

MARYLAND BUSINESS CLIMATE SURVEY

Third Quarter, 2001

Sponsored By:

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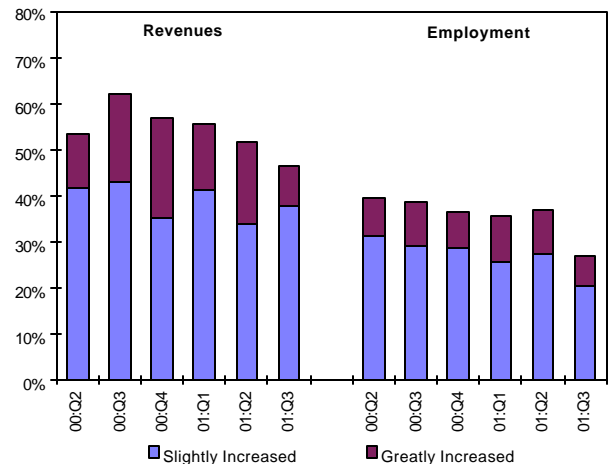
Effects of Downturn Evident in Firm Performance

The percentage of firms reporting revenue growth or employment growth fell in the third quarter of 2001. The percentage of firms reporting revenue growth continued to decline from 52% in the second quarter to 46% in the third quarter. The percentage of firms reporting increases in revenue has fallen from 62% a year ago to 46% currently. The percentage of firms reporting increases in employment fell from 37% in the second quarter to 27% in the third quarter. Despite Maryland businesses having been sheltered from the national downturn, firms are now showing the effects of the economic downturn. These results were reported across the entire quarter and no variation in these results occurred after the terrorist attacks at the Pentagon and in New York.

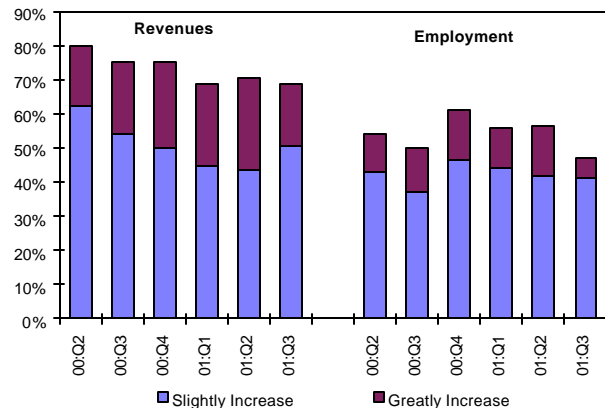
Expectations Indicate Possible Slow Recovery

Maryland firms may now believe that the national downturn is effecting their prospects for revenue and employment growth in the coming year. While the percentage of firms expecting revenue growth in the coming year declined slightly from 71% to 69%, the percentage of firms expecting *great increases* in revenue fell from 27% to 18%. Similar to current performance in employment growth, firms reported a decrease in their expectations for future employment growth from 57% in the second quarter to 47% in the third quarter. The percentage of firms expecting *great increases* in employment decreased significantly from 15% in the second quarter to 6% in the third quarter of 2001.

Performance in the Past Year % Firms Reporting an Increase



Expectations for the Coming Year % Firms Reporting an Increase



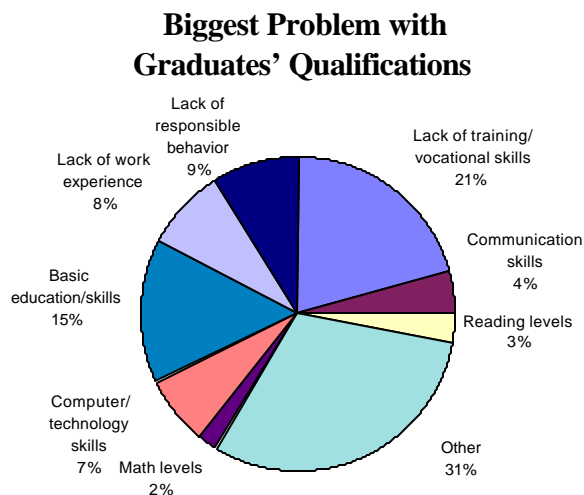
Labor Market less Hindering in 2001

Thirty-four percent (34%) of responding firms through the first three quarters of 2001 responded that labor market conditions in Maryland hinder their ability to do business. This decline from 2000 may be in part due to the fact that several Maryland firms have recently announced layoffs and fewer firms are currently adding employees. Survey participants were also asked if they viewed labor market conditions as a *competitive asset* or a *competitive weakness* to the State. Twenty-eight percent (28%) of firms reported labor market conditions in Maryland as a *competitive asset* and 33% responded that the conditions are a *competitive weakness*.

