

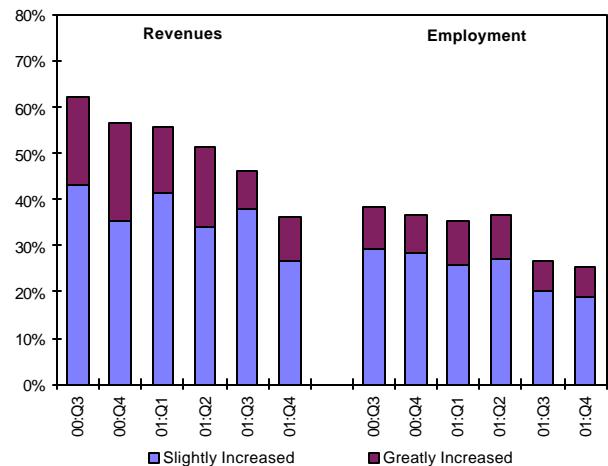
# Maryland Business Research Partnership

## MARYLAND BUSINESS CLIMATE SURVEY Fourth Quarter, 2001

### Firm Performance Falls to End 2001

The percentage of firms reporting growth in revenue or employment fell in the fourth quarter of 2001 as the events of September 11<sup>th</sup> have developed. The percentage of firms reporting revenue growth continued its decline from 56% in the first quarter to 52% in the second to 46% in the third to 36% in the fourth quarter. The percentage of firms reporting increases in revenue has fallen in each of the last six quarters. The percentage of firms reporting increases in employment fell from 37% in the second quarter to 27% in the third quarter to 25% in the fourth quarter. It is now quite apparent that the national downturn has negatively impacted the performance of Maryland businesses. This is most evident in the performance of firm revenues, which has fallen continuously over the past year.

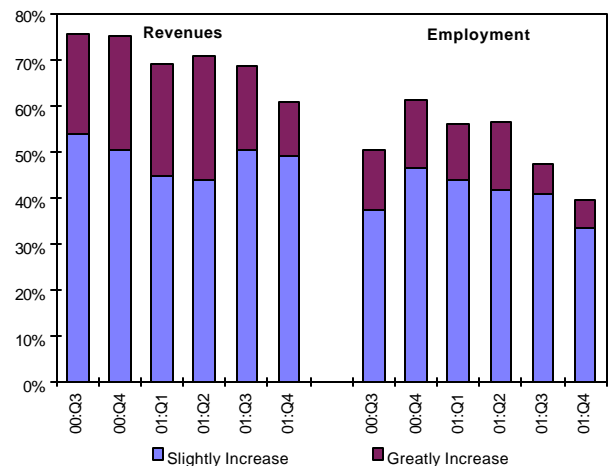
### Performance in the Past Year % Firms Reporting an Increase



### Firms Lower Expectations for Recovery in 2002

Maryland businesses are indicating that they are not expecting a quick recovery to the economic downturn and that it may well last into the later half of 2002. The percentage of firms expecting revenue growth in the coming year declined from 69% to 61%, the percentage of firms expecting future employment growth declined from 47% in the third quarter to 39% in the fourth quarter. Firms expectations for employment growth has fallen from 57% in the second quarter to 47% in the third to 39% in the fourth quarter of 2001.

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



## Labor Market Problems Fading

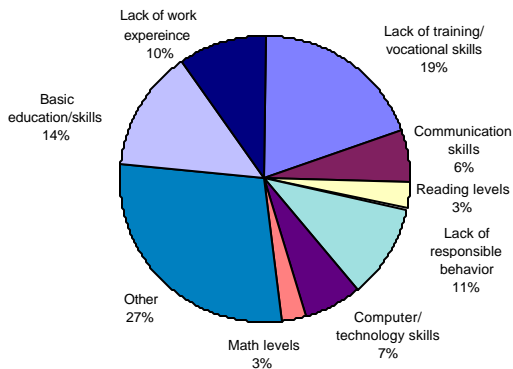
Consistent with the decline in hiring activity, 34% of responding firms in 2001 stated that labor market conditions in Maryland have hindered their ability to do business. The decline from the results of previous years may be in part due to fewer firms experiencing employment growth and the softening 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. 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*.

