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Jobs level is key to a true recovery for Md.

by Danielle Ulman

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Maryland's economy will likely snap out of the doldrums in 2010, experts say, but most people won't feel the recovery until job levels rebound.

"That will be one of the frustrations of 2010 — that as the economy continues to recover, the pace will be slower than hoped. Many Americans will view the year as having been inadequate for creating job opportunities for Marylanders and for the rest of the nation," said economist Anirban Basu, CEO of Baltimore-based Sage Policy Group.

That's because job growth almost always lags behind economic growth. Employers will be wary of adding jobs until they see that the recovery is real. Even then, uncertainty about the costs associated with health care reform and regulatory shifts in energy policy could slow hiring.

Economists debate how and when Maryland will pull out of this recession, but most agree that the classic V-shaped recovery — a sharp decline followed by a quick rise — is not likely. More likely would be a longer, U-shaped turnaround or an up-and-down W-shaped recovery.

Peter Morici, an economist and professor at the Robert H. Smith School of Business at the University of Maryland, projected an X-shaped recovery for the nation, where gross domestic product grows, but jobs don't. Whatever shape the recovery takes, he does not expect it to resonate with most Americans.

"This is not a recovery for ordinary people; this is a recovery for Wall Street," he said. "People are not going to be feeling better."

Better than average

Economists agree that Maryland's unemployment rate will remain below the national average. The state's unemployment rate of 7.2 percent in October was far lower than the national jobless rate of 10.2 percent.

Despite a drop in national unemployment to 10 percent in November, it is expected that the lower jobless rate won't last. And Maryland's unemployment level most likely hasn't hit rock bottom either.

"I suspect that it's probably going to continue to climb up before it goes down. I think the second half of 2010 should be much stronger than the first half," said Daraius Irani, director of RESI's Applied Economics and Human Services group at Towson University.

He predicts a 0.6 decrease in employment in 2010 in Maryland and a 1.8 percent increase in employment in 2011.

Maryland has weathered the economic storm better than other states because of its proximity to Washington, D.C., and because of its reliance on federal spending. In 2008, the government spent $77.9 billion in Maryland, ranking it second in per capita government spending behind Virginia.

Richard Clinch, director of economic development for the Jacob France Institute at the University of Baltimore, said that dependency is good and bad for the state.

"The good news is the government's going to keep spending money," he said. "That's why we haven't had as terrible a time as the rest of the country.

"But, as the nation will be going into strong growth, the engine that drives the Maryland economy, which is the federal government, will start to wind down," he said. "That's because the government can't run trillion-dollar deficits forever."

Clinch said Maryland would be better off in the future if its economy was more diverse, but he said the state's position isn't all bad.

"I'm not predicting a doomsday scenario here," he said. "The federal government will always be here … but the spending can't go on like this."

Kathleen Snyder, president and CEO of the Maryland Chamber of Commerce, said Maryland's position is a "tremendous asset" because so many federal government agencies are located throughout the state. Having agencies like the Food and Drug Administration, the National Institutes of Health and the National Institute of Technology and Standards has been a boon for the biotechnology industry, she said.

Economists will look to Maryland's biotechnology, health, education and information technology sectors for growth in 2010. Tom Sadowski, president and CEO of the Economic Alliance of Greater Baltimore, said information technology in particular will keep growing because it backs up other industries, like defense, accounting, engineering and health.

Areas like commercial construction and retail are expected to continue to struggle.

Increasing home sales, consumer spending and the expected influx of jobs from the military's Base Realignment and Closure (BRAC) program should put Maryland in a decent spot in 2010, but Basu said he has other concerns.

In the hole

"There is at least one fly in the ointment and that is the state of government finances," he said. "State and local governments are now largely a destabilizing force with respect to employment as state and local governments strive to balance budgets."

State revenue from taxes and fees plummeted last year and is expected to continue to drop as more people are out of work. Halfway into fiscal 2010, Maryland has already cut more than $1 billion from its budget.

Irani agreed that state government budgets will be a big part of how quickly the recovery moves. Nationwide, states struggled with budget deficits of $134 billion in fiscal 2009, and Irani said state budget deficits will be $180 billion or more in fiscal 2010.

"The budget is going to be critical," he said. "Last year we were saved by some of the stimulus money, but the question is, next year will we get some of that stimulus money to patch some of those holes? The question is, how much can we cut before we cut to the bone?"

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