

ECONOMIC CONDITION AND OUTLOOK

Maryland's economy picked up speed during the past year and a half but despite solid job growth in business, health, and engineering services, and a burgeoning transportation and warehousing sector, Maryland's economy has recovered only 85,000 of the 110,000 jobs lost during the last recession. This lackluster performance reflects the state's struggle to replace job losses in banking, federal government and defense-related industries. Job losses in these areas stem from long-term structural changes, rather than any cyclical phenomenon, and as such, represent permanent losses to the state.

Federal civilian government employment in the state dropped by 2,800 jobs during 1994. Employment has been on a downward trend since 1987, with the state losing 10% of its federal job base since then, most of it in defense. Defense-related private sector employment has also fallen substantially since 1988. Three of Maryland's largest defense contractors cut employment by more than 12,000 since the late 1980s.

On the positive side, one of the highlights of Maryland's recent economic performance is the emergence of the state as a hub for distribution and warehousing facilities. Maryland's proximity to the broader market — 35% of the U.S. industrial base and 33% of the U.S. population is within an 8 hour truck ride — and the availability of land for development, further enhanced the state's potential. Employment gains in trucking and warehousing soared by 9.4% over the past eighteen months. Moreover, the demand for new facilities has even led to some build-to-suit projects, providing a much needed boost to the state's construction industry.

Maryland's banking industry has been devastated by consolidation, losing more than 6,000 jobs in the past six years. Some of the downsizing reflects technological advances — customers can bank by telephone or ATM, reducing the need for tellers — and deregulation, which allowed banks to move into other markets, where competition and the drive for lower costs spurred consolidation and the elimination of duplicate operations.

Deregulation and increased competition among public utilities has resulted in the same cost-cutting pressures seen in banking and other industries. The utility sector faces the prospect of additional job losses in 1997 due to the merger of Pepco and BGE. In the communications sector, long-term prospects are quite promising. However, in the near term employment will be constrained by competitive forces and the need to keep costs down.

Employment in health services has slowed recently, with cost containment pressures reallocating demand away from hospitals to lower cost, shorter stay facilities. The anticipated federal cuts in the Medicare and Medicaid programs will accelerate the move toward lower cost forms of care. At the same time, the growing aged population will maintain pressure on the demand for home health and nursing home care.

Maryland's high-tech sector is one of the state's foremost strengths. Information technology firms will see steady expansion as both business and government increasingly rely on computerization to improve service and data delivery while cutting costs. Growth in Maryland's biotechnology firms will also continue. Many firms located in the state have bright prospects for new products, while state-supported biotech facilities and federal research labs will provide a strong draw to the state.

Beyond these underlying sectoral developments, Maryland's economy will be shaped by the dramatic changes in Washington and the extent to which the state's private sector can absorb displaced federal workers, replace procurement dollars and exploit outsourcing or privatization opportunities. Congress has established a balanced budget by 2002 as a primary goal, and actions so far suggest the votes are there to accomplish that goal. Attaining a balanced budget will require significant cuts in programs and jobs. The broad blueprint of the Budget Resolution suggests that employment will need to drop by 15%–20%. This would translate into federal job losses of about 20,000 in Maryland, and another 15,000–20,000 for Maryland residents working in D.C. or Virginia.

Given the state's disproportionate reliance on federal spending, the next several years will be difficult for Maryland. Although longer term prospects should be enhanced if the state can diversify and expand the private sector, in the near term, significant declines in federal employment and the ripple effects on housing and consumer spending will offset moderate gains in construction, transportation, warehousing and services. As for the past five years, Maryland will lag the U.S. in job creation. In total, Maryland employment is projected to increase only 1.3%–1.4% per year between 1995 and 1998. Low inflation and a relatively weak economy will hold down wage gains, contributing to growth in personal income of between 4.7% and 5.2% per year between 1995 and 1998.