

Maryland Business Research Partnership

MARYLAND BUSINESS CLIMATE SURVEY Fourth Quarter, 2002

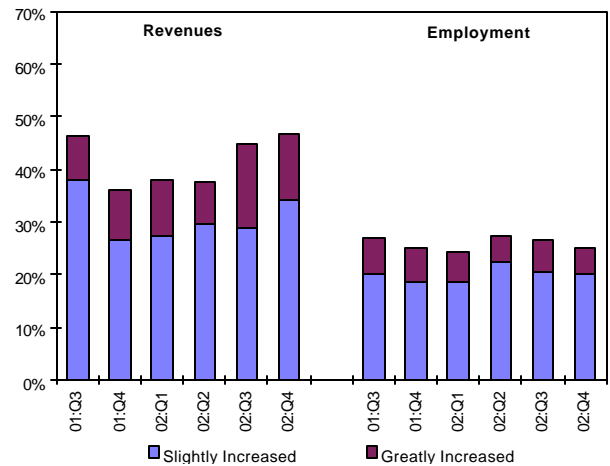
Performance Signals Hold to End 2002

In the fourth quarter of 2002, Maryland firms reported that they experienced increases in revenues while the percent reporting employment growth fell slightly. While a mix of signals, revenue growth is a positive sign for Maryland's economy. The percentage of firms reporting revenue growth increased from 45% in the third quarter to 47% in the fourth quarter of 2002. After holding below 40% for three quarters, it is a positive sign for firms to report increased revenues for the past two consecutive quarters. The percentage of firms reporting increases in employment during the third quarter of 2002 declined from 27% in the third quarter to 25% in the fourth quarter of 2002. The continued growth of firm revenues coupled with the continued hiring activity over the past year has Maryland firms in an enviable position nationally. While other states are experiencing continued economic problems, Maryland firms are showing resilience.

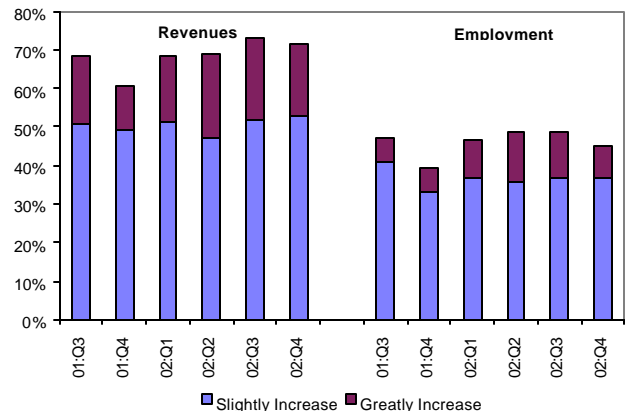
Firm's Adjust Expectations for 2003

Maryland businesses revised their outlook for revenue and employment growth for 2003. The percentage of firms expecting revenue growth in the coming year held steady at 72% in the fourth quarter, while the percentage of firms expecting employment growth in 2003 decreased from 49% in the third quarter to 45% in the fourth quarter of 2002. Improvements in firms' revenue performance and expectations for future revenue growth should create a positive outlook for employment gains.

Performance in the Past Year % Firms Reporting an Increase



Expectations for the Coming Year % Firms Reporting an Increase



Labor Market Problems Much Less a Hindrance

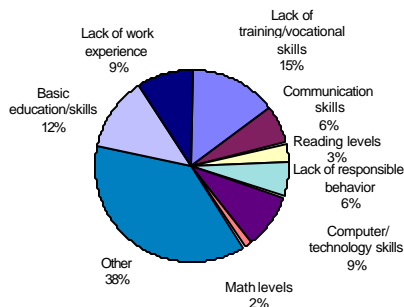
With the continued low unemployment rate in Maryland, 31% of responding firms in 2002 stated that labor market conditions in Maryland have hindered their ability to do business. Although this is a decline in results from previous years, there still exists a strong demand for skilled workers by employers across Maryland. 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 29% responded that the conditions are a *competitive weakness*.

