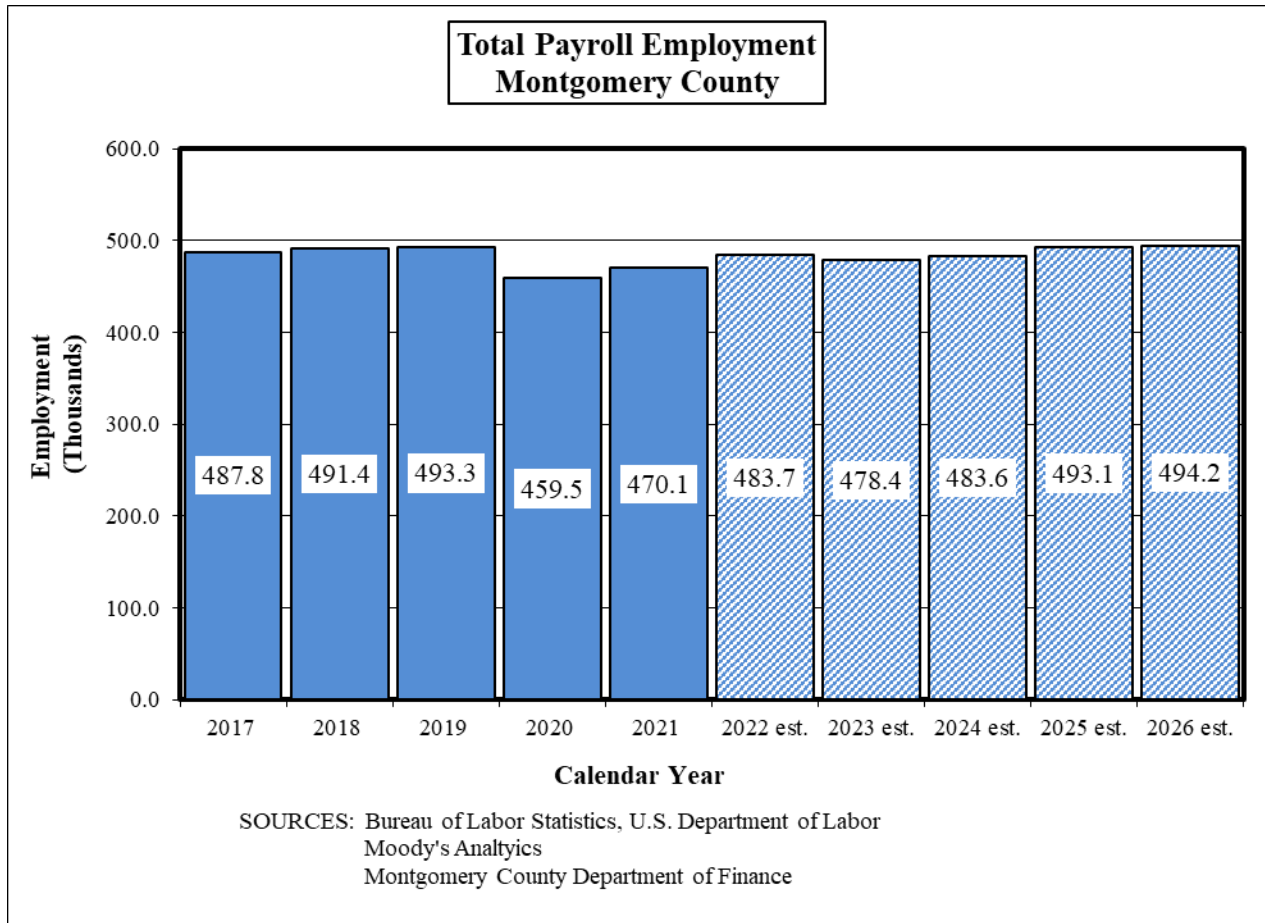
CONCLUSION

The employment, real estate demand, and government inflation economic indicators contain mixed signals regarding the County's economy during CY2022 and the potential future trajectory. That performance included an improved labor market, continued production of new building space and housing units, but a sharp decline in residential real estate demand and rising government costs.

ECONOMIC OUTLOOK

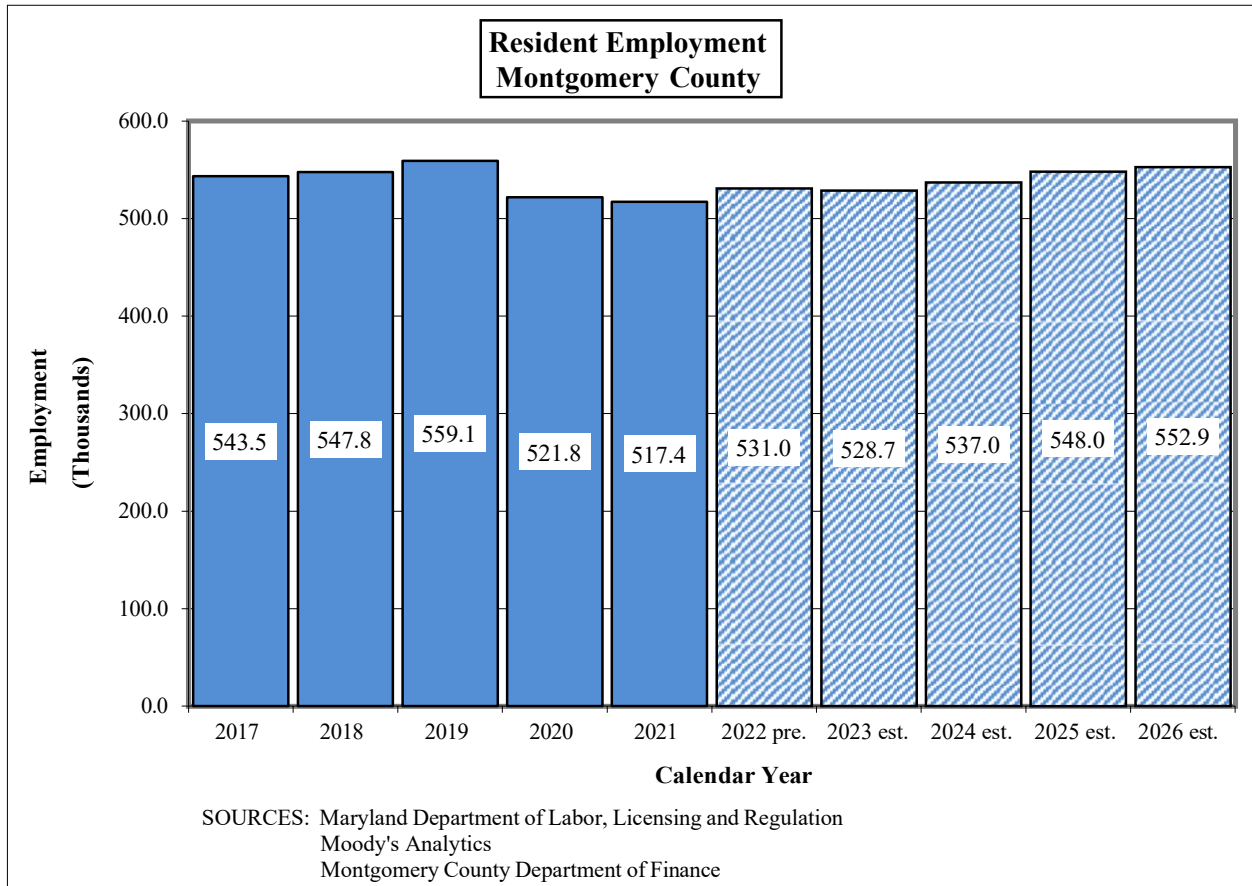
The Department of Finance (‘Finance’) forecasts that Montgomery County may experience a slowdown in the labor market in 2023 but will continue to see modest growth in total income. The mild pullback in labor markets would be the result of the significant increase in interest rates depressing investment and job creation nationwide.¹

Employment. Based on payroll employment from Current Employment Statistics (CES) series from the Bureau of Labor Statistics (BLS) for the Silver Spring – Frederick – Rockville: MD metropolitan division and Moody’s Analytics, Finance assumes that payroll employment will increase from CY2021 to CY2026 at an average annual rate of 1.0 percent, including a drop of 1.1 percent from CY2022 to CY2023. This is greater than the average annual rate of -0.9 percent experienced between CY2017 and CY2021 attributed to COVID. Finance assumes payroll employment will return to pre-pandemic levels by CY2025.

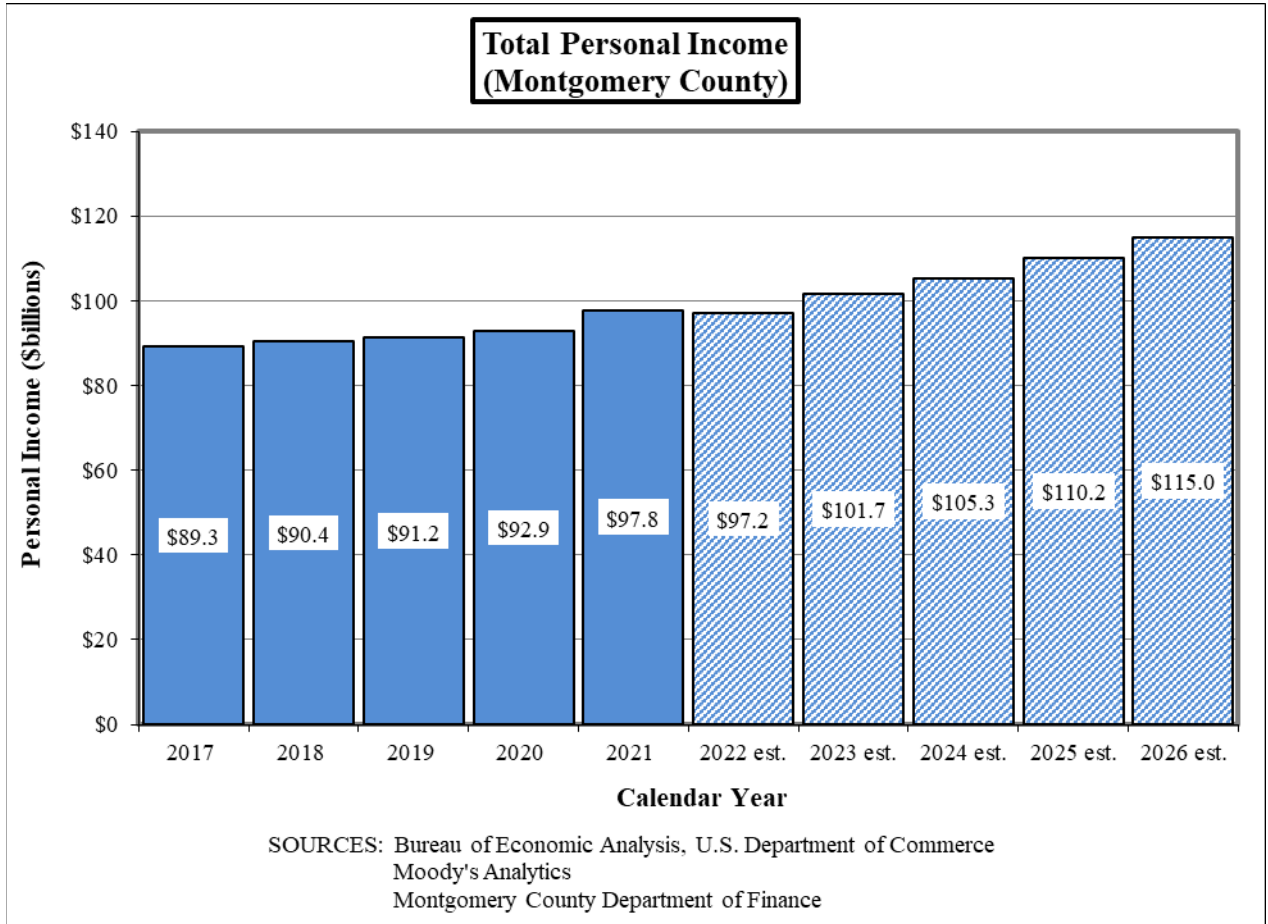


¹ Finance’s future estimates are preliminary and subject to change.

