

# Maryland Business Research Partnership

## MARYLAND BUSINESS CLIMATE SURVEY Third Quarter, 2002

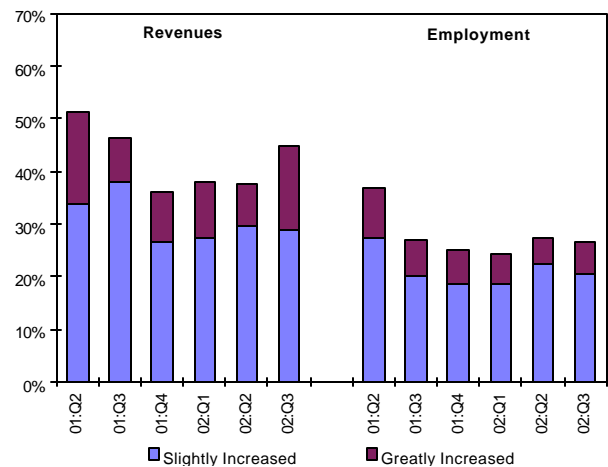
### Signs of Recovery in Third Quarter of 2002

In the third quarter of 2002, Maryland firms reported that they experienced increases in revenues while employment growth remained steady. This is a positive sign for the Maryland economy. The percentage of firms reporting revenue growth increased from 38% in the second quarter to 45% in the third quarter of 2002. In particular, the percentage of firms reporting *great increases* in revenues doubled from 8% in the second quarter to 16% in the third quarter of 2002. After holding nearly steady for three quarters, it is a positive sign for firms to report increased revenues while keeping employment growth steady. Firms are growing during a time when Maryland's unemployment rate remains below the national average and there is mixed economic performance nationally. The percentage of firms reporting increases in employment during the third quarter of 2002 held steady at 27%. It will be important to see if Maryland firms can sustain this increase in revenues and manage to increase their employment gains into the following quarter and year.

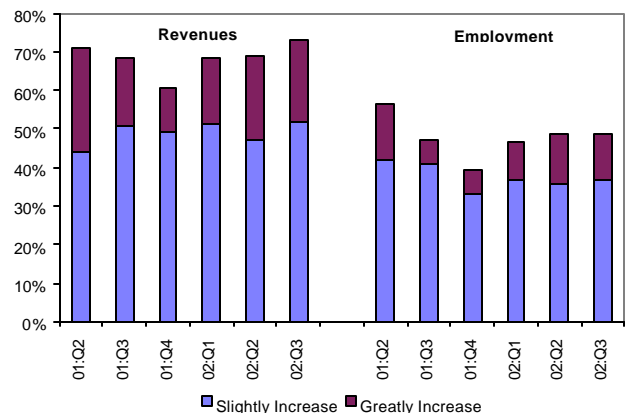
### Firm's Expectations High for 2003

Maryland businesses continued their improved outlook into the second half of 2002. The percentage of firms expecting revenue growth in the coming year increased from 69% in the second quarter to 73% in the third quarter, while the percentage of firms expecting employment growth in 2003 held steady at 49% from the second quarter to third quarter of 2002. This optimism and

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



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



## Labor Market Problems Still a Hindrance

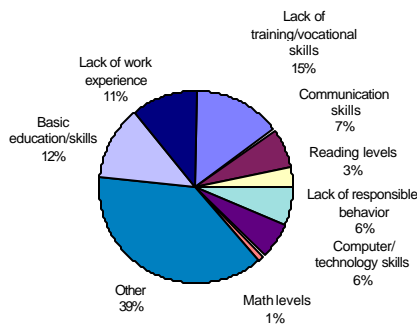
With the continued low unemployment rate in Maryland, 35% of responding firms in 2002 stated that labor market conditions in Maryland have hindered their ability to do business. The decline in results from previous years is likely due to fewer firms hiring workers, but there still exists a strong demand for 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 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

