Howard County, Maryland economic INDICATORS

A Joint Publication of Howard County Government, Howard County EDA & the Howard County Chamber of Commerce

December 2014

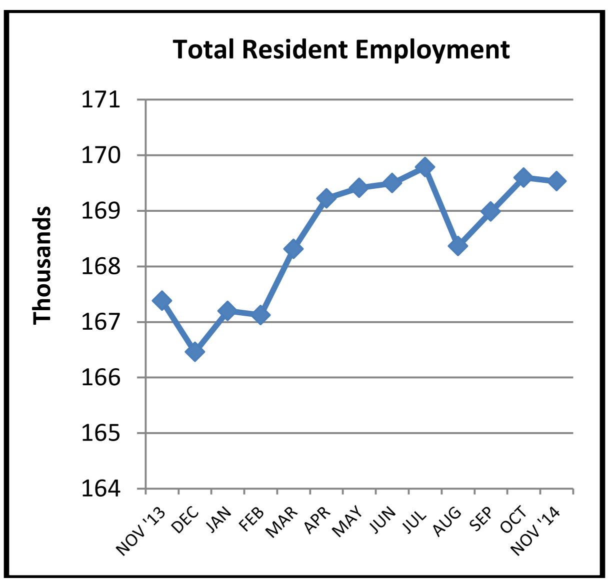
Our Mission...

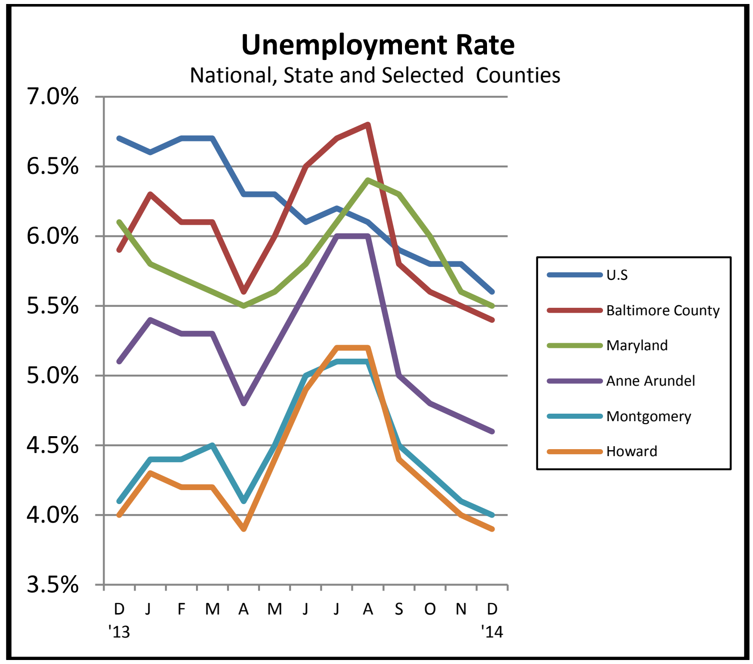
Review the most currently available economic indicators for Howard County and surrounding areas to assist in providing advance warning of possible shifts in the local economy that may be helpful in the evaluation of current and future government policies and private sector business decisions.

Economic Development

Economic development officials report increased activity, up dramatically since the last quarter of 2014. Demand for office space is at its highest level in recent years. The pipeline activity includes four prospects seeking a combined half million square feet of office space. The demand exceeds what is currently available but developers have some lead-time based on what EDA is hearing from prospects. Maple Lawn, downtown Columbia and Gateway are likely targets for new development. The projects are primarily IT and Healthcare. EDA officials also report some movement on spec projects for industrial warehouse as well as office space. EDA officials say these are good leading indicators that the economy is rebounding.

Employment...





Downtown Columbia...

