

## ECONOMIC CONDITION AND OUTLOOK

While the national recovery began in early 1991, Maryland did not begin to register job gains until a year and a half later. Since September 1992, however, the state has experienced a modest recovery. During the period from September 1992 through September 1994 employment increased by 43,700 or 2.1%. This relatively small gain disguises the fact that employment gains have actually been strong in several industries. However, continued large-scale downsizing by key state employers has offset some of these gains.

The defense industry, among the hardest hit, has been adjusting to a long-term structural change aside from any cyclical weakness. The end of the Cold War and attempts to control the federal budget deficit have accelerated the decline in the federal defense budget. Defense contractors, many of them among the state's top employers, have struggled to adjust to the new environment.

After five years, Maryland's construction industry is making a modest recovery. Low interest rates helped to revive the housing market, while conditions in the depressed nonresidential market have begun to improve, as vacancy rates have moved down and lease rates have stabilized. Supported by these trends, construction employment has begun to post modest gains.

Manufacturing employment continues to contract, despite the record level of average weekly hours. The continuing decline in manufacturing employment in Maryland and nationally can be attributed to gains in productivity enabling output to increase even as employment decreases. The General Agreement on Tariffs and Trade (GATT) should favorably impact the Port of Baltimore.

Changes in technology combined with the drive to cut costs have led to substantial consolidation among financial institutions. In addition to these long-term trends, the cyclical increase in interest rates in 1994 is taking its toll on financial services employment. Higher rates mean the end of the 1992-93 mortgage refinancing cycle and imply a weaker housing market in the near term.

Maryland's service sector remains its strongest source of job creation. Employment in business services has increased at an average annual rate of over 4% since late 1991. Health services employment grew steadily even through the recession, and has registered gains of about 3.5% per year since 1990.

Employment in the government sector has been weak. Attempts to reduce the size of the federal budget deficit, coupled with the plans of the National Performance Review have resulted in hiring freezes in many federal agencies. The federal government is planning to further downsize via a substantial voluntary buyout plan. Tight budgets at the state and local levels have constrained employment growth as well.

Maryland's outlook will be characterized by the same forces that have shaped the recovery thus far — employment gains in key service industries will be partially offset by the ongoing restructuring of large employers. The net effect will be slow improvement in total employment.

Continued consolidation within the communications and public utilities sector, the finance, insurance and real estate sector, and the federal government are the primary examples of this phenomenon. Further consolidation is expected in the banking industry, since the passage of interstate banking legislation implies that additional mergers will be forthcoming. The insurance industry is also affected by the drive to downsize and increase competitiveness. Potential health care reforms all include aspects which will affect the insurance industry, adding further incentives to increase productivity and keep costs down.

Employment in services, primarily business, health, and personal services, will register the strongest growth. Maryland's high-tech services are among the state's greatest assets. Computer, engineering, and research services will continue to post significant gains. Although it accounts for a relatively small share of the state's total high-tech job base, employment in life sciences has, and will continue, to grow rapidly.

While employment gains in traditional health care may be weak, overall health care employment is expected to remain comparatively strong. The demographic trends of an aging population will result in continued gains in employment in nursing homes, acute, and long-term care facilities. Combined with ongoing technological improvements, these trends will result in continued gains in non-hospital health service employment.

The net effect is that employment in Maryland is expected to increase at a steady but moderate pace, as the continued weakness in some sectors offsets gains in others. Supported by an increasing job base, Maryland personal income is projected to increase by 5.2%, 5.9%, and 5.7%, in calendar years 1994, 1995, and 1996, respectively.