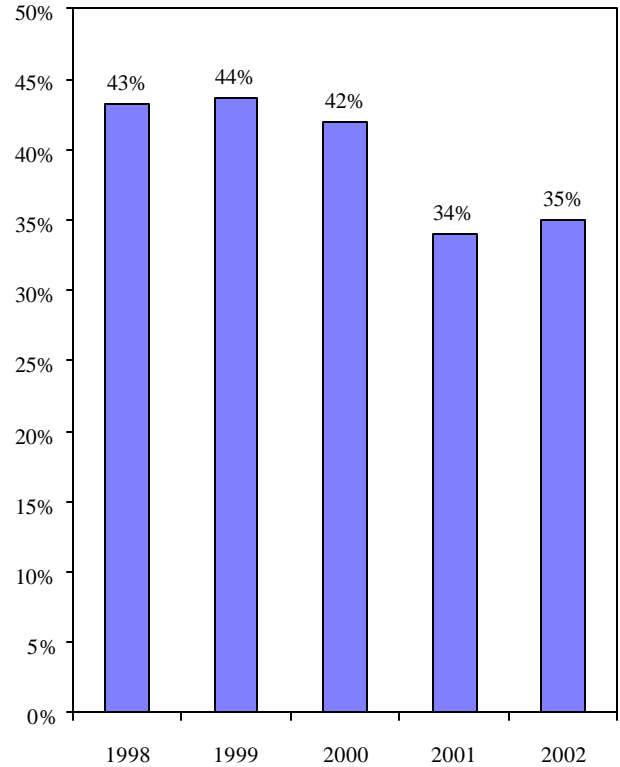
In the first half of 2002, 84% of the surveyed firms hired employees who have only a high school level of education. When these businesses were asked if these employees have the necessary skills to perform their jobs, 43% of the firms responded that they do not, an increase from 36% in 2001.

The greatest problems that employers noted were a lack of training/vocational skills (15%), a lack of basic education (12%), a lack of work experience (11%), and a lack of computer/technology skills and a lack of communication skills (7%). Businesses have consistently noted a need for better training/vocational skills and prior work experience among high school applicants.

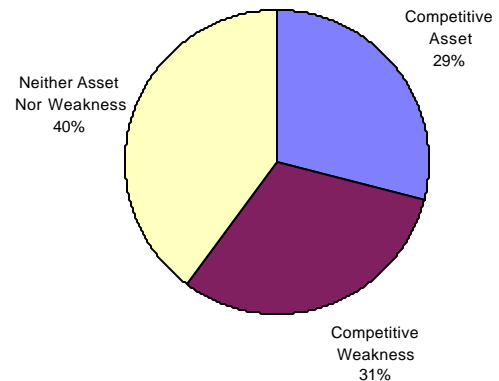
## Problems with Graduates' Qualifications



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



## Overall Labor Market Conditions In Maryland



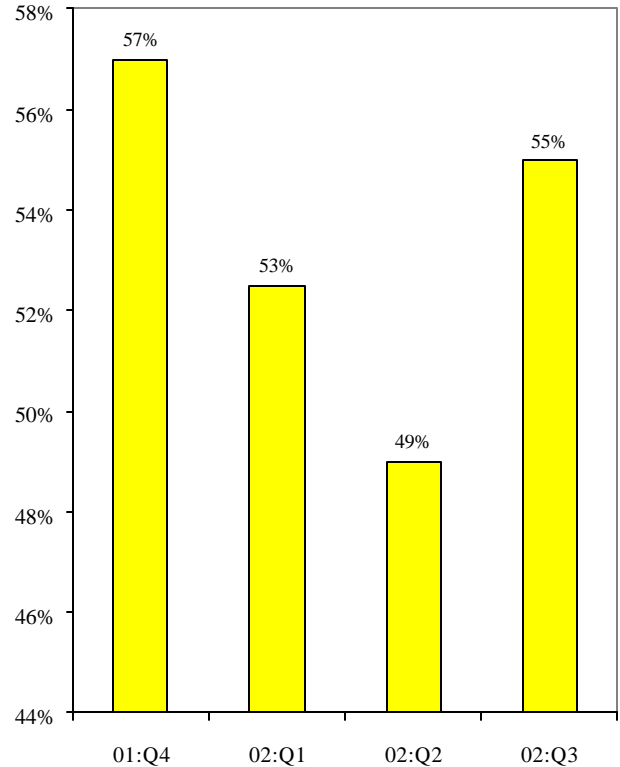
## Worker Shortages Reverse Trend

The percentage of firms reporting worker shortages reversed its recent declines and increased from the second to third quarters of 2002. In the third quarter of 2002, 55% of firms reported experiencing worker shortages. This increase in firms reporting worker shortages is not a positive sign for the State. Employment growth has remained steady for several quarters and expectations for employment increases have held steady for the past three quarters. Maryland's unemployment rate continues to hover at rates lower than the national average. All of this points to Maryland firms having a greater difficulty in finding qualified workers, especially during a time in which firms are trying to remain insulated from the turbulent national economy.