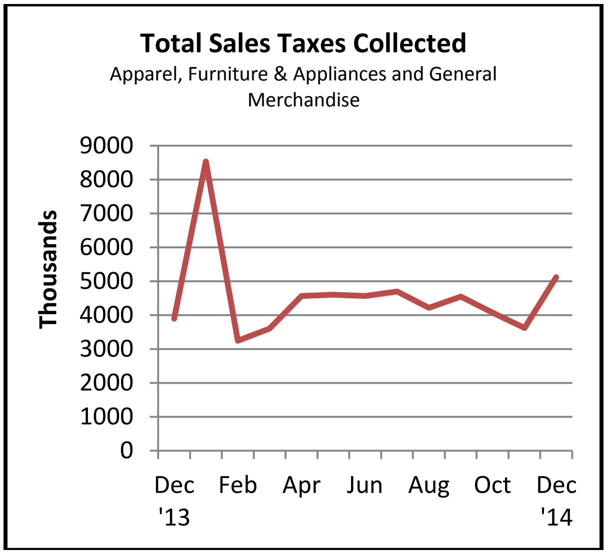
The first phase of a mixed use building in downtown Columbia is nearing completion. The 380 unit building is the first of three under development delivering a total of 817 new units once complete. The development will also include 14,000 sq. ft. of retail.

Plans are moving forward to develop the Crescent area surrounding Merriweather Post Pavilion. The project includes 1.75 million sq. ft. of office space. The build out will be market driven. When complete the project will represent almost 5 million sq. ft. of development. Along with the hotel and conference center, the project will feature community based uses as well. It will be interconnected with paths, green components and environmental site design. Rental rates are pushing about two dollars a square foot.

HOWARD COUNTY MARYLAND Economic Development Authority

HOWARD COUNTY CHAMBER of COMMERCE

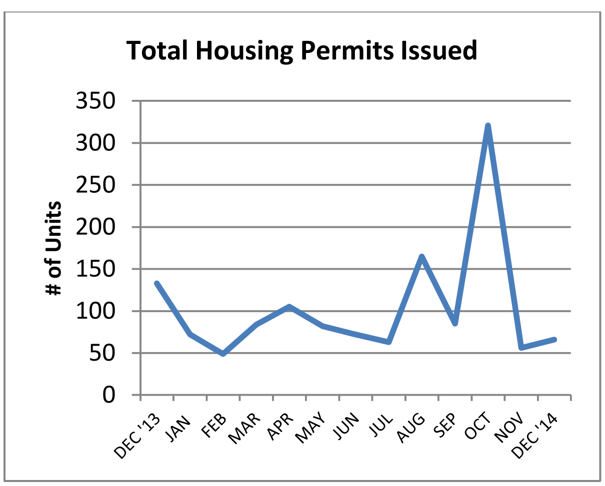
Sales Tax



Insight & Outlook

Residential Real Estate…

Housing industry experts say consumer confidence remains positive, but acknowledge the cost of buying a home in Howard County remains a challenge for many even with the record low mortgage rates.

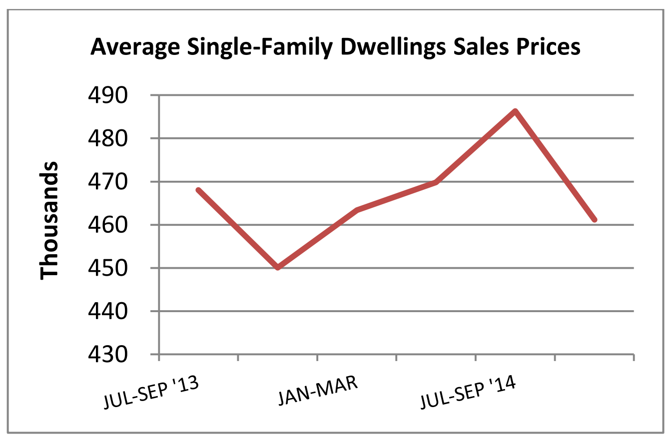


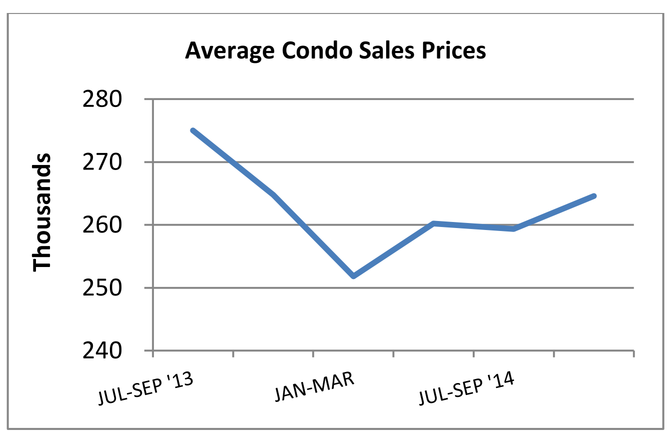
Because of the low interest rates buyers are getting more value, but there's some evidence homeownership is declining. The millennial market remains strong. Millennials are buying townhomes and condos. Many of those who are single still want the city life, but once they have kids will move to places like Howard County.

