

Maryland Business Research Partnership

MARYLAND BUSINESS CLIMATE SURVEY First Quarter, 2002

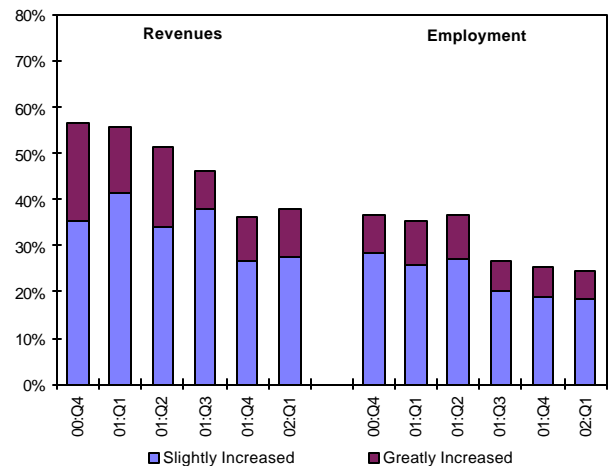
Is the Recession Over?

With economic indicators pointing to a national recovery, declining revenue and employment for Maryland businesses may have bottomed out. The percentage of firms reporting growth in revenue or employment remained steady from the fourth quarter of 2001 to the first quarter of 2002. The percentage of firms reporting revenue growth increased slightly from 36% in the fourth quarter to 38% in the first quarter of 2002. The percentage of firms reporting increases in revenue continues to remain below the levels experienced a year ago. The percentage of firms reporting increases in employment decreased slightly from 27% in the third quarter to 25% in the fourth quarter to 24% in the first quarter of 2002. Firm performance has not worsened from the fourth quarter of 2001 to the first quarter of 2002.

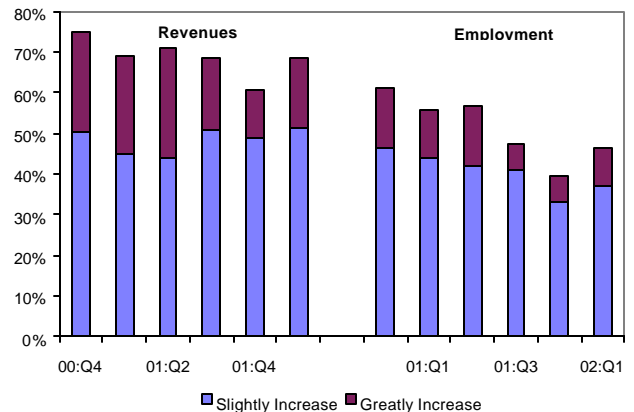
Expectations for Recovery Rebound in 2002

Contrary to the declining performance reported by Maryland firms in the previous quarter, businesses are now expressing optimism about economic recovery in 2002. The percentage of firms expecting revenue growth in the coming year increased from 61% to 69%, a return to the levels experienced in the first three quarters of 2001. The percentage of firms expecting future employment growth increased from 39% in the fourth quarter to 46% in the first quarter of 2002. However, firms' expectations for employment growth still remain below the levels experienced in the first two quarters of 2001.

Performance in the Past Year % Firms Reporting an Increase



Expectations for the Coming Year % Firms Reporting an Increase



Labor Market Problems Fading

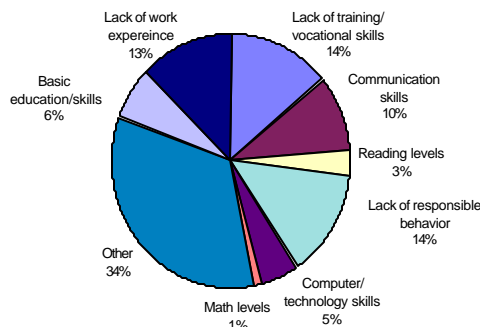
Consistent with the decline in hiring activity, only 35% of responding firms in 2002 stated that labor market conditions in Maryland have hindered their ability to do business. The decline from the results from previous years is likely due to fewer firms experiencing employment growth as a result of the softening of the national and State economy. Survey participants were also asked if they viewed labor market conditions as a *competitive asset* or a *competitive weakness* to the State. Thirty-three percent (33%) of firms reported labor market conditions in Maryland as a *competitive asset* and 33% responded that the conditions are a *competitive weakness*.