## Basic Skills Found Lacking in Maryland Workers

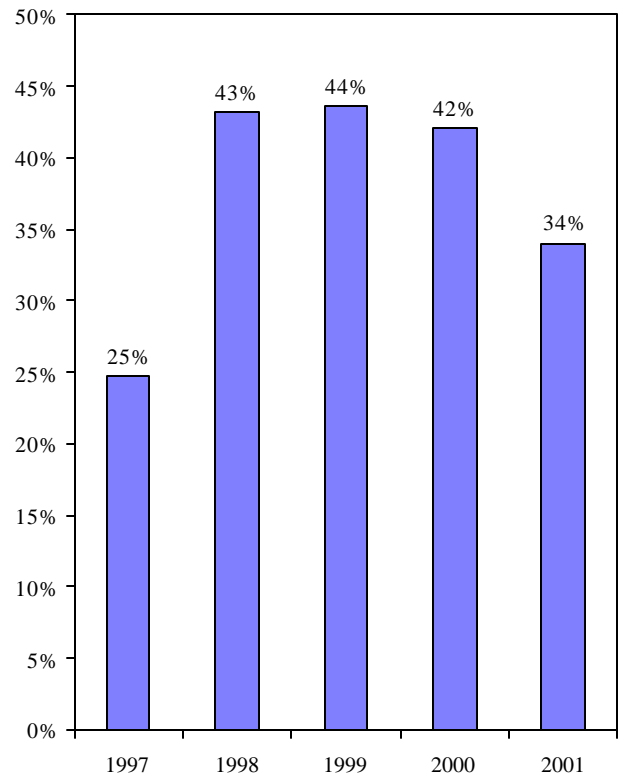
Eighty-seven percent (87%) of the surveyed firms in 2001 hired employees that have only a high school level of education. When these businesses were asked if these employees have the necessary skills to perform their jobs, over one-third (36%) of the firms responded that they do not.

The greatest problems that employers noted were a *lack of training/vocational skills* (19%), a *lack of basic education/skills* (14%), a *lack of responsible behavior* (11%), and a *lack of work experience* (10%). 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. It is also important to note that firms over the course of the past two years have consistently noted the need for training, basic skills, and work experience.

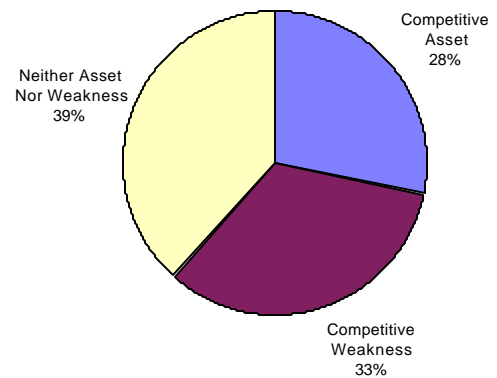
### Problems with Graduates' Qualifications



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



## Overall Labor Market Conditions In Maryland



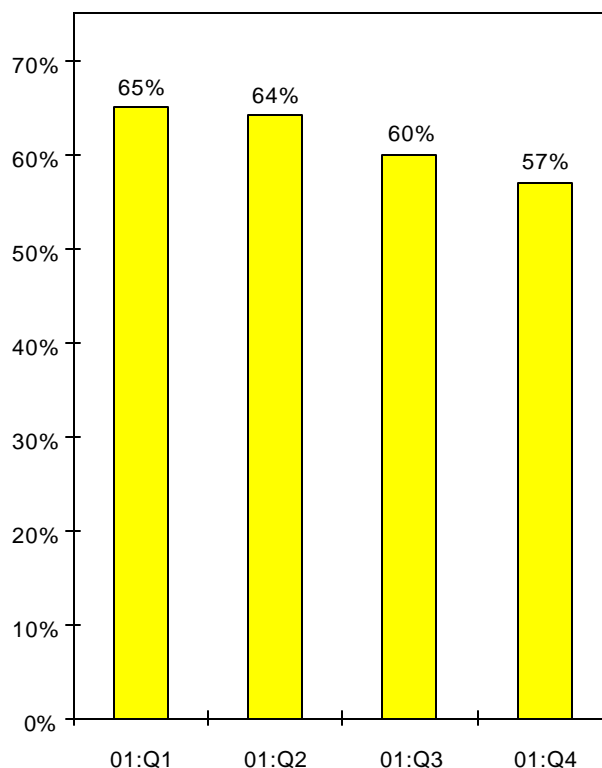
## Worker Shortages Fall but Still Persist

In the fourth quarter of 2001, 57% of firms reported experiencing worker shortages. Over the past year, the percentage of firms citing worker shortages has decreased from 65% to 57%. The continuing decline in the percentage of firms experiencing labor shortages is both positive and negative for Maryland businesses. With the State's unemployment rate increasing, a larger number of firms might now be able to find the workers that they have needed, but fewer firms are reporting current increases in employment. Firms throughout Maryland continue to report layoffs and plant closings, and firm's future expectations for employment growth continue to decline. Previous *Business Climate Survey's* accurately predicted the increase in Maryland's unemployment rate and believes that this trend will continue for the short term.

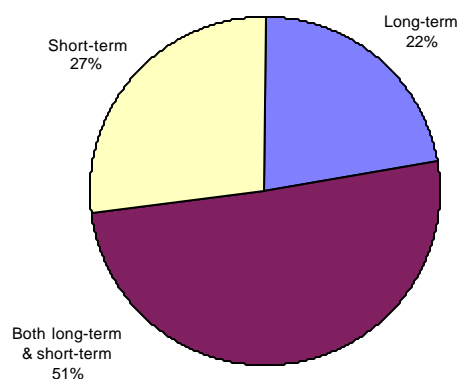
Companies currently reporting difficulties in hiring workers were asked whether these were *short-term* shortages, *long-term* shortages, or *both*. In the fourth quarter, 27% of firms reported *short-term* shortages, 22% reported *long-term* shortages, and 51% reported *both* short and long-term shortages.

