

# Maryland Business Research Partnership

## MARYLAND BUSINESS CLIMATE SURVEY

Second Quarter, 2002

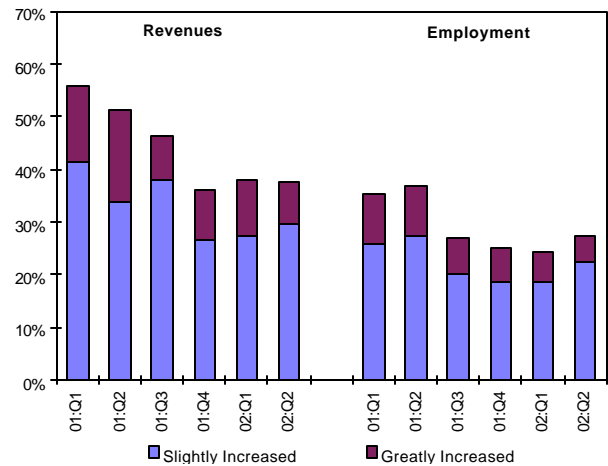
### Maryland Firms' Performance Holds Steady

As national economic conditions remain uncertain, Maryland firms' performance has been holding steady over the past three quarters. The percentage of firms reporting growth in revenue or employment has remained steady from the fourth quarter of 2001 through the second quarter of 2002. The percentage of firms reporting revenue growth remained at 38% from the first quarter of 2002 to the second quarter of 2002. The percentage of firms reporting increases in revenue increased slightly over the past quarter, but are still below the levels experienced just a year ago. The percentage of firms reporting increases in employment rose slightly from 24% in the first quarter of 2002 to 27% in the second quarter of 2002. The percentage of firms citing slight increases in employment rose by 4% over the previous quarter, while the percentage of firms citing great increase in employment decreased by 1% over the last quarter.

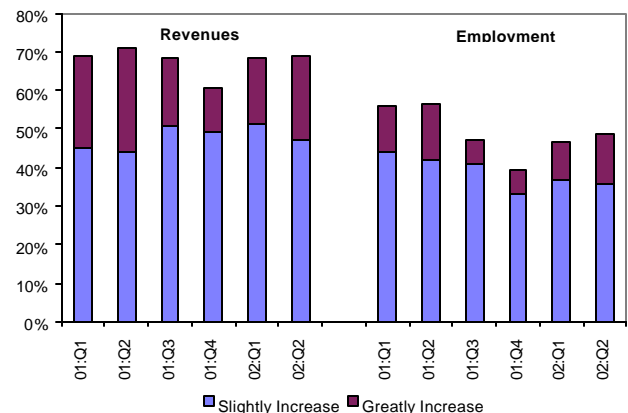
### Businesses Hopeful of Second Half of 2002

Maryland businesses continued their improved outlook into the second half of 2002. The percentage of firms expecting revenue growth in the coming year held steady at 69%, but the percentage of firms expecting employment growth increased from 46% in the first quarter to 49% in the second quarter of 2002. While expectations for growth remain below 2001 levels, they are up from the fourth quarter of 2001 and generally indicate expectations for a return to economic growth.

### Performance in the Past Year % Firms Reporting an Increase



### Expectations for the Coming Year % Firms Reporting an Increase



## Labor Market Problems Still a Hindrance

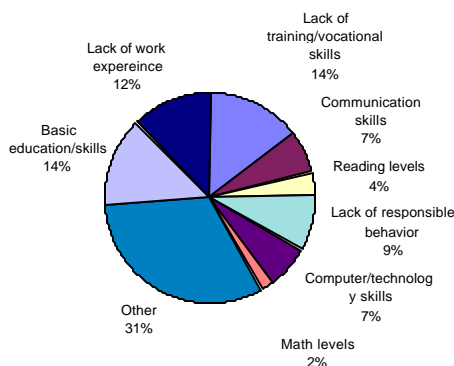
Consistent with the decline in hiring activity, only 37% of responding firms in 2002 stated that labor market conditions in Maryland have hindered their ability to do business. This decline in results is likely due to fewer firms hiring workers. However, there still exists a strong demand for higher skilled workers by employers across the State. 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 (30%) of firms reported labor market conditions in Maryland as a *competitive asset* and 31% responded that the conditions are a *competitive weakness*.

