"READ ALL ABOUT IT"

"Foreclosures Skyrocket" ***"Construction Activity Plummets"***

"Credit Crisis Continues" ***"Dollar Depreciates"*** ***"Oil Prices Rise"***

The U.S. Economy Begins to Slide

The housing balloon, which had been at the center of economic activity for most of 2005, gradually began to deflate during the latter part of 2006, causing home prices to decline, inventories to rise, sales to dwindle and demand to founder in the homebuilding industry.

In early 2007, homebuyers, many of whom entered into ownership with marginal credit and were lured by the "teaser" rates offered by subprime mortgage lenders during the 2005 housing frenzy, were faced with the dilemma of meeting the obligations of escalating monthly payments. Delinquency rates rose to record highs, foreclosures followed, and lender's liabilities mounted -- factors which ultimately led to the collapse of the subprime mortgage industry early on in 2007.

These events, exacerbated by mounting concerns over the impact of rising energy prices and the falling dollar, created an economic maelstrom which sent shock waves through Wall Street. In order to contain the headwinds imperiling labor market conditions, the Federal Reserve, in September 2007, stepped in and, attempting to exercise damage control and reestablish orderly market functioning, lowered the discount rate. This was the first of several such actions taken by the Federal Reserve in the months to come.

Despite federal intervention, the economic picture was, by years' end, relatively bleak. Job growth between December 2006 and December 2007 showed a net gain of just over a million jobs, representing a growth rate of just 0.8%, compared to that of 1.6% reported in 2006. The rapid deceleration in job growth -- the lowest rate in 4 years -- resulted from a combination of cyclical losses in construction and finance, structural declines in manufacturing and restrained performance in the consumer driven transportation and trade sectors.

Meanwhile, unemployment, on an annual basis, held steady at 4.6% in 2006 and 2007. A monthly comparison of unemployment; however, offers a much more sobering delineation of faltering market conditions. In December 2006, unemployment across the nation was reported at 4.4%; by December 2007, the rate had climbed to 5.0%.

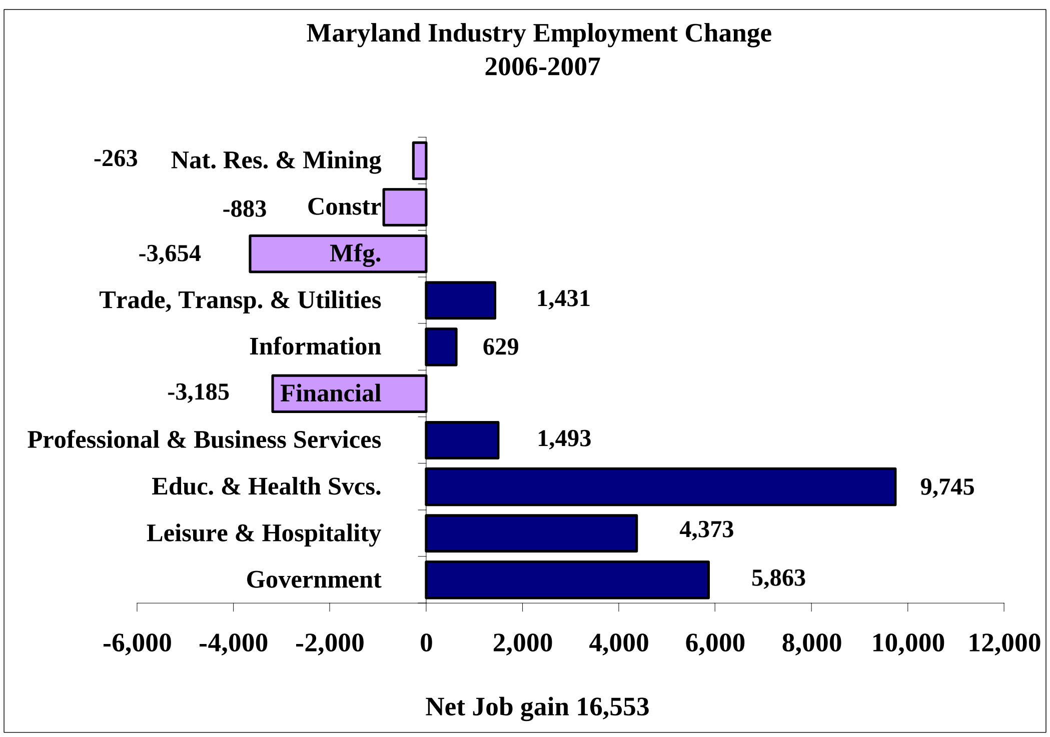
How did Maryland's Economy Fare in 2007?

