

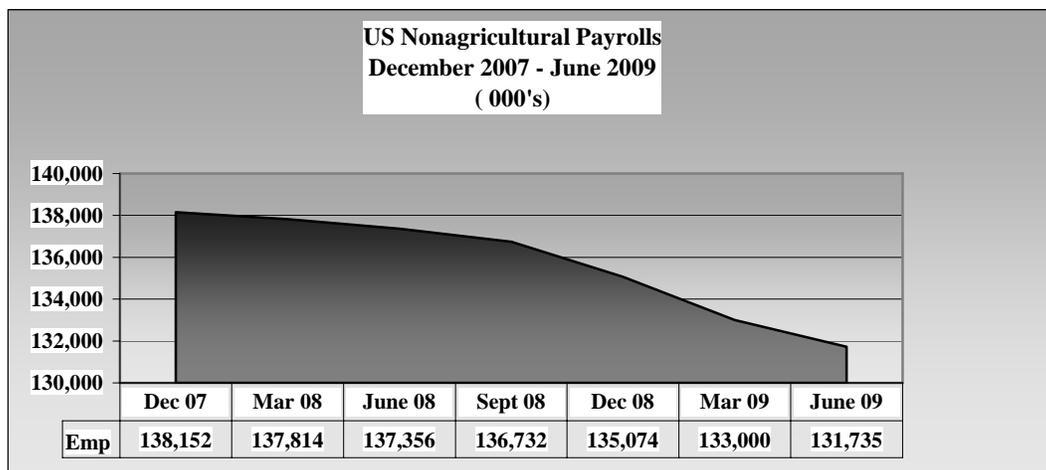
NAVIGATING THE ECONOMIC STORM

● The National Slide...In a Nutshell

By the end of 2007, the signs could no longer be ignored. Escalating problems in the credit and housing markets were beginning to overtake the performance in the rest of the economy. Continued deterioration in the construction, manufacturing and finance sectors slowed the overall rate of job creation to less than 1% between December 2006 and December 2007. During 2008, the problems in these industries were compounded further by a plethora of other economic issues -- higher energy costs, rising food prices, tightening credit, weakening in the retail market and falling home prices --causing a chain reaction of decline in virtually every business sector within the economy.

Slashing the key interest rate, instituting a multi-billion dollar bailout of the financial system, and creating mortgage relief programs were just some of the measures taken to contain the damage and jolt life back into the economy. The downturn, however, continued to intensify, with the massive pullback in consumer spending perpetuating the cycle of business retrenchment. The number of jobs in the national economy, after peaking at 138.2 million in December 2007¹, spiraled downward throughout 2008 and into 2009, a decline which not only continued without interruption but also accelerated over time. By September 2008, more than 1.4 million jobs had vanished from the nation's industry payrolls. Additional losses averaging 555,000 per month through June 2009 further underscore the severity of the employment contraction.

The current economic casualty, similar in its intensity to the downturn experienced in the early 1980's, has been characterized by a rapid rate of deterioration (4.7%), resulting in a staggering loss to date of over 6.4 million jobs.



¹ Designated by the National Bureau of Economic Research as the point in time beginning the phase of diminishing activity leading into the recession.