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* (23%), *unskilled workers/laborers* (13%), *sales/marketing* (12%), *clerical/administrative/secretarial* (10%), and *engineers/scientists* (8%).

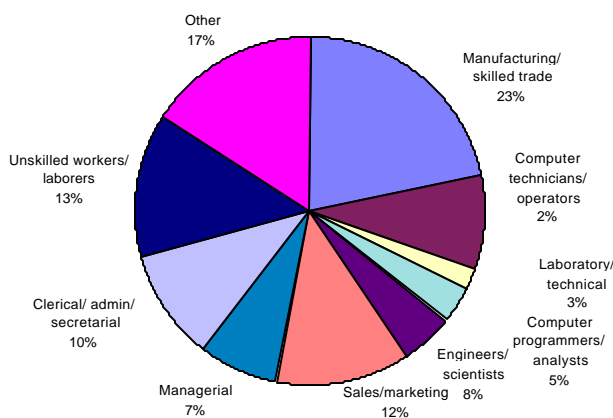
## Percentage of Firms Experiencing Worker Shortages



## Types of Shortages Experienced Percentage of Firms Reporting



## Positions for which Firms Cited Recruitment Difficulty



## Views of Business Climate Rise to End 2001

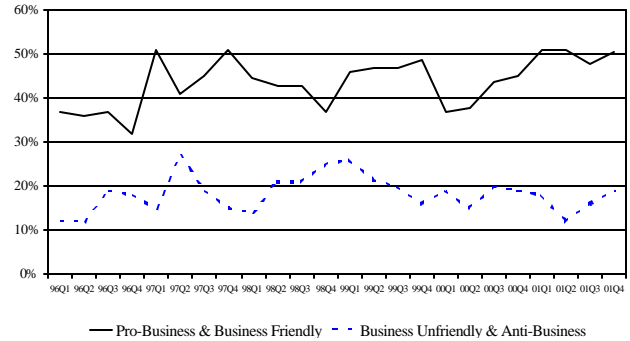
Despite economic bad news, the percentages of firms having a positive view of Maryland's business climate increased in the fourth quarter of 2001. This increase was offset though by an increase in a negative perception of the State's business climate. The percentage of Maryland businesses that rated the State as either pro-business or business friendly increased from 48% in the third quarter to 51% in the fourth quarter of 2001. 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 16% in the third quarter to 19% in the fourth quarter. One potential cause is Maryland firms are feeling the effects of the national economic downturn. Additionally, Maryland firms have continued to indicate that they are less positive on the future, expecting lowered growth in both their revenues and employment. How the State weathers the downturn and how long it lasts will have an important impact on Maryland's business climate.

In 2001, 57% of firms rate the State's business climate as positive; due in part the presence of federal labs and contractors who continue to remain sheltered from the effects of the economy. In Baltimore City, 50% of the firms surveyed have a positive view of the business climate. This strong view in Baltimore City is being fueled by several factors, including development of the West Side, the harbor, and the leadership and growing recognition of the Mayor in his efforts to improve the City.

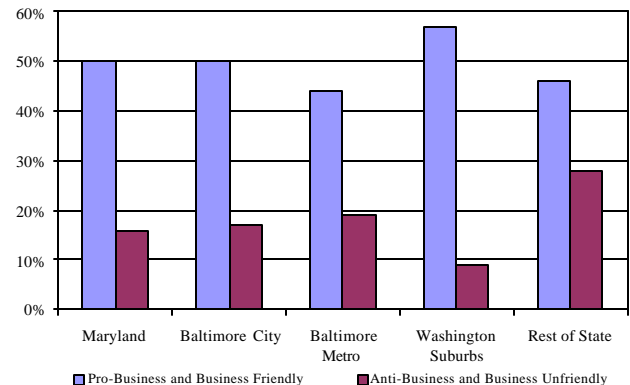
## Taxes Seen as Greatest Disadvantage in Maryland

In 2001, 31% of surveyed firms responded that the greatest disadvantage to doing business in Maryland is taxes. The perception that taxes are the greatest disadvantage is significant in that it plays an important role in making the marketing the State and its ability to attract businesses. The second greatest disadvantage is the State's business environment (18%). Specifically, firms cited the State government's attitude towards businesses.

## Maryland's Business Climate 1996Q1 to 2001Q4



## Maryland's Business Climate By Region, 2001



## Greatest Disadvantages to Doing Business in Maryland, 2001

|                              |       |     |
|------------------------------|-------|-----|
| Total Responses              | 1,000 |     |
| Don't Know/No Answer         | 339   | 34% |
| <hr/>                        |       |     |
| Total Classifiable Responses | 661   |     |
| Taxes                        | 203   | 31% |
| Business Environment         | 121   | 18% |
| Labor Market                 | 70    | 11% |
| Quality of Life              | 58    | 9%  |
| Regulations                  | 36    | 5%  |
| Economy/Local Market         | 32    | 5%  |
| Economic Development Policy  | 24    | 4%  |
| Other                        | 117   | 18% |