While Maryland's labor market was certainly not immune to the turbulence on the national front, the national slowdown was well underway before Maryland, months later, started to feel the ripple effects of the nation's economic movements. This delayed reaction helped to lessen the impact on Maryland's business payrolls during 2007. While Maryland's industrial expansion slowed during 2007, the rate of deceleration, from 1.3% in 2006 to 0.8% in 2007, was less acute than that experienced nationally.

During 2007, 16,553 jobs were added to Maryland's business payrolls, with growth in the private sector economy accounting for just over two-thirds of the overall gain. About 5 out of every 10 jobs added to the statewide economy resulted from hiring by businesses based in the Central Maryland and Capital Regions. Within these regions, industry gains were the most noteworthy in Anne Arundel, Baltimore and Prince George's counties.

Among the state's private sector industries, the education and health services and leisure and hospitality industries, while not possessing the vigor characteristic of previous expansionary periods, were the top performers in 2007. Education and health services posted the highest sectoral growth rate of 2.8% -- a rate more than three times that of overall industry expansion during 2007. Within the industry, ambulatory health care services nosed out education services and hospitals by a narrow margin in order to rank as the top job producer. Nearly 23% of all jobs added in ambulatory health care services were generated by employers in Baltimore County.

While rising energy costs and higher mortgage rates prompted consumers to take a cautious approach in their discretionary spending during 2007, habits and frequency of outings may have changed but the demographic/lifestyle driven leisure and hospitality industry, nonetheless, continued to expand. Food services and drinking places, ranking as the top growth industry in a profile of detailed industry sectors during 2007, contributed the largest share of the total expansion in leisure and hospitality.



On the debit side of the employment ledger, the trickling down of national economic unrest tempered performance and, ultimately led to over-the-year declines in Maryland's finance and construction industries. Stress cracks started to surface in the financial sector, particularly in the credit intermediation and related activities sub sector, in the early part of 2007 and, by year's end, the national "credit crisis" had spread its tentacles into Maryland, resulting in a loss of nearly 3,200 jobs in the industry.

Meanwhile, the construction industry, which remained in somewhat of a holding pattern with alternate periods of slow growth and no growth, didn't show any visible signs of economic unrest until well into 2007. Activity in residential building construction started to buckle as the demand for new housing construction declined. Between the 3rd and 4th quarters of 2007, the number of new housing units authorized for construction plunged by just over 45%. The net effect was a drop of just over 1,500 jobs, or 5.4%, in residential building construction during 2007. Maryland's decline was, however, moderate compared to that of 9.2% reported nationally. The slide in Maryland was mitigated by ongoing activity in nonresidential building which cut the loss in residential almost in half.

Growth Among Maryland's Detailed Industries
2006 - 2007

Industry	Employment 2006	Employment 2007	Employment Change 2006-2007
Food services & drinking places	170,473	174,469	3,996
Professional & technical services	218,361	221,533	3,172
Ambulatory health care services	95,774	98,401	2,627
Educational services	54,140	56,475	2,335
Hospitals	94,620	96,879	2,259

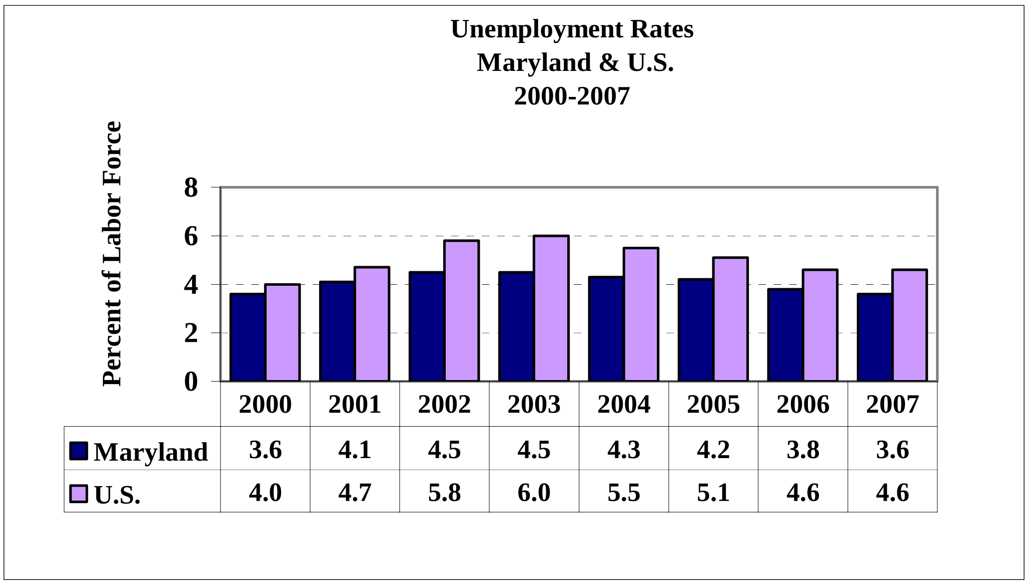
Declines Among Maryland's Detailed Industries