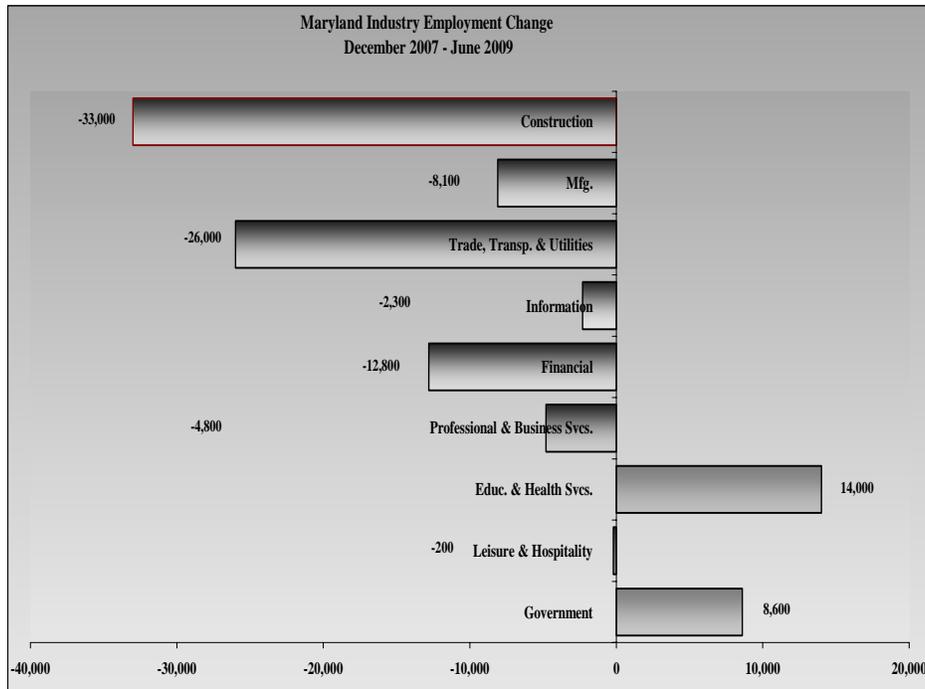
● **The Trickle Down Effect...Maryland's Reaction**

In the early months of 2008, Maryland's economy was little changed. While select business sectors were softening and the rate of overall industrial expansion was slowing, the economy-wide slump that had already kicked into gear nationally as well as in a number of states across the nation had not yet surfaced in Maryland. The fact that Maryland would be pulled into the recession was, however, almost a foregone conclusion since the statewide industries showing the most strain – construction, manufacturing, finance and trade – were the same sectors leading the national business slide. When the recession would hit in Maryland? How deep would the cuts be? Those were the questions on everyone's minds.

News on the national front worsened on almost a daily basis. Consumers, worried about their job status and watching their home values, retirement accounts and discretionary income levels dwindle, became even more cost conscious. Businesses, faced with declining profit margins, scrambled to cut costs. Maryland employers began to feel the pain of national developments. During the first six months of 2008, nearly twenty Maryland employers had, according to official WARN notification filings, shuttered their operations. These closings, impacting businesses in every region of the state, resulted in the layoff of nearly 1,500 workers.

The financial crisis reached global proportions by mid 2008, sending shock waves throughout the economy. By the 3rd quarter 2008, the pressure was mounting and Maryland's economy was visibly faltering. Monthly job losses, reported in both August and September, pushed Maryland's business payrolls down by just over 10,000 jobs between the 2nd and 3rd quarters of 2008. Nearly every major business sector was affected. This decline caused industrial payrolls to plunge nearly 20,000 below year ago levels. The "when" was no longer a question -- it appeared as if the recession had finally arrived in Maryland.

Maryland's economic climate became even cloudier in the months to follow. Consecutive monthly declines slashed industry payrolls through the end of 2008 and, aside from a slight up tick in January and May 2009, Maryland's job count continued to spiral downward through June 2009. Since December 2007 (the national recession start date), statewide industrial payrolls have declined at a rate of 2.7% -- a deceleration which translates into a loss of an estimated 70,200 jobs. Every major private sector industry, with the exception of education and health care and social assistance, has been impacted. The cuts have been deepest in construction where jobs have declined at a rate of 17.7%. An estimated 33,000 jobs have disappeared from construction payrolls, diminishing this industry presence in Maryland's marketplace from 7.2% in December 2007 to 6.1% in June 2009. Nearly two-thirds of the job loss in construction resulted from downsizing among specialty trade contractors. Performance in the consumer-sensitive trade, transportation and utilities sector has also been curtailed dramatically by deteriorating business conditions. On average, nearly 1,650 jobs per month have been shed by this sector since December 2007. About 80% of the industry decline has resulted from downsizing in the retail component. General merchandise and clothing stores have been the hardest hit.



