

MARYLAND BUSINESS CLIMATE SURVEY

Third Quarter, 2000

Sponsored By:

* Arthur Anderson & Company * BGE * Baltimore Life * Verizon *
 * Alcoa Eastalco Works * Allfirst * First Union Bank * Legg Mason * Bank of America *
 * Lockheed Martin * Maryland Technology Council * The Maryland Chamber of Commerce *
 * Northrop Grumman * Stanton Communications * Washington Gas *

Revenue Rebounds while Employment Holds

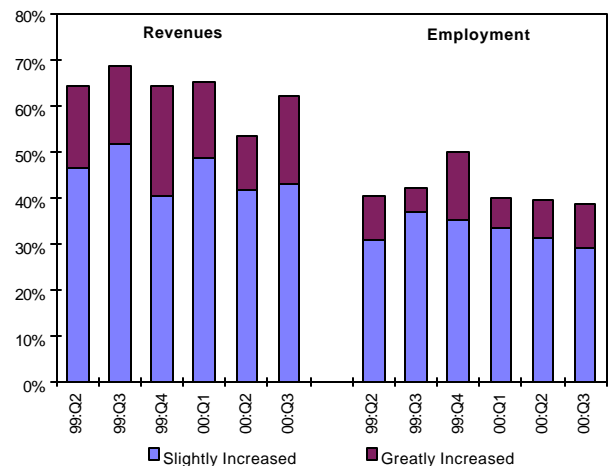
The number of businesses reporting revenue growth in the third quarter increased dramatically, reversing a sharp decline in the second quarter. This indicates continued strength in the Maryland economy. The percentage of firms reporting revenue growth increased from 54% in the second quarter to 62% in the third quarter. Firms reporting *slight increases* remained steady, with the percentage of firms reporting *great increases* in revenues increasing from 12% to 19%. Firms reporting employment gains remained steady through the first three quarters of 2000 at 39%.

Optimism Decreasing

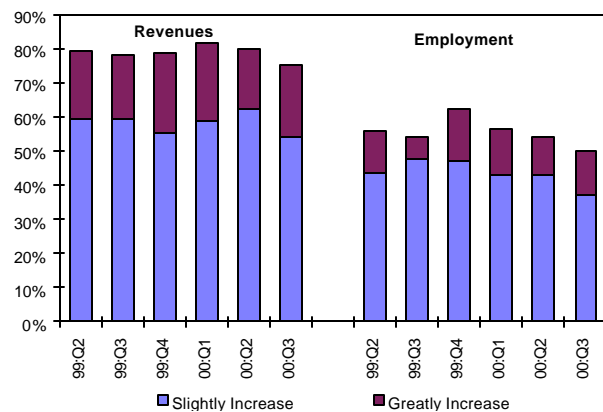
Maryland businesses reported reduced expectations for revenue and employment growth in the coming year. From the second quarter to the third quarter of 2000, the percentage of firm expecting an increase in revenues declined from 80% to 76%. The percentage of firms expecting to experience *great increases* in revenue rose, while fewer firms expected to experience *slight increases* in revenue.

The percentage of firms expecting employment increases has decreased over each of the past three quarters from 62% in the fourth quarter of 1999 to 50% currently. The percentage of firms expecting to increase employment in the coming year fell from 54% in the second quarter to 50% in the third quarter of 2000.

Performance in the Past Year % Firms Reporting an Increase



Expectations for the Coming Year % Firms Reporting an Increase



Labor Market Conditions Persist as Hindering

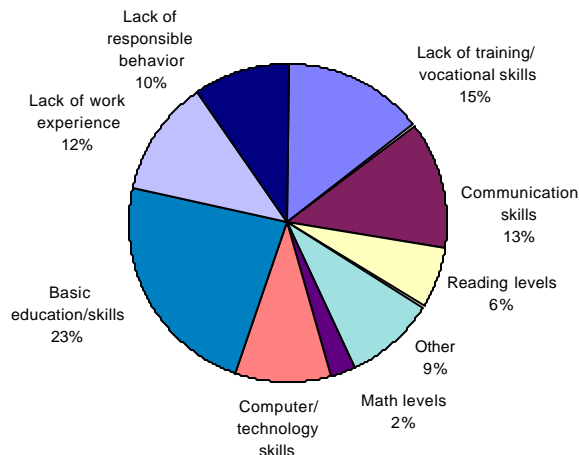
Business Climate Survey participants were asked if labor market conditions in Maryland hinder their ability to do business. Forty percent (40%) of firms through the first three-quarters of 2000 responded that labor market conditions in the State hinder their ability to do business. While this figure is slightly below the levels experienced in 1998 and 1999, it has continued to increase over the course of 2000. Survey participants were also asked if they viewed labor market conditions as a *competitive asset* or a *competitive weakness* to the State. Twenty-two percent of firms reported labor market conditions in Maryland as a *competitive asset* and 34% responded that the conditions are a *competitive weakness*.