Industry	Employment 2006	Employment 2007	Employment Change 2006-2007
Credit intermediation & related activities	58,317	55,703	-2,614
Administrative & support services	149,907	148,172	-1,735
Merchant wholesalers, durable goods	51,730	50,761	-969
Construction of buildings	44,591	43,793	-798
Truck transportation	17,652	16,945	-707

A Look at Unemployment

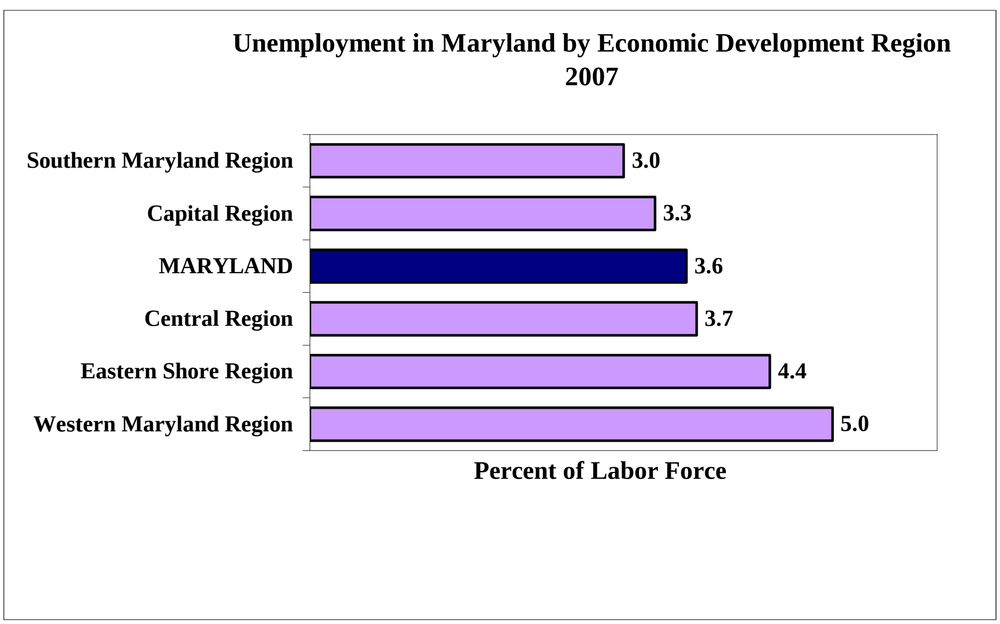
The economic slowing during 2007 increased the challenges for Maryland jobseekers. Since 2003, Maryland's unemployment rate has been progressively declining and, by 2006, had dropped to 3.8% -- a rate believed by many economists to fall within the range characterized as “full employment.” So, in essence, an already existing tight job market was strained even further in 2007 as employers, conscious of the economic slippage, became more tentative in their hiring.

Maryland jobseekers, however, fared relatively well. Unemployment in the state remained somewhat low key during 2007, with monthly rates volleying between 3.5% and 3.6% throughout the year. On an annual basis, Maryland’s unemployment rate declined to 3.6%, a rate well below that of 4.6% reported nationally. More importantly, the employment to population ratio, a variable which measures the percentage of the work-eligible population who are employed, was little changed over-the-year, falling slightly from 66.6% in 2006 to 66.4% in 2007.



	2000	2001	2002	2003	2004	2005	2006	2007
Maryland	3.6	4.1	4.5	4.5	4.3	4.2	3.8	3.6
U.S.	4.0	4.7	5.8	6.0	5.5	5.1	4.6	4.6

Unemployment rates either declined or held steady in each of the state’s economic development regions during 2007.



The Here and Now – 2008 Developments to Date

Nationally

On the national front, it appears as if the economy is enmeshed in a "catch 22" situation. While the Federal Reserve continued to lower interest rates through April in an attempt to inject some life back into the ailing housing and credit markets, tightening lending standards on home mortgages and other consumer and business loans have, in essence, restricted the availability of monies needed to kick start these industries.