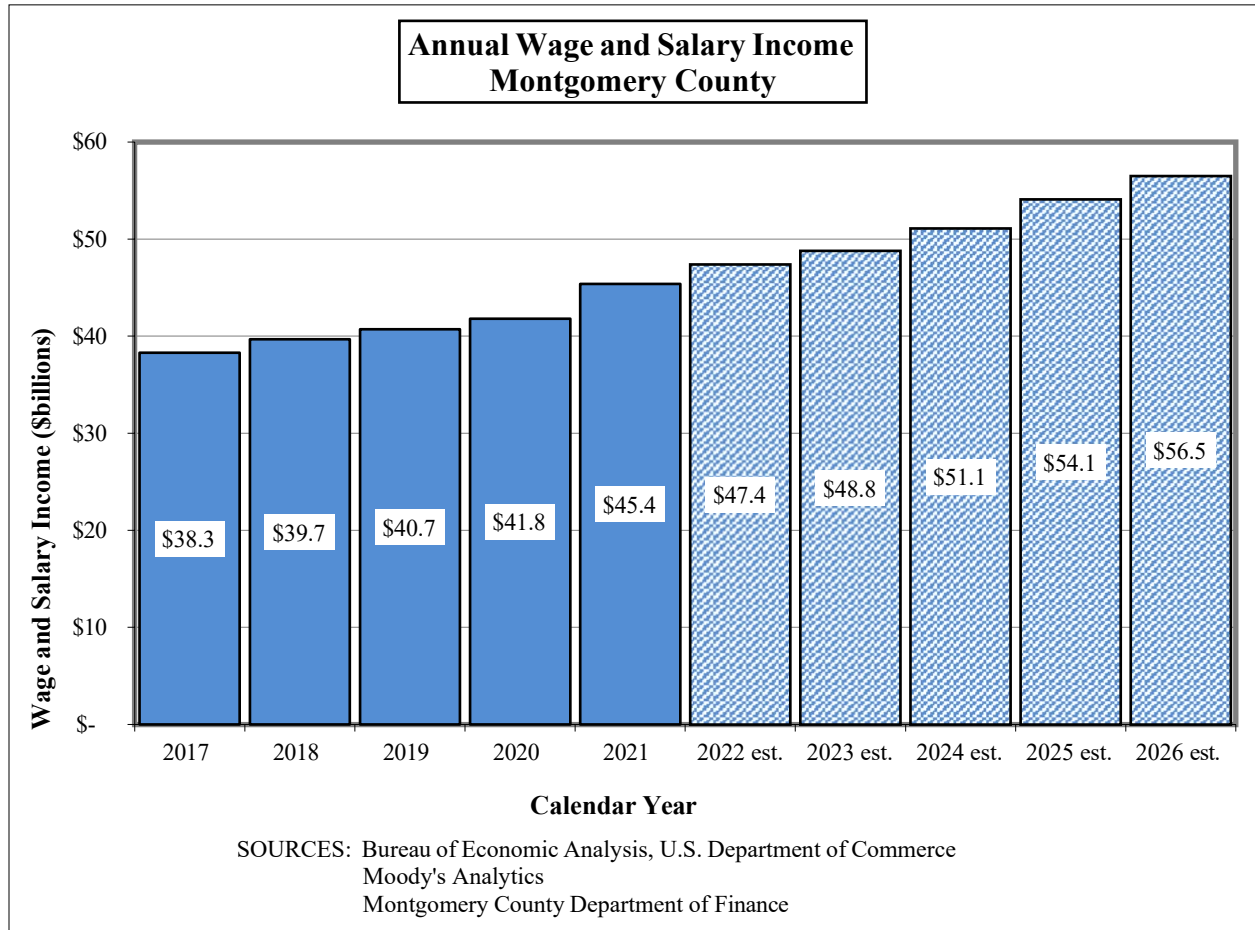
Finance assumes that resident employment will increase at an average annual rate of 1.3 percent from CY2021 to CY2026. That rate reverses the average annual rate of -1.2 percent between CY2017 and CY2021 which is primarily attributed to COVID-19 in CY2020 and CY2021. Even with the average annual increase of 1.3 percent from CY2021 to CY2026, Finance estimates that resident employment will not attain its pre-pandemic levels by CY2026.



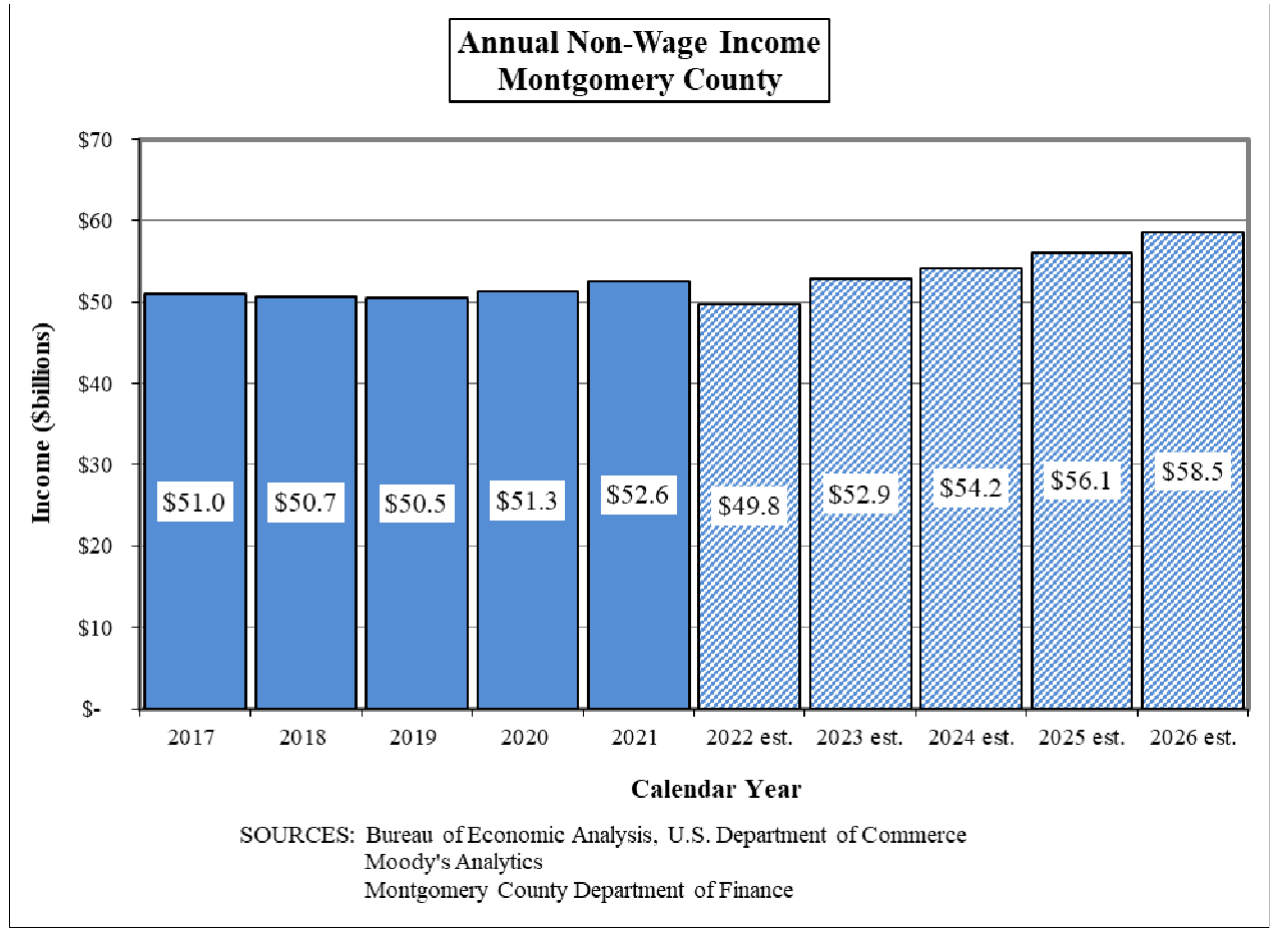
Personal Income. Finance assumes that total personal income in Montgomery County will increase at an average annual rate of 3.3 percent from CY2021 to CY2026 compared to an average annual growth rate of 2.3 percent from CY2017 to CY2021. The forecast indicates that personal income will continue growing despite a potential decline in employment in CY2023, indicating continued growth in wages and non-wage income.



Wage and Salary Income. Finance assumes wage and salary income will continue growing as it has in the recent past, increasing at an average annual rate of 4.5 percent from CY2021 to CY2026. This compares to the average annual growth rate of 4.3 percent from CY2017 to CY2021.

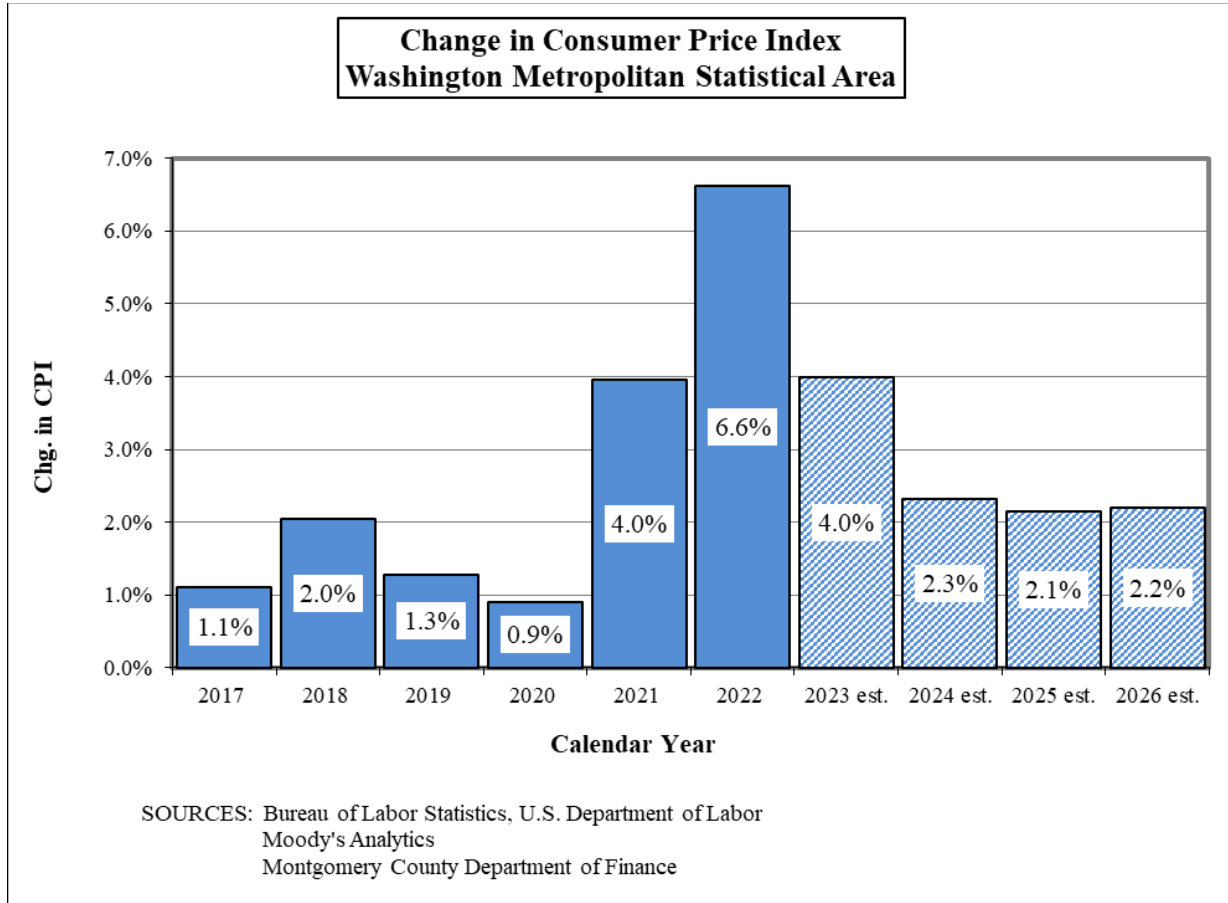


Non-Wage Income². Finance assumes that non-wage income in Montgomery County will increase at an average annual rate of 2.2 percent from CY2021 to CY2026, following a decline of 5.3 percent from CY2021 to CY2022. This compares to the average annual growth rate of 0.8 percent from CY2017 to CY2021.