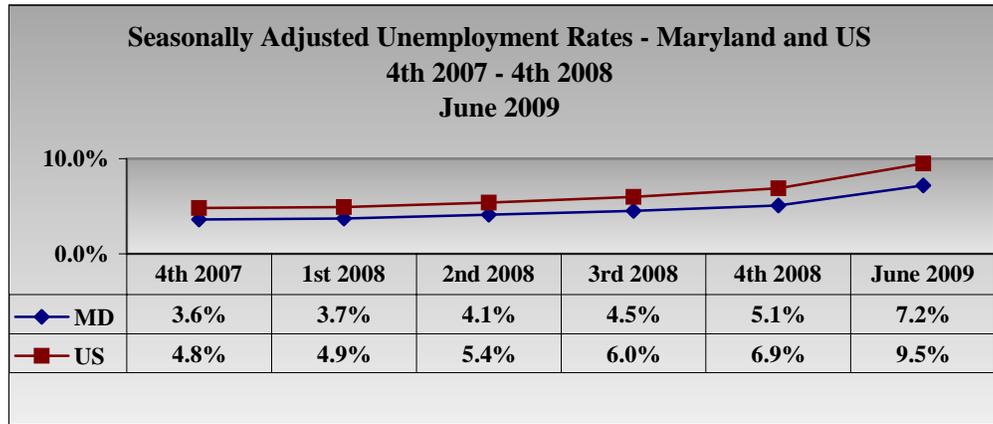
The finance sector, the epicenter of the economic fallout, has been on shaky ground since the subprime meltdown in 2007. Over the past 18 months, 12,800 jobs have vanished from financial industry payrolls. Employment in this sector is currently running nearly 11% below its March 2006 peak employment level of 160,400. Declines in credit intermediation and related services, the subsector in which mortgage banking is centered, have fueled the overall industry downturn.

Detailed Industries with the Largest Employment Changes December 2007 - June 2009	
Positive	Negative
Educational Services	Specialty Trade Contractors
Hospitals	Construction of Buildings
Nursing & Resident Care Facilities	General Merchandise Stores
Computer Systems Design & Rel. Services	Employment Services
Social Assistance	Clothing & Accessories Stores
Food Services and Drinking Places	Credit Intermediation & Related Services

● The Impact on Maryland Jobseekers

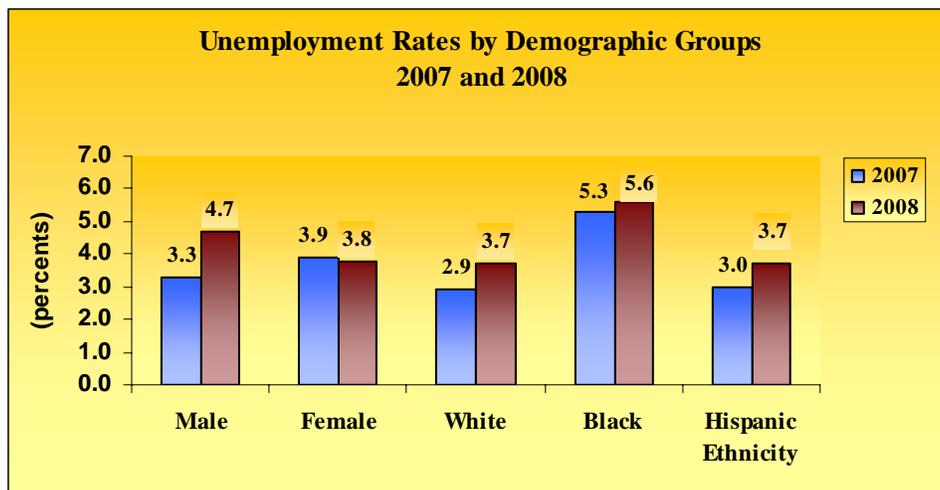
For just over two years, Maryland's seasonally adjusted unemployment rate remained within a narrow band, ranging between 3.4% and 3.9%. During the first six months of 2008, the acceleration in the national contraction and the rumblings in both the statewide and regional economies began to noticeably impact the employment status of Maryland