Another concern, which has reared its ugly head, is rising inflation. Oil prices began to fall towards mid 2008, giving consumers some relief at the pumps and in home energy costs, however, the price of food and other necessary commodities has escalated, making it harder to stretch paychecks, particularly since growth in paychecks has been lagging. While President Bush gave the go ahead on tax incentive rebates, it almost seemed as if the rebates fell under the category "too little – too late." For consumers hit by rising costs, rebates didn't necessarily increase discretionary income as much as provide a resource to pay for necessities.

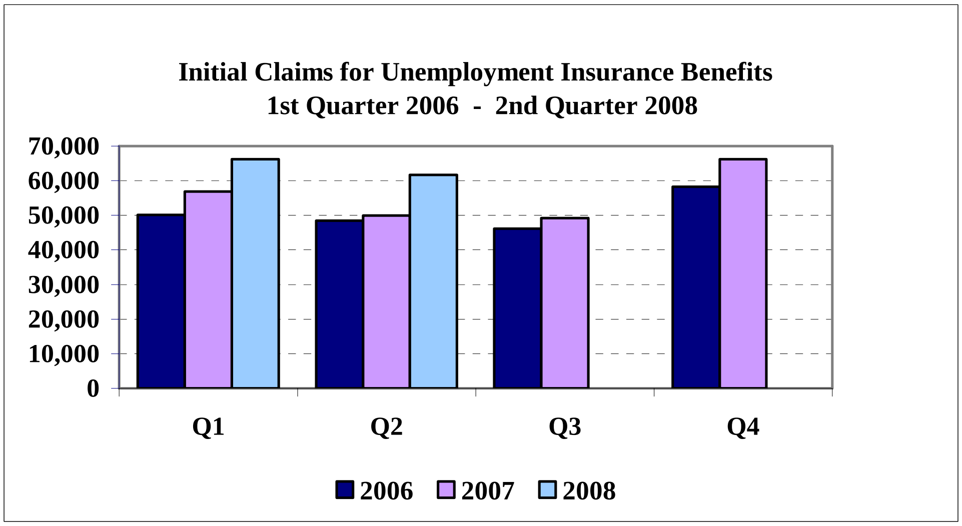
Continuing economic uncertainty has been reflected in both the national jobless numbers and payroll statistics. By August, 2008, unemployment topped the 6% mark -- a level not seen since 2003. Business payrolls have continued to show signs of considerable strain, with an eight month consecutive string of job cuts resulting in a year-to-date loss of 529,000 jobs on national payrolls and an over-the-year decline of 283,000 jobs.

Maryland

Entering 2008, Maryland's economy, while nursing some sore spots, seemed to be holding its own. During the first three months of 2008, unemployment was little changed, with rates remaining within a narrow band between 3.4% and 3.6% and Maryland's business payrolls continued the slow but steady expansion which began during the last three months of 2007.

But, with the national cloud looming darkly overhead, statewide labor conditions lost some traction towards the end of the first quarter. The numbers of initial unemployment claims, while declining somewhat between the 1st and 2nd quarters of 2008, were running about 25% above year ago levels by the end of the second quarter. In addition to filings under the regular program, by the end of August, about 20,000 initials claims were filed by Maryland jobseekers seeking payment eligibility under the federally funded Emergency Unemployment Compensation Act.

Meanwhile, the unemployment rate began to creep up, increasing to 4.4% by July 2008. The increase in Maryland's rate, while an unwelcome sign, was not as dramatic as that nationally because, in Maryland, the number of employed residents continued to rise whereas nationally, declining employment contributed to the upturn.



However, based on year-to-date movements in Maryland's business payroll statistics, the statewide economy appears to be in somewhat of a better place than that of the nation. Aside from a mild interruption in April, Maryland's job base has continued to add jobs, gaining 11,600 jobs through the first seven months of 2008 and nearly 26,000 jobs over the past year.

What to Expect…

Based on current conditions, it appears as if the economy, both nationally and in Maryland, is going to be traveling a rocky road at least through the end of the year. It's too early to tell whether or not the recent government takeover of Fannie Mae and Freddie Mac will stimulate activity enough to reenergize the economy, particularly the construction and finance sectors. While steps have been taken to stem the bleeding in these industries, the situation will definitely not be easily reversed.

Belts have already been tightened – how much more consumers and businesses can take is debatable. What's going to happen with inflation will be a big factor in determining whether consumers and businesses will feel comfortable enough to move out of the "wait and see" mode, stimulate supply/demand and reinvest in the economy.