BALTIMORE COUNTY

ECONOMIC INDICATORS AND REVENUE REPORT

2000 Third Quarter

July 1 to September 30, 2000

Office of the County Auditor

January 16, 2001

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Third Quarter 2000 *Economic Indicators and Revenue Report*

January 16, 2001

Honorable Members of the County Council
Honorable C.A. Dutch Ruppersberger, III, County Executive
Baltimore County, Maryland

Gentlemen:

Attached is the *Economic Indicators and Revenue Report* for the period July 1 to September 30, 2000.

Overall, the County's economy offered a mixed reading in the third quarter of 2000. This, combined with a still favorable but slowing outlook for the U.S. and Maryland economies, suggests that the County's economic and revenue growth in FY 2001 and 2002 may continue but not as strong as in recent years. From the third quarter of 1999 to the third quarter of 2000, County resident employment rose slightly, but the actual unemployment rate also rose. County resale housing and construction markets also fell below prior year levels during the third quarter, although the number of pending home sales increased. Mortgage and other interest rates showed a mixed pattern, with some rising and others falling from the second quarter of 2000.

FY 2001 General Fund revenues totaled $719.0 million through November 2000, up $40.8 million or 6.0% over FY 2000. Due to a change in the timing of income tax collections, however, revenue growth might not be as strong as it first appears. Nevertheless, revenue growth remains strong through November 2000; property tax revenues are up 3.5%, while income tax and "all other" revenues were ahead by 17.4% and 6.5%, respectively, from November 1999.

Should you have any questions or require additional information, please do not hesitate to contact me.

Respectfully Submitted,

Brian J. Rowe, County Auditor

Paul R. Maihan, Senior Fiscal Analyst

cc: Thomas J. Peddicord
Mike Funk
John Gaburick

BALTIMORE COUNTY
ECONOMIC INDICATORS REPORT

2000 THIRD QUARTER

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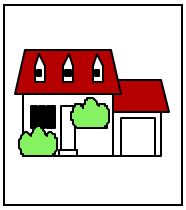
PART I

ECONOMIC INDICATORS

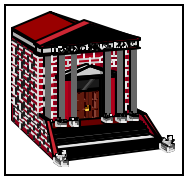
SUMMARY OF ECONOMIC INDICATORS

Baltimore County economic indicators for the third quarter of 2000 offered a mixed reading on the strength of the County's economy. County resident employment was up slightly from a year earlier; however, the unemployment rate was also up. The County's resale residential housing and new construction markets were both below earlier levels. ***Comparisons of the County's recent economic performance, coupled with a still favorable, but slowing outlook for the U.S. and Maryland economies, indicates a slowing in the County's economic growth in FY 2001 and 2002. Although revenue growth may not be as strong as in previous years, revenues are still projected to grow by 3.7% and 1.4% in FY 2001 and FY 2002, respectively.***

Employment among County residents increased by 6,229 persons, or by 1.6%, from 1999:Q3 to 2000:Q3, while the County **labor force** expanded by 7,625 persons, or by 1.9%. With the labor force expanding at a quicker pace than resident employment, the number of **unemployed** and the **unemployment rate** rose in the County over the 1999:Q3 to 2000:Q3 period (pages 2-3).



Housing activity remains strong and will likely continue to be solid but at lower levels in FY 2001 and FY 2002. **Settlements** on existing homes fell by 9.4% while **pending sales** rose 10.3%, over the 1999:Q3 to 2000:Q3 period. For the second quarter of 2000, the value of new building activity in Baltimore County fell by 18.2% compared to a year earlier, with new **residential** building permit activity down 5.2%, **non-residential** building permit activity down 89.1% due to the lack of large new construction projects, while additions, alterations, and repair activity was up 26.0% (pages 4-7).



Mortgage and other interest rates showed a mixed pattern in the third quarter, with some interest rates rising and others falling from the second quarter of 2000. After increasing interest rates six times since June 1999, the Federal Reserve, in a surprise move, lower short-term interest rates by 50 basis points on January 3, 2001. The Federal Reserve also indicated that additional interest rate cuts might be forthcoming (pages 8-9).

Inflation is currently running ahead of previous years' comparisons but is below the year-over-year highs recorded this spring, indicating that inflation may be slowing. **Regional** and **U.S. inflation** was up by 3.1% and 3.5%, respectively, from September 1999 to September 2000 (page 10). Aggregate **U.S. economic growth** expanded at an annual rate of 2.2% in the third quarter of 2000 -- well below the pace of the previous few quarters (page 9).

Consumer spending continued to fuel the economic expansion due to strong personal income growth and a high, but waning, level of consumer confidence. **Consumer Confidence** has been in a up/down pattern since the beginning of 2000 with the November 2000 reading the lowest since October 1999. Despite the lower level of reported confidence, consumers still seem poised to continue to support the current economic expansion but not to the level of recent years (page 11).

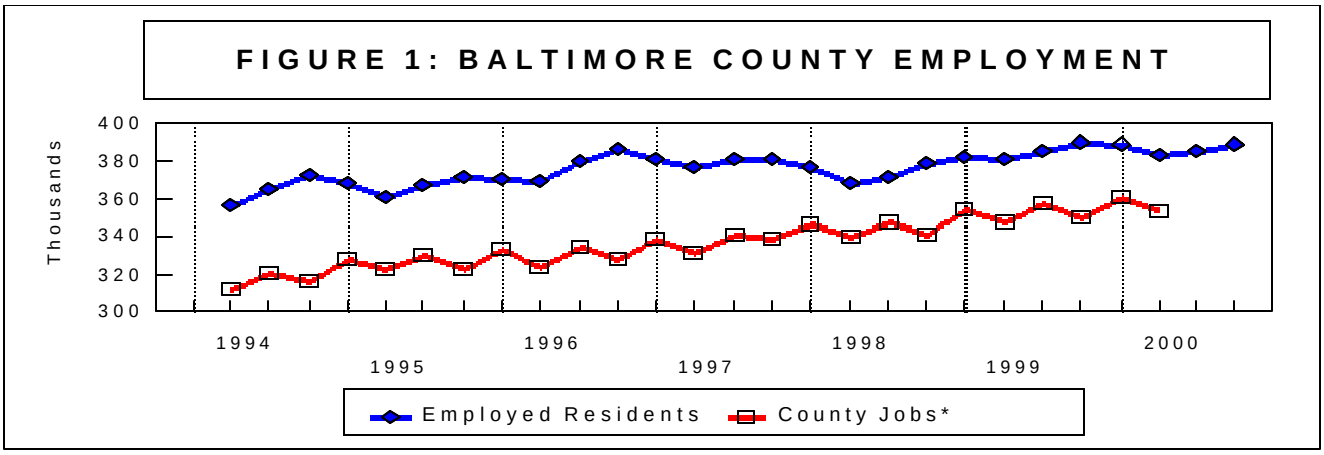
County General Fund revenues totaled $719.0 million through November 2000, an increase of $40.8 million or 6.0% over the comparable 1999 period. While FY 2001 year-to-date revenues are well ahead of FY 2000, the increase might not be as strong as it appears; however, revenue growth is still solid (pages 13-16).