The rental market is strong. Industry experts report rentals of as much as $4,000 per month. Some renters are simply reluctant to purchase out of fear of another downturn. On a positive note, some of those who faced foreclosure or short sales are looking to re-enter the market.

While new construction is on a rise, inventory remains a challenge. Inventory is still low. Prospective buyers are having a tough time finding what they want.

Investors are also having a tough time in Howard County. Sellers are unwilling to drop prices to levels that would benefit investors, and where homes are available investors unwilling to make the improvements necessary to update older homes.



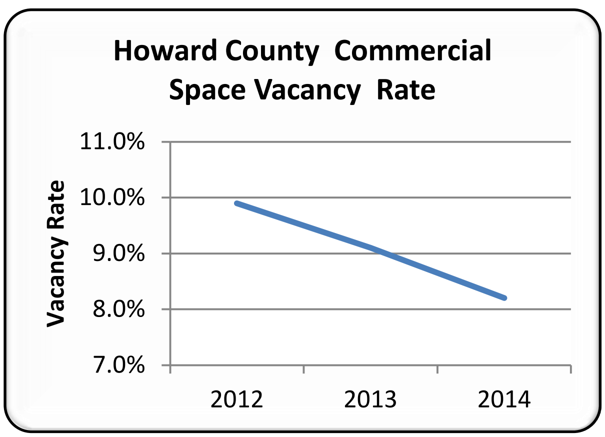


Residential and Commercial Construction….

Residential builders report improvement in the market after a robust first half of 2014. Analysts say 70% of their sales were recorded in the first half of the year. Sales declined during the third and fourth quarters. 2015 is off to a good start with both January and February trending in a positive direction.

Sales in the upper end of the market are very strong. Much of the activity is around townhomes in Maple Lawn, but overall Howard County remains a strong market.

Industry experts had no explanation for the downturn in the second half of 2014. They are also seeing a return of buyers who previously faced foreclosure or short sales.



Service Industries…

Banking…

Most of the commercial lenders are reporting solid production based on the year-end statements. Confidence is stronger going into 2015. Companies have already cut expenses and overhead and now as they add incremental revenue they're becoming more profitable.

Lenders are winning more bid opportunities with strong margins and that is creating new job opportunities. There is strong demand for technically or mechanically skilled employees.

Low gas prices and no upward pressure on interest rates are fueling the optimism. On the consumer front, they continue to see strength in home equities because rates are so low. Lenders can get home equity loans in the 2.75% range. Despite the low rates lenders say some clients are reluctant to move perhaps because many have never seen the kind of double-digit rates that more mature analysts remember.

Professional Service…

Activity is picking up. US Cyber Command is now the lead agency on contracts coming out of Fort Meade and they are seeing larger awards. Most of the solicitations are focused on cyber.

Agencies are increasingly focused on time and materials and not so much on the lowest cost. Analysts say the change in direction is a function of the new leadership at the top of Cyber Command.

There are still more than jobs than people with clearance levels needed to fill them. The process for getting people cleared is moving faster, but shortages still exist. The process used to take up to 18 months. Some clearances are now being completed in as little as eight to nine months.

Analysts also report that Cyber is starting to encompass not just security but also health and banking as people begin to realize the importance of safeguarding these sectors. The awareness is still not where it needs to be but it's improving. Budgets are still on quarterly increments. They don't expect to see full funding until June, which makes it tough for contractors to plan.