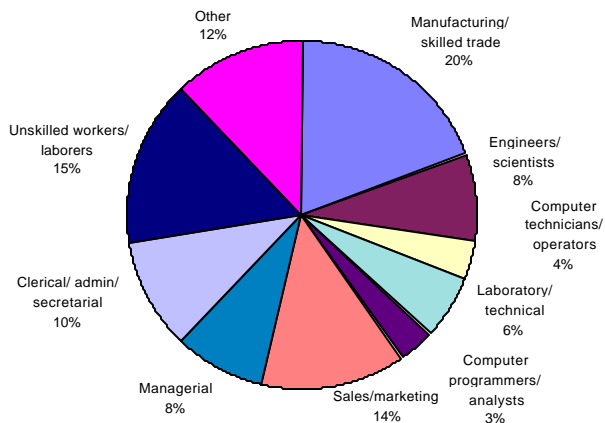
Companies currently reporting difficulties in hiring workers were asked whether these were *short-term* shortages, *long-term* shortages, or *both*. In the third quarter, 28% of firms reported *short-term* shortages, 27% reported *long-term* shortages, and 45% reported *both* short and long-term shortages.

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* (20%), *unskilled workers/ laborers* (15%), *sales/ marketing* (14%), and *clerical/ administrative/ secretarial* (10%).

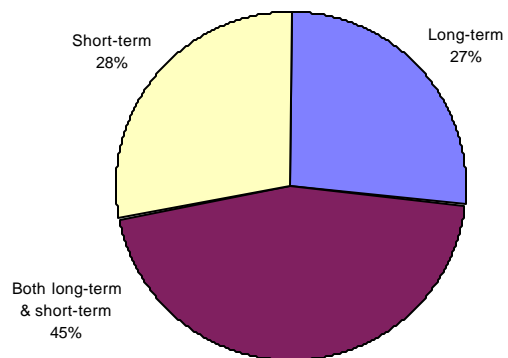
## Percentage of Firms Experiencing Worker Shortages



## Positions for which Firms Cited Recruitment Difficulty



## Types of Shortages Experienced Percentage of Firms Reporting



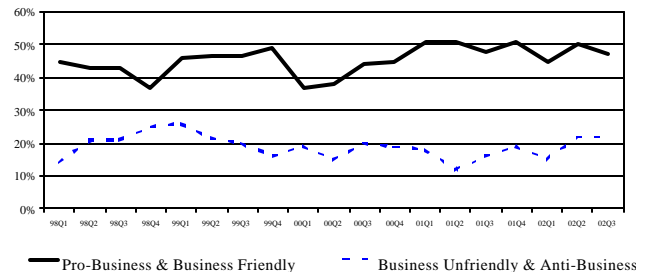
## Firms View Business Climate as Less Friendly

In the third quarter of 2002, the percentage of firms having a positive view of the business climate in Maryland declined while the percentage of firms having a negative view of Maryland's business climate held steady. This is not a positive signal for the State. The percentage of Maryland businesses that rated the State as either pro-business or business friendly decreased from 50% in the second quarter to 47% in the third quarter of 2002. The percentage of businesses holding a negative view of the State's business climate (rating Maryland as either anti-business or business unfriendly) held steady at 22% from the second to third quarter of 2002.

Maryland firms, despite experiencing greater increases in revenues and optimism for the future, are indicating displeasure with the State government in regards to dealing with and addressing business needs and concerns. Businesses are looking to the candidates for Governor as to how they will address the issues of taxes, transportation, and economic development. While Maryland businesses have indicated solid performance in revenue gains and positive expectations for the future, they are also indicating difficulty in finding skilled workers and displeasure at State efforts to aid businesses.

Through the third quarter of 2002, 47% of firms rate the State's business climate as positive. In Baltimore City, 48% of the firms surveyed have a positive view of the business climate and 18% have a negative view of the business climate. In the Washington Suburbs, 52% of firms have a positive view of the business climate in Maryland and 17% have a negative view of the business climate. The Washington Suburbs have the greatest positive view of the State's business climate. This region is also experiencing the greatest impact from the increased spending on defense and security to federal labs and contractors. The Baltimore Metro area has the least positive view of the business climate in Maryland. Forty-one percent (41%) of firms have a positive view of Maryland's business climate and 23% have a negative view of the business climate.

### Maryland's Business Climate 1998Q1 to 2002Q3



### Maryland's Business Climate By Region, 2002

