ECONOMIC ADVISORY COMMITTEE MEETING NOTES

October 7, 2024

Committee Members Present
Dr. Anirban Basu – Chairman
Joe Gonzales – Labor
Marshall Klein - Retail
Matt Copeland – Commercial Real Estate
Andrew Michael – Commercial Banking
Todd Marks – Technology
David Uhlfelder – Accounting
Dr. Michael Galiazzo – Manufacturing
Tracy Swindell – Residential Real Estate

Council Members Present
Honorable Izzy Patoka
Honorable Mike Ertel

County Official Present
Jonathan Sachs, Director of the Department of Economic and Workforce Development

Staff Present
Lauren Smelkinson
Elizabeth Irwin
Carrie Vivian
Ronit Rubin
Rayven Vinson
Reginald Sullivan

Chairman's Briefing
Dr. Basu presented an economic briefing entitled "The Good, The Bad, & The Ugly." Noted highlights were as follows:

- U.S. GDP increased 3.0% in 2024:Q2. The Atlanta Federal Reserve estimates GDP to increase 2.5% in 2024:Q3.
- Higher consumer spending, fueled by large wage growth since the pandemic, has driven strong retail sales and related hiring.
- The U.S. labor market remains strong, but, despite a recent rebound, the pace of hiring has generally slowed. There were 8.0 million job openings in August 2024, an increase from 7.7 million openings in July 2024 and above pre-pandemic job openings, as employers struggle to fill positions.
- U.S. monthly job growth continued to exceed expectations, with 254,000 net new jobs in September 2024 and an unemployment rate of 4.2% in August 2024.
- Maryland's economy continued to underperform relative to the U.S. and in its economic recovery from the pandemic. Comparing February 2020 to August 2024, Maryland lost 16,100 jobs (-0.6%); in contrast, the U.S. added 6.5 million jobs (4.2%). While the Leisure & Hospitality (-21,800 jobs) sector was hit the hardest, the Government and Professional and Business Services sectors added 26,300

and 18,600 jobs, respectively. In July 2024, Maryland's unemployment rate was 2.8%; the U.S. unemployment rate was 4.3%.
- The Baltimore-Columbia-Towson MSA experienced a 0.4% employment increase (5,900 jobs) from February 2020 to August 2024 and a 3.4% unemployment rate in July 2024, ranking the third-lowest for employment growth and lowest for unemployment among the 25 largest U.S. metropolitan areas. Dr. Basu described the American south as the dynamic growth center, with Dallas-Fort Worth-Arlington, TX ranked first for employment growth (12.0%).
- The Baltimore County labor force (those employed or looking for work) has steadily decreased and stands at 14% of the total Maryland labor force. In July 2024, Baltimore County's unemployment rate was 3.4%, ranking 13th lowest and tied with three other Maryland jurisdictions – Kent, Washington, and Worcester Counties. Dr. Basu noted that the low unemployment rate may reflect what he suspects is the exit of workers from the local economy and the difficulties that employers may face in recruitment and expanding their businesses.
- Inflation continues to decline; in August 2024, the Consumer Price Index – All Items was 2.5% while core inflation (i.e., all items less food & energy) was slightly higher at 3.2%. With inflation inching closer to the Federal Reserve's target rate of 2.0% and unemployment remaining low, the Federal Reserve approved a 50-basis-point rate cut in September 2024. Comparing May 2020 and August 2024, overall CPI – All Items increased 22.8%, with energy and transportation services being the primary drivers, reflecting 54.4% and 44.9% increases, respectively.
- U.S. credit card debt spiked to $1.14 trillion in 2024:Q2, and Dr. Basu noted that delinquencies on loans (e.g., credit cards, auto loans, and mortgages) are starting to uptick and advised that attention should be paid to the rising rates of delinquencies and bankruptcies.
- Dr. Basu does not expect that there will be Federal Reserve cuts of a similar magnitude going forward.
- For the week ending September 26, 2024, the 15-year and 30-year fixed mortgage rates were 5.16% and 6.08%, respectively. Dr. Basu predicted an increase in transaction volume as rates become more favorable to buyers and sellers, likely in 2026.
- In August 2024, the County's months of housing inventory was 1.6, a slight decrease from 1.7 months in August 2023.
- Dr. Basu moderated his expectation of a mild recession and advised that there may be a "soft-landing."