Retail…

Lower gas prices are starting to impact the energy sector where some layoffs are being reported. Retailers also report good sales in food, but softer sales among durable goods. The Port slowdown on the west coast is a major concern. Durable goods could be delayed up to 28 days due to the labor tension. Products like lamb and beef are being diverted to east coast markets to ensure they arrive in time for Easter. Unless the labor issue is resolved analysts say it will impact the retail economy this spring.

Auto industry experts report robust activity. Low gas prices affect the kinds of vehicles that are being sold. For instance sales of small SUV's are up. Dealers are anticipating rate action from the Fed in July or the 3rd quarter, which could impact zero percent financing options.

Dealers report the fixed operation side of the business such as parts, service, and collision is pretty robust as well. The average collision repair cost is $2700. Insurers are looking heavily at parts cost which eventually translates to premiums.

Dealers report the average profit margin on new cars is about four percent, and that there are actually negative margins on a lot of the sales. Companies are making their profits on financial products.

One of the industry trends noted is a shift toward more online sales. 10% of the current purchases are online. That number is expected to jump to 90% in the next five years.

Industry experts say consumers no longer want to spend four hours at a dealership. Most are doing their homework online including checking inventory and applying for credit. The changing business model will affect the kind of employees dealerships look to employ with the need for highly skilled sales people being eliminated.

Federal Reserve

Inflation is below where the Federal Reserve would like it to be. Ideally the target is two percent. It's currently at .7%. The good news about the energy cost is that it's providing more household purchasing power. Consumer spending is up three quarters of gross domestic product.

The housing market remains slow. It's the least bright spot in the economy. Business investment in equipment is quite robust. Slack in the labor market has been substantially reduced. Job growth is robust. Unemployment is 5.7%. The labor market improved dramatically last year. The current slack in the labor market is being caused by aging baby boomers. With the stock market coming back people are feeling more secure. Some at the Fed see energy prices as transitory. They don't expect a tremendous impact on the economy from lower prices. The prices are impacting exploration. The real variable is when the Fed will raise rates. Hawks at the Fed want to raise rates sooner than later. There is no sign they will raise rates in June. They are watching the international market, but say situations like the one in Greece have no real impact on U.S. economy.

Chamber of Commerce

Chamber members are feeling optimistic overall. Members are keeping a close eye on the current General Assembly session. They will be watching for any new legislation that could affect businesses. There is already concern over the increase in the minimum wage, and talk of paid sick leave is troubling for some. Even big business is apparently concerned over the minimum wage and its potential impact on collective bargaining.

Spending Affordability

The focus of the group this year is on longer-term debt and longer-term sustainability and the nature of long-term expenses. This new group is very business focused with a keen interest in the debt to income levels being carried by the county.

The committee will be looking at demands on the budget and income projections, and then how the county executive should prioritize. They are looking at want versus need.

For the last two years the committee recommended $120 million in bonds. This year they're likely to seek $100 million. The county retains its Triple-A bong rating. Committee members say they don't want long-term debt to exceed 10% of revenue. Future projects will be scrutinized through a lens of wants versus needs. And where projects are pursued, should it be the gold star product or an A-plus product?

The county is facing a $15 million projected shortfall. Agencies have been asked to cut 5% from their budgets. Analysts say the shortfall had more to do with an anomaly that saw income tax receipts spike in 2013 only to fall back in 2014 leaving a budget gap based on the lack of anticipated revenue. Experts say they're hopeful more normal revenues will return this year.

Summary

<u>EMPLOYMENT:</u>

Resident employment in November 2014 reached 169,530 individuals. The unemployment rate for November 2014 was 4%, the lowest in the State of Maryland. This rate remains significantly below the State rate of 5.6%. The FY15 average unemployment rate for the county is now 4.6% compared to the FY14 average of 5.1% thru November.

At Place Employment as reported for June 2014 was 163,976 a decrease of 0.79% compared to the June 2013 level of 162,677. Total wages reported for April thru June 2014 were 1.48% higher than the April thru June 2013 level, increasing from $772,658,179 to $784143935. The average weekly wage reported for April thru June 2014 was $1,118 up $5 or .45% from the $1,113 reported for April thru June 2013.