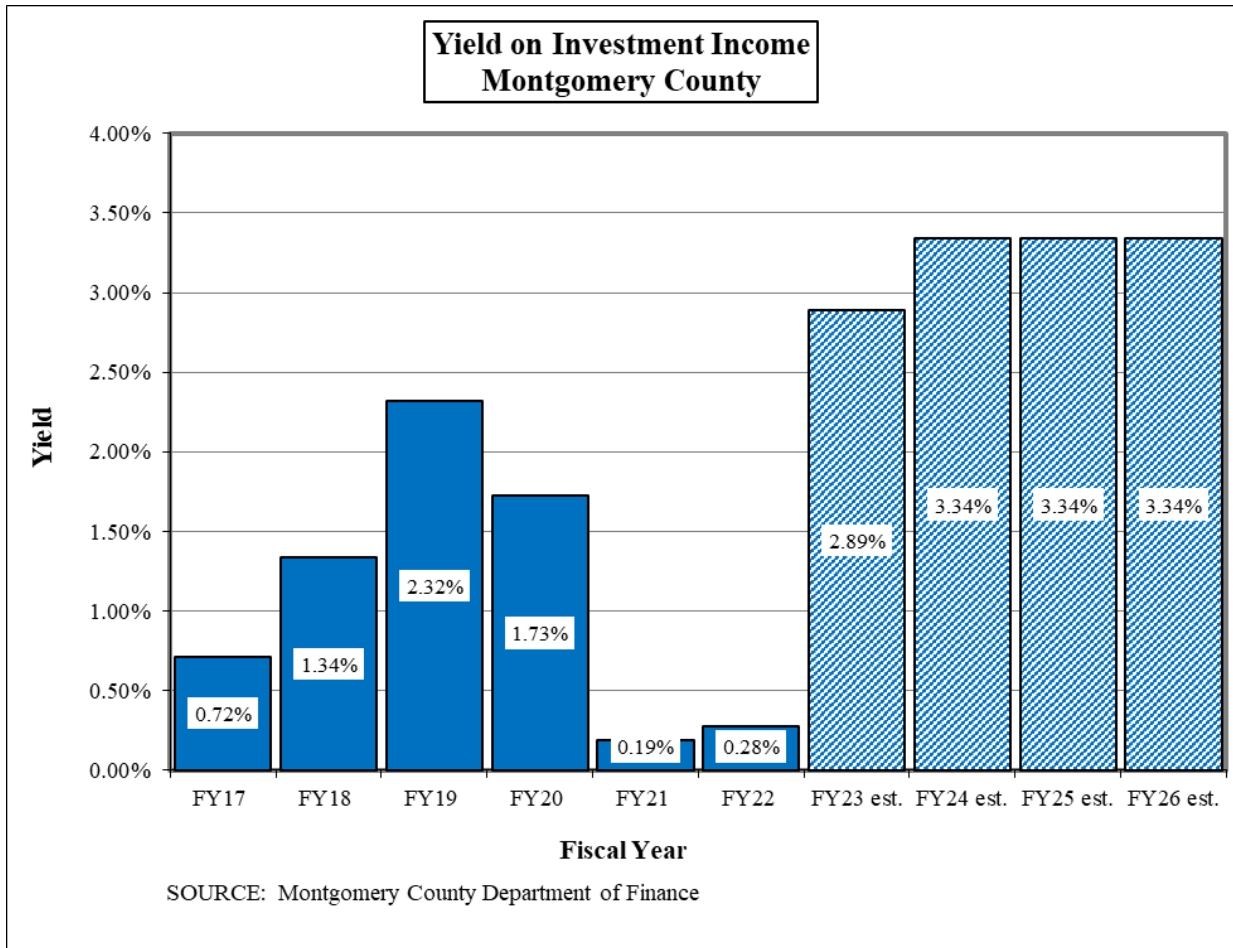


² Non-wage income is the sum of proprietors income, supplements to wages and salaries, transfer receipts, dividends/interest/rents, adjustment for residence, less contributions for government social insurance.

Inflation (annual average). Finance assumes that the overall regional inflation index for the Washington–Arlington–Alexandria, DC–VA–MD–WV metropolitan statistical area will moderate from 6.6 percent in CY2022 to 4.0 percent in CY2023 and will then approach the more long-term trend of 2 percent annual inflation in CY2024 through CY2026.



Interest Rates. Since the yield on the County’s short-term investments is highly correlated with the federal funds rate, the County earned an average of 0.3 percent in investment income on its short-term portfolio for fiscal year (FY) 2022. Rate increases to the targeted federal funds rate by the Federal Open Market Committee of the Board of Governors of the Federal Reserve System in response to inflation pressures is anticipated to increase yields, rising to 2.9 percent in FY2023 and then to 3.3 percent in FY2024.



DISCUSSION FRAMEWORK

The economic assumptions provide a framework for the Department of Finance's revenue projections for FY24 through FY26. The following issues create the framework for the discussion that is the focus of the Business Advisory Panel. To gain a better understanding of the direction of the major economic drivers in our county and region, it would be helpful if the participants of the Business Advisory Panel comment on our assumptions and discuss the major economic trends in the next several years that affect their industry sectors. The following list of items, if applicable to your sector, may be used to focus your discussion:

Risk to the Forecasts (Assumptions)

- Future interest rate policy by the FOMC
- Impact of national debt limit political brinkmanship
- Inflation outlook
- Private sector investment and employment
- Impact of reducing federal and state government fiscal stimulus
- Domestic stock market and its impact on capital gains and non-wage income
- Residential and non-residential construction

Income

- Declining federal and state fiscal stimulus
- Federal debt ceiling
- Capital gains
- Estimated payments and pass-through entities
- Rising wages and salaries
- Tax Policy Changes: federal and state

Real Estate

- Impact of interest rate on demand for residential property
- Impact of increased work-from-home on long-term commercial property demand
- Residential construction
- Commercial construction
- Availability of buildable real estate for new residential construction
- Loan conditions – residential and commercial sectors and refinancing
- Construction costs – materials and labor

Washington Area Economy: Performance and Outlook

Presentation to:
Montgomery County 24th Annual Business Advisory Panel

Terry L. Clower, Ph.D.

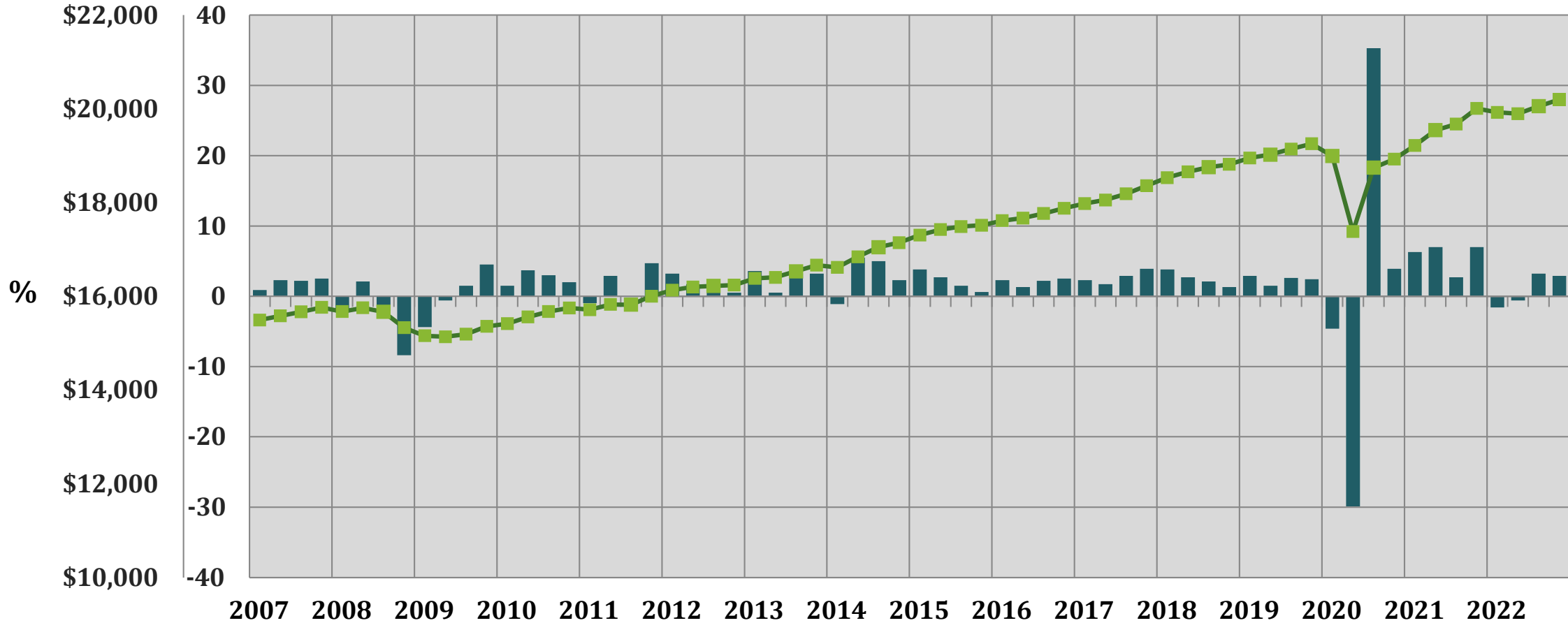
Keith Waters, Ph.D.

Center for Regional Analysis / Stephen S. Fuller Institute
Schar School of Policy and Government
George Mason University

February 02, 2023

U. S. Gross Domestic Product

■ Quarterly Change ■ Real GDP (Billions)



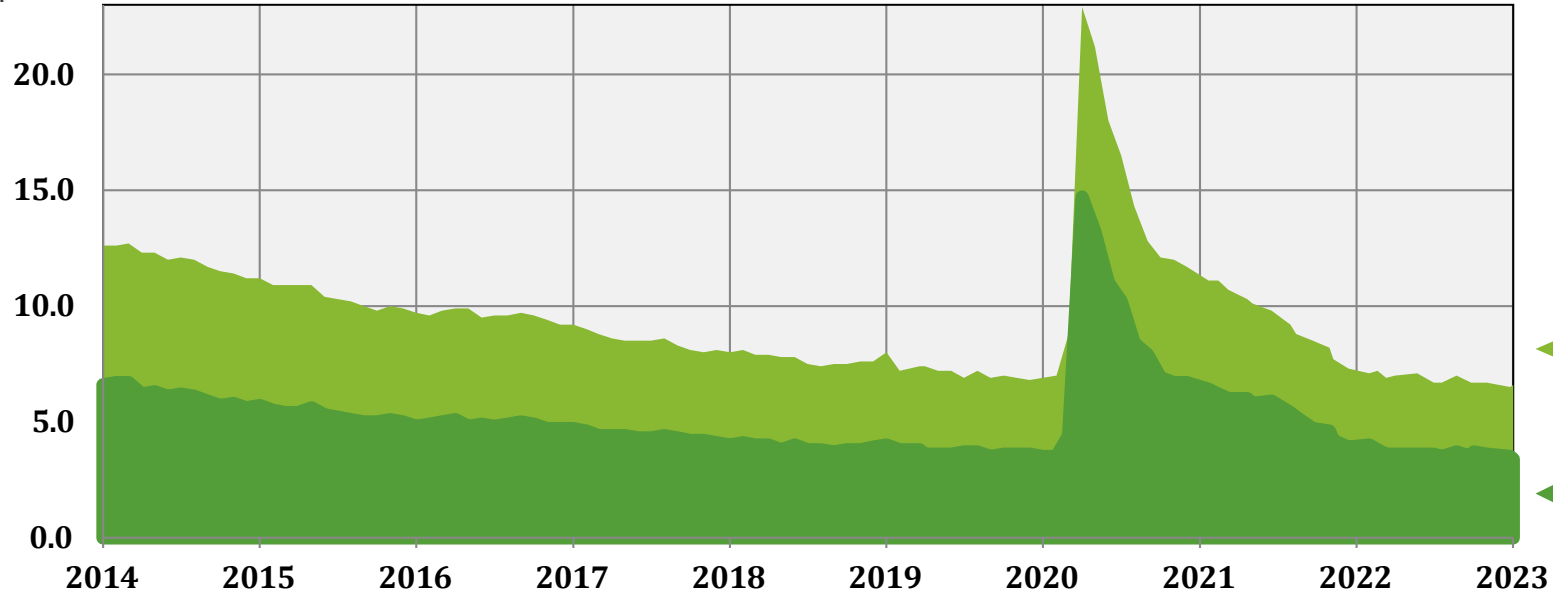
Q4 2021-Q4 2022 1%

Source: Bureau of Economic Analysis (Seasonally Adjusted, Chained 2012 Dollars)