## Basics and Training Most Lacking in Workers

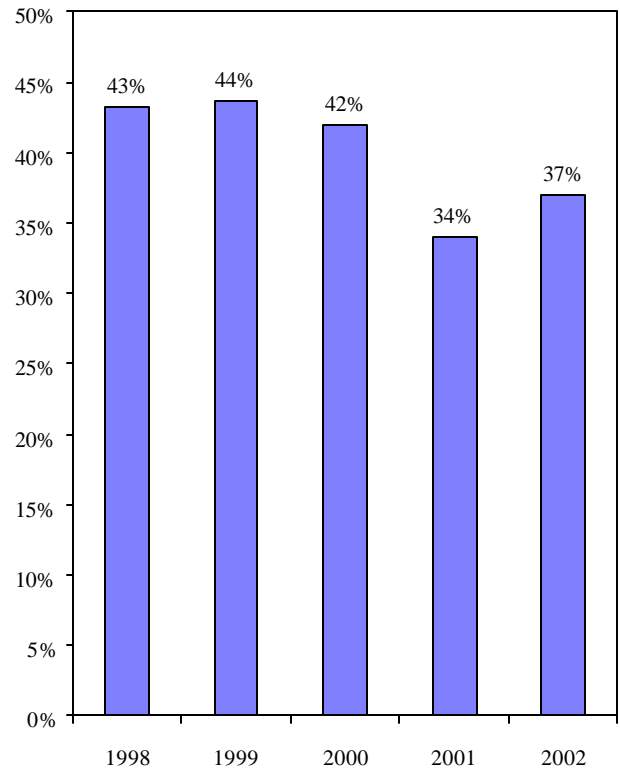
In the first half of 2002, 85% of the surveyed firms hired employees who have only a high school level of education. When these businesses were asked if these employees have the necessary skills to perform their jobs, 43% of the firms responded that they do not, an increase from 36% in 2001.

The greatest problems that employers noted were a *lack of training/vocational skills* (14%), a *lack of basic education* (14%), a *lack of work experience* (12%), and a *lack of responsible behavior* (9%). Businesses have consistently noted a need for better training/vocational skills, prior work experience and a lack of life skills such as a need for responsible behavior among high school applicants.

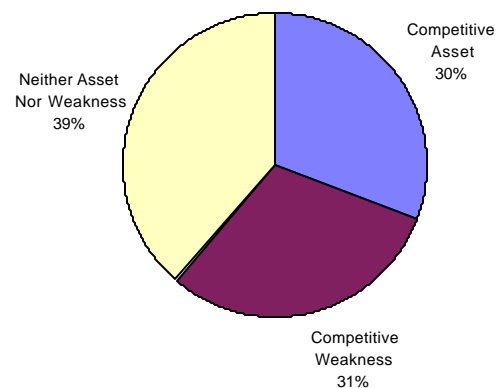
## Problems with Graduates' Qualifications



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



## Overall Labor Market Conditions In Maryland



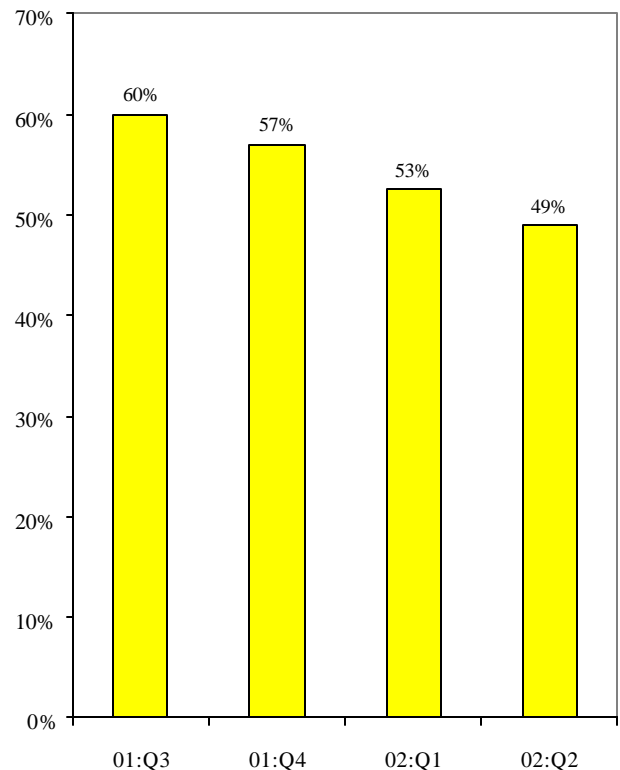
## Worker Shortages Continue Downward Trend

For the first time since the second quarter of 2000, the percentage of firms reporting worker shortages fell below 50%. In the second quarter of 2002, 49% of firms reported experiencing worker shortages. The continuing decline in the percentage of firms experiencing labor shortages is both a positive and negative sign for the Maryland economy. While a larger number of firms might be able to find the workers that they have needed, fewer firms are reporting increases in employment. Firms in Maryland continue to report both layoffs and plant closings, but firm's expectations for employment growth are showing signs of rebounding. Even at the current lower level, almost half of the State's firms are currently experiencing worker shortages.

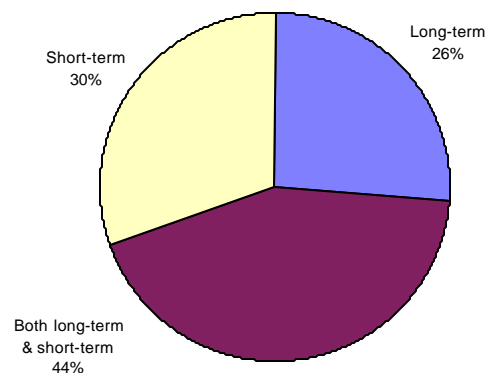
Companies currently reporting difficulties in hiring workers were asked whether these were *short-term* shortages, *long-term* shortages, or *both*. In the second quarter, 30% of firms reported *short-term* shortages, 26% reported *long-term* shortages, and 44% reported *both* short and long-term shortages.

