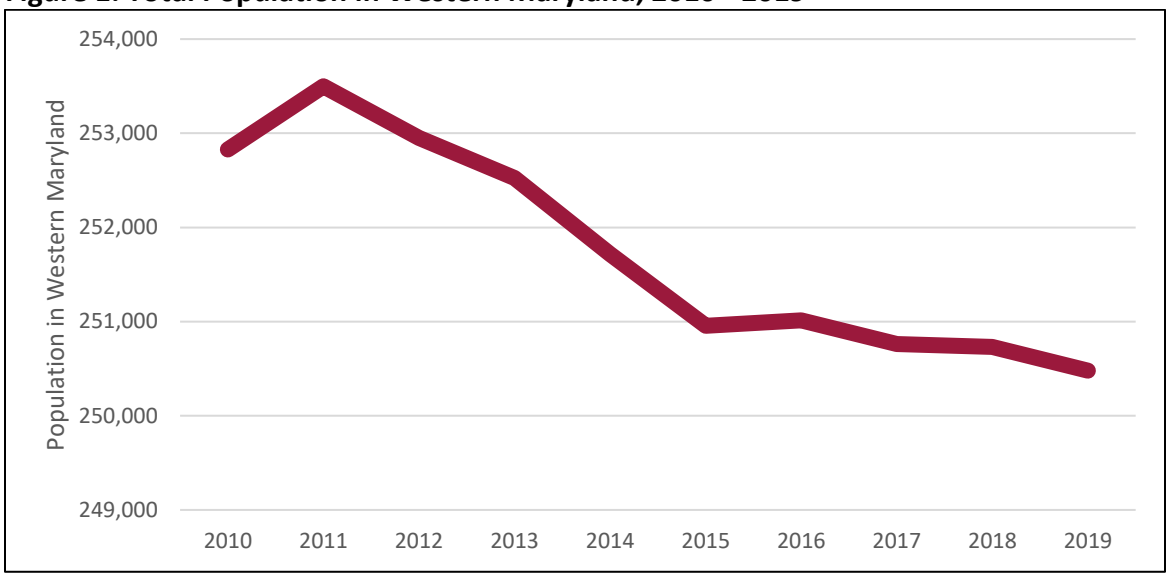
Figure 1: Total Population in Western Maryland, 2010 - 2019



Source: US Census

Although Western Maryland's population decrease has been slight (total population has declined by 0.9 percent between 2010 and 2019), the region is trending in the opposite direction of the state which grew by 4.4 percent during the past decade. As Figure 2 illustrates, the three counties in Western Maryland have experienced different growth rates.

