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Let There be Light . . . at the End of the Tunnel
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The U.S. economy has been stuck at two percent growth for several years and throughout much of 2013. Imagine a sports car with incredible get up and go, but one that had to constantly negotiate a series of speed bumps that permit it to only travel between 30 and 40 miles per hour. The economy's "bumps" translate into sub-par economic growth and an unemployment rate still stuck at seven percent after more than four years of economic recovery.

However, the outlook for 2014 is as positive as it has been for any year since the onset of the financial crisis. There are a number of relevant factors at play. The world economy is now strengthening, with accelerating growth apparent in China, parts of Europe, the U.S., and in a host of emerging nations. Accordingly, the International Monetary Fund projects that the global economy will expand 3.6 percent in 2014 after expanding closer to 3 percent in 2013.

There are other tailwinds that more specifically impact the U.S. economy. The nation now enjoys greater certainty regarding its federal budgetary and Federal Reserve monetary policies. Seemingly against all odds, the federal government recently passed a budget that guides spending into 2015. On December 18th of last year, the Federal Reserve announced that it would begin to taper its bond purchase program beginning in January. Rather than purchasing $85 billion each month in assets, the Federal Reserve will taper its purchases to $75 billion per month. Specifically, the FOMC will reduce its purchases of Treasuries and mortgage-backed securities to $40 billion and $35 billion per month.

Equity investors cheered the policy announcement for at least three reasons. First, the Federal Reserve introduced language suggesting that short-term rates will remain low for many quarters to come. The announcement also reduces the level of policy uncertainty and markets don't like uncertainty. Finally, the decision to taper implies that the Federal Reserve's forecast for U.S. economic activity has improved since its September 2013 meeting.

There's more at work than policy shifts. Gas prices have fallen, helping to increase consumer disposable spending power. Corporate performance remains solid. A majority of large U.S. corporations beat their earnings estimates during last year's third quarter. However, a materially smaller share beat their revenue estimates, implying that companies continue to aggressively manage costs to boost bottom line performance. With economic growth now accelerating both nationally and globally, corporate America may have an opportunity to rapidly expand both its bottom and top lines.

In general, regions of the nation enjoying the fastest recovery are those that are associated with rapidly rising populations (e.g., Texas, Florida), surges in energy production (North Dakota, Texas, Louisiana), increased industrial output (Indiana, South Carolina) and rapidly recovering housing markets (Florida, Georgia, Arizona). These regions are likely to continue to expand more rapidly in 2014.

Will Maryland Catch the Tailwinds?

Maryland was a willing participant in the nationwide recovery and continued to post solid economic performance numbers throughout 2013. For instance, between November 2012 and November 2013, the state added 33,500 jobs or 1.3 percent according to the Bureau of Labor Statistics. The State ranked 28th in the nation with respect to year-over-year percentage job growth over that period, down from 22nd in May of 2013. Despite the dip in relative job growth, the Free State ranked ahead of Virginia. Statewide aggregate employment has now surpassed its December 2007 level, the month during which the Great Recession began.

Exhibit 1: State-by-State Job Growth, 12-month Percent Change, November 2013 vs. November 2012

| *Rank* | *State* | *% Change* | *Rank* | *State* | *% Change* | *Rank* | *State* | *% Change* |
|---|---|---|---|---|---|---|---|---|
| 1 | North Dakota | 4.0% | 18 | California | 1.6% | 35 | Connecticut | 1.0% |
| 2 | Florida | 2.5% | 18 | South Dakota | 1.6% | 35 | Illinois | 1.0% |
| 2 | Texas | 2.5% | 20 | Kansas | 1.5% | 35 | Montana | 1.0% |
| 4 | Georgia | 2.3% | 20 | Michigan | 1.5% | 35 | Oklahoma | 1.0% |
| 4 | Idaho | 2.3% | 20 | Minnesota | 1.5% | 39 | Iowa | 0.9% |
| 6 | Oregon | 2.2% | 20 | New York | 1.5% | 40 | Hawaii | 0.8% |
| 6 | Utah | 2.2% | 20 | Wisconsin | 1.5% | 40 | Maine | 0.8% |
| 8 | Indiana | 2.1% | 25 | North Carolina | 1.4% | 40 | Wyoming | 0.8% |
| 9 | Colorado | 2.0% | 25 | Tennessee | 1.4% | 43 | Virginia | 0.7% |
| 9 | Delaware | 2.0% | 25 | Washington | 1.4% | 44 | New Hampshire | 0.6% |
| 11 | Arizona | 1.9% | **28** | **Maryland** | **1.3%** | 44 | Pennsylvania | 0.6% |
| 12 | Missouri | 1.8% | 29 | Rhode Island | 1.2% | 46 | Ohio | 0.4% |
| 12 | Nevada | 1.8% | 29 | West Virginia | 1.2% | 47 | Kentucky | 0.3% |
| 12 | New Jersey | 1.8% | 31 | Arkansas | 1.1% | 48 | Alabama | 0.2% |
| 12 | South Carolina | 1.8% | 31 | Louisiana | 1.1% | 48 | New Mexico | 0.2% |
| 16 | Massachusetts | 1.7% | 31 | Nebraska | 1.1% | 50 | District of Columbia | 0.0% |
| 16 | Mississippi | 1.7% | 31 | Vermont | 1.1% | 51 | Alaska | -1.0% |

Source: Bureau of Labor Statistics

Leading the state's job growth in percentage terms are construction (+3.9%), professional business services (+3.6%), education and health services (+2.3%), and other services (+1.3%). Maryland's unemployment rate of 6.4 percent is the lowest since January 2009 and below the national rate of 7.0 percent. The gap between the statewide and national unemployment rates, however, has been closing over the past several months.

Despite a promising outlook for the global and national economies, there is cause for concern in Maryland.  Like a facemask-wearing stalker in a 1980s horror movie, the state's structural deficit refuses to permanently disappear.  What was once estimated to be a $300 million surplus for FY2014 is now an $87 million deficit.  The budgetary gap rises to $400 million for FY2015.  It is critical that Annapolis resolve these shortfalls without further impacting the state's business climate and reputation.