Students Weak in Basic Education and Skills

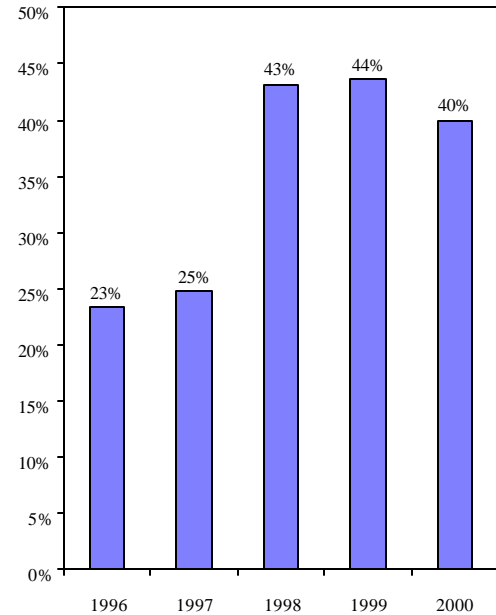
Eighty-five percent (85%) of surveyed firms through the first three quarters of 2000 hired workers with only a high school level of education. When asked if these employees have the necessary skills to perform their jobs, 36% of the firms responded that they do not.

The greatest problems that employers noted were a *lack of basic education/skills* (23%), a *lack of training/vocational skills* (15%), a *lack of communication skills* (13%), a *lack of work experience* (12%), a *lack of computer technology/ skills* (10%), and a *lack of responsible behavior* (10%).

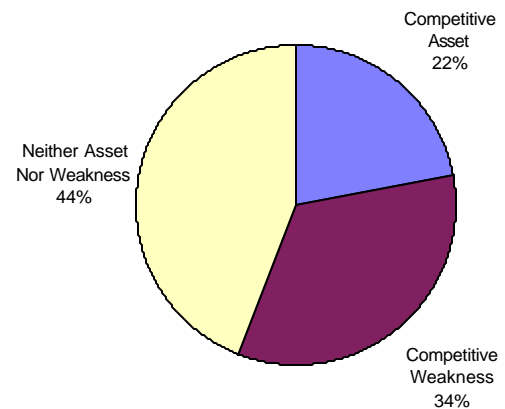
Biggest Problem with Graduates' Qualifications



Do Labor Market Conditions Hinder The Ability of Your Firm to do Business



Overall Labor Market Conditions In Maryland



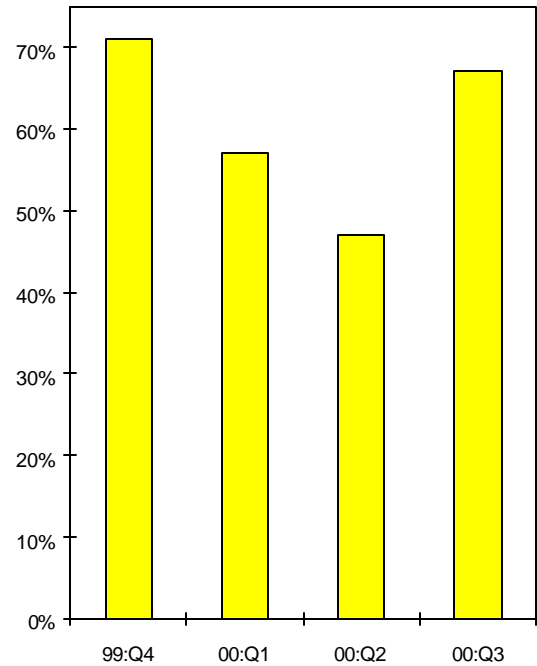
Labor Shortages Rebound

Companies were asked if they had experienced difficulties in obtaining workers with the necessary skills to fulfill specific job requirements. In the third quarter of 2000, 67% of firms reported worker shortages. This is a dramatic increase from the first and second quarters of 2000 (57% and 47% respectively). This increase in worker shortages may reflect the labor market's absorption of the summer hiring of high school and college graduates. When increased labor shortages are combined with lowered expectations for revenue and employment growth, Maryland firms might sense Maryland's economy cooling.

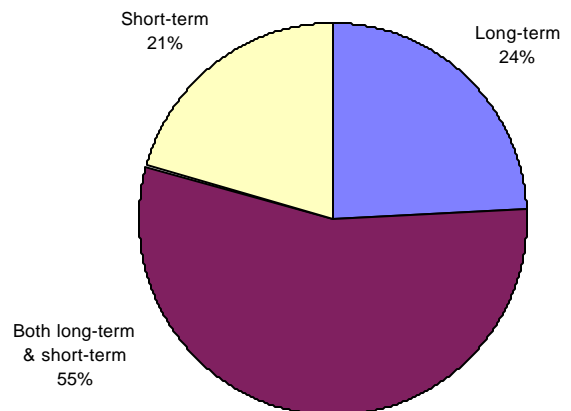
Companies reporting difficulties were asked whether these were *short-term* shortages, *long-term* shortages, or *both*. For the first three-quarters of 2000, 21% of firms reported *short-term* shortages, 24% reported *long-term* shortages, and 55% reported *both* short and long-term shortages.