Figure 2: Population Change in Western Maryland by County, 2010 – 2019

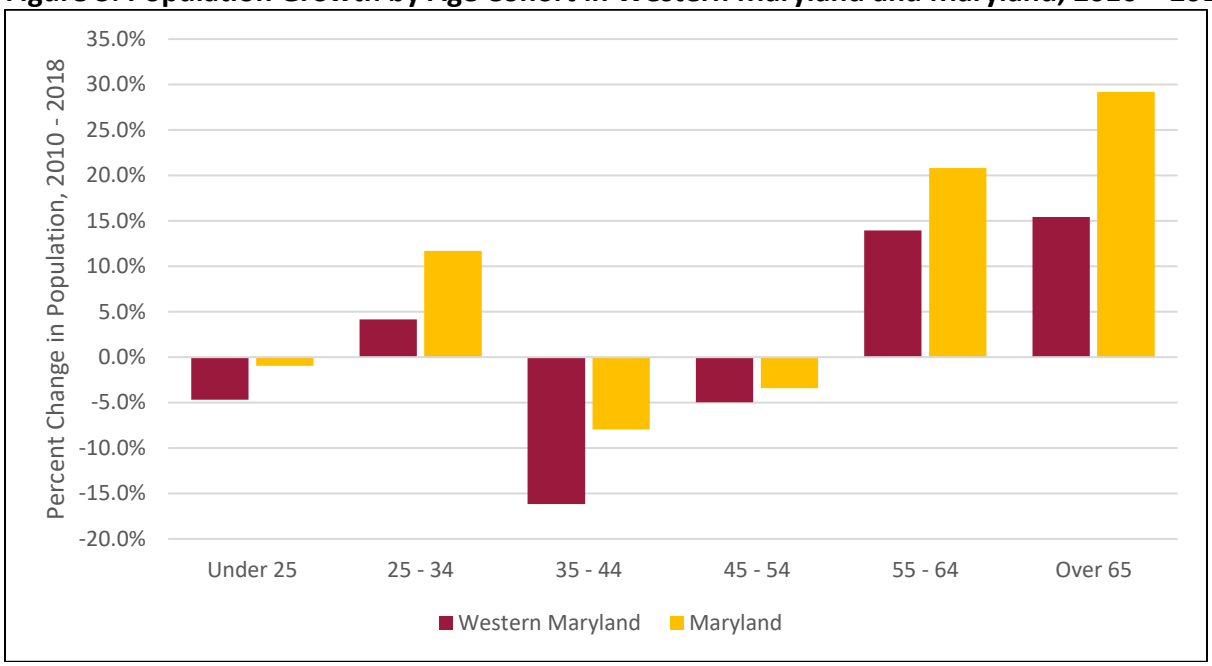
Area	Change in Population 2010 - 2019	Percent Change in Population 2010 - 2019
Allegany County	-4,549	-6.1%
Garrett County	-1,127	-3.7%
Washington County	3,328	2.3%
Western Maryland	-2,348	-0.9%
Maryland	257,035	4.4%

Source: US Census

Despite the region's overall growth being negative, Washington County added over 3,000 residents during the past decade for a growth rate of 2.3 percent. While positive, this growth rate is nearly half of the state's rate during the same time period. In contrast, Garrett County and Allegany counties had negative growth, with Allegany County losing over 4,500 residents, a growth rate of negative 6.1 percent.

Additionally, Western Maryland's population growth lags the state for every broad age cohort, as shown in Figure 3 below.

Figure 3: Population Growth by Age Cohort in Western Maryland and Maryland, 2010 – 2018