Basics and Training Most Lacking in Workers

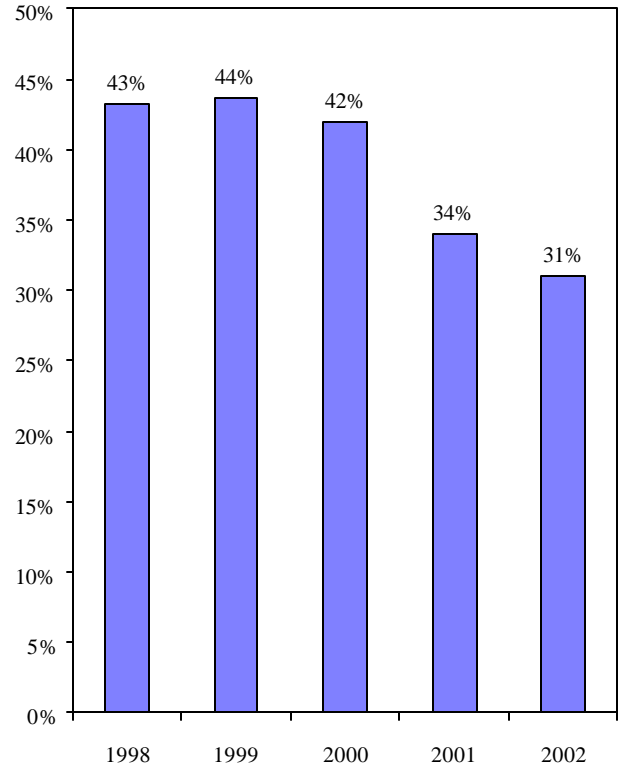
In the first half of 2002, 84% of the surveyed firms hired employees who have only a high school level of education. When these businesses were asked if these employees have the necessary skills to perform their jobs, 43% of the firms responded that they do not, an increase from 36% in 2001.

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* (9%), a *lack of computer/technology skills* (9%) and a *lack of communication skills* (6%). Businesses across the State have consistently noted a need for better training/vocational skills and prior work experience among high school applicants.

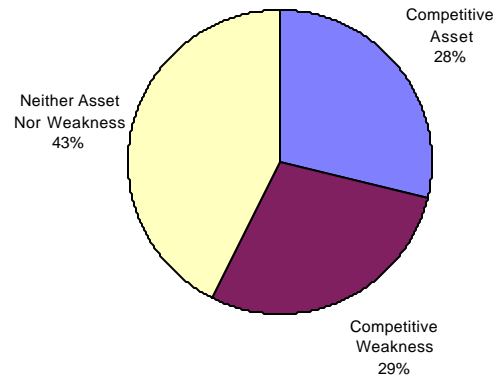
Problems with Graduates' Qualifications



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



Overall Labor Market Conditions In Maryland



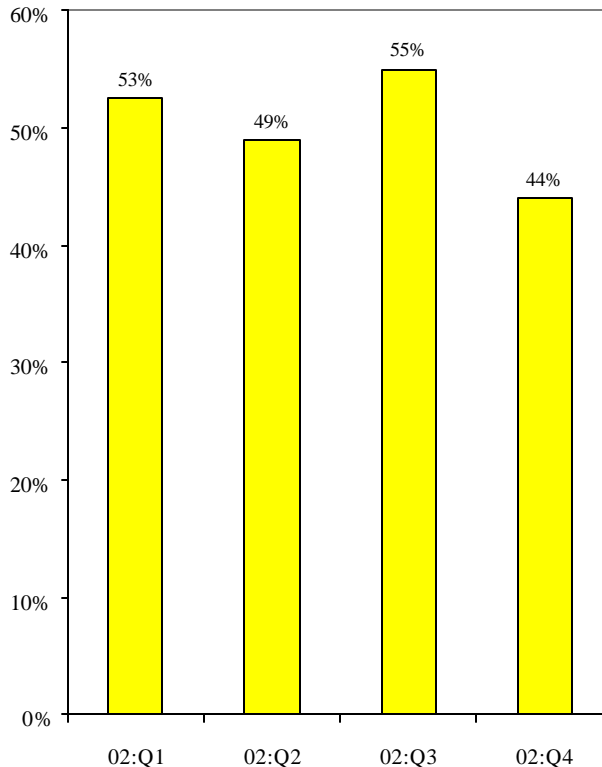
Worker Shortages Fall to Close Out 2002

The percentage of firms reporting worker shortages decreased dramatically from the third to fourth quarters of 2002. In the third quarter of 2002, 55% of firms reported experiencing worker shortages and in the fourth quarter 44% reported worker shortages. This decline in firms reporting worker shortages is in alignment with the continued lower hiring activity of Maryland businesses. When the Maryland economy returns to pre-recession levels and experiences stronger growth, firms can be expected to report increased difficulty in hiring qualified and skilled workers.