ECONOMIC INDICATORS

EMPLOYMENT

Figure 1 shows quarterly employment levels for both County residents and County employers -- the former measuring the number of County residents employed, and the latter measuring the number of jobs supplied by County employers. Year-over-year comparisons show a relatively healthy County labor market in 2000:Q3. From 1999:Q3 to 2000:Q3, **County resident employment** increased by 1.6% or 6,229 persons. (In the second quarter 2000 *Economic Indicators and Revenue Report*, it was reported that County resident employment fell slightly from 1999:Q2 to 2000:Q2. However, revised data indicates that employment actually rose by a little over 7,000 persons in that period). Currently, County resident employment stands at record levels, with the solid resident employment performance reflecting the continued strength of the U.S. and Maryland economics. Despite the increase in employment, the County's unemployment rate actually rose slightly from 1999:Q3 to 2000:Q3 as the County's labor force expanded at a quicker pace than employment. **County jobs** over the 1999:Q1 to 2000:Q1 period rose by a solid 1.4% or 4,719 jobs (Figure 1).

* County jobs data lags resident employment data by several quarters.



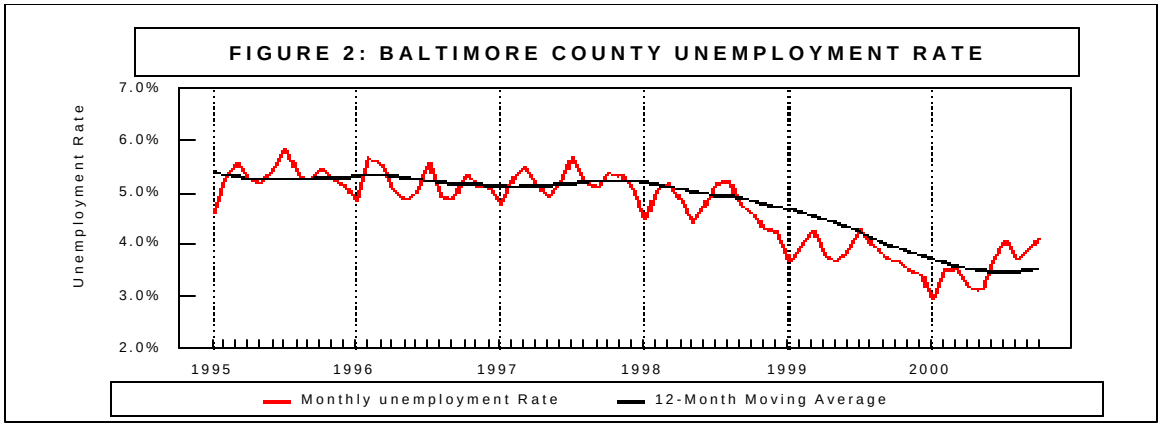
While the County employment picture remains positive, the State's employment performance over the 1999:Q3 to 2000:Q3 period showed even better results. The number of Marylanders with jobs increased by 2.3% over the 1999:Q3 to 2000:Q3 period. Moreover, the number of jobs in Maryland increased by 2.7% over the 1999:Q1 to 2000:Q1 period.

The County's total resident employment during 2000:Q3 averaged 389,339 persons -- well above the previous years' third quarter reading. Despite the solid year-over-year employment advance, the number of **unemployed** County residents rose by 1,389 persons, or by 9.5%, over the 1999:Q3 to 2000:Q3 period. Regardless of the current year-over-year rise in the number of unemployed County residents, over the last two years the number of unemployed County residents dropped by 3,465 persons, or by nearly one fifth. In 2000:Q3, only 15,934 County residents, out of a labor force of 405,273, remain unemployed. The recent increase in the number of County residents counted as unemployed might reflect, to some extent, the strong growth in the County's labor force over the 1999:Q3 to 2000:Q3 period. Over that period, the labor force increased by over 7,600 workers, an increase of 1.9%. This is in sharp contrast to the last several years when the County's labor force was contracting or showing little growth.

Baltimore County's **unemployment rate** averaged 3.9% in 2000:Q3 -- up from 3.7% in 1999:Q3, but down from the 4.9% and 5.3% average in 1998:Q3 and 1997:Q3, respectively (Figure 2). The decline of a full percentage point in the County's unemployment rate over the last two years reflects the addition of 12,800 employed residents over the 1998:Q3 to 2000:Q3 period, while the labor force increased by only 9,332 persons. Even if the U.S./Maryland economy continues strong, County employment growth might be low due to the availability of workers.

There is a "natural rate of unemployment" thought to be around 3-4% of the labor force. This natural rate means that there will always be individuals counted as unemployed due to any number of factors including labor force transition, seasonal influences, new labor force entrants, etc. Thus, future year-over-year County employment comparisons could show employment growth slowing. However, the recent turnaround in labor force growth is encouraging. New additions to the labor force implies the potential to add residents to payrolls, hence, yielding higher income tax collections.

Historically, the County's unemployment rate has generally been a little higher than the

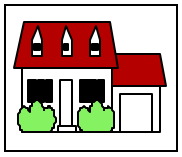


State's and this trend continued in the third quarter. In 2000:Q3, the State's unemployment rate averaged 3.4% compared to the County's 3.9%. In September, the State and County recorded unemployment rates of 3.4% and 4.1%, respectively, with the both the State and County up slightly from September 1999. For comparison, the current (October) U.S. unemployment rate was 3.9% -- a 30+year low rate.

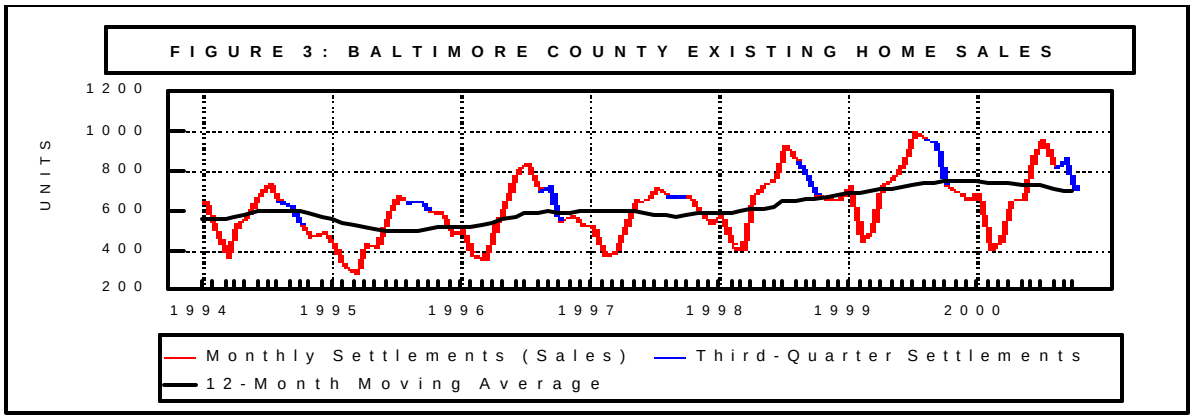
September 2000 unemployment rates varied considerably throughout Maryland with Baltimore County ranking 17th Statewide out of Maryland's 24 jurisdictions (including Baltimore City). Statewide unemployment rates varied from below 2% in Montgomery, Howard and Frederick counties, to above 5% in Garrett, Allegany, Dorchester and Somerset counties and Baltimore City. Baltimore City had the highest unemployment rate at 7.3%.