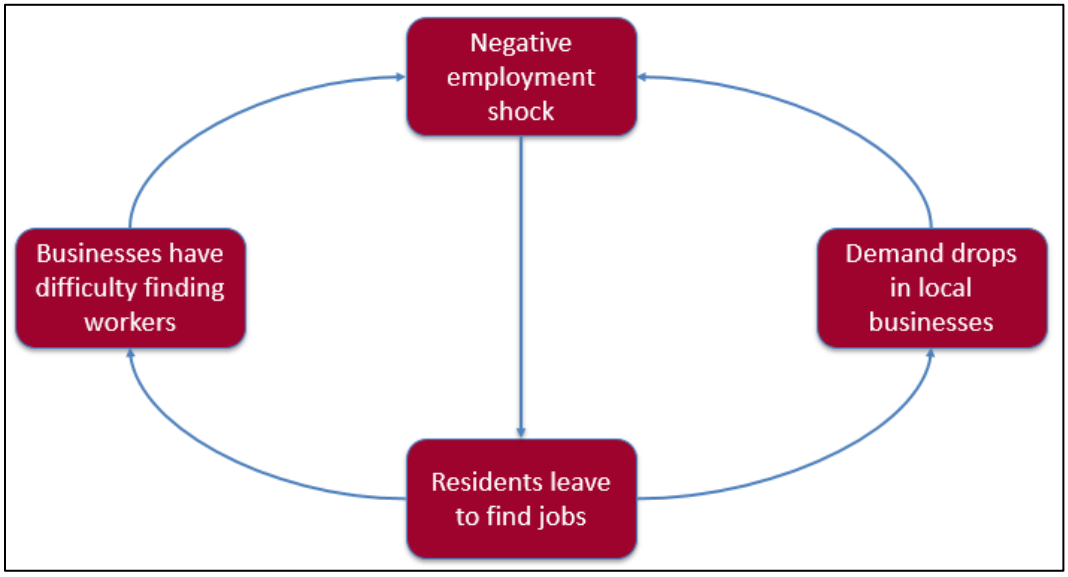
Source: American Community Survey

Figure 3 presents two worrying trends for Western Maryland's economic future. First, population growth is weakest among those between the ages of 35 and 44. Between 2010 and 2018, the number of residents in this cohort declined by 16.2 percent according to data from the US Census' American Community Survey (ACS). These residents are critical to staffing local businesses and a shrinking share of this age cohort will make it harder to attract and retain employers. Additionally, the population that is growing fastest in Western Maryland is over the age of 65. Population in this cohort grew by 15.4 percent between 2010 and 2018, lower than the state's growth rate of 29.2 percent. A shrinking population where the balance is shifting away from prime-age workers and towards retirees is a difficult economic headwind for the region.

The region has experienced an increase in the number of younger workforce-aged residents (those between the ages of 25 and 34). The population of this cohort increased by 4.2 percent in the three counties between 2010 and 2018. Continuing to attract and then retain these residents can help increase the region's available workforce, making it more attractive for businesses looking to locate in Garrett, Allegany, or Washington counties.

Population is an important indicator in determining a region's economic vitality, which is why a shrinking population in Western Maryland is cause for concern. As shown in Figure 4, negative shocks to employment and population can result in a negative feedback loop through two, related channels.

Figure 4: Economic Dynamism Feedback Loop



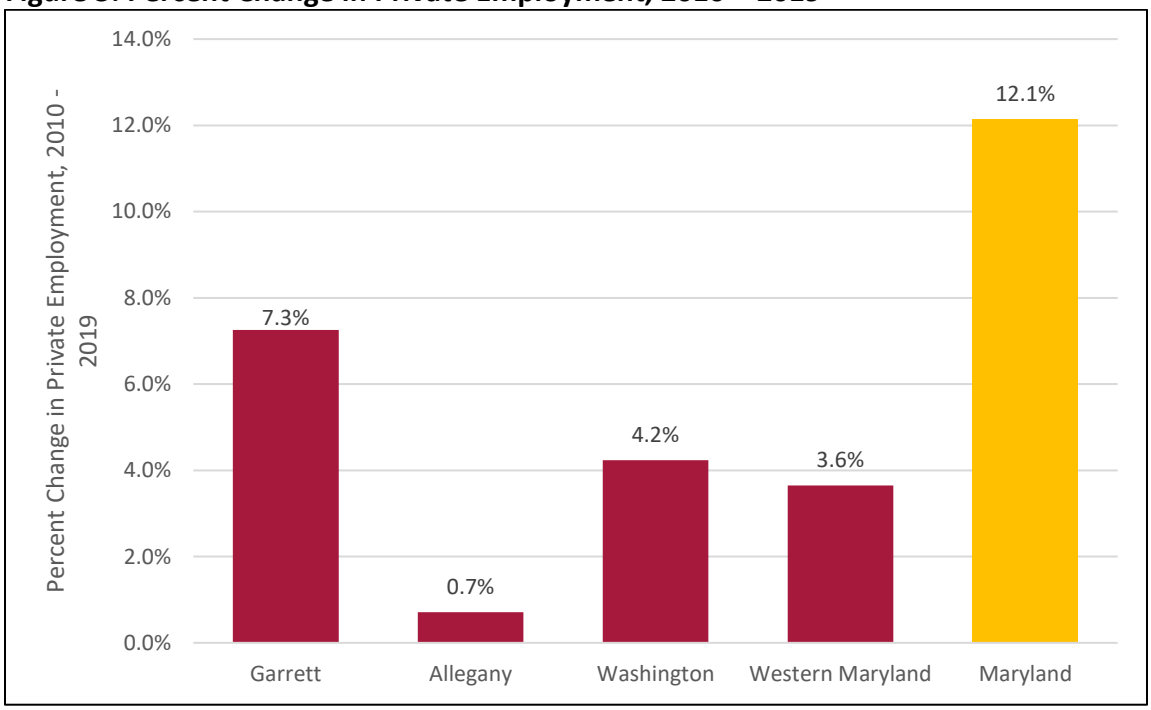
As displayed in Figure 4, a drop in population (as represented in the box in the center-bottom of the figure) can impact the region in two primary channels:

1) Local businesses in the area find it more difficult to attract qualified workers to fill vacancies and
2) Demand for goods and services in local businesses falls.