<u>COUNTY REVENUES:</u>

Personal income tax receipts as reported for November 2014 were $110774070. This is a decrease of 4.4% or $5,215,067 less than the November 2013 level. Fiscal year to date FY15 income tax revenues were 8.5% below FY14 levels through the same period. Planning & Zoning fees are reported for November 2014 and are 26.8% lower than the November 2013 level. Fiscal year-to-date collections for these fees are 11.6% higher than the FY14 levels. Transfer tax is reported for December 2014. Compared to December 2013 current collections are up 5.0% in December 2014. Average fiscal year-to-date collections for FY15 are up 5.6% when compared to FY14 levels through the same period.

<u>CONSTRUCTION:</u>

Building permits issued in December 2014 decreased by 12.9% compared to the December 2013 level. Fiscal year 2015 to date permit activity reflects an increase of 148 permits or a 12.7% increase from fiscal year 2014 level of 1,159 units. FY15 to date SFD permits are up 8 units in December 2014 compared to the prior year. Fiscal year to date the number of single family attached units is down 60 units or 20.5% from FY14 to FY15. Multi-family permits posted 7 units in December 2014, down 47 units from December 2013. Non-residential new and additions, alterations, interior completions (AAI) permits were at 39 in December 2014 and 41 in December 2013, a decrease of 4.9% or 2 units. The estimated non-residential construction cost reported for December 2014 was $12,789,872 compared to $15,198,282 in December 2013.YTD FY15 estimated construction costs were $86.6m compared to $36.9m or 134% above estimated construction costs reported YTD FY14 thru the month of December.

ECONOMIC INDICES:

National Leading Economic Index (LEI) as reported for December 2014 was 106.1. Compared to the 99.2 reported for December 2013 this represents an increase of 6.9%.

REAL ESTATE:

Average sale prices for single-family homes (includes single family detached and town homes) December 2014 increased by 2.1% from the December 2013 average of $457,996 to $467,544. Fiscal year-to-date the average price has increased by 3.2%. A total of 219 single-family homes were sold during December 2014, an increase of 14.7% or 28 more units than the 191 units sold in December 2013. Average units sold fiscal year to date were 718 compared to 703 units thru December 2013, an increase of 2.1%. Condominium prices in FY15 for December averaged $264,592, a decrease of .80% from the average price of $264,808 in December 2013. Sales of condo units in December 2014 totaled 147 units compared to the 153 units sold in December 2013.The commercial office vacancy rate for December 2014 was 12.1%, up from 13.4% in December 2013. The vacancy rate does not reflect pre-leased new construction. Square footage available in the county as of December 2014 was 12,026,291 s.f. compared to 12,133,494 s.f. for December 2013. Net absorption for the fourth quarter of calendar 2014 was 161,954 s.f. compared to net absorption of 333,327 s.f. through the fourth quarter of calendar 2013.

SALES TAX:

December 2014 collections for Apparels decreased by 3.5% compared to the level collected in the same month last year. The FY15 average receipts to date decreased by 1.6% when compared to the prior year. Collections reported for December 2014 Furniture and Appliance sales increased by 0.9% compared to December 2013. Fiscal year-to-date, average revenues thru December 2014 increased by 7.1% from the previous fiscal year. General Merchandise collections increased by 53% in December 2014 compared to December 2013. Fiscal year-to-date average levels increased by 1.5% compared to the prior year. It should be noted sales tax revenues are not returned to the county as direct revenue. They are an indicator of discretionary spending in the county as reported by local businesses to the State of Maryland.

The members of the Economic Indicators Review Committee express our sincere appreciation to several departing members. ***Ray Wacks, Jim Peacock*** *and* ***Don Stitely*** *have been dedicated members of this committee for many years and their contributions will be forever appreciated and missed. We wish you all continued success in your future endeavors.*

Economic Indicators Review Committee

Janice Bauman, J.M. Bauman Associates	**Gov Contracting**
William N. Chalfant, Jr., TD Bank	**Banking**
Nancy Cummins, Long & Foster	**Residential Real Estate**
Chip Doetsch, Apple Ford	**Auto Sales**
David Liby, Costco	**Retail**
Tim Morris, Williamsburg Builders	**Residential Builder**
Chris Myers, Super Book Deals	**Internet Sales**
Anita Gentile Newcomb, AGNewcomb	**Federal Reserve**
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