U. S. Unemployment

U-6

U



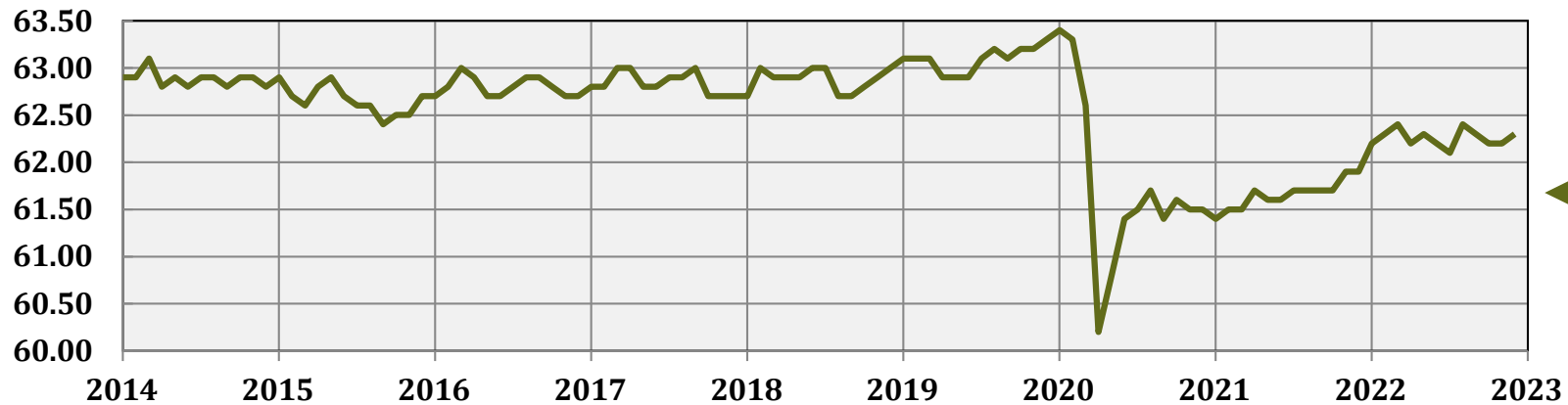
Jan
6.6%

Dec
3.4%

Jan 2022 -
Jan 2023
(12-mo.)
change:

U-6 -0.5%
UR -0.6%
LFPR 0.2%

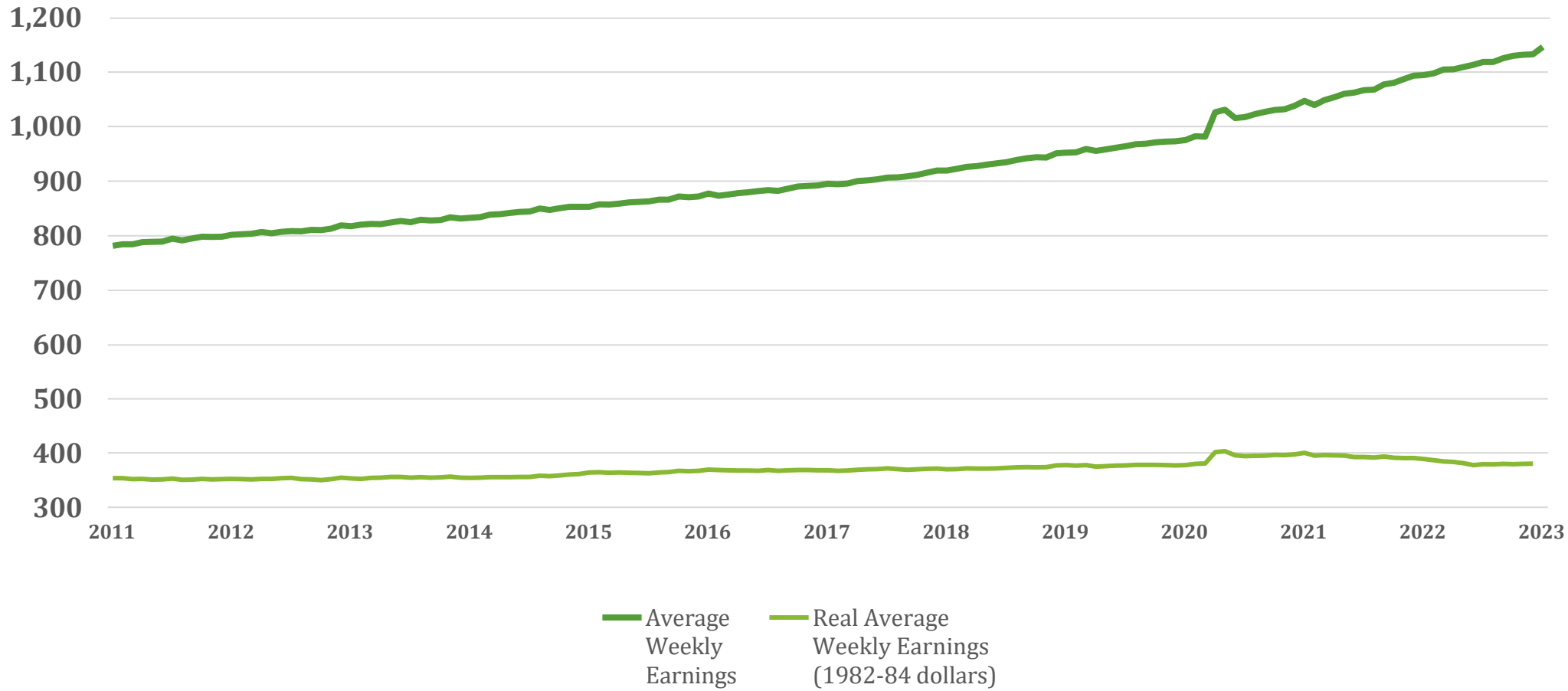
LFPR



Dec
62.4%

Average Weekly Earnings

U. S., Total Private, Across all Industries



**12-month
 % change
 (MOTYC)**

Jan 2023

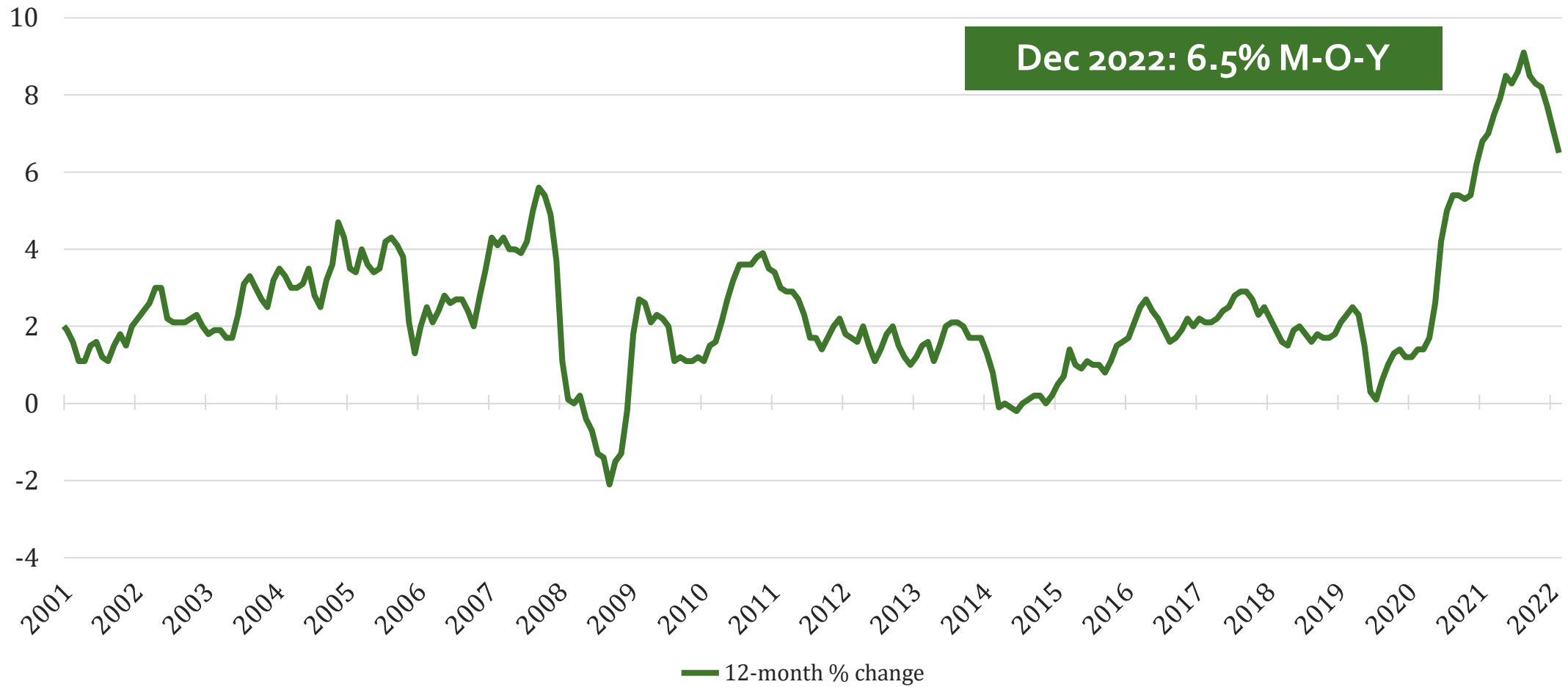
**↑ Avg Hourly
 Wages
 +4.4%**

**↑ Avg Weekly
 Earnings
 +4.7%**

**↓ Real Avg
 Weekly
 Earnings
 -3.1%
 Dec '22**

Monthly Consumer Prices

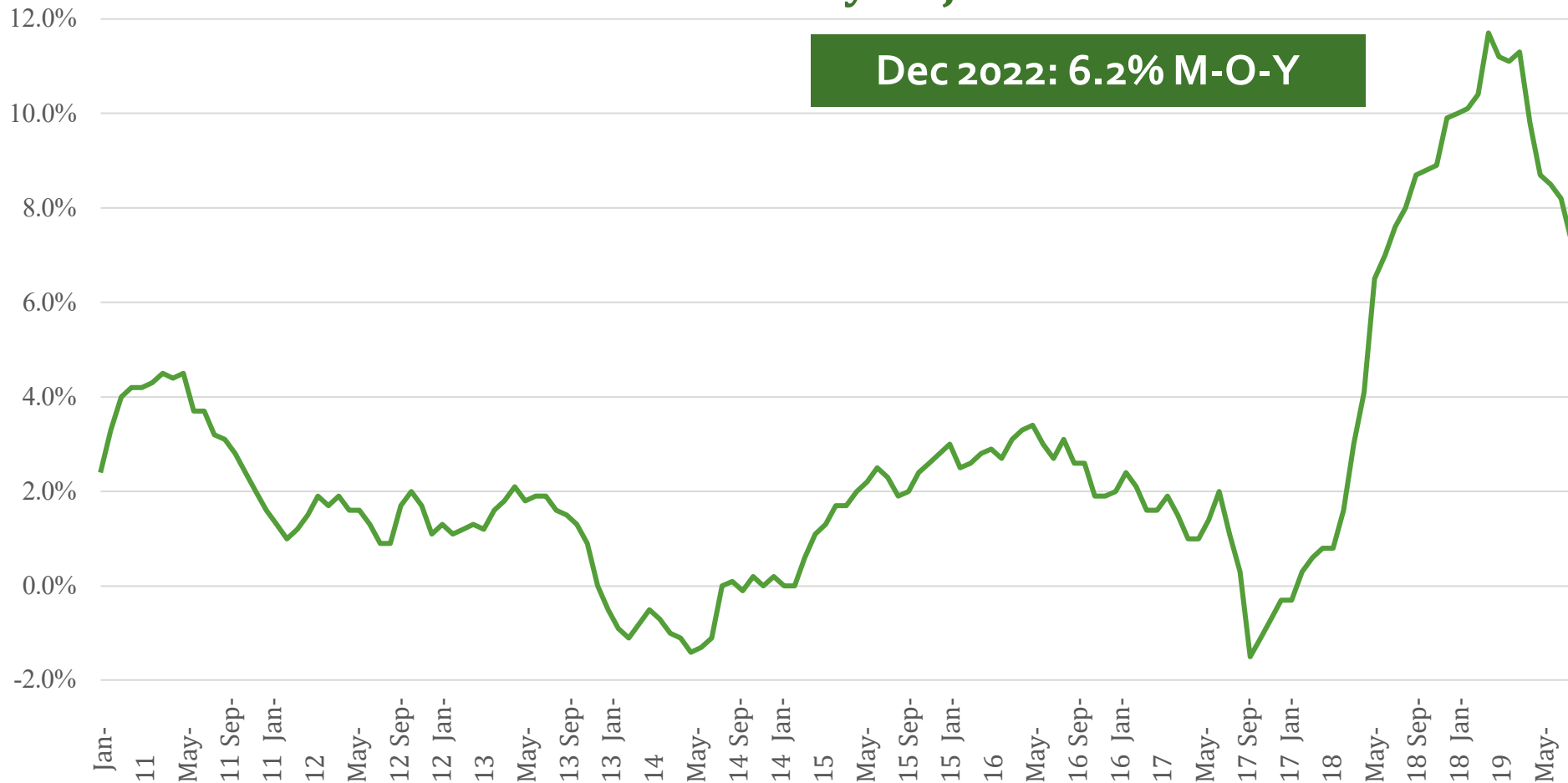
2001 - 2022



Source: Bureau of Labor Statistics, GMU Center for Regional Analysis

Producer Price Index

Change in Final Demand from 12 Months Prior
 Not Seasonally Adjusted



**Dec 2021 -
 Dec 2022
 (12-mo. change)
 6.2%**

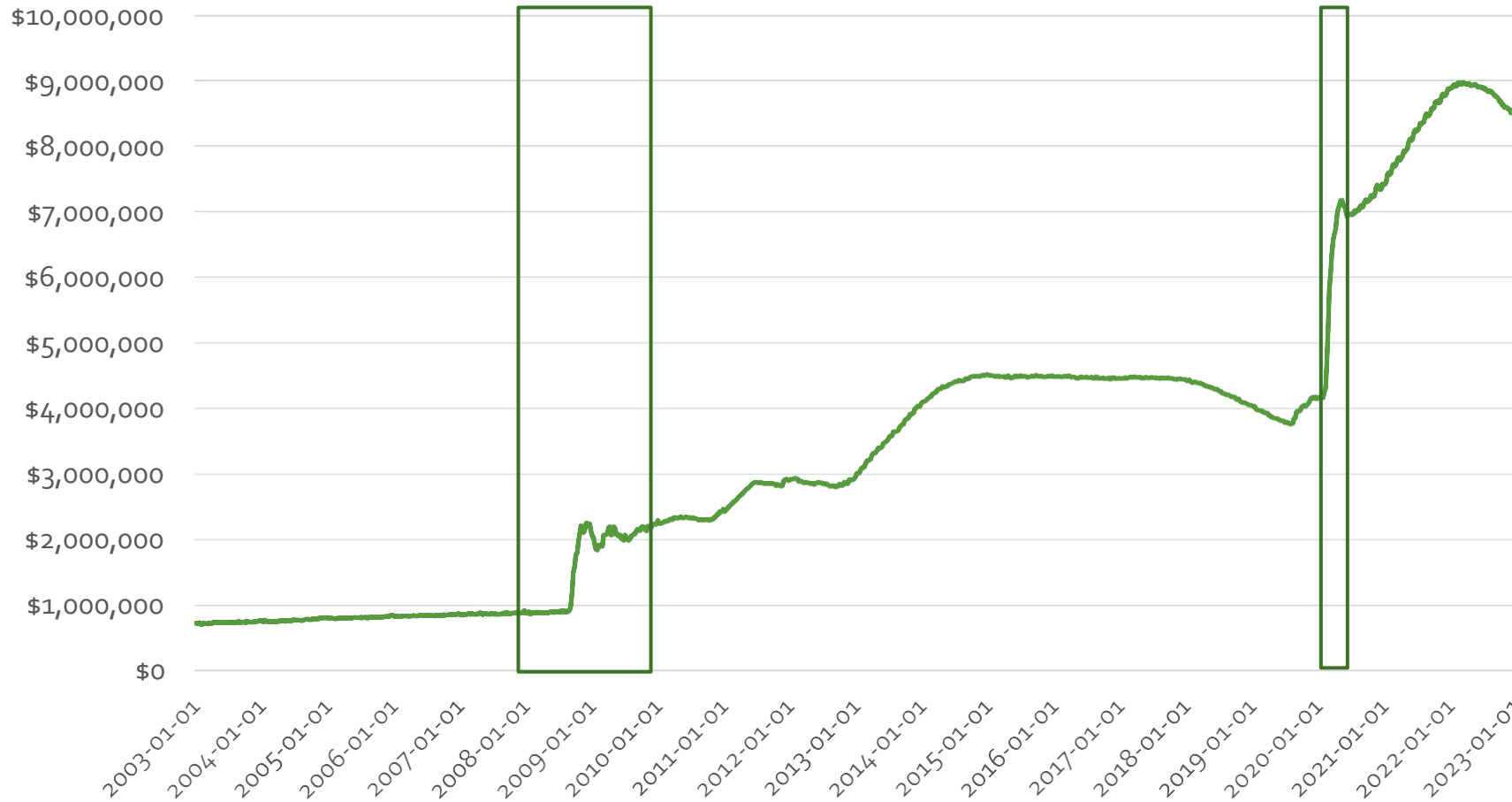
**Gasoline
 -13.5%**

**Services
 +0.1%**

**Peak
 March 2022
 +11.7%**

Federal Reserve Total Assets

Weekly, NSA
 Millions \$



Week
Jan 25, 2023
\$8,470,557

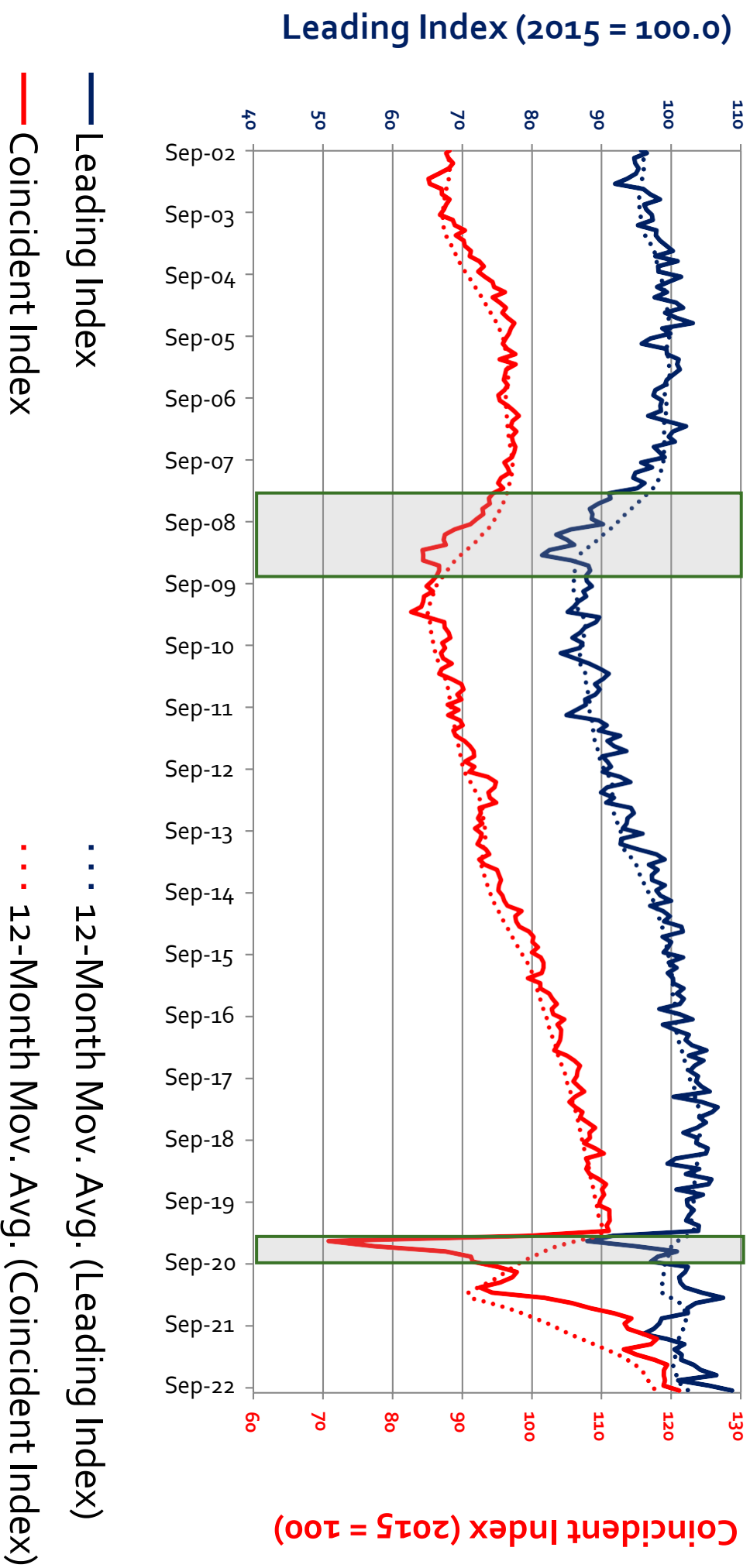
Week
Jan 26, 2022
\$8,860,465

Stories of 2023 – U.S.

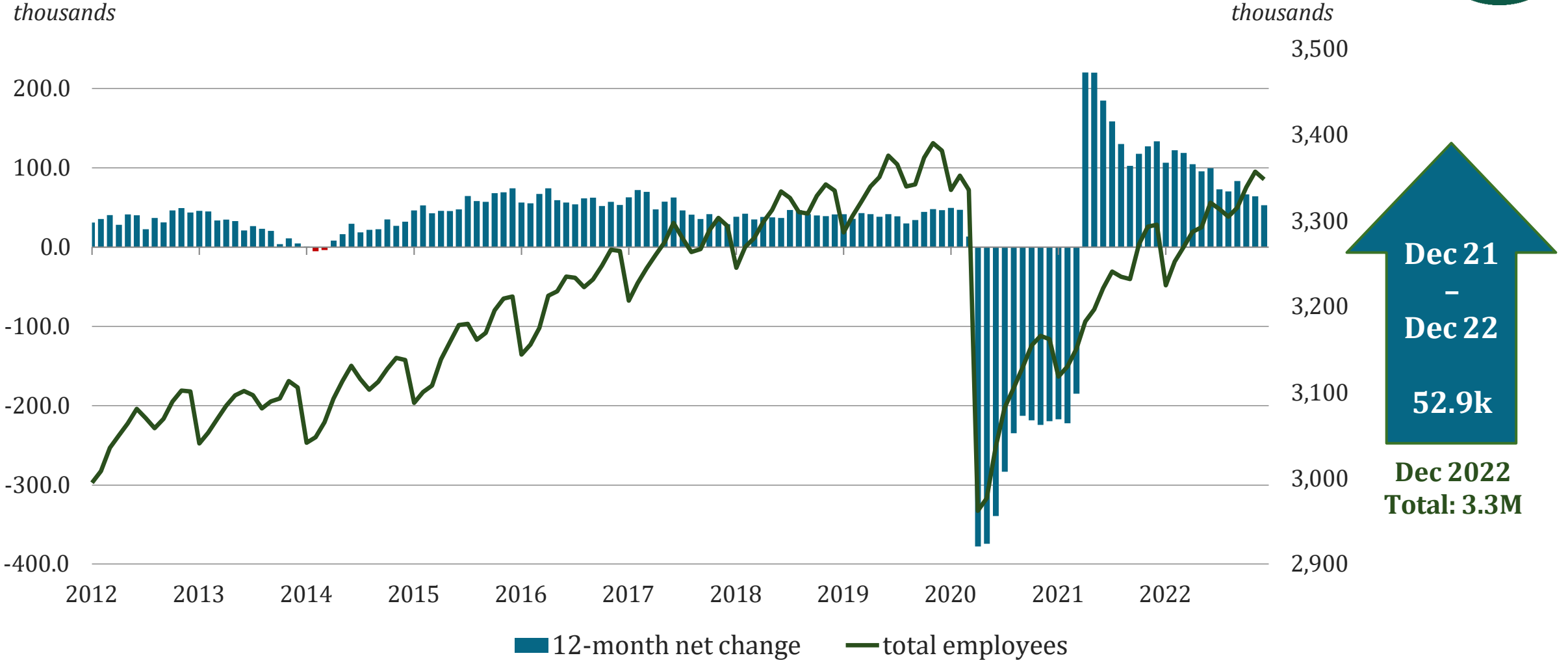
- **Inflation**
 - 2023 4%-5%
 - 2024 3%-4%
 - 2025 +/-3%
- **Interest Rates**
 - (3 hikes in '23)
 - Pause in timing
- **Pandemic**
 - Supply chain issues unwinding
 - China COVID zero re-do (?)
- **Stock Market**
 - bit coin?
 - 2023 sideways
 - 2024 growth, not driven by tech
 - Earnings back in vogue
- **Conflicts**
 - Ukraine drags on for 2023
 - Taiwan is a bluster zone
- **Federal Spending**
 - 2023-2024: Spending winding down
 - Infrastructure uptick
 - Debt ceiling/funding drama?
- **Bottom Line**
 - Job growth turns negative 2Q-3Q23
 - Fed slows pace of rate rises, but still trying to unwind assets
 - Recession mid-year
 - Growth in the spring of 24, but not solid

