

2006 Economic Overview

Maryland's private sector economy continued to expand in 2006, however, the rate of business expansion slowed, ebbing from 1.7 percent in 2005 to 1.3 percent in 2006. In all, Maryland's private sector employers added an estimated 25,630 jobs over the year, raising employment to a level of 2,074,637 in 2006. The overall moderation in job growth, which affected virtually every business sector in Maryland's economy, resulted from a combination of factors. Higher interest rates, a mid-year downshifting in the housing market, fluctuating gasoline prices and the early stages of the phasing in of higher home energy costs worked in concert to constrain activity in Maryland's job market during 2006.

Private Sector Employment Changes by Industry Sectors 2005 -- 2006

Industry Sector	Employment		Employment Change 2005 -- 2006	
	2005	2006	Numerical	Percent
Total Private Sector Employment	2,049,007	2,074,637	25,630	1.3%
Natural Resources & Mining	6,842	6,836	- 6	-0.1%
Construction	183,845	188,420	4,575	2.5%
Manufacturing	140,204	136,334	- 3,870	-2.8%
Trade, Transportation & Utilities	466,027	470,271	4,244	0.9%
Information	50,598	50,726	128	0.3%
Financial Activities	157,988	157,729	- 259	-0.2%
Professional & Business Services	385,902	394,518	8,616	2.2%
Education & Health Services	340,794	349,136	8,342	2.4%
Leisure & Hospitality	226,422	229,694	3,272	1.4%
Other Services	88,623	89,703	1,080	1.2%

Industry Performance

The **construction** industry, which finished out 2005 with a growth rate more than double the overall rate of private sector business expansion, was definitely ripe for further expansion in 2006. Early on in 2006, it appeared that the surge in residential building activity, which led the industry's expansionary movement in 2005, was continuing, but by midyear, rising interest rates, coupled with a rapid appreciation in home prices put a dent into affordability. Consumers began to retreat and contractors, faced with declining demand and an inventory glut, began to scale back on homebuilding activity. By the 3rd quarter of 2006, it was apparent that the housing downturn was beginning to take hold, with residential building permit activity showing a decline of nearly 16% from year ago levels. While the residential building market wavered, a relatively healthy pace of activity

continued in nonresidential construction, helping the construction industry, as a whole, to retain its ranking as the fastest growing industry during 2006 with an over-the-year gain of 2.5%.

Growth in **education and health services** followed closely on the heels of the construction industry, with jobs advancing at a rate of 2.4% through 2006. Health services was the focal point of activity in the sector, accounting for virtually all the combined sector's increase. The upturn in healthcare reflects a continuing trend which has taken hold as the industry moves forward in its efforts to gear up for the increasing demand anticipated from the aging baby boomer population. According to a recently released survey from the Maryland Hospital Association, growth in healthcare services has led to vacancy rates in a number of allied health occupations, predominantly among RN's and occupational /physical therapists. About 3 out of every 10 jobs generated in health services during 2006 resulted from expansion at general medical and surgical hospitals. Home healthcare services and residential healthcare facilities ranked as the fastest growing healthcare providers.

The **professional and business services** sector has continued to be a mainstay of Maryland's economic growth. This sector, which accounts for about 1 out of every 5 jobs in the state's private sector employment base, was the top job producer during 2006, advancing at a rate of 2.2% -- a growth rate yielding an additional 8,616 jobs. Computer systems design firms, architectural and engineering services and employment services were the largest job contributors in this business sector during 2006, collectively accounting for nearly 60% of the overall industry gain.

**Detailed Industries Adding the Largest Numbers of Jobs
2005 -- 2006**

Grocery stores	3,725
General medical & surgical hospitals	2,388
Computer systems design & related services	1,726
Architectural & engineering services	1,695
Limited-service eating places	1,641
Employment services	1,603
Building equipment contractors	1,375
Electronic markets & agents and brokers	1,013
Services to buildings & dwellings	979
Management & technical consulting services	977

Labor Force Developments

The slowing in the economy during 2006 failed to quell the optimism of Maryland jobseekers. During 2006, the number of Maryland jobseekers topped the 3 million mark. An additional 58,650 Maryland residents became employed in 2006, with persons in the

55 to 64 year old age group making the largest gains in employment. Employment to population ratios rose for all race/sex groups during 2006. Throughout the year, the seasonally adjusted unemployment rate remained within a narrow band, ranging from 3.7 percent to 4.0 percent. On an annual basis, Maryland's unemployment rate inched down slightly from 4.0 percent in 2005 to 3.9 percent in 2006 – a rate considerably below the national average of 4.6 percent.

Among those filing for unemployment benefits during 2006, there was a 10.1% decline from 2005 in the number receiving benefits and a 14.2% drop in the number of benefit exhaustees. The average duration for unemployment benefit payees also was also lower, falling from 15.5 weeks in 2005 to 15.2 weeks in 2006.

Economic Churnings in 2007

Despite the weakness in the housing market during 2006, Maryland's economy remained generally on track, with solid job growth. 2007, however, has brought some new concerns to the surface, concerns which are also affecting the national market. The looser lending standards employed during 2006 which enabled buyers to qualify for loans compatible with appreciably higher price tags has increased foreclosure activity during 2007. Lenders are now stuck with an inventory of their own to market. Financial markets have begun to show the strain, with layoffs and closings among mortgage lenders on the rise. What can now be viewed as somewhat of a lending fiasco in 2006 has caused lenders to tighten their standards – a movement that can be expected to lengthen the readjustment period necessary before the housing industry can regroup and establish a more sustainable level of expansion.