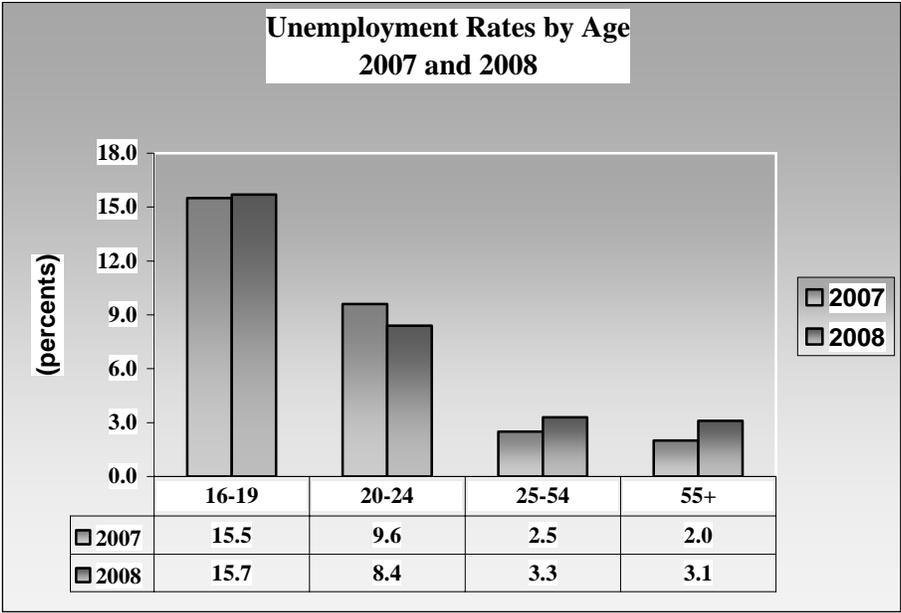
residents. While the number of employed spiraled downward, jobseekers continued to enter the labor market, causing Maryland's unemployment rate to gradually rise.