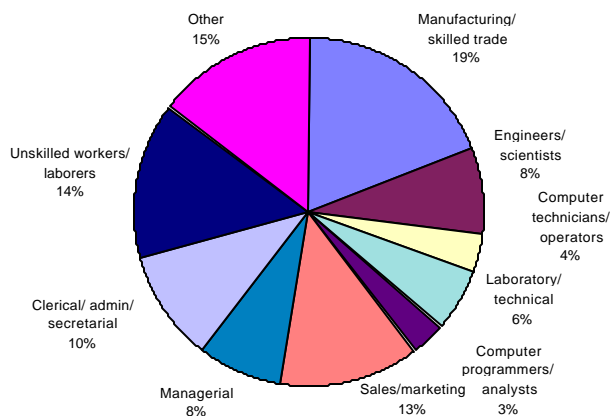
Companies currently reporting difficulties in hiring workers were asked whether these were *short-term* shortages, *long-term* shortages, or *both*. In the third quarter, 30% of firms reported *short-term* shortages, 27% reported *long-term* shortages, and 43% reported *both* short and long-term shortages.

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* (19%), *unskilled workers/ laborers* (14%), *sales/ marketing* (13%), and *clerical/ administrative/ secretarial* (10%).

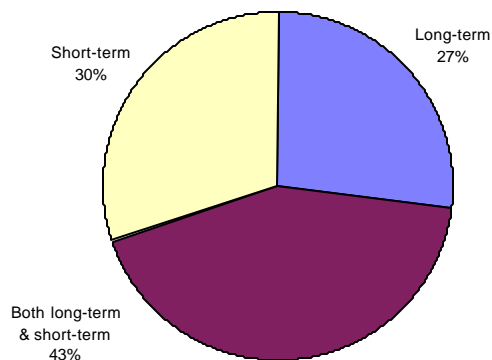
Percentage of Firms Experiencing Worker Shortages



Positions for which Firms Cited Recruitment Difficulty



Types of Shortages Experienced Percentage of Firms Reporting



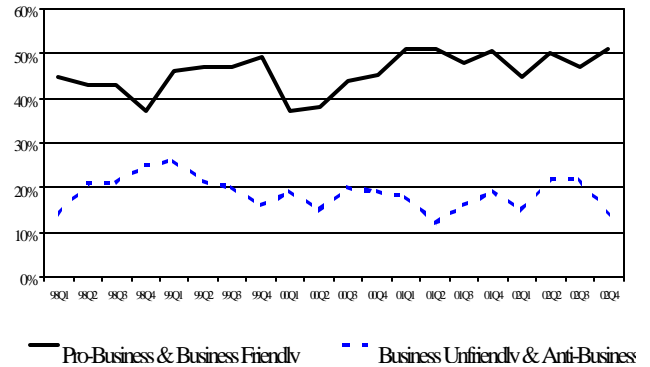
Maryland's Business Climate Heats Up

In the fourth quarter of 2002, businesses indicated a shift in attitude towards the business climate in Maryland. The percentage of firms viewing the State as being business friendly increased while the percentage of firms viewing the State as business unfriendly decreased. This combination is a strong signal that firms believe that Maryland is heading in the right direction. The percentage of businesses that rated the State as either pro-business or business friendly increased from 47% in the third quarter to 51% in the fourth 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) decreased from 22% in the third quarter to 14% in the fourth quarter of 2002.

The impetus for this improvement in attitude toward the business climate in Maryland may very well be the incoming Governor. With a new Governor now elected, one who is viewed as a friend to the business community, firms are eagerly looking forward to new opportunities for partnership, prosperity, growth, and economic development in Maryland.

In 2002, 48% of firms rate the State's business climate as positive. In Baltimore City, 47% 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, 54% of firms have a positive view of the business climate in Maryland and 14% 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 Homeland Security to federal labs and contractors. The Baltimore Metro area has the least positive view of the business climate in Maryland. Forty-three percent (43%) of firms have a positive view of Maryland's business climate in 2002 and 21% have a negative view of the business climate.

**Maryland's Business Climate
1998Q1 to 2002Q4**



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

