



Howard County, Maryland *economic* **INDICATORS**

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.

June 2013

Insight & Outlook

Residential Real Estate...representatives reported the local resale market continues to be extremely busy. Again, all of the right indicators are up and all of the bad are down. One of the biggest challenges remaining is appraisals. It is not uncommon for appraisals to come in less than the contract/offer price. There appears to be some sort of disconnect between the market price (at least what buyers are willing to pay) and appraisals that is frustrating buyers and sellers. Prices are slowly rising. Multiple contracts are becoming more common. Town homes in particular are very hot and are generating multiple offers within days of being listed. Buyers must be aggressive in their offers and many are frustrated by the number of offers they may need to submit to be successful. Sellers on the other hand are very happy as the short supply of homes is fueling the robust market. Qualified buyers are "coming out of the woodwork," as interest rates make buying very attractive. Inventory as of April 2013 for all types of homes in Howard County was down 38% compared to April 2012. This equates to less than a 3 month supply of homes available. The number of days on market is now 53 compared to 67 in April 2012. Renting is still a popular option and rents remain high. Many renters have credit issues and cannot secure a loan. More cash buyers are appearing and appraisals are not a problem for these buyers. The issue with cash buyers is they want the deal, so these offers tend to be less aggressive and sellers have to decide if they want to accept the sure offer or wait for a more attractive offer. Condo sales are doing much better as more condo communities are being FHA approved. Regionally this sector also appears to be performing well.

Service Industries...representatives reported the media frenzy around the layoff of air traffic controllers caused a dip in demand for transportation services as travelers were concerned about air travel. Recent cruise ship problems have migrated into this sector as well as several weeks of cruises have been cancelled. Volume is good however despite these setbacks. Despite price increases cost pressures continue to control profitability.

Banking...representatives reported commercial real estate over the last 3 or 4 months has seen a stabilization of appraised values. Appraisals are coming in lower than expected and many appeals to raise values have been successful. Long term rates have moved up substantially over the past 30 days. Rates on 5-7 year deals are up 40 basis points, 10 year deals are up 50 basis points. Short term rates remain incredibly low. More SBA business is occurring due to the offer of a 20 year rate of 5%. On the residential side poor credit history poses the largest problem for borrowers. Often a couple of small, missed payments cause credit problems. Business owners have scaled back their expectations for FY13 and are now planning for little to no revenue growth as they remain focused on controlling expenses. New hiring is not occurring because of this revised expectation along with concerns about health care costs.

Professional Service... representatives were not as optimistic as other sectors. Negative effects related to government cut backs are expected to continue to find their way into the local economy. Non-government businesses are moving along moderately well, but growth is by no means robust. Unemployment remains low as do inflation and interest rates. Business owners continue to keep capi-

tal expenditures to a minimum and resist adding staff unless absolutely necessary. Companies with niche products or services are performing at high profit levels. The forecasted improvement in 2013 is anticipated to be more modest than expected previously. Business owners remain in a wait and see attitude with regard to cut backs and sequestration. Non-profits are not seeing donations/grants improve very much and in some cases they have been reduced.

Technology...representatives noted this has been an extraordinary year in that not only is the sequestration taking place but there was also a continuing resolution that impacted the funding to contractors. Locally there have been cuts related to the sequestration. In many instances there are more people with security clearances than there are current open positions. Cyber security continues to grow which is good for the local economy. FY14 and FY15 are expected to experience more cuts and tightening, but FY16 and FY17 are expected to see a leveling off and even a return to growth. Contracts have been downsized considerably & rates have been leveled which will translate into lower salaries for employees. Greening of the work force is also leading to lowering of salaries. It really depends on what agency is involved whether funding is reduced, by how much or at all. It often depends on the director of the agency. Government solicitations continue despite all of these issues.