The Washington Economy

DC Area Economic Indices



Annual Job Change Washington MSA (2012-2022)

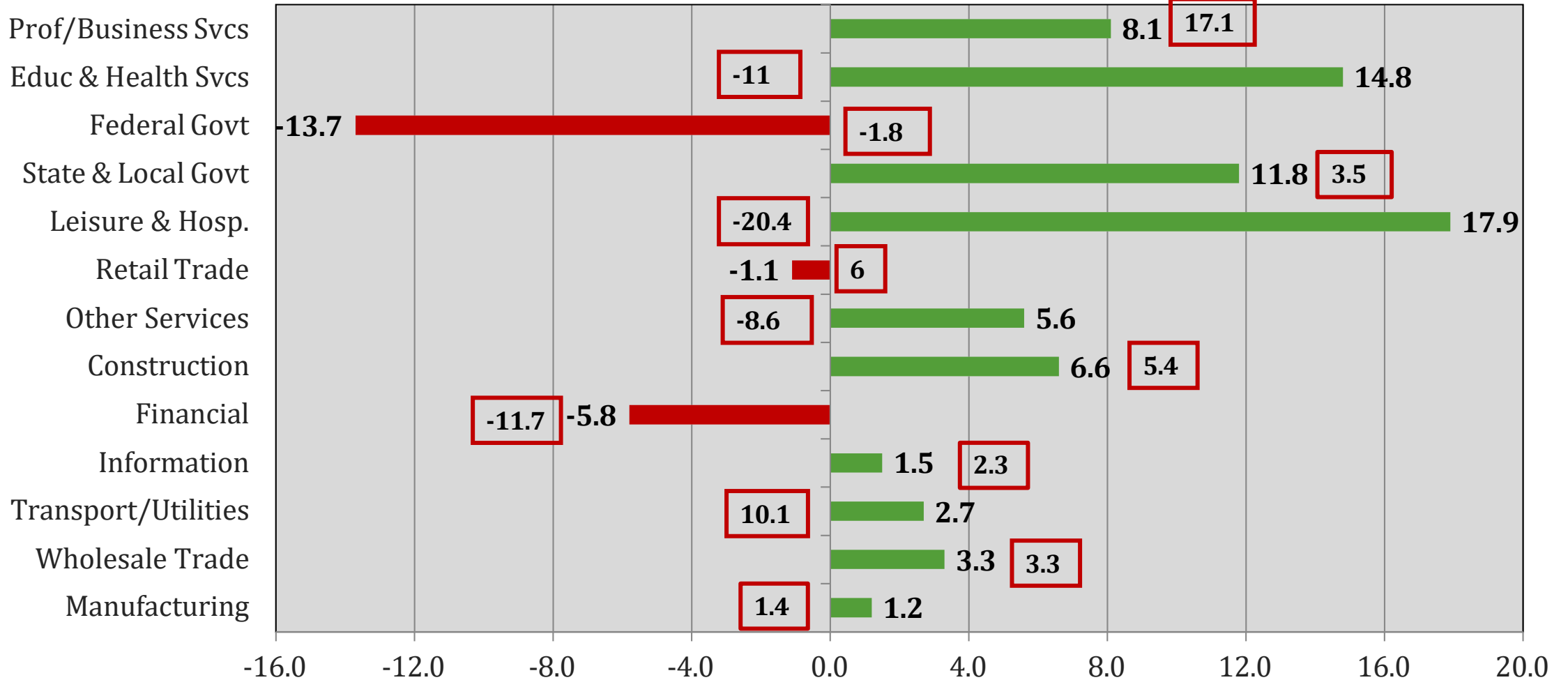


Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

Job Change by Sector Washington MSA Dec 2021 – Dec 2022

(Ranked by Size in 2019) (000s)

Total = 52.9k



Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

Federal Spending in the Washington Core Area

Fiscal Years 1980-2023

(\$ Billions)