Each of these negative impacts in turn is likely to lead to further negative employment outcomes in the region. If a business has difficulty finding workers, it may be forced to leave the region and locate in another part of the state (or another state altogether) where an adequate supply of workers exists. Additionally, demand shocks can lead to negative employment outcomes. As residents leave an area, in many cases they take their purchasing power with them. This could mean fewer purchases at local businesses, including grocery stores, retail stores, restaurants, healthcare offices, and other businesses that rely on local residents. Reduced purchases and sales activity correspond to layoffs and, if demand falls enough, business closures.

Negative employment outcomes can result in a feedback loop because recently unemployed residents may leave in search of better employment opportunities. Feedback loops can be difficult to break; therefore, monitoring population and employment for signs of distress is critical to ensure that policy makers can act quickly to reverse negative outcomes. Fortunately, as Figure 5 shows, while Western Maryland has seen a slight decrease in total population, employment has risen in each of the three counties in the region, albeit at a slower pace than the state as a whole.

Figure 5: Percent Change in Private Employment, 2010 – 2019



Source: Bureau of Labor Statistics

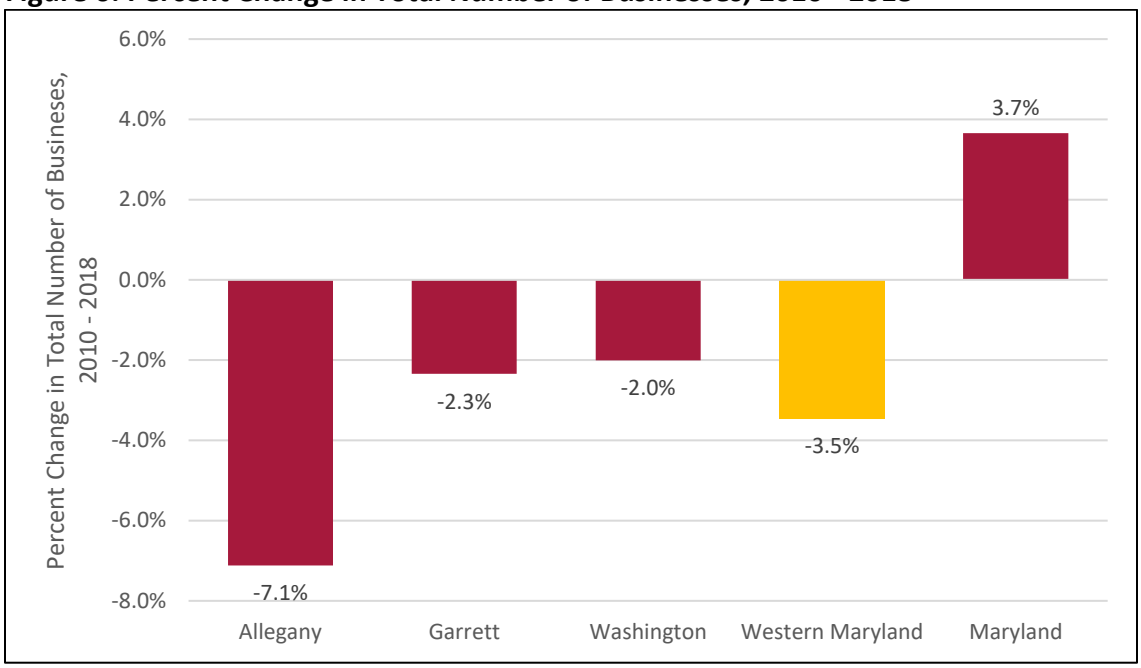
The increase in employment while population falls signals that the region is attracting workers who live outside the region.[3] Finding ways to entice these workers to move to the area is essential to reversing the declines in population and further reducing the risks of a negative economic feedback loop impacting dynamism in the region.