Training and Life Skills Most Lacking in Workers

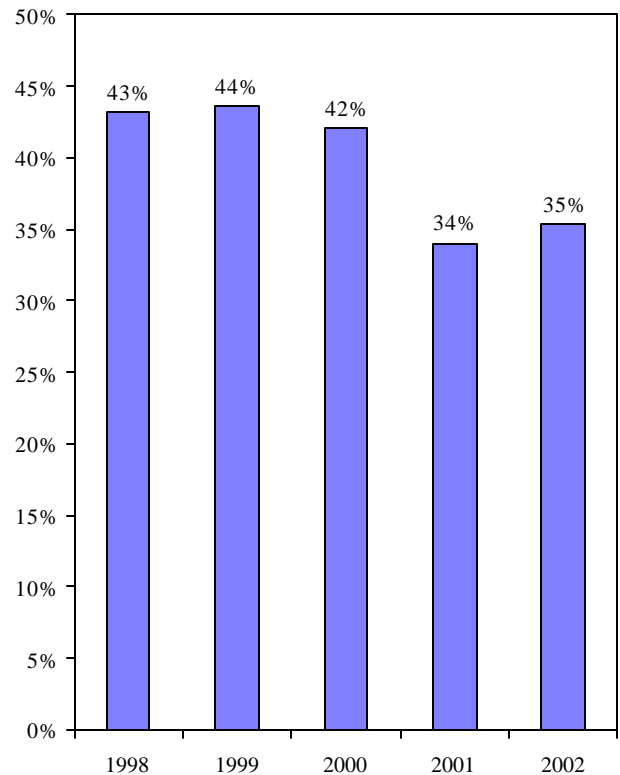
In the first quarter of 2002, 89% of the surveyed firms hired employees who have only a high school level of education. When these businesses were asked if these employees have the necessary skills to perform their jobs, 40% of the firms responded that they do not, an increase from 36% in 2001.

The greatest problems that employers noted were a *lack of training/vocational skills* (14%), a *lack of responsible behavior* (14%), and a *lack of work experience* (13%). Businesses have consistently noted an increased need for training/vocational skills, work experience and a need for life skills such as a need for responsible behavior. In the first quarter of 2002, fewer firms noted problems with basic education/skills in their high school level employees.

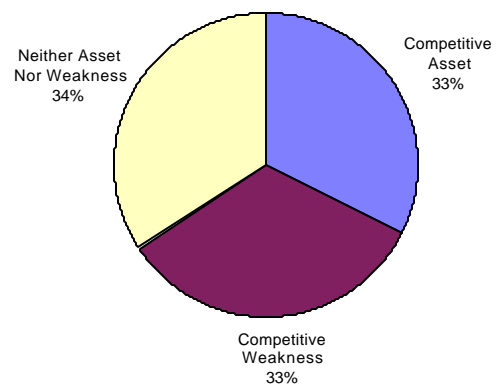
Problems with Graduates' Qualifications



Firms Reporting that Labor Market Conditions Hinder their Ability to do Business



Overall Labor Market Conditions In Maryland



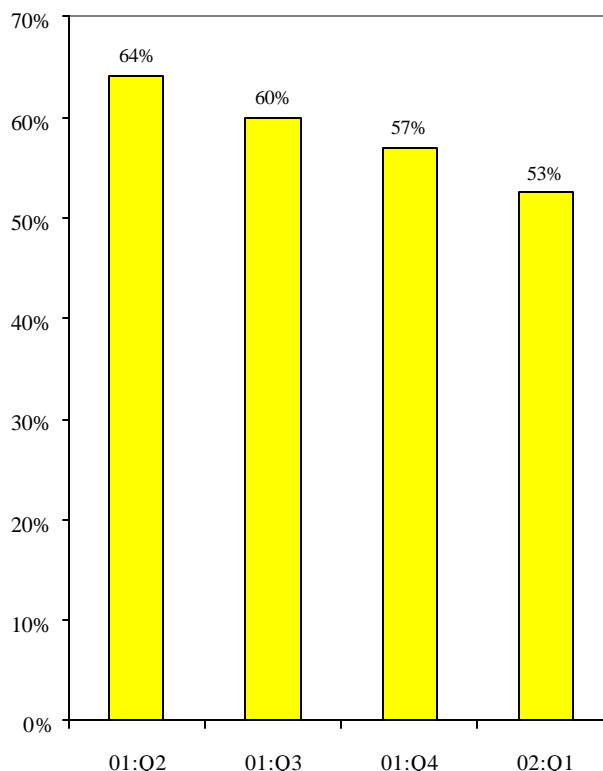
Worker Shortages Continue Downward Trend

In the first quarter of 2002, 53% of firms reported experiencing worker shortages. Over the past four quarters, the percentage of firms citing worker shortages has steadily decreased from 64% to 53%. The continuing decline in the percentage of firms experiencing labor shortages is both a positive and negative sign. While a larger number of firms might be able to find the workers that they have needed, fewer firms are reporting current increases in employment. Firms in Maryland continue to report both layoffs and plant closings, but firm's expectations for employment growth have begun to rebound. Even at the current lower level more than half of the State's firms experience worker shortages.