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	Reporting Period	Current Reporting Period	Last Year's Reporting Period	Current Fiscal Year Average-to-Date	Last Fiscal Year Average-to-Date	Percent Change
EMPLOYMENT (Source: Maryland Department of Labor, Licensing and Regulation)						
Resident						
Resident Employment.....	April 2013	166,592	159,338	162,967	155,907	4.5%
Unemployment Rate.....	April 2013	4.8%	4.8%	4.9%	5.1%	
At Place						
At Place Employment.....	September 2012	160,797	152,553	160,664	152,331	5.5%
Total Wages.....	September 2012	\$2,325,571,549	\$2,227,808,943	\$2,325,571,549	\$2,227,808,943	4.4%
Average Weekly Wage.....	September 2012	\$1,113	\$1,125	\$1,113	\$1,125	-1.1%
COUNTY REVENUES (Source: Howard County Budget Office)						
Personal Income.....	May 2013	\$74,462,406	\$71,765,680	\$294,752,704	\$279,562,892	5.43%
Planning and Zoning Fees.....	April 2013	\$72,625	\$37,700	\$585,018	\$419,451	39.5%
Transfer Tax.....	May 2013	\$2,070,669	\$2,147,859	\$19,363,245	\$18,285,160	5.9%
REAL ESTATE (Source: Maryland Property View; and Cushman & Wakefield, Inc.)						
Single-family Dwellings						
Average Selling Price.....	April 2013	\$433,981	\$413,986	\$434,246	\$424,523	2.3%
Number of Units Sold.....	April 2013	219	160	200	175	14.5%
Condominiums						
Average Selling Price.....	April 2013	\$248,560	\$223,895	\$237,057	\$242,508	-2.2%
Number of Units Sold.....	April 2013	55	44	39	33	18.4%
Office Market						
Total Square Footage.....	March 2013	11,646,094	11,472,315	11,646,094	11,472,315	1.51%
Absorption.....	March 2013	289,402	20,354	289,402	20,354	1321.84%
Vacancy Rate Class A & B.....	March 2013	10.10%	12.90%	10.10%	12.90%	-21.7%
SALES TAX (Source: Office of Comptroller of the Treasury, Revenue Administration Division)						
Apparel.....	April 2013	\$1,051,802	\$1,199,649	\$9,393,086	\$8,999,162	4.4%
Furniture and Appliance.....	April 2013	\$1,006,355	\$768,174	\$7,621,893	\$7,118,782	7.1%
General Merchandise.....	April 2013	\$2,809,894	\$2,603,004	\$27,361,462	\$26,891,991	1.7%
CONSTRUCTION (Source: Howard County Department of Inspections, Licenses, and Permits)						
All Building Permits Issued.....	April 2013	447	345	2,972	3,070	-3.2%
Residential Issuances						
Single-family Detached.....	April 2013	64	35	470	401	17.2%
Single-family Attached.....	April 2013	68	37	315	394	-20.1%
Multi-family Living Units.....	April 2013	45	0	77	342	-77.5%
Nonresidential						
New & AAI Issuances.....	April 2013	71	56	550	458	20.1%
Reported Square Footage.....	April 2013	92,732	3,066	1,099,456	401,511	173.8%
Estimated Construction Cost.....	April 2013	\$3,550,000	\$2,084,600	\$84,054,193	\$30,211,330	178.2%
ECONOMIC INDICES (Source: The Conference Board; George Mason University Center for Regional Analysis)						
National						
Leading Economic Index.....	April 2013	95.0	95.5	94.6	INA	INA
Washington MSA						
Leading Economic Index.....	March 2013	103.8	103.9	104.5	102.7	1.8%
Coincident Economic Index.....	March 2013	121.9	115.6	119.7	114.4	4.6%

“While government spending softened the flow of the recession locally; now the belt tightening of the government is going to soften or weaken the growth of the local economy.”