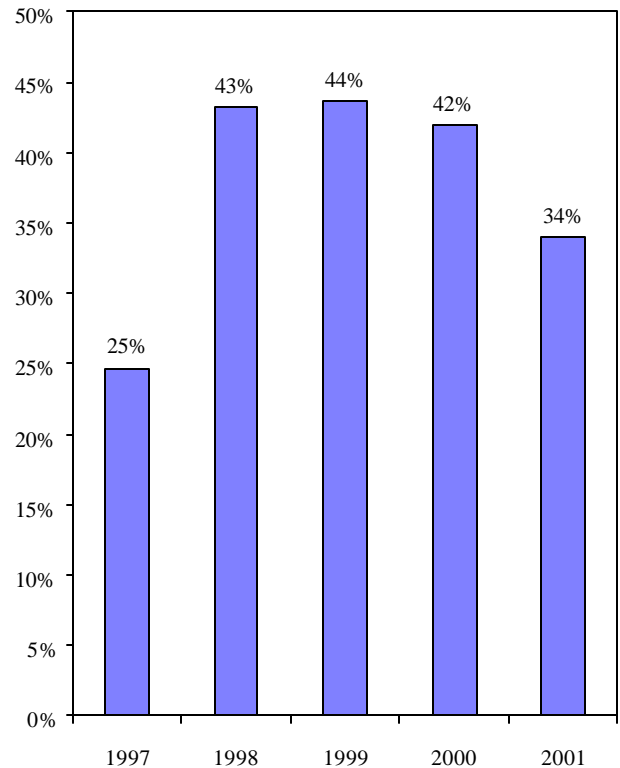
Training and the Basics Lacking in Employees

Eighty-six percent (86%) of the surveyed firms in the first three quarters of 2001 hired workers who had only a high school level of education. When businesses were asked if these employees have the necessary skills to perform their jobs, 35% of the firms responded that they do not.

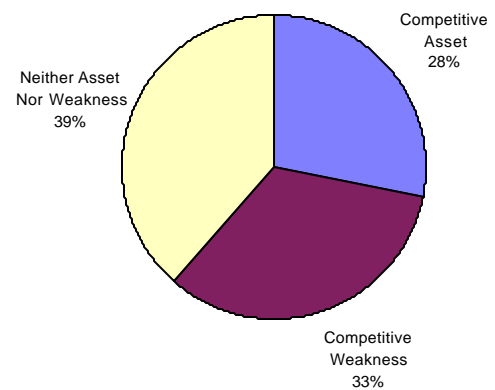
The greatest problems that employers noted were a *lack of training/vocational skills* (21%), a *lack of basic education/skills* (15%), a *lack of responsible behavior* (9%), and a *lack of work experience* (8%). This may be due to the fact that surveyed firms have consistently responded that they are in need of persons to fill manufacturing/skilled trade occupations.



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



Overall Labor Market Conditions In Maryland



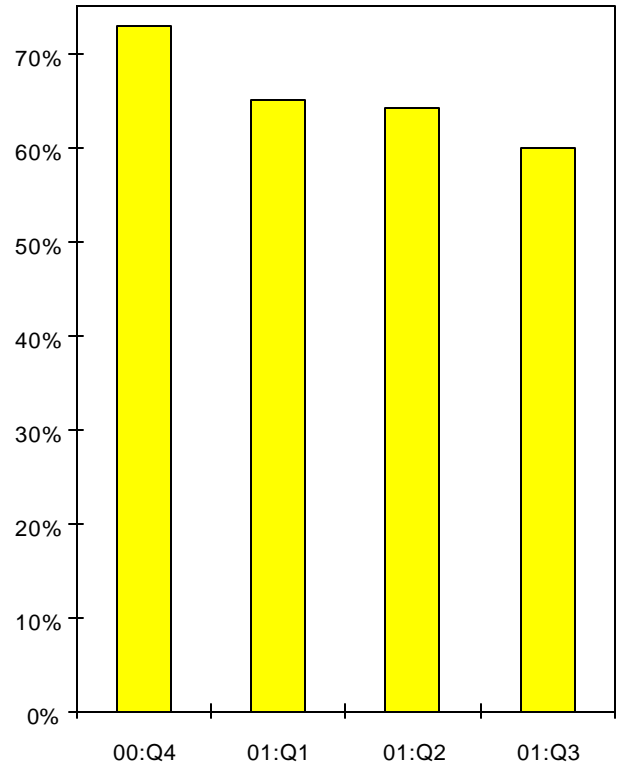
Labor Shortages Continue to Fall

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 2001, 60% of firms reported worker shortages. The continuing decline in the percentage of firms experiencing labor shortages is both a positive and negative sign for Maryland businesses. A larger number of firms might now be able to find the workers that they have needed, but fewer firms are currently reporting increases in employment. Firms throughout Maryland are reporting layoffs and plant closings, and future expectations for employment growth have declined. It can be expected that a result of this will be that Maryland's unemployment rate will start to increase for at least the near term.