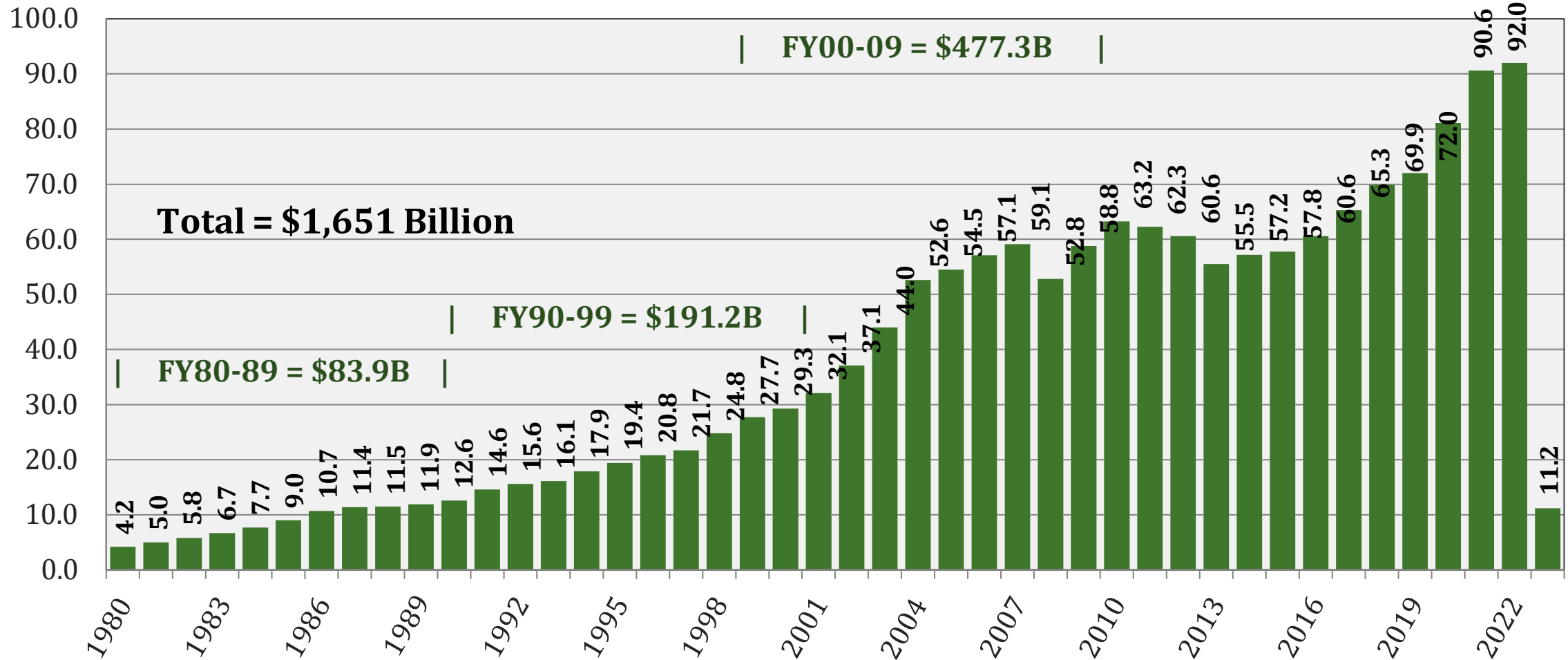
| FY10-20 = \$624.3B |

| FY00-09 = \$477.3B |

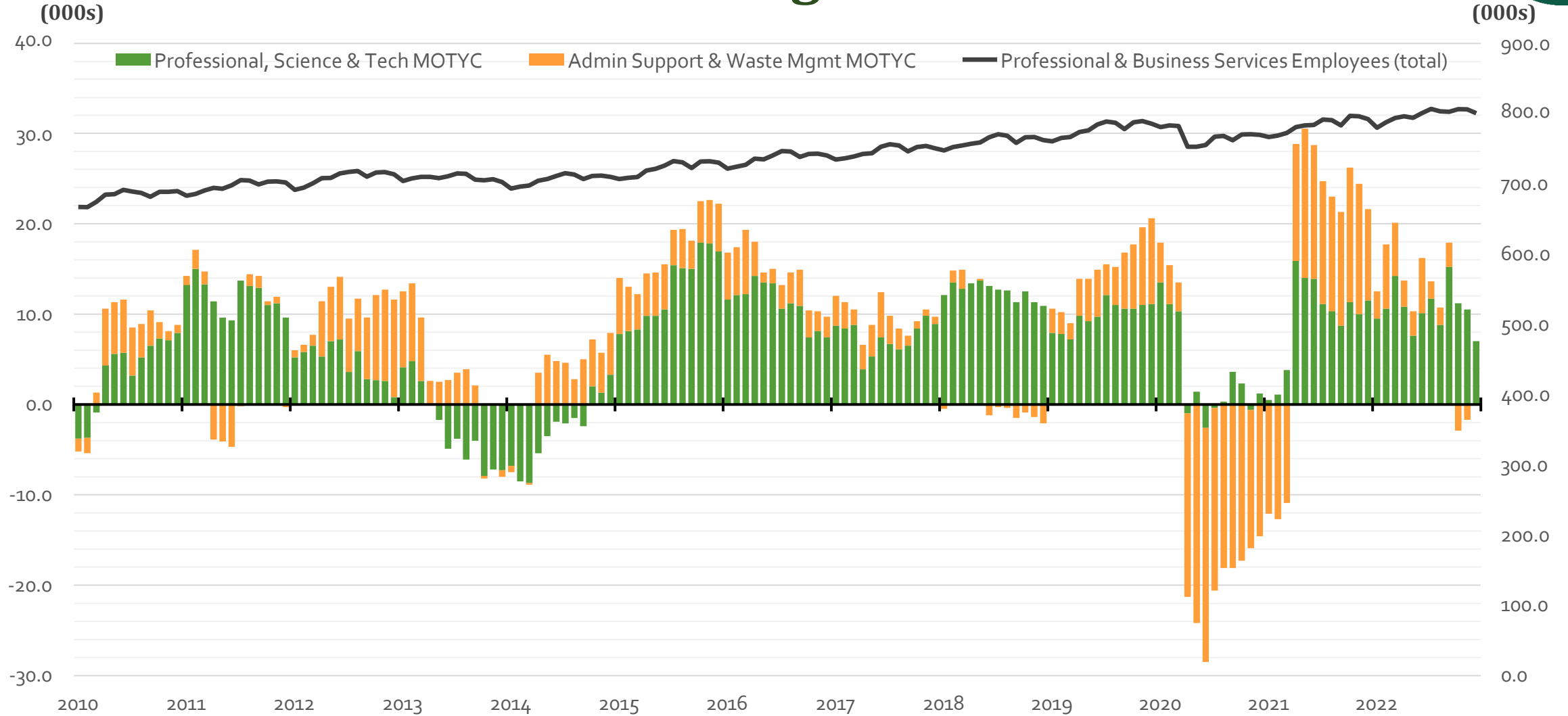
Total = \$1,651 Billion

| FY90-99 = \$191.2B |

| FY80-89 = \$83.9B |

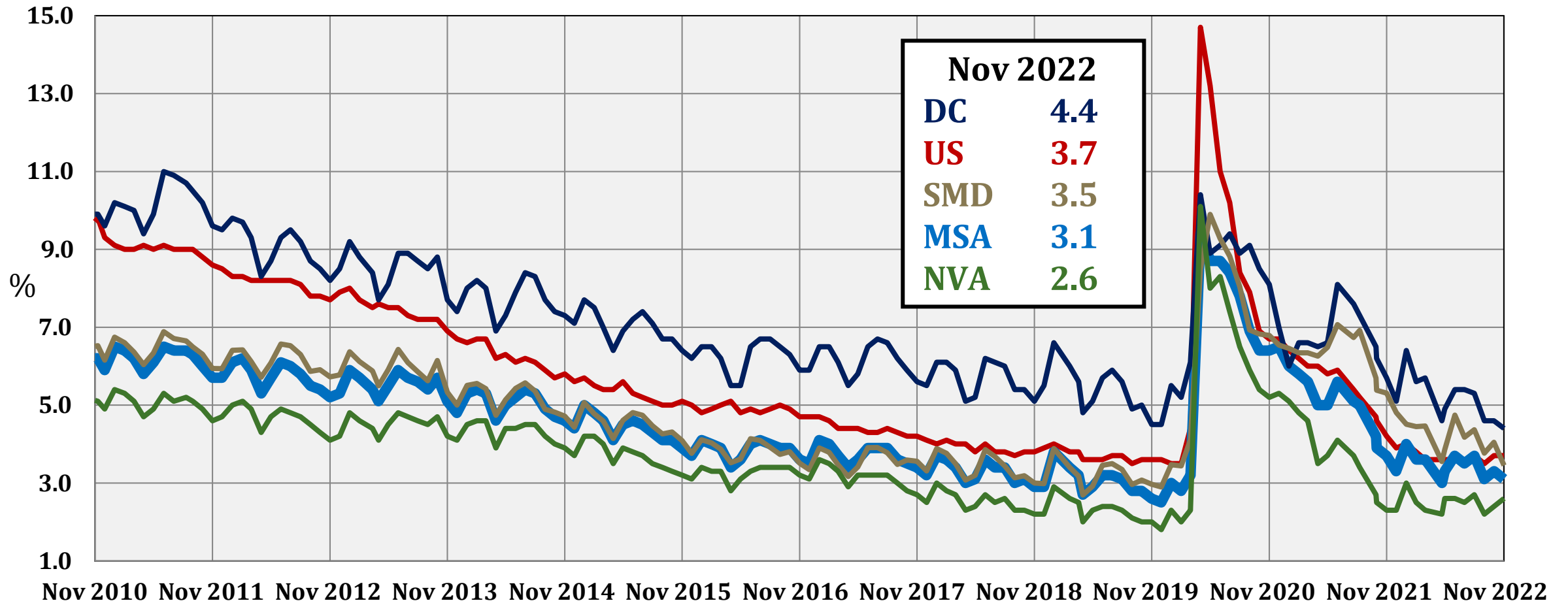


Professional & Business Services Washington MSA



Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

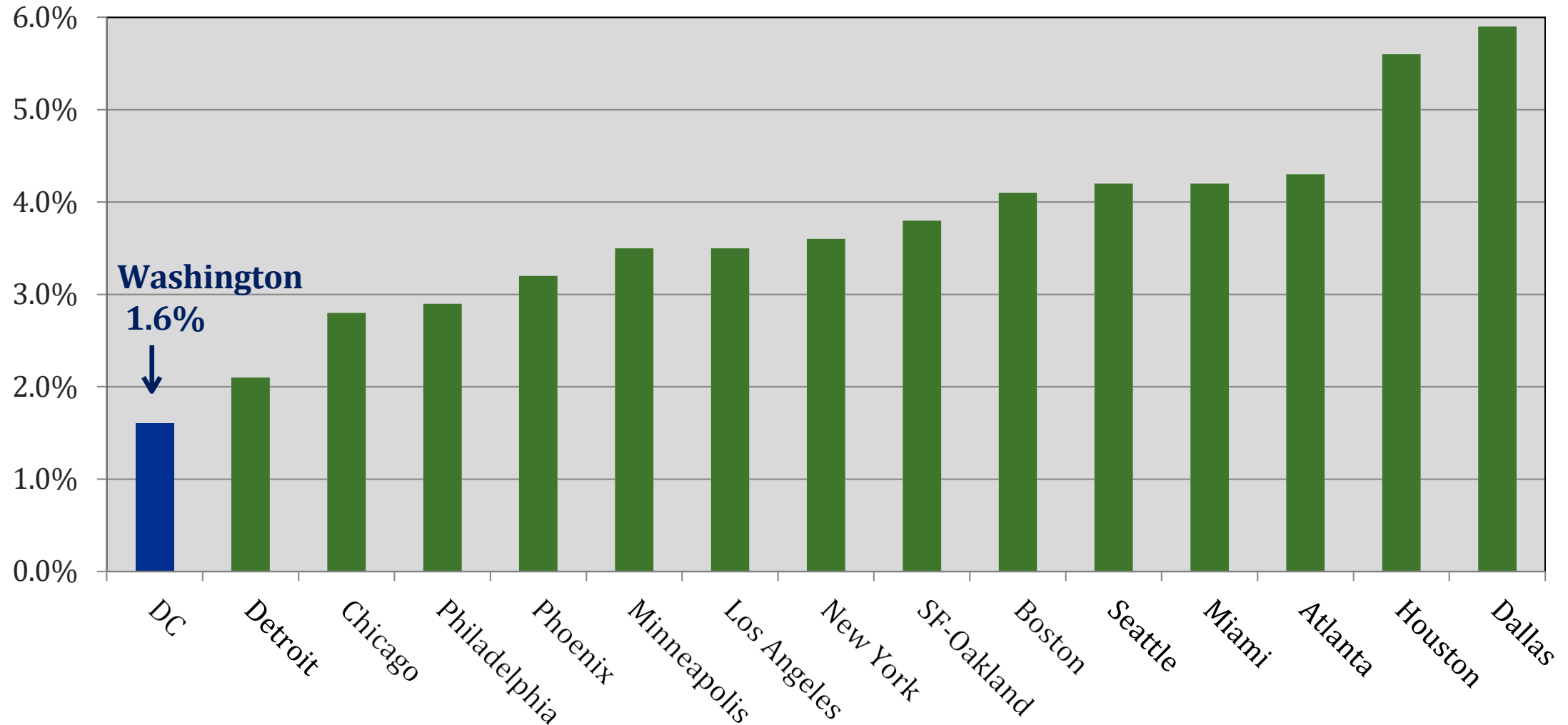
Unemployment Rates in the WMSA By Sub-State Area



Source: Bureau of Labor Statistics (Region - Not Seasonally Adjusted, US – Seasonally Adjusted)