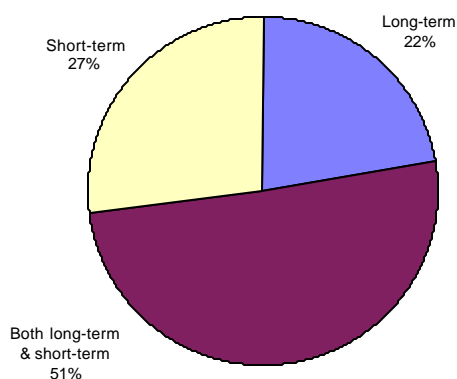
Companies currently reporting difficulties in hiring workers were asked whether these were *short-term* shortages, *long-term* shortages, or *both*. In the first quarter, 31% of firms reported *short-term* shortages, 30% reported *long-term* shortages, and 39% reported *both* short and long-term shortages. The percentage of firms citing long-term shortages increased from 22% in the fourth quarter to 30% in the first quarter of 2002.

Firms that reported worker shortages were also asked which position(s) created these recruitment problems. The positions that firms responded to having the greatest difficulty in filling were *manufacturing/skilled trade* (18%), *sales/marketing* (17%), *unskilled workers/laborers* (15%), *clerical/administrative/secretarial* (11%), and *managerial* (7%).

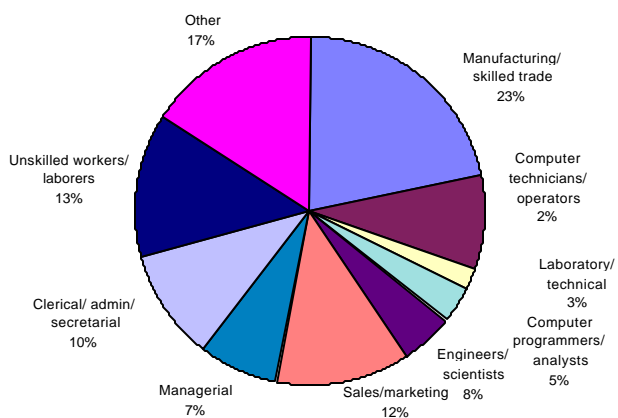
Percentage of Firms Experiencing Worker Shortages



Types of Shortages Experienced Percentage of Firms Reporting



Positions for which Firms Cited Recruitment Difficulty



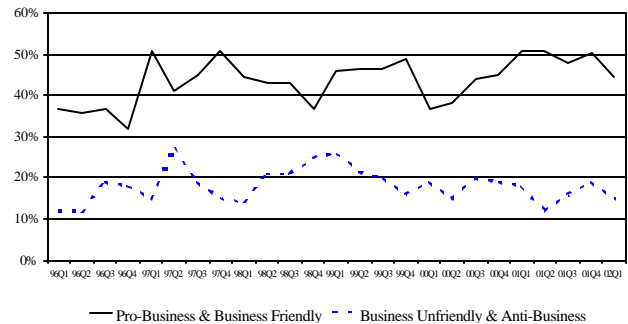
Business Climate for 2002 Starts off on Decline

Contradictory to Maryland firms indicating signs of an economic recovery, the percentage of firms having a positive view of Maryland's business climate decreased in the first quarter of 2002. This decrease was partially offset though by a decrease in a negative perception of the State's business climate. The percentage of Maryland businesses that rated the State as either pro-business or business friendly decreased from 51% in the fourth quarter of 2001 to 45% in the first quarter of 2002. However, the percentage of businesses holding a negative view of the State's business climate (rating Maryland as either anti-business or business unfriendly) decreased from 19% in the fourth quarter to 15% in the first quarter.

One potential cause is that Maryland firms have felt the effects of the national economic downturn and this has affected their general economic perspective. A second potential cause for the change in the business climate may be due to general uncertainty about the upcoming Governor's election. Businesses, while being positive on the State, may have a tendency to become increasingly aggressive about of their needs and wants as they look to the next Governor. Businesses look to the candidates for insights as to how they will work with Maryland's businesses and deal with issues seen as important to them, such as the Intercounty Connector, which is viewed by many businesses as being important to Maryland's economic development future.

In the first quarter of 2002, 45% of firms rate the State's business climate as positive. In Baltimore City, 37% of the firms surveyed have a positive view of the business climate. This is a decrease from 50% of firms having a positive view of Baltimore City in 2001. Additionally, the percentage of Washington Suburbs firms viewing the business climate as positive fell from 57% in 2001 to 45% in the first quarter of 2002. These decreases are especially important in that the Washington Suburbs have long held the most positive views of the State's business climate, and recovery in Baltimore City is viewed as essential for Maryland's future.

Maryland's Business Climate 1996Q1 to 2001Q4



Maryland's Business Climate By Region, 2002