Firms that reported worker shortages were also asked which position(s) created these recruitment problems. The most difficult positions to fill were *manufacturing/skilled trade* (16%), *clerical/administrative/secretarial* (13%), *unskilled workers/laborers* (13%), *sales/marketing* (13%), and *managerial* (11%).

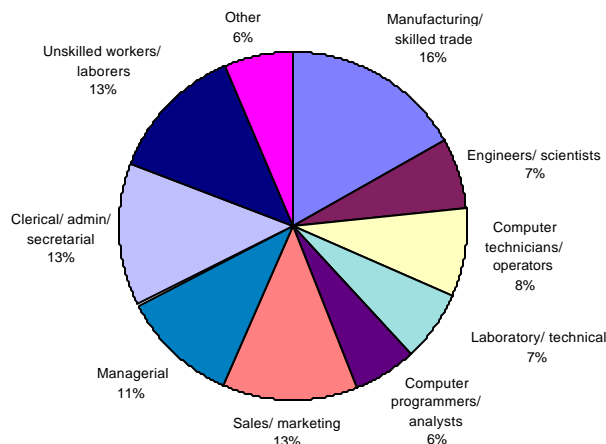
Percentage of Firms Experiencing Worker Shortages



Types of Shortages Experienced Percentage of Firms Reporting



Positions for which Firms Cited Recruitment Difficulty



Polarization of Views of Business Climate

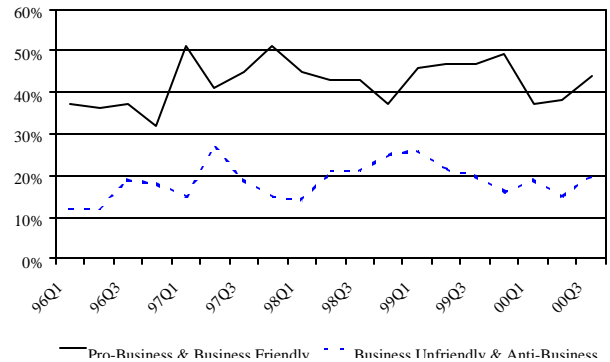
Both the positive and negative views of Maryland's business climate increased in the third quarter of 2000. The percentage of Maryland businesses that rated the State as either pro-business or business friendly increased from 38% in the second quarter to 44% in the third quarter of 2000. The percentage 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 second quarter to 20% in the third quarter of 2000. This might be indicative of expected declines in both national and State economic activity coupled with tight labor market conditions.

Regionally, 47% of firms in the Washington Suburbs have a positive view of the State's business climate compared to 40% statewide and 11% of firms in the Washington Suburbs have a negative view of the business climate as compared to 18% Statewide. In Baltimore City, 27% of firms have a positive view of the business climate and 33% of firms have a negative view of Maryland's business climate.

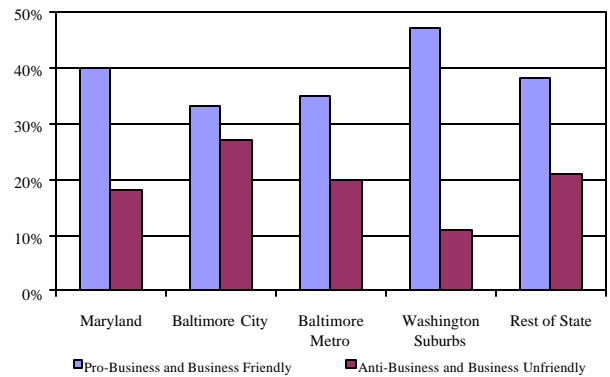
Worker Availability Greatest Disadvantage

Surveyed firms were asked to provide the greatest labor market disadvantage in Maryland. Sixty-two percent (62%) of firms cited the limited availability of skilled workers in the State. This figure is slightly above the results for 1999 (59%). The second greatest labor market disadvantage in Maryland is the education level of workers (15%) followed by wage costs (9%). The problems associated with worker shortages are also echoed in the large percentage of surveyed firms experiencing worker shortages (67% in the third quarter of 2000).

Maryland's Business Climate 1996Q1 to 2000Q3



Maryland's Business Climate By Region, 2000



The Most Important Labor Market Disadvantage in Maryland, 2000

Total Responses	750	
Don't Know/No Answer	114	15.2%
<hr/>		
Total Classifiable Responses	636	
Availability of Skilled Workers	395	62%
Education Level of Workers	96	15%
Wage Costs	60	9%
Productivity	27	4%
Access to Workforce Training	18	3%
Unions or Labor Mgmt Relations	18	3%
Labor and Workplace Regulations	16	3%
Absence of Right to Work Laws	6	1%

Source: Jacob France Center (Q37)