

Maryland Business Climate Survey 2019

2nd Quarter

A Project By

The Maryland Public Policy Institute
University of Baltimore /
The Jacob France Institute

Media Partner

Baltimore Business Journal

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Introduction

In 2018, the Maryland Public Policy Institute and the University of Baltimore's Jacob France Institute partnered to reinstate the Maryland Business Climate Survey. The survey was first launched in 1995 and was conducted for more than a decade. Its goal has been to provide timely data on the performance, direction, and competitiveness of the state's economy.

This report summarizes the key findings from 250 Maryland businesses in leading sectors of the state's economy for the second quarter of 2019. This is the sixth quarterly installment of the reinstated survey, and it compares findings with the prior quarter survey results, as well as with the 2018 survey.

Business Performance Slightly Improved in Second Quarter but Remains below Close of 2018

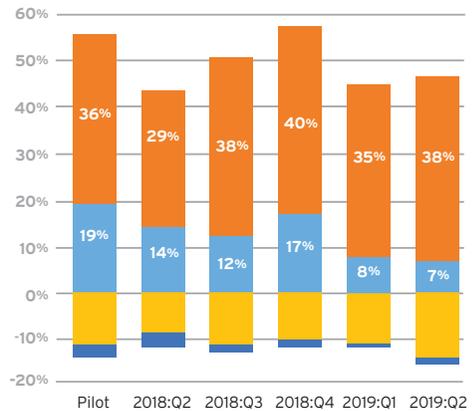
After improving steadily in the last two quarters of 2018, the number of firms reporting higher revenue and employment fell in the first two quarters of 2019. The number of firms reporting revenue and employment growth peaked in the fourth quarter of 2018, when 57% had revenue growth and 43% employment growth.

>> 45% of firms reported increased sales in the first quarter over the previous year, with 17% reporting a decrease, compared with 43% and 11% respectively in the first quarter of 2018, when 57% reported an increase in sales and 11% reported a decrease compared with the previous year; and

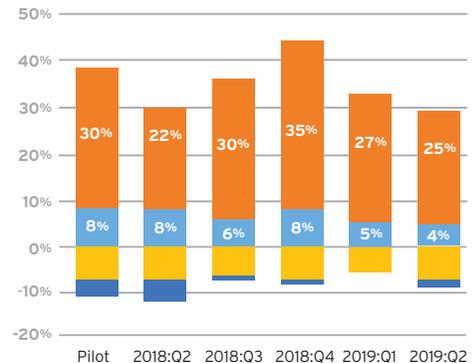
>> 29% of firms reported growth in employment and 9% a decrease compared with the previous year. This quarter's employment growth results lagged both the first quarter of 2019, when 32% reported

higher employment and only 6% reported a decrease, as well as fourth quarter 2018, when 44 percent reported growth in employment and 9% reported a decrease compared with the previous year.

Revenues - Past Year



Employment - Past Year



- Slightly expanded
- Greatly expanded
- Slightly contracted
- Greatly contracted