<u>Labor</u>

Mr. Gonzales reported:
- The labor market is still very competitive and healthy, with plenty of jobs and expanding companies.
- The "time to hire" is taking longer, with people not jumping as quickly to new jobs, particularly with the holiday season approaching. Mr. Gonzales noted that hiring managers are asking to see more candidates for each job posting.
- Small and mid-size companies are still considering flex-time and hybrid work schedules to attract employees. Candidates are often willing to trade increased compensation for greater flexibility.

- Dr. Basu noted that people are less willing to quit their jobs and asked on a scale of 1-10, how healthy Mr. Gonzales thinks the labor market is, with Mr. Gonzales responding, “at least a six out of ten.”
- Mr. Gonzales expects the labor market to soften, and he noted that there has been a pickup in layoffs.

Discussion ensued regarding the emergence of Artificial Intelligence in the workplace.

<u>Retail</u>
Mr. Klein reported:

- The labor market is still tight.
- There has been some decline in turnover across the ShopRite stores owned and operated by his family, but their stores are 10% under ideal staffing levels.
- He believes that people feel they are living in uncertain times and do not want to change jobs.
- There are not enough junior-level candidates for entry-level positions.
- In recent months, demand has been soft, and he expects that the holiday season will be difficult.
- He believes that people have depleted their savings and are now making different buying decisions as wage increases are slowing.

<u>Commercial Real Estate</u>
Mr. Copeland reported:

- Multifamily housing investors are leaving the Baltimore market for the southern states in part due to costs.
- Generally, development in the Baltimore region is starting to slow; he expects more development in Frederick and Washington Counties.
- Vacancy for retail spaces is low.

Dr. Basu commented that commercial real estate appears to be stagnant. Mr. Copeland commented that there were no “aha” moments from the CZMP.

<u>Commercial Banking</u>
Mr. Michael reported:

- Loan growth is down across loan types both because of lower demand and stricter lending requirements from banks.
- Bridge funding and private credit remain available, but those are not the most desirable products as rates can be double that of more traditional loans. Dr. Basu confirmed that private credit is not as regulated, and Mr. Michael advised that commercial banks are therefore more closely monitoring these companies.
- Regulatory pressure has trickled down to regional banks.
- Banks are not funding tenant improvements to commercial spaces.

<u>Technology</u>
Mr. Marks reported:

- The AI market is experiencing a bit of a bubble.

- There is tight competition for junior level technology talent; candidates from outside the U.S. are often more affordable to hire due to lower salary expectations.

Discussion ensued regarding the possibility of developing land outside the County's URDL, opportunities for infill development within the URDL, and opportunities for improving education and skills training among County residents.

Accounting

Mr. Uhlfelder reported:

- There is a lot of uncertainty regarding the extension of federal tax cuts included in the Tax Cuts and Jobs Act that are due to expire in 2025.
- Mr. Uhlfelder noted that a continuing population decline in Maryland may require the need to raise taxes among remaining residents in order to generate level income tax revenues from a smaller tax base.

Manufacturing

Dr. Galiazzo reported:

- There is a need for a vision for Baltimore County.
- The manufacturing supply chain is not returning back to the County as it is elsewhere.

Dr. Basu stated that the County is need of a renaissance.

Residential Real Estate

Ms. Swindell reported:

- A tight housing inventory and higher interest rates create challenges for homeowners who are interested in selling.
- Changes to commission payments as a result of a federal lawsuit against the National Association of Realtors have had far less impact than she had originally anticipated. Most sellers continue to offer commission to buyer's agents, and there is far more transparency for the homebuyer regarding commissions to be paid.