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* (21%), *sales/ marketing* (15%), *unskilled workers/ laborers* (15%), *clerical/ administrative/ secretarial* (11%), and *managerial* (8%).

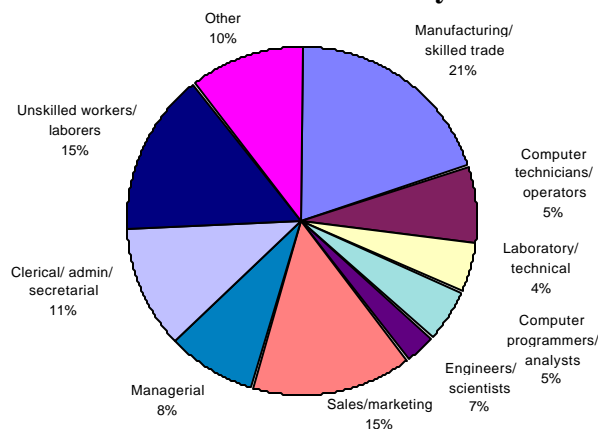
## Percentage of Firms Experiencing Worker Shortages



## Types of Shortages Experienced Percentage of Firms Reporting



## Positions for which Firms Cited Recruitment Difficulty



## Positive & Negative Views of Business Climate Rise

In the second quarter of 2002, the percentage of firms having a positive view and the percentage of firms having a negative view of Maryland's business climate rose. While both views rose, a greater percentage of firms had an increasingly negative view of the State's business climate. The percentage of Maryland businesses that rated the State as either pro-business or business friendly increased from 45% in the first quarter to 50% in the second 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) increased from 15% in the first quarter to 22% in the second quarter of 2002.

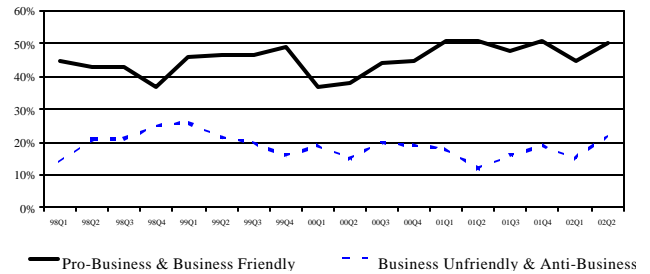
A potential cause for the shift in the business climate may be due to the upcoming Governor's election. Businesses, while being positive on the State, have a tendency to become increasingly aggressive about their needs and wants as they look to the next Governor. Businesses are looking to the candidates for insights as to how they will work with Maryland's businesses and deal with issues seen as important to them, such as transportation, taxes, and how they will continue the State's economic development.

Through the second quarter of 2002, 47% of firms rate the State's business climate as positive. In Baltimore City, 45% of the firms surveyed have a positive view of the business climate and in the Washington Suburbs, 48% of firms have a positive view of the business climate in Maryland.

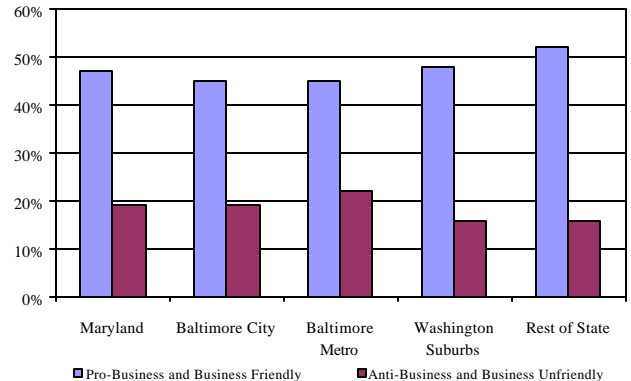
## Taxes Key to Improving Business Climate

Maryland firms were asked what would be the most important step that can be taken to improve Maryland's business climate. One-third (33%) of firms cited lowering taxes as the key to improving the State's business climate. Twelve percent (12%) of firms each cited improving Maryland's business environment (State government having a better attitude toward businesses/improving infrastructure), expanding economic development policies (business attraction and retention policies), and reducing State regulations.

## Maryland's Business Climate 1998Q1 to 2002Q2



## Maryland's Business Climate By Region, 2002



## Most Important Step to Improve Maryland's Business Climate

Total Responses	500	
Don't Know/No Answer/None	166	33%
Total Valid Responses	334	
Taxes	109	33%
Business Environment	41	12%
Economic Development Policies	41	12%
Regulations	39	12%
Quality of Life	30	9%
Other	74	22%