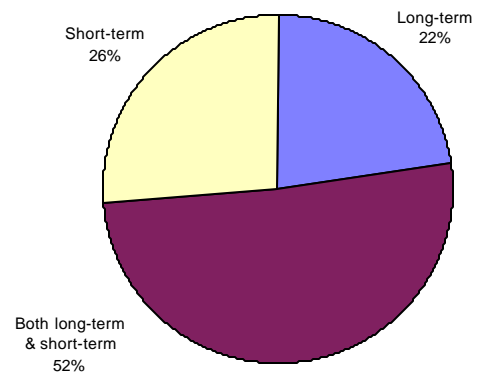
Companies currently reporting difficulties in hiring workers were asked whether these were *short-term* shortages, *long-term* shortages, or *both*. In the second quarter, 26% of firms reported *short-term* shortages, 22% reported *long-term* shortages, and 52% reported *both* short and long-term shortages.

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%), *unskilled workers/laborers* (13%), *sales/marketing* (12%), *clerical/administrative/secretarial* (9%), and *engineers/scientists* (9%).

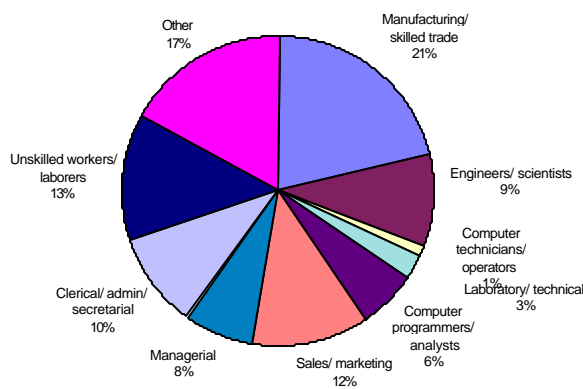
Percentage of Firms Experiencing Worker Shortages



Types of Shortages Experienced Percentage of Firms Reporting



Positions for which Firms Cited Recruitment Difficulty

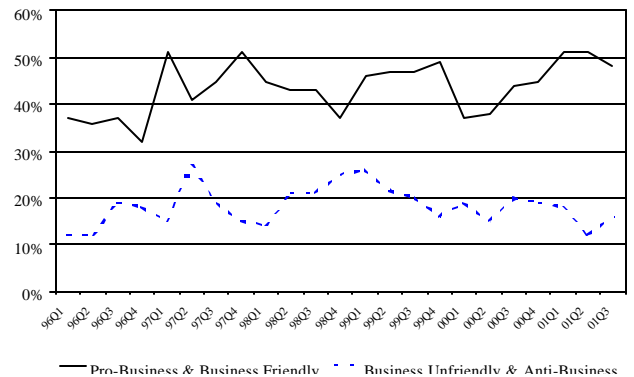


View of Business Climate Seen as Less Positive

The percentage of firms having a positive view of Maryland's business climate fell in the third quarter of 2001 after holding steady for two quarters. The percentage of firms having a negative view of the State's business climate increased from the second to third quarter. The percentage of Maryland businesses that rated the State as either pro-business or business friendly declined from 51% in the second quarter to 48% in the third quarter of 2001. 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 12% in the second quarter to 16% in the third quarter. This change is important in that over the previous 5 quarters the positive view of the business climate had been increasing. While Maryland firms had been sheltered from the national slowdown and had remained positive on their performance and expectations for future performance, the third quarter shows evidence that Maryland firms are now feeling the economic pain of both lowered revenue growth and decreased employment growth. Additionally, Maryland firms have indicated that they are less positive on the future, expecting lowered growth in both their revenues and employment. This belief in future expectations could last well into the first half of 2002, depending upon how quickly the national economy rebounds.

While firms in the Washington Suburbs continue to have the best view of the State's business climate, Baltimore City continues to position itself as a region to notice. Through the first three-quarters of 2001, 55% of the firms surveyed in the Washington Suburbs have a positive view of the State's business climate and 10% have a negative view. In Baltimore City, 49% of the firms surveyed have a positive view of the business climate, while 18% of the firms have a negative view of the business climate. While these results are positive for Baltimore City, it is unknown how significantly the terrorist actions in September will effect the City's economy and how long these effects will last. A possible downturn in tourism may be countered by a strong holiday shopping season and the continued development of several major projects within the City.

Maryland's Business Climate 1996Q1 to 2001Q3



Maryland's Business Climate By Region, 2001