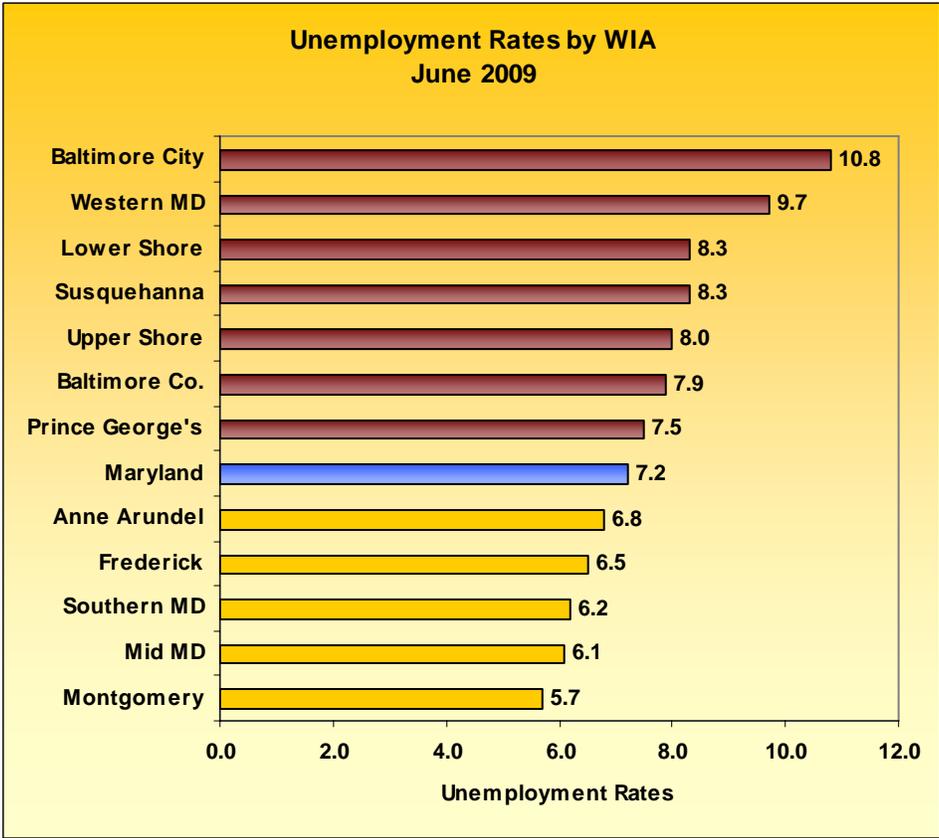
The 4th quarter 2008 was a decisive turning point for Maryland jobseekers – a point when the downturn in Maryland abruptly shifted from slow motion to full speed ahead. Employment steadily declined and unemployment rose above 5.0%. By February 2009, the number of unemployed Marylanders had risen to an unprecedented high, topping 200,000. The unemployment headcount grew even higher in June, causing Maryland's unemployment rate to skyrocket to 7.2% -- its highest level since 1983. Unemployment in Maryland, while rising, has remained well below that of the nation and, in June 2009, was the 2nd lowest in the Mid-Atlantic region, above that of 6.9% in Virginia.

According to the latest statistics available by demographic groups, in terms of rising joblessness, the economic slowing during 2008 appears to have had a greater impact on males, whites and persons aged 55 and over. Among older persons, workers 65 and over were the most severely impacted. Unemployment for this worker group has risen by three full percentage points, from 2.6% in 2007 to % 5.6% in 2008.





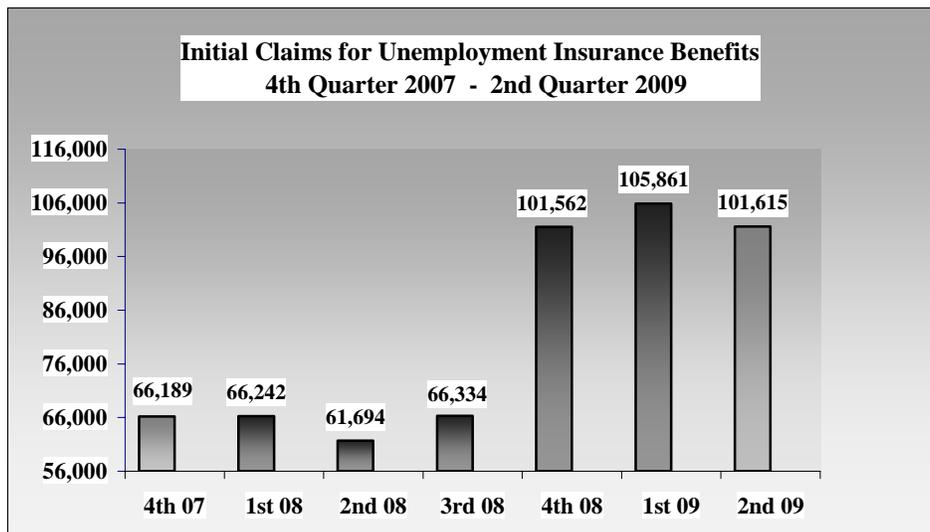
Deteriorating market conditions have caused unemployment rates in each of Maryland's Workforce Investment Areas (WIA's) to rise above pre-recession levels, pushing Baltimore City's rate into double digits.