Within the Baltimore Metropolitan Area (BMA), the County's unemployment rate of 4.1% ranked second highest and for the first time in recent memory was at the BMA September average of 4.1%, an average that is strongly influenced by Baltimore City. If the City's employment data were excluded, the September 2000 BMA unemployment rate would have been only 3.1%. Thus, while Baltimore County's labor markets seem to be performing reasonably well, after excluding the City's data, it lags well behind the regional employment performance.

HOUSING



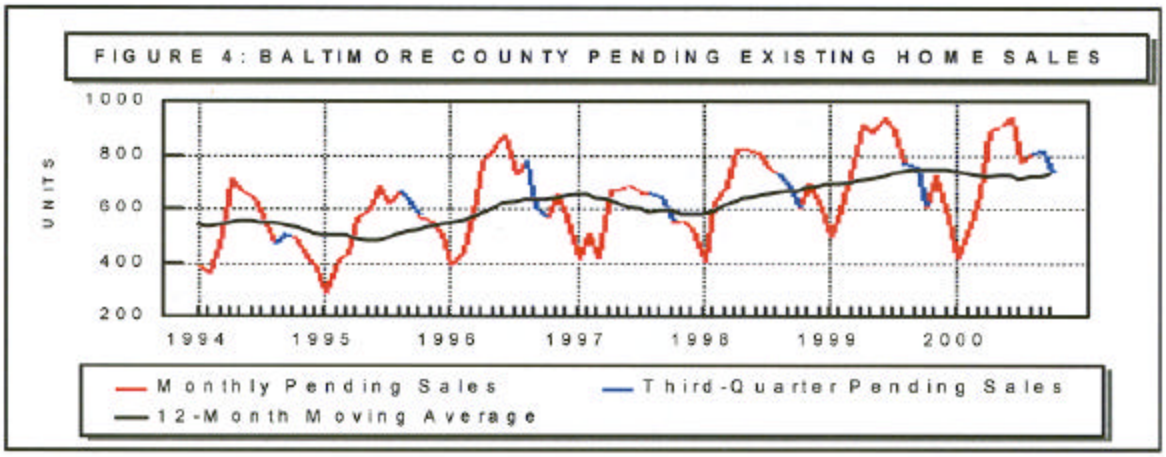
Existing-home sales data for Baltimore County over the 1994 to 2000:Q3 period are presented in Figure 3 below. Annual existing home sales in the County have generally been trending upward over the last eight years, and in 1999 set a record at 9,021 units -- around 20% above the 1995-99 average. However, for the 2000:Q3 period, County existing home sales slipped below the comparable third quarter period for the first time since 1994, but still remain ten percent above the average third quarter sales level for the previous five years. Thus, while sales are slowing, reflecting increasing economic uncertainity and the lower availability of units for sale, County existing home sales still remain relatively strong.



County existing home sales in 2000 have fallen below comparable 1999 sales in every month except May. In 2000:Q3, County existing home sales were 9.4% below the 1999:Q3 period -- 2,385 units versus 2,632 units, and for the first nine months of 2000 were 7.9% below the comparable period. Declines in existing home sales reflect several factors including relatively higher mortgage rates with the 30-year conventional mortgage rate in 2000:Q3 averaging 8.0%, ahead of the comparable 1999 and 1998 periods by 20 basis points and 110 basis points, respectively. Additional factors slowing sales include increased economic uncertainity caused by lower stock prices (negative wealth effect) and, the low inventory of available existing homes for sale in the County, which in 2000:Q3 was at the lowest comparable quarter in the data series history (1992 to present) and 16.4% below 1999:Q3. While mortgage rates in October are off their 2000 high set in May, the lack of a strong inventory of available homes for sale will likely persist and will be affecting future County existing home sales.

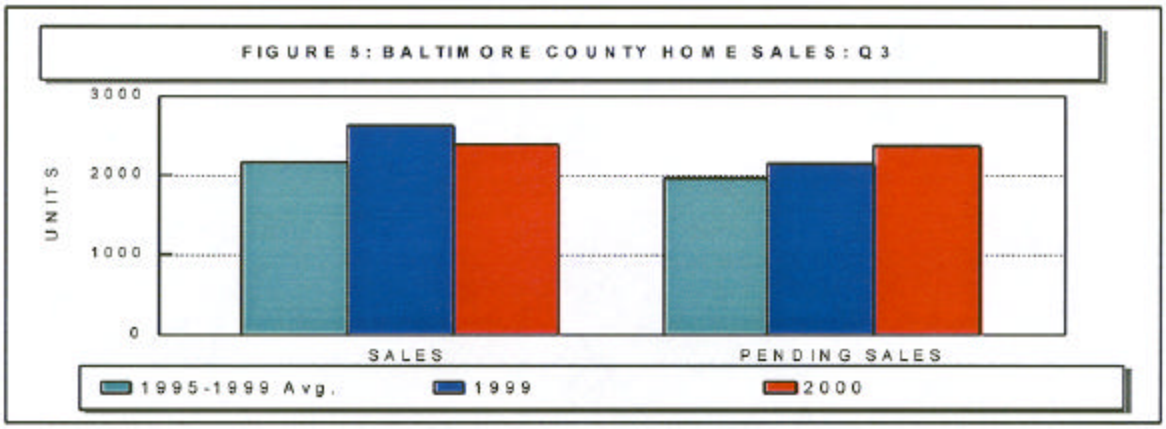
	Existing Home Sales		30-Yr. Conventional Mortgage Rate	
	Annual	Third Quarter	Annual	Third Qtr. Avg.
1993	6,632	1,867	7.3	7.1
1994	6,632	1,808	8.4	8.6
1995	6,185	1,896	8.0	7.7
1996	7,144	1,966	7.8	8.2
1997	7,040	2,033	7.6	7.5
1998	8,291	2,298	6.9	6.9
1999	9,021	2,632	7.4	7.8
2000	n.a.	2,385	n.a.	8.0

Pending existing-home sales in Baltimore County are presented in Figure 4 below. In 2000:Q3, pending County home sales were up by 10.3% over the comparable 1999 period and well ahead of the third quarter 1997-99 average. The increase in pending sales probably reflects pent-up demand from earlier this year when higher mortgage interest rates were adding considerably to the cost of housing. In October 2000, the 30-year conventional mortgage rate averaged 7.8% -- its lowest level since July 1999, and 70 basis below the peak rate of 8.5% set in May 2000. The 70 basis points drop subtracts $65 or 6.4% from the principal and interest payment for the average priced Baltimore County home, financed with a 30-year conventional mortgage rate and a 10% down payment.