Retail...representatives noted there have been large increases in areas of the country that experienced the largest drops during the recession. Most consumers are not holding back on spending disposable income. Jewelry, small appliances and hardware are all showing strong increases. Pharmacy and optical products are moving very well. On the commodity side there is good news as gasoline prices are 42 cents less than last year and volumes are up. Sugar prices are down, flour, oils and all meat prices are on the way up. Weather in areas that produce these goods will keep those commodity prices up for the foreseeable future. Internet retailers reported that revenues continue to soar on the e-commerce front. Margins however continue to compress and are elusive. Same day delivery is becoming a norm in this sector. Goods need to move more quickly, which in turn requires large warehouses across the country. Activity/interest in e-commerce is becoming very popular as businesses are looking for new tools to help grow their business. Many businesses are surprised that e-commerce has such small profit margins. An internet sales tax would not be as burdensome as what may be widely reported. One million dollars in internet sales may only yield \$12k in profit. There is a lot of pressure to raise wages in this sector, but very difficult to manage with tight margins. Efficiencies in all aspects are keys to success. New car dealers reported locally government reductions appear to be offset by the relocation of the cyber command operations. Business continues to be good in Howard County. Fuel efficient passenger vehicles are the top selling product. Wages in the service side of this sector may dip as maintenance repairs are more of the service side than heavy repairs. There is some pressure from concerns that any increase in interest rates may cause buyers to delay decisions to buy new cars. Nationally 15.3 million units are expected to be sold in 2013.

Agricultural...representatives noted locally prices look good. Grain prices are at all time highs. Soy, corn and even barley are all up. Prices for beef and pork products are on the rise. Chicken remains one of the best buys. Food prices are expected to remain high in 2013.

Residential and Commercial

Construction...representatives reported they have seen the new home market improve dramatically locally. The further away from the Washington market the more challenging this market becomes. Traffic has remained steady, but surprisingly is not quite as strong as last year. Buyers are coming from all over the region. Renters are getting off of the fence and buying new homes. Buyers with good credit are finding it is often cheaper to buy than rent. It is a seller's market. Incentives are no longer part of the process as full price offers are not uncommon and buyers are making the final decision to purchase much quicker than last year. Very few contingencies are used in this market and those that are accepted are backed up with information that makes the builder comfortable. Average prices in general have been increasing. Successful builders have transitioned from high priced single family homes to mid-range single family homes to town-homes to active adult communities over the years. Flexibility is the key. Inventory of new homes is tight across the real estate market. New projects are in the pipeline in Howard County. Unlike the resale market the new home market is concerned over rises in interest rates. It takes longer to build a new home, so increases in rates can make affordability an issue for some buyers. Appraisals are not an issue in the new home market locally. The commercial real estate representatives reported this market is not as good as the residential market but there are signs things are getting better. Some new construction is occurring. Vacancy rates are now at levels that usually stimulate spec building. It is doubtful spec building will take off as there is still space

available to fill. Financing for spec building is still tough to obtain. Investors are very interested in industrial/warehouse space, whereas interest in office space is less robust.

Overall...the local economy is continuing to grow and move in a positive direction. Most sectors have reported improved numbers compared to previous periods. The biggest challenge will continue to come from the impact of cuts to the federal government. It is possible that the presence of cyber security in our backyard will provide some cover, but it is apparent that cuts are having an impact on business decisions. Unemployment in Howard County remains the lowest in the State. We appear to be entering a period of cautious optimism; the economy is heating up, but there is a looming shadow. The ultimate outcome is not totally within our control.

Summary

Employment...Resident employment in April 2013 reached 166,592 individuals. The unemployment rate for April 2013 was 4.8%, tied for lowest in the State of Maryland. This rate remains significantly below the State rate of 6.5%. The FY13 average unemployment rate for the county is now 4.9% compared to the FY12 average of 5.1% thru March.

At Place Employment is reported for September 2012 and was 160,797, an increase of 5.4% compared to the September 2011 level of 152,553. Total wages reported for September 2012 rose by 4.4% from the September 2011 level, rising from \$2,227,808,943 to \$2,325,571,549. The average weekly wage reported for September 2012 was \$1,113 down \$12 or 1.1% from the \$1,125 reported for September 2011.

County Revenues...Personal income tax receipts as reported for May 2013 were \$74,462,406, an increase of 3.75% over the May 2012 level. Fiscal year to date FY13 income tax revenues are 5.4% above FY12 levels through the same period. Planning & Zoning fees are reported for April 2013 and are 93% higher than the April 2012 level. Fiscal year-to-date collections for these fees are 34% higher than the FY12 levels. Transfer tax is reported for May 2013. Compared to May 2012 current collections are down 3.6% in May 2013. Average fiscal year-to-date collections for FY13 are up 6% when compared to FY12 levels thru the same period.

Construction...Building permits issued in April 2013 increased by 30% compared to the April 2012 level. Fiscal year 2013 to date permit activity reflects a decrease of 98 permits or a 3.2% decrease from the FY12 levels thru April. Single-family detached issuances for April reached 64 units compared to the April 2012 level of 35 units. FY13 to date SFD permits are 17.2% higher (69 units) when compared to FY12 year to date levels. Attached single-family issuances increased by 31 units in April 2013 compared to the prior year. Fiscal year to date the number of single family attached units is down 79 units or 20% from FY12 to FY13. Multi-family permits posted 45 units in April 2013, up 45 units from April 2012. Non-residential new and additions, alterations, interior completions (AAI) permits were up by 15 units in April 2013 compared to April 2012. Non-residential reported square footage fiscal year to date is reported thru April 2013. FY13 s.f. to date totals 1,099,456 compared to 401,511 s.f. reported for FY12 thru the same period. The estimated non-residential construction cost reported for April 2013 was \$3,550,000 compared to \$2,084,600 in April 2012. YTD FY13 estimated construction costs are \$84.1 million compared to \$30.2 million in FY12.

Economic Indices...National Leading Economic Index (LEI) as reported for April

2013 was 95.0. Compared to April 2012 this represents a decline of less than 1% from the April 2012 level of 95.5. The LEI for the Washington MSA was 103.8 in March 2013, down from the 103.9 reported for March 2012. The Coincident Index for the Washington MSA was 121.9 in March 2013, up from the March 2012 level of 115.6. Fiscal year to date averages for the Washington indices were up. The leading index was up 1.8% at 104.5 for FY13 compared to 102.7 for FY12. The coincident was up 4.6% at 119.7 for FY13 compared to 114.4 for FY12.

Real Estate... Average sale prices for single-family homes (includes single family detached and town homes) in April 2013 increased by 4.8% from the April 2012 average of \$413,986 to \$433,981. Fiscal year-to-date the average price has increased by 2.3%. A total of 219 single-family homes were sold during April 2013, an increase of 36.8% or 59 more units than the 160 units sold in April 2012. Average units sold fiscal year to date were 200 compared to 175 units thru April 2012, an increase of 14.5%. Condominium prices in FY13 for April averaged \$248,560, an increase of 11% over the average price of \$223,895 in April 2012. Sales of condo units in April 2013 were up 25% or 11 units over the numbers reported for April 2012 when 44 units were sold. The commercial office vacancy rate for March 2013 was 10.10%, down from 12.90% in March 2012. The vacancy rate does not reflect pre-leased new construction. Square footage available in the county as of March 2013 was 11,646,094 s.f. compared to 11,472,315 s.f. for March 2012. Net absorption for the first quarter of calendar 2013 was 289,402 s.f. compared to net absorption of 20,354 s.f. through the first quarter of calendar 2012.

Sales Tax...April 2013 collections for Apparels decreased by 12.3% compared to the level collected in the same month last year. The FY13 average receipts to date have increased by 4.4% when compared to the prior year. Collections reported for April 2013 Furniture and Appliance sales increased by 31% compared to April 2012. Fiscal year-to-date, average revenues thru April 2013 increased by 7.1% from the previous fiscal year. General Merchandise collections increased by 7.9% in April 2013 compared to April 2012. Fiscal year-to-date average levels increased by 1.7% compared to the prior year. It should be noted sales tax revenues are not returned to the county as direct revenue.

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