● Unemployment Benefits Ease the Financial Burden

Deteriorating market conditions have caused unemployment claims activity to rise dramatically. The number of claims filings began to advance in September 2008, rising without interruption through the end of the year until peaking at 42,982 in December. Quarterly initial filings topped out at over 101,500 during the 4th quarter 2008, and, despite declining in January and February, ended the 1st quarter 2009 on an even higher note. Nearly 106,000 initial claims were filed during the 1st quarter 2009. Second quarter filings, while dropping off by just over 4.0%, were nearly 65% higher than 2nd quarter filings in 2008 and more than 103% higher than initial claims taken during the 2nd quarter of 2007.

Payment activity has reached unprecedented levels. During the 2nd quarter 2009, close to 927,000 weeks of unemployment were compensated, resulting in an outlay of about \$284.1 million from Maryland's Unemployment Trust Fund.



In addition to regular unemployment compensation filings, activity reported under both the extended unemployment compensation (EUC) program and the short-time compensation (STC) program -- a benefits program which provides prorated benefits to workers whose hours have been reduced as an alternative to layoff -- has also trended upward. During the first six months of 2009 alone, nearly 23,400 initial claims were filed under the EUC program and close to 1,000 claims were taken under the STC program.

Where Are We Now – Where Are We Going?

The recession has yet to play itself out. How long it will take to reach bottom is the million dollar question. According to recently released reports and latest indices monitoring, signs are beginning to emerge that the intensity of the economic slide appears to be weakening. The stock market appears to be regaining its equilibrium somewhat, no longer showing the mercurial swings which have been characteristic of activity over the

past year. Home sales and construction spending appear to be stabilizing and consumer confidence is slowly rising. Current reports are, however, sporadic at best and fall short of being characterized as sustainable improvements.

The general consensus is that before economic repair and recovery can actually begin credit and financial markets need to be restored to normal operating levels. The financial system bailout monies, earmarked to shore up banking operations, were designed to set this in motion. While about \$443 million in federal emergency aid (TARP - Troubled Asset Relief Program funds) has been allocated to Maryland, executives in Maryland's banking industry have been quoted as saying that the money still has not made its way to the public.

Economic uncertainties are far from over. Although credit conditions have loosened somewhat, financial markets have remained under stress. Close to 70 banks have closed across the nation -- closures which have impacted Maryland. In early 2009, Suburban Federal Savings in Crofton was ordered to close by federal regulators. More recently, Bradford Federal Savings, plagued by capital deficiencies, was ordered by federal regulators to merge with, be acquired by or sell to another financial institution. In general, lending has loosened somewhat but the customer base has been restricted to the credit worthy.

Consumers, even those who have managed to retain their jobs during the recession, are remaining gun shy. The weak labor market, sluggish income growth and declines in equity have impeded consumer spending. Businesses, although starting to make headway in reducing their inventories, are also remaining cautious and layoffs are continuing. The spending necessary to jumpstart the recovery has yet to begin.

Current market conditions suggest that there will probably be quite a few bumps in the road ahead, at least through 2009-2010. Will there be labor demand? Probably, but vacancies will continue to be less prevalent than they were prior to the downturn and demand will be selective. Recruitment will continue for workers with skills in health care professional and support occupations. Hiring will occur on the federal level among auditors, program analysts and workforce analysts – positions dedicated to monitoring activities and expenditures of programs funded by federal stimulus monies. Additionally, in Maryland, funding under the BRAC grant, monies which will be used for base building projects and infrastructure improvement, will result in job generation.

Beyond that, forecasts are cloudy. The recession has resulted in structural changes in the economy – jobs lost in construction, finance and manufacturing have contributed to these changes. It is likely that employment levels in these industries, in particular, may never return to pre-recession levels. While the worst of the recession may be over, recovery will most likely be a slow process and workers whose jobs have disappeared will need to be retrained in order to find a place in the post-recession economy.