3.2 Economic Dynamism in Western Maryland

Economic dynamism is an important characteristic of a thriving economy. New firms entering the market bring increased opportunities for growth and innovation. As these businesses succeed and expand, they serve as key drivers of employment growth. Efforts to increase economic dynamism in Western Maryland ensure that the economy will grow into the future. There are a number of ways to measure economic dynamism within a region; the simplest of which is to track the number of businesses over time in a region. As Figure 6 shows, the number of businesses has shrunk in Western Maryland in recent years, even while the total number of businesses in Maryland has increased.

[3] While an increase in the region's labor force participation rate can account for some of the increase, it is not enough to fully account for the difference between population and employment growth.

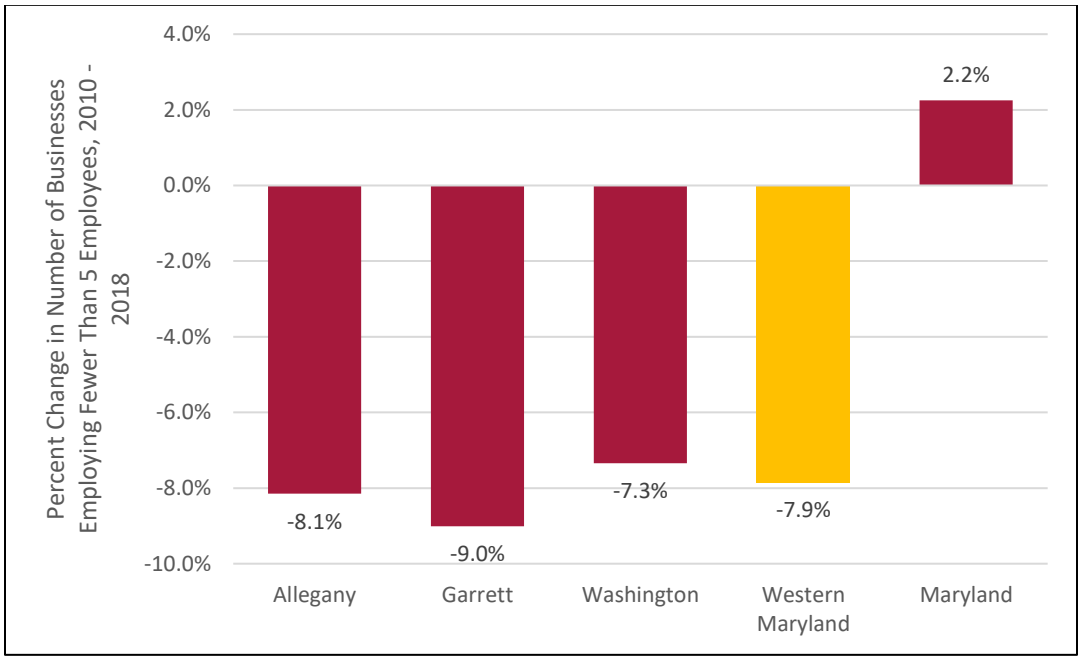
Figure 6: Percent Change in Total Number of Businesses, 2010 - 2018



Source: US Census County Business Patterns

The steepest decline in the total number of establishments comes in Allegany County, where the total number of businesses dropped by 7.1 percent between 2010 and 2018. However, each of the three counties in Western Maryland experienced a drop in the total number of businesses. As noted previously in Figure 5, total private employment in the region has increased, which indicates that employment is becoming increasingly concentrated in larger businesses. This trend is further illustrated in Figure 7 which shows how the total number of businesses with fewer than five employees has changed between 2010 and 2018.