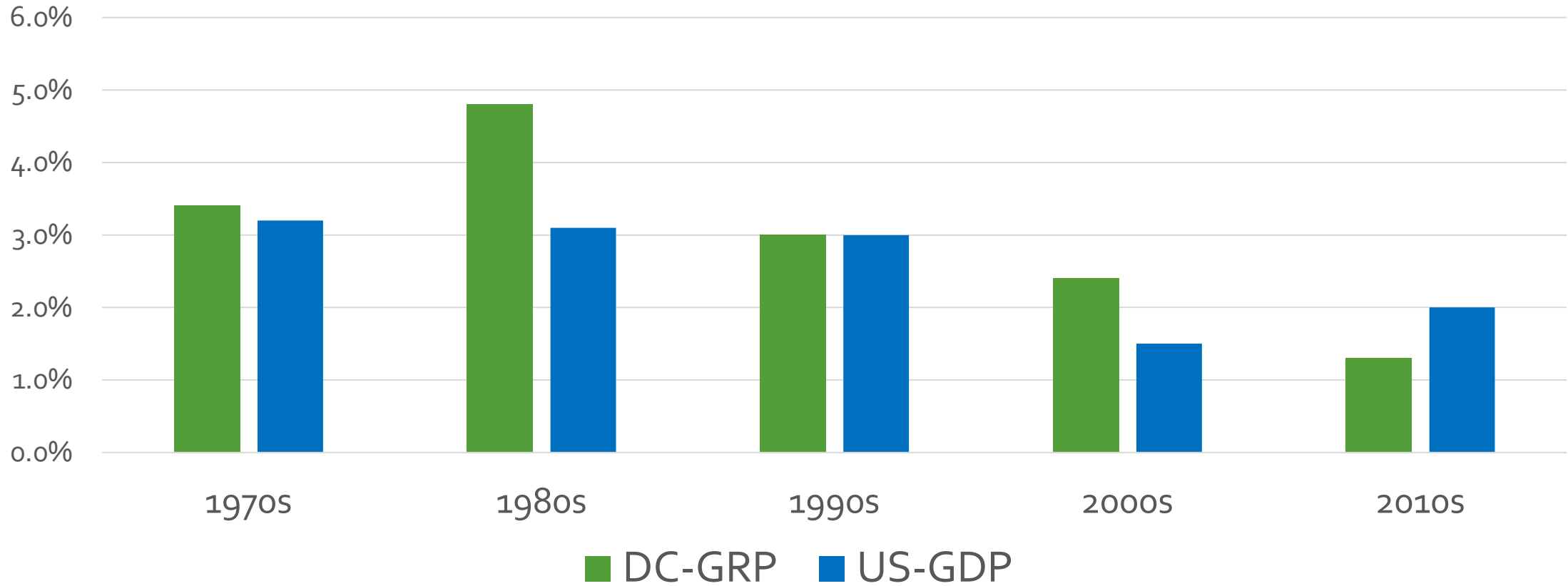
15 Largest Job Markets Job Change

Dec 2021 – Dec 2022



Average Annual Growth in GRP/GDP

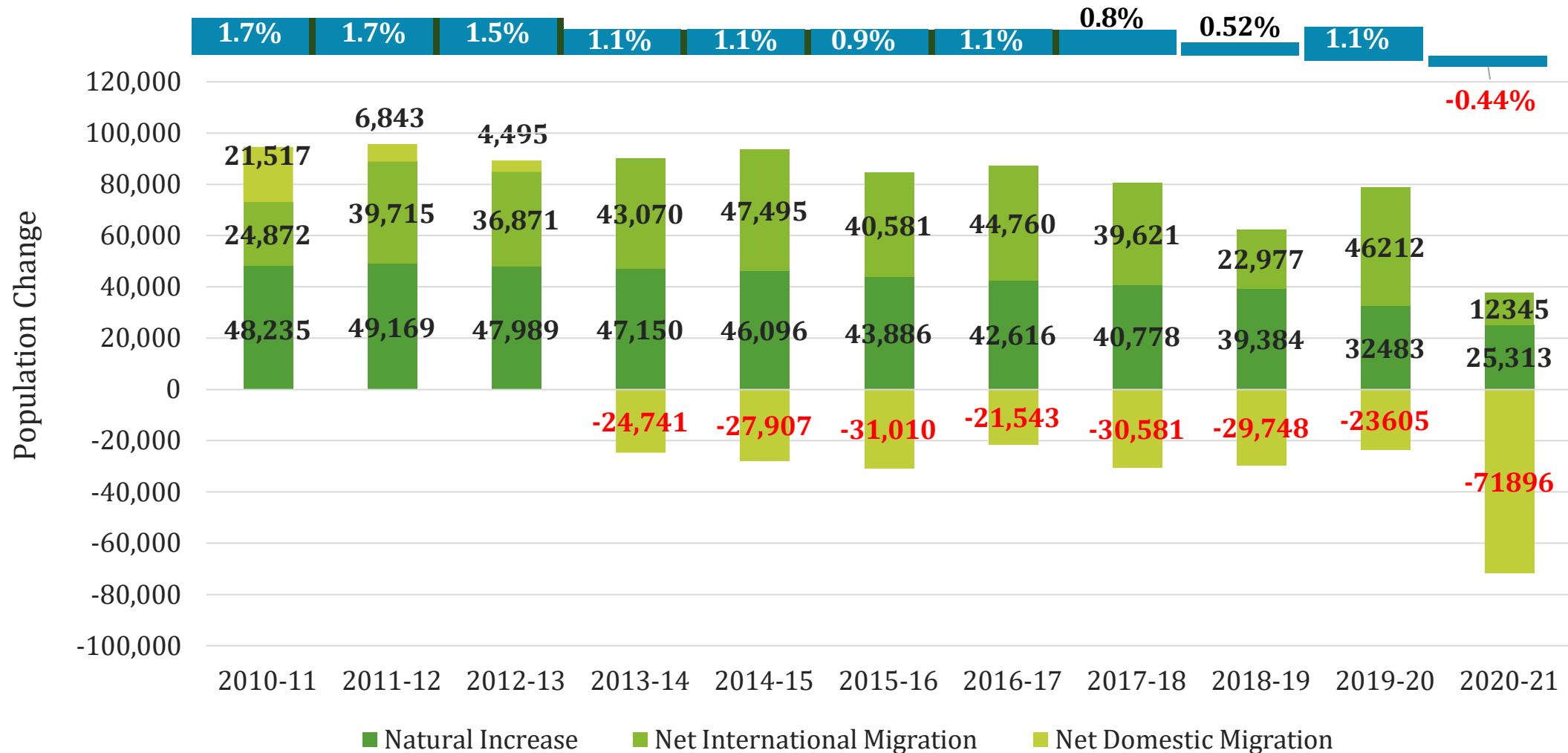
By Decade



DC Job Performance Index



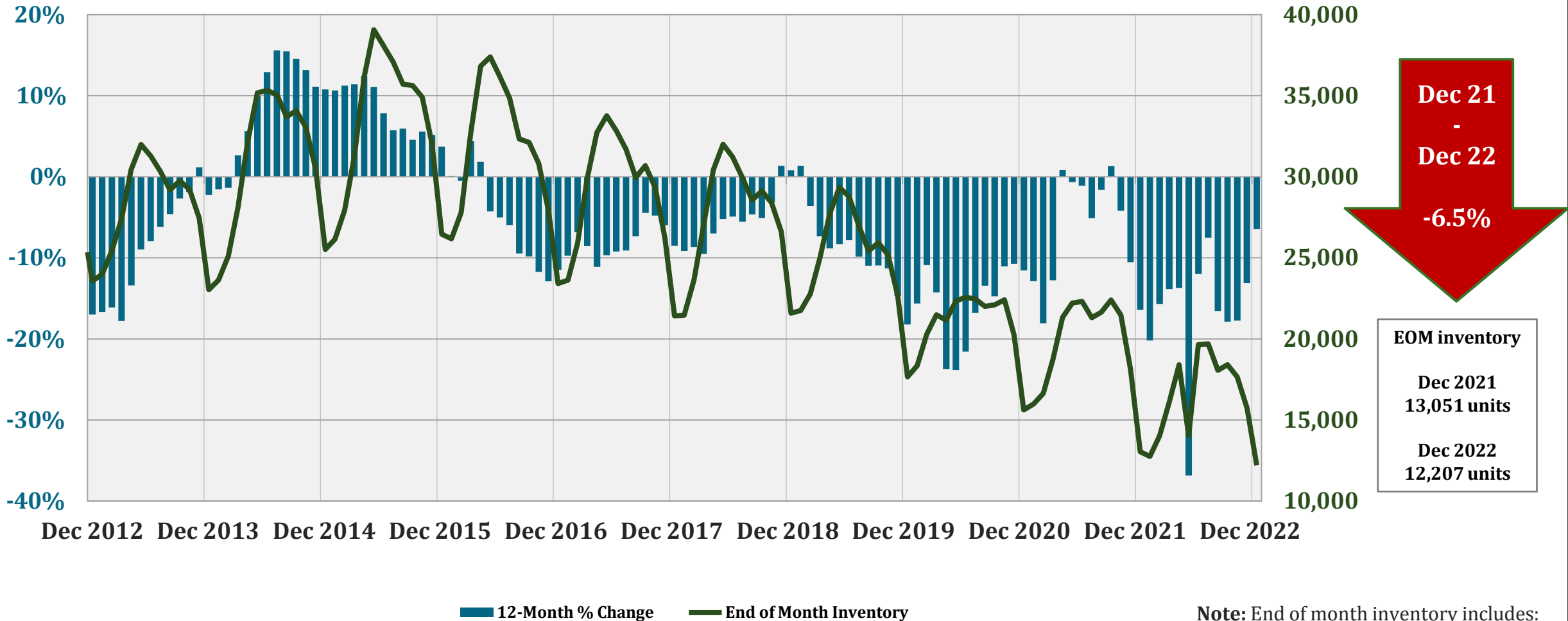
Elements of Population Change Washington MSA



Source: U. S. Census Bureau, Population Estimates Program

Inventories of Existing Homes

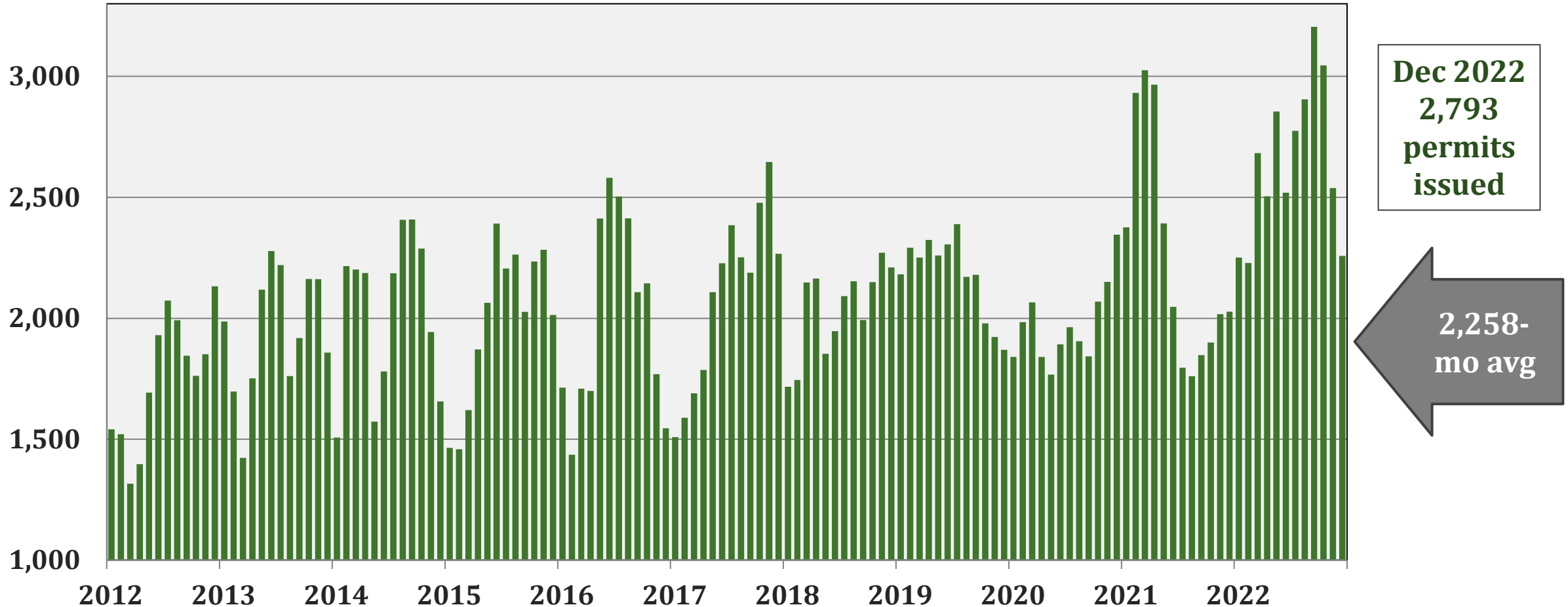
Washington MSA MOTYC (2012-2022)



Source: GMU Center for Regional Analysis (CRA); RealEstate Business Intelligence (RBI) SmartCharts (using Bright MLS data)

Note: End of month inventory includes:
(1) All Pending Listings and (2) Active Listings.

Washington MSA Building Permits 2012-2022, Three-Month Moving Average



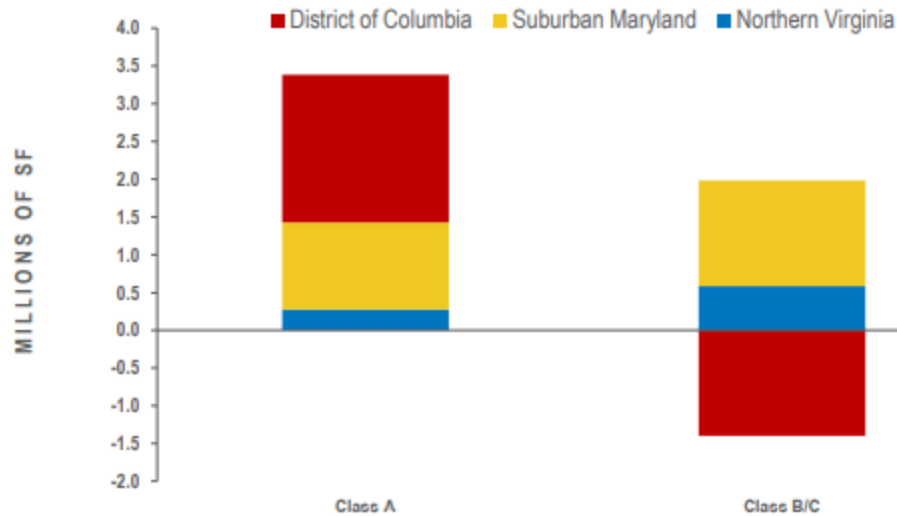
Office Market Overview

by Delta Associates

Direct Office Vacancy Rate
Dec., 2021: 13.7%
Dec. 2022: 13.6%

OFFICE NET ABSORPTION BY CLASS OF SPACE

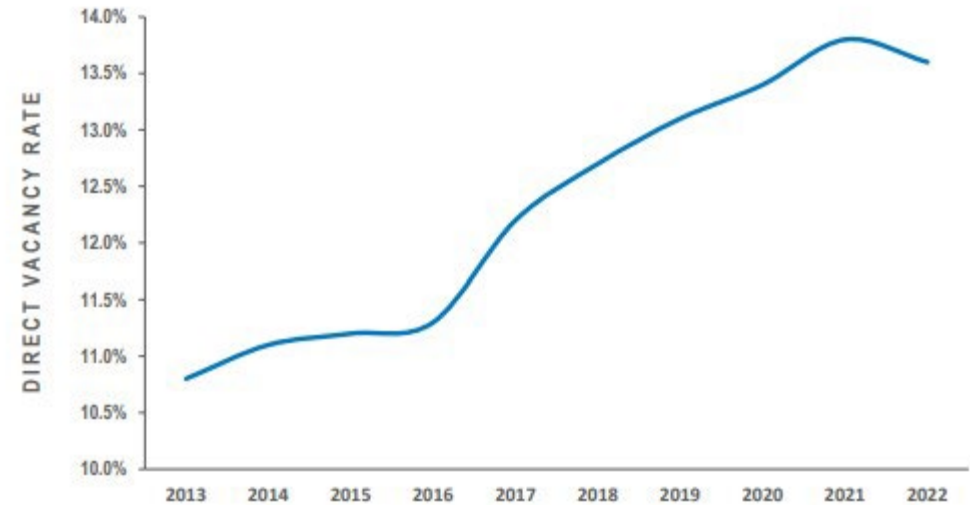
Washington Metro Area | 2020 – 2022



Source: Delta Associates; December 2022.

OFFICE VACANCY RATE

Washington Metro Area | 2013 – 2022



Note: Vacancy rate include single-tenant/owner-occupied and multi-tenant buildings.

Source: Delta Associates; December 2022.

Stories of 2023 & Beyond

- **Talent**
 - **Attraction & Retention**
 - **Workforce housing**
 - **Public transportation**
 - **Resources for young families**
 - **Vitriol in policy making**
 - **Incumbent workers**
 - **Work-From-Home/Remote Work**
 - **Competitive advantage gained/lost**
 - **Making it work– management**
- **Office market shake out**
- **Business adaptation**
 - **Entrepreneurial eco-system?**
 - **Innovation indigestion**
- **Government finances**
 - **Local gov stresses building**
 - **Commercial property value**
 - **WMATA cliffs**
- **Bottom Line**
 - **U.S. in recession**
 - **WDC performs slightly better**
 - **U.S. avoids recessions**
 - **WDC underperforms**
 - **Job growth momentum carries through Q1 & into Q2.**
 - **+30k for '23**
 - **+ 10k jobs '24**

Thank You

cra.gmu.edu