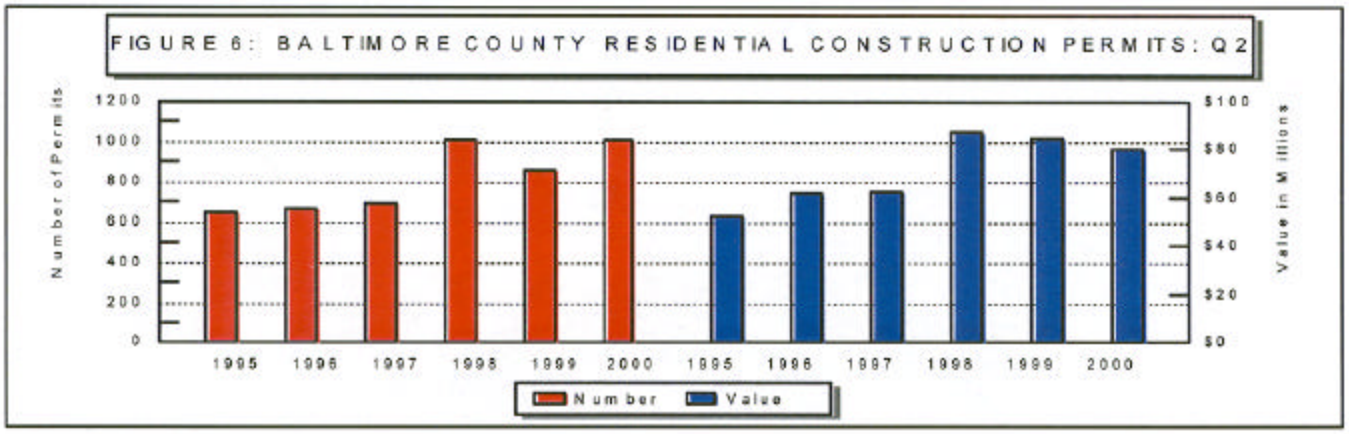


From September 1999 to September 2000, County existing home prices rose by 1.9% to $146,700. Over the same time period, the 30-year conventional mortgage rate rose by less than 10 basis points to 7.9%. Thus, the monthly principal and interest payment for the average priced County home, financed with a 30-year fixed rate mortgage, and a 10% down payment, increased by only $27 or by 2.9% over the last year. This rate of increase is well below the projected 2000 advance in County personal income growth.

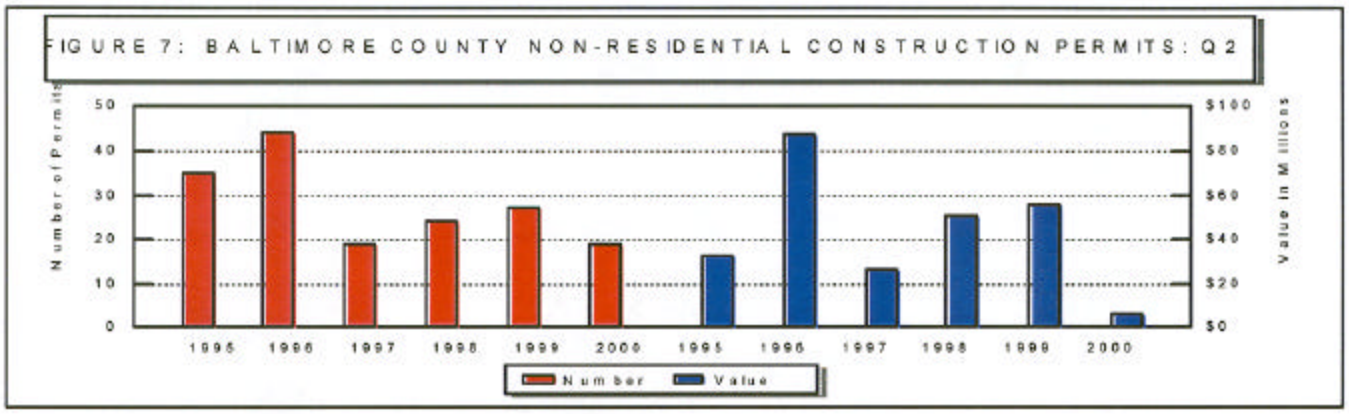
Figure 5 shows a longer term perspective of the current strength of the Baltimore County residential housing market. Despite the recent slowing in existing home sales, the County's overall housing market remains relatively strong and will likely continue to be so, albeit at slightly lower levels in 2000 and 2001, versus a record setting year in 1999. While 2000:Q3 existing home sales are down from the corresponding 1999 period, 2000:Q3 sales are still ahead of the 1995-99 third quarter average by 10.2%.



In 2000:Q2, Baltimore County building activity fell by 18.2% or by $37.5 million from the comparable period in 1999:Q2. New residential construction was off modestly (-5.2%), new nonresidential construction plummeted (-89.1%), while additions, alterations and repairs showed a solid increase (+26.0%). Figure 6 shows the number and value of County **residential building permits** for the second quarter period from 1995-2000. In 2000:Q2, the **number** of new residential building permits issued in the County was up by 17.4% from 1999:Q2, with multi-family units increasing by 162.9% and single-family units dropping by 11.8%. While the combined number of permits was up , the combined **value** of residential building permits in 2000:Q2 was down by 5.2% from 1999:Q2. Each new single-family building permit, however, averaged $115,100, up by $3,500 or 3.1%, over the 1999 second quarter. Regardless of the slowdown, new residential building activity remains strong, up 14.0% over the 1995-1999:Q2 average and appears weak only when compared to the extraordinary 1998-99 level of new residential building activity.



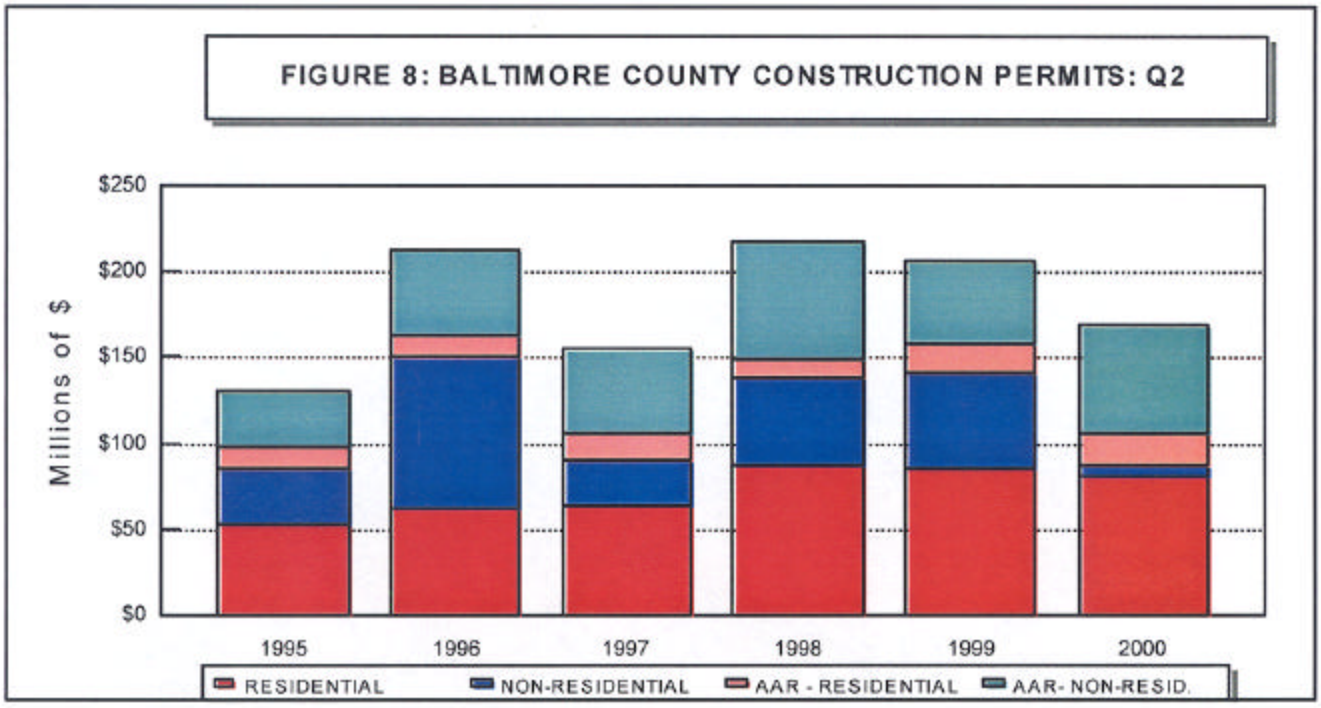
New **non-residential building activity** (commercial and/or industrial, private and/or public) provided a strong plus to the County's economy in 1999, but in 2000:Q2 fell dramatically (Figure 7). The value of non-residential construction building activity in the County is dependent upon specific projects which makes this economic data set volatile. During the 2000 April-June period, only 19 new non-residential permits were issued, for a total value of $6.1 million, compared to 27 permits for $56.1 million in the same period of 1999. Speculation on the reasons for the slowdown might include a general construction slowdown, and/or higher interest rates, but the series is very volatile and the next quarter might show considerable improvement. A few 2000:Q2 new non-residential projects included: a $2.5 million pharmacy in Perry Hall/White Marsh, and a $650,000 mini-storage building in Lochearn.



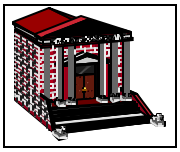
Additions, alterations, and repairs (AAR) are a key component in overall construction permit activity. Overall, the 2000:Q2 aggregate AAR activity of $81.9 million was 26.0% and 3.5%, respectively, above the comparable 1999 and 1998 periods. AAR activity accounted for 48.5% of the total value of new construction permits in the County in the second quarter of 2000 -- well above the second quarter average AAR of 35% over the last five years. The $81.9 million in 2000:Q2 AAR activity consisted of $18.2 million in residential and $63.7 million in non-residential permits. This category of construction should remain healthy in the periods ahead reflecting the capital program for County public schools. A few of the major AAR projects approved in the second quarter 2000 included:

Value	Facility	Area
$5.6 million	Oldfield School addition	Jacksonville
2.2 million	Alterations to office building	Towson
2.0 million	Alterations to office building	Sparks
1.5 million	Office/warehouse addition	Reisterstown-Owings Mills
1.5 million	Goucher College addition	Towson
1.3 million	Garrison Forest alterations	Pikesville

The **total** value of all construction permits issued in Baltimore County in the second quarter of 2000 was $168.7 million -- down 18.2% and 22.2%, respectively, over the very strong comparable 1999 and 1998 periods (Figure 8). While the total construction market in the County may be weakening somewhat after several years of impressive strength, it is too early to predict whether the market is simply taking a breather, (to allow absorption of the new capacity put in place over the last several years), or if this is the beginning of a broad-based slowdown in a maturing market which will require close observation.



MORTGAGE AND OTHER INTEREST RATES



From June 30, 1999 to May 16, 2000, the Federal Reserve Federal Open Market Committee (FOMC) increased short-term interest rates (federal funds rate) six times in an attempt to slow the economy's growth rate as a preemptive strike against inflation. However, those interest rate increases may have been too much. In a January 3, 2001 surprise move outside of a regularly scheduled FOMC meeting, the FOMC cut the federal funds rate 50 basis points to 6.0% from the previous 6.5% -- a nine year high. (The federal funds rate is a main variable that major financial institutions use in setting their prime business lending rate, consumer loan rates, and to a lesser extent, long-term mortgage lending rates.)

In addition to trimming the federal funds rate, the FOMC reiterated their late-December official bias towards lowering interest rates in order to prevent the U.S. economy from slipping into a recession. This leaves the door open to the possibility of another interest rate cut when the FOMC meets on January 30 and 31.

Most economists echo the new FOMC view that the biggest economic risks are weighted more towards economic weakness versus the threat of inflation. No one knows with certainty how quickly, or if, the recent interest rate cut will work its way through the system and stimulate the economy. But, if current interest rate levels, combined with other economic considerations, i.e., declining wealth caused by lower equity market prices, begin to more deeply affect consumer and business spending decisions, the economy could slow sharply or even contract. In that environment, negative consequences abound, from falling local tax receipts to an increase in the unemployment rate.

Interest Rates

	90-Day Treasury Bills	10-Yr. Treasury Bonds	30-Yr. Conven. Mortgage	30-Yr. Mortgage less 10-Yr. T.B.
1998: Q3	4.96	5.20	6.86	1.66
1998: Q4	4.37	4.67	6.77	2.10
1999: Q1	4.53	4.98	6.88	1.90
1999: Q2	4.59	5.54	7.21	1.67
1999: Q3	4.79	5.88	7.80	1.92
1999: Q4	5.20	6.14	7.83	1.60
2000: Q1	5.70	6.48	8.26	1.78
2000:Q2	5.89	6.18	8.32	2.14
2000:Q3	6.20	5.89	8.03	2.14
Dec. 22, 2000	5.67	5.10	7.17	2.07

Source: Federal Reserve Board

The interest rate table on the previous page illustrates the magnitude and composition of recent interest rate changes over the last several years. Short-term 90-Day Treasury Bills in 2000:Q3 averaged 6.20%, up 31 basis points from the second quarter, and a full percentage point ahead of 1999:Q4. But, from the 2000:Q3 average, interest rates started to decline even before the FOMC's federal funds interest rate cut. As of December 22, the benchmark 90-Day Treasury Bill rate was 5.67% -- down 53 basis points from the 2000:Q3 average.

The 10-year Treasury Bond in 1999:Q3 and 2000:Q3 averaged around 5.9%; however, the rate peaked in the first quarter of 2000 at 6.48% and saw considerable movement over the course of the year. Over that same period, the 30-Year Conventional Mortgage rate has risen by only 23 basis points. However, from the 2000:Q3 average to December 22, the 10-year Treasury Bond and the 30-Year Conventional Mortgage rates have declined by 79 basis points and 86 basis points, respectively. Thus, long term rates have been declining faster than short term rates and are currently lower than short-term interest rates. This interest rate pattern suggests two things: first, inflation is currently not being viewed by the overall market as a threat to the economy; and second, the market is expecting further weakness in the economy.

There is mixed evidence of a broad-based economic slowdown. One of the most widely watched indicators in judging the economy's aggregate performance is the unemployment rate. In December, the national unemployment rate held steady at 4.0% -- only slightly above the 30-year low 3.9% rate in October. U.S. Labor Secretary, Alexis Herman, commenting on the December employment report said that "there was little in the overall employment situation to suggest a looming recession."

In December, payrolls outside the farm sector grew by a little more than expected 105,000 jobs, while the November job growth number was revised downward from the initial estimate and the average workweek declined slightly to 34.1 hours. Aggregate third quarter 2000 real output in the U.S. (Gross Domestic Product or GDP) expanded at a 2.2% annual rate, down sharply from the second quarter rate of 5.6% and the lowest level of growth since the third quarter of 1996. While this rate of growth is below the FOMC's targeted growth rate, the composition of growth suggests that the economy may not be as weak as much as the aggregate numbers indicate. The slower rate of GDP growth reflected a decline in residential housing, lower government spending, and a slow down in inventory investment. Personal consumption expenditures, a key component of GDP, grew at a 4.5% annual rate in the third quarter, more than a full percentage point above the second quarter growth rate. One encouraging aspect of the GDP report was that the annualized GDP deflator (the broadest measurement of inflation) advanced only at a 2.0% annual rate in the third quarter -- below the 2.9% first half average.

Given the potential consequences, the question is whether the observed weakness in selected data series is the beginning of a serious economic slow down or merely a temporary development. It is not uncommon for the economy to slow down for several quarters after an extended period of strong growth. However, if the economy begins to slipping too far, too fast, the FOMC has indicated that they will take additional interest rate cutting action to avert a full-blown recession.

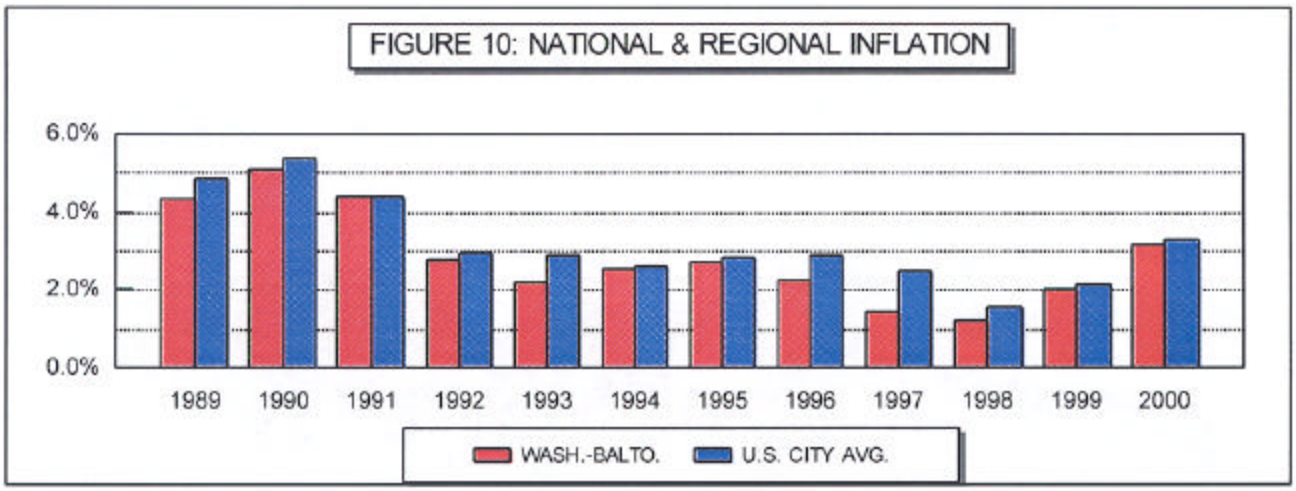
INFLATION

The Consumer Price Index (CPI) for the Washington-Baltimore Consolidated Metropolitan Statistical Area over the September 1999 to September 2000 period, increased by 3.1%, a little less than the overall U.S. inflation rate of 3.5%. Higher energy, transportation, and medical care prices are the principal culprits driving inflation. The September 2000 year-over-year CPI increase is running well ahead of the comparable 1999 and 1998 periods when the CPI, at the national level, was up 2.7% and 1.6%, respectively, and is at its highest September to September reading since 1990. However, the current inflation rate is actually below the year-over-year high recorded in March, thus, inflation comparisons are becoming more favorable as energy prices stablize.

Financial markets respond quickly to inflationary trends and as inflationary expectations rise, interest rates, especially long term rates, move in tandem as investors attempt to capture stable real returns. However, since long term interest rates have actually been declining since the 2000:Q1 average, financial markets believe that the worst year-over-year inflation comparisons have already occurred. In fact, the U.S. "core" inflation rate (CPI less the more volatile food and energy sectors) is up 2.6% on a year-over-year basis. This is not to suggest, however, that future inflation will be benign.

Average hourly earnings increased by 0.4% in December following a revised 0.6% increase in November. For the 2000:Q4, average hourly earnings were accelerating at a 4.2% annual rate, the strongest growth since August 1998. These higher earnings, however, are currently being offset by strong productivity gains. But will these positive productivity trends continue as the economy slows and the rate of increase in output slows relative to employment growth? Should productivity growth weaken, unit labor costs would show sharply higher increases, and businesses would either have to raise prices to protect profitability or face lower profits and, likely, lower stock prices. Whether U.S. businesses could raise prices would depend on a number of factors including the competitiveness of the industry and strength of the U.S. dollar overseas. Thus, while the rate of inflation may be slowing from its year-over-year highs, it may be too early to declare victory and assume inflation will be headed downward.

Current CPI forecasts for the full year 2000 and 2001 are 3.4% and 2.7%, respectively, according to The Federal Reserve Bank of Philadelphia's, *Survey of Professional Forecasters,* taken in November.



CONSUMER SPENDING

Personal consumption expenditures (PCE), which account for slightly more than two thirds of all economic activity, expanded at a 4.5% real annual rate in the 2000:Q3, up from the 3.1% change in 2000:Q2, but down sharply from the 2000:Q1 pace of 7.6%. To put the role of the consumer in proper perspective, real PCE expenditures increased by $69.2 billion while total real U.S. Gross Domestic Product (GDP) only expanded by $50.6 billion in 2000:Q3. Thus, the increase in PCE was greater than the GDP increase because several other categories were negative, notably residential and inventory investment and federal government outlays. Consumer spending is being fueled by strong personal income growth, up 6.7% over the 1999:Q3 - 2000:Q3 period, and a high, but waning, level of consumer confidence. The 2000:Q1 and 2000:Q3 GDP growth was consumer-led, and increasing personal income via higher wages and employment levels will likely keep the consumer driven portion of the economy expanding. The wild card would be to what extent lower equity prices impact consumer confidence and consumption via the wealth effect. Most personal consumption is a function of current income but changes in wealth play a undefined role in overall consumer expenditures.

In December, nonfarm payrolls increased by 105,000 jobs, slightly above expectations, however, November's gain was revised downward to 59,000 from the initial estimate of 94,000. Manufacturing employment fell by 62,000 in December after being relatively stable in the previous two months. Construction employment fell by only 13,000 despite the cold weather and fading demand, business/health services showed a rise of 81,000, while government payrolls increased by 56,000 after declining by 52,000 in November. Overall, the December unemployment rate held steady at 4.0% -- only slightly above the 30-year low 3.9% rate set in October 2000. The unemployment data is suggesting different things to different economists. Some economists see the current unemployment rate as an indication of a continued tight labor market. Others have pointed out that the unemployment rate may be deceptively low given that the current work week is the shortest in five years. This may be a repeat of historical patterns where employers sacrifice hours and not employees in the early phases of a slowdown.

The **Index of Consumer Confidence** has displayed an up/down pattern in 2000 suggesting great consumer uncertainty. From January through November 2000, consumer confidence has risen five times and declined six times. In November, consumer confidence slipped for the third consecutive month, reaching a low point for 2000 and its lowest level since October 1999. Moreover, in November the "Present Situation Index" and "Expectations Index" were at or near 2000 lows. Despite waning consumer confidence, the Conference Board, the private group that publishes the Index of Consumer Confidence, reports that consumer sentiment is running high by historical terms, and other data indicate that the economy is still expanding at a good pace. Moreover, while the expectation index is at a yearly low, the current reading is, according to the Conference Board, well above levels that would prompt concerns about a recession.

Given the U.S. economy's impressive performance in the first half 2000 and the sub-par third quarter showing, the majority of economic forecasters are projecting that real Gross Domestic Product (GDP), the broadest measure of U.S. economic output, will expand by a little over five percent in 2000. In November, the consensus GDP forecasts from the Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters* (34 forecasters) indicated that real GDP will expand by 5.2% in 2000 and the November consensus forecast from the National Association for Business Economics indicated a similar growth projection. (However,

2000:Q3 real GDP estimates were recently revised downward, thus making GDP growth of over 5% for 2000 unlikely). From a historical perspective, real GDP expanded by four percent or more over the last three years. In 1999 and 1997, GDP increased by 4.2% and, for 1998, 4.3% -- a remarkable achievement at this stage of the economic cycle.

Despite the recent slowing, GDP growth projections for 2000 suggest a stellar performance for the year. However, GDP growth expectations for 2001, as published in the November Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters*, shows a consensus forecast of 3.3%. While a 3+% GDP growth rate is certainly respectable, it would be at a sharply lower level than the previous few years. Moreover, GDP forecasts for 2001 seem to be quite broad with 12% of the respondents projecting that the economy will expand by under 2%, and 38% projecting GDP growth of less than 3%. A little over 19% were forecasting growth of four percent or more.

What happens as the economy's rate of growth slows? With a 3% GDP growth rate, unit output growth slows while total employment is still expanding, resulting in a sharply lower productivity growth rate. This in turn raises inflationary pressures and/or creates a slow profit growth for companies, with potential spill-over effects on equity prices, consumer confidence and finally consumer demand. In fact, the Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters* is projecting corporate after tax profits to increase by only 5.5% in 2001 compared to nearly 15% in 2000.

Henry Kaufman, a well respected Wall Street economist with a reputation of not always following the crowd, stated in the Up and Down Wall Street column of the November 25 edition of *Barron's*, that he believes the chances of a recession in 2001 are 35-40% and over the next three years "just about 100%". What could trigger a recession? According to Dr. Kaufman, a larger than expected drop in capital spending due to reduced profitability.

PART II
REVENUE REPORT

ECONOMIC IMPLICATIONS FOR COUNTY REVENUES

Most economists are currently forecasting that the FOMC will engineer a slowdown from the economy's projected 5% growth rate in 2000 to a more sustainable, lower inflationary growth rate of around 3%-3.5% in 2001. However, U.S. monetary history suggests that the timing and magnitude of changing interest rates, especially rising rates, on the economy is uncertain. The FOMC had raised interest rates six times from June 1999 to May 2000. However, those interest rate increases, when they finally worked their way through the system, may have been too much for the economy to absorb. On January 3, 2001, in a surprise move outside of a regularly scheduled FOMC meeting, the FOMC cut the federal funds rate 50 basis points to 6.0% from the previous 6.5%. While both long-term and short-term interest rates had already backed-off from their early-2000 highs prior to the FOMC interest rate cut, they were given another shot downward.

In a changing interest rate environment, even small exogenous shock to the economy can cause significant problems. For example, in 1990/1991 an oil shock tipped the U.S. into recession. It is possible that slower profit growth could be the next catalyst. It is important to keep in mind that if the FOMC is successful and engineers a "soft landing" for the economy, (i.e., slower growth without a recession), as the U.S. economy slows, the growth rate in County revenues will also slow. On the other hand, if the FOMC goes too far and fails to be proactive in lower rates and the U. S. economy contracts, County revenues could contract.

Current Baltimore County economic data are mixed. Employment and jobs in the County are up from prior year levels. Sales of existing single family homes in the County are down by nearly ten percent from 1999:Q3 to 2000:Q3, but pending home sales over the same period are ahead by a little over ten percent, suggesting existing home sales will finish the year on a positive note. New construction activity in 2000:Q2 is down by 18.2% over the comparable 1999 period with residential building activity down a modest 5.2%, new non-residential building activity down 89.1%, and additions, alterations and repairs up a strong 26.0%. In 2000:Q3, the 30-year conventional mortgage rate was about one quarter of a percentage point above 1999:Q3, but recently it has dropped to a little above seven percent.

Over the last few years, the Maryland and U.S. economies have been more in sync than those of the early 1990's, as has the economic activity between the County and the State. In some recent years, personal income growth in the County has exceeded the State's growth rate, while in other years State personal income growth has exceeded the County's. With the U.S. economy expected to grow by around 5% in 2000 and by a little over 3% in 2001, expectations for the County's economy and revenue generation capabilities remain positive, albeit at reduced levels of growth. Current forecasts for various components of County revenues were developed with the following underlying assumptions:

INCOME TAXES: A rising employment picture suggests rising personal income and, thus higher income tax revenues. However, sharply lower equity markets might initially mean some increased income tax revenues because of higher capital gains -- gains that were finally realized from rapidly rising stock prices prior to the spring of 2000 (revenues from capital gains account for 10%-15% of all income tax revenues and from 3%-5% of total County revenues). However, after those gains are realized, growth in income tax revenues are likely to slow because of lower capital gains. As of December 21, the Dow Jones Industrial Averages and the NASDAQ were down by 10.8% and 54.4%, respectively, from their 2000 highs.

PROPERTY TAXES: A weak construction market and scantly rising residential property values might indicate a slower growth rate in property tax revenues.

RECORDATION AND TITLE TRANSFER TAXES: A softer residential resale market would suggest a decline in County recordation and title transfer taxes.

Currently, the Auditor's Office is forecasting that County revenues will grow by 3.7% in FY 2001 and by 1.4% in FY 2002. The 3.7% for FY 2001 is the same as in FY 2000 but the FY 2002 estimated growth rate would be the lowest since FY 1992.

FISCAL YEAR 2001 REVENUES

Total revenues: Revenues through November totaled $719.0 million, 6.0% ahead of last year's pace. However, due to new income tax extension rules, about $10 million in income tax revenues that the County expected in late FY 2000 were actually received from the State in September (FY 2001). This change caused a shortfall in income tax revenues in FY 2000 but higher first quarter FY 2001 revenues by a like amount. Adjusting for the timing of income tax receipts, FY 2001 total revenues through November would be about 4.5% ahead of last year's pace. Thus, actual revenue growth is not as strong as the 6.0% rate implies. Based on current economic indicators, our revised revenue estimate of $1,177.1 million for FY 2001 appears reasonable.

Property tax revenues: Property tax revenues through November totaled $519.0 million, 3.5% ahead of the same period last year. Property tax revenues currently account for 72% of the total revenues collected so far this fiscal year. Most property tax revenues are accrued in July; however, because of the change in State law with regards to semi-annual payments, an increasing amount of actual collections occur later in the fiscal year.

Baltimore County Revenues By Selected Categories
Through November 1999 and 2000 (Millions of Dollars)

	FY 2000	FY 2001	% Change	% of Total FY 2000
Property Taxes	$510.3	$519.0	3.5%	72.2%
Income Taxes	106.1	124.6	17.4	17.3
All Other Revenues	70.8	75.4	6.5	10.5
Total Revenues	$678.2	$719.0	6.0%	100.0%

Given 1999's strong level of new residential building permits and new nonresidential construction activity, as well as the high level of additions, alterations and repairs, many new taxable properties will be coming on stream for the first time in FY 2001. Moreover, the limited supply of residential properties for sale is beginning to influence prices which will positively impact revenues in future years. The current property tax revenue estimate of $531 million for FY 2001 appears likely to materialize.

Income tax revenues: Income tax revenues through November totaled $124.6 million, up 17.4% over the same period last fiscal year. However, due to tax law changes, about $10 million in County income tax revenues that were expected in FY 2000 were actually collected in FY 2001. Adjusting for this $10 million, income tax revenues for FY 2001 through November would still be up by a strong 8.0%. However, there is some uncertainty regarding income tax revenues later in FY 2001, reflecting stock market volatility and the timing of realized capital gains. One of the principal forecasters used by the State has indicated that revenues from capital gains will peak in calender year 2000. For the present, however, the record level of County employment combined with a growing labor force suggests that income tax revenues for FY 2001 are likely to come in near the current estimate of $430 million.

There has been considerable discussion about the importance of capital gains to the County's tax revenue collections. The latest data for county level capital gains is for calender year 1997, and that data show that Baltimore County collected $312.8 million in total income tax revenues, of which about $31 million or 9.9% was from capital gains. Thus, capital gains revenues represented 3.2% of total County FY 1997 revenues of $963.2 million. **Current estimates suggest that capital gains could account for a little over 5% of total County revenues and 15% of income tax revenues in FY 2001.** If revenues from capital gains slow as projected, County income tax and total revenue growth will slow in FY 2002.

Other revenues: At this early stage in the fiscal year, revenue comparisons on a year-over-year basis are difficult due to the timing and recording of various tax collection categories. However, FY 2001 County revenues through November, excluding property and income tax, are up 6.5% from the same period last year. This revenue collection rate is slightly ahead of projections.

Surplus: FY 2000 revenues totaled $1,134.7 million, while the revised current FY 2001 General Fund revenue projection is $1,177.1 million. If FY 2001 General Fund revenues and expenditures materialize as projected, $1,177.1 million and $1,220.6 million, respectively, the total surplus at the end of FY 2001 could reach $90.2 million, including $36.6 million in the Revenue Stabilization Reserve Account.

BALTIMORE COUNTY
FISCAL YEAR 2001
MONTHLY AND YEAR-TO-DATE
GENERAL FUND REVENUES

NOVEMBER, 2000

REVENUE SOURCE	A	B	C = B/A	D	E	F = E/D	G	H = E/G	I
	MONTH OF NOVEMBER			YEAR-TO-DATE			FY 2001	FY 01 Y-T-D % OF BUDGET	10 YEAR AVG Y-T-D
	FY 2000	FY 2001	% CHANGE	FY 2000	FY 2001	% CHANGE	BUDG. EST.	ESTIMATE	% OF TOTAL
PROPERTY TAXES	$15,481,771	$4,896,691	-68.4%	$501,275,636	$519,005,150	3.5%	525,416,784	98.8%	97.9%
INCOME TAX	82,279,050	85,866,703	4.4%	106,108,548	124,568,095	17.4%	424,348,381	29.4%	25.1%
SALES-ELECTRICITY	1,838,441	1,728,980	-6.0%	6,042,168	5,750,002	-4.8%	16,659,000	34.5%	36.1%
SALES-TELEPHONE	1,002,034	708,727	-29.3%	3,020,558	2,227,020	-26.3%	11,825,765	18.8%	25.1%
SALES-RECORDATION	1,702,388	0	-100.0%	6,573,714	4,219,335	-35.8%	16,875,000	25.0%	32.5%
SALES-TITLE TRANSFER TAX	2,485,318	3,473,496	39.8%	14,390,199	15,186,623	5.5%	33,250,000	45.7%	40.6%
SALES-ADMISSIONS	0	2,261,709	NA	0	2,261,709	NA	7,154,931	31.6%	26.8%
SALES-TRAILER & 911 FEE	713,053	10,209	-98.6%	901,674	263,466	-70.8%	3,802,590	6.9%	26.4%
SALES-MOTEL/HOTEL	570,249	567,494	-0.5%	2,822,496	3,238,560	14.7%	6,324,000	51.2%	46.1%
INVESTMENTS	961,251	1,249,749	30.0%	2,720,963	4,608,327	69.4%	14,240,000	32.4%	38.7%
STATE SHARED-HIGHWAY USER	2,694,941	3,766,668	39.8%	8,249,414	8,565,111	3.8%	33,233,000	25.8%	25.7%
ALL OTHER REVENUES	2,964,809	3,198,849	7.9%	26,139,659	29,062,765	11.2%	72,363,567	40.2%	NA
TOTAL REVENUES	$112,693,305	$107,729,275	-4.4%	$678,245,029	$718,956,163	6.0%	$1,165,493,018	61.7%	60.7%

A = COLLECTIONS FOR THE CURRENT MONTH, CY 1999 (FY 2000)
B = COLLECTIONS FOR THE CURRENT MONTH, CY 2000 (FY 2001)
C = PERCENT CHANGE IN COLLECTIONS, CURRENT MONTH, CY 2000 OVER CURRENT MONTH, CY 1999
D = FISCAL YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH, CY 1999 (FY 2000)
E = FISCAL YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH, CY 2000 (FY 2001)
F = PERCENT CHANGE IN COLLECTIONS, FY 2001 YEAR-TO-DATE AS OF CURRENT MONTH, CY 2000, OVER FY 2000 YEAR-TO-DATE AS OF CURRENT MONTH, CY 1999
G = FY 2001 BUDGET ESTIMATE PER FY 2001 ADOPTED BUDGET
H = FY 2001 YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH, CY 2000, AS A PERCENT OF FY 2001 ESTIMATE
I = TEN YEAR AVERAGE OF YEAR-TO-DATE COLLECTIONS AS OF CURRENT MONTH OF EACH YEAR, AS A PERCENT OF FINAL COLLECTIONS