Figure 7: Percent Change in Number of Businesses Employing Fewer Than Five Employees, 2010 - 2018

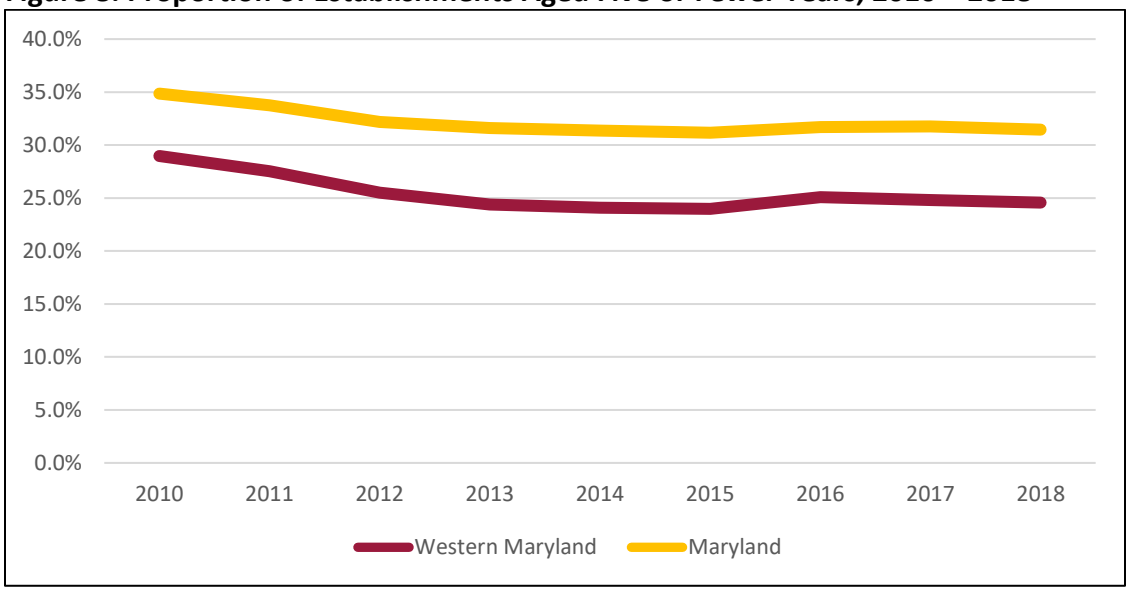


Source: US Census County Business Patterns

As seen in Figure 7, the number of businesses with fewer than five employees fell by 7.9 percent in Western Maryland between 2010 and 2018. In contrast, the number of businesses employing fewer than five employees grew by 2.2 percent statewide during that same timeframe. The growth in small businesses statewide lagged the growth in total businesses, indicating that smaller businesses made up a smaller percentage of total businesses in 2018 than in 2010.

Another way to conceptualize economic dynamism is by examining the number of businesses by age cohort. Figure 8 illustrates how the proportion of younger businesses (establishments aged five or fewer years) has changed in Western Maryland and statewide between 2010 and 2018. In both Western Maryland and the state as a whole young businesses made up a smaller percentage of total businesses in 2018 as compared to 2010. Although the proportion is smaller in Western Maryland than statewide, the trend over time is similar for the two regions.

Figure 8: Proportion of Establishments Aged Five or Fewer Years, 2010 – 2018



Source: US Census Business Dynamics Statistics

When considering strategies for economic development in Western Maryland, policy proposals that encourage the formation and success of new and small businesses can help increase economic dynamism in the region to more closely align with statewide levels.

3.3 Western Maryland's Key Economic Clusters

Western Maryland's economic future depends in part on the industries currently present in the region. These industries indicate the region's competitive advantages and what avenues for growth may exist. These industries also reflect the skills and qualifications of the region's workforce and provide insight for policymakers as to how prepared the workforce is to power target industries of the future.

There are a number of ways to examine the industries present in an area and how concentrated those industries are in a certain area. This report uses industry clusters developed and defined through the US Cluster Mapping Project, a collaboration of the Harvard Business School, US Department of Commerce, and the US Economic Development Administration.[4] Industry clusters use granular industries as defined by six-digit NAICS (North American Industrial Classification System) codes and then group related industries together into subclusters. These subclusters can in turn be aggregated into clusters. Industry clusters differ from higher-level aggregations of NAICS codes (e.g., examining 3- or 4-digit NAICS codes). Industry clusters have two advantages over simply considering NAICS codes:

1. Industry clusters are defined so as to separate 'local' and 'traded' industries. Generally, local industries sell their goods locally while traded industries sell their goods outside the target region.

[4] More detail on the US Cluster Mapping Project may be found at: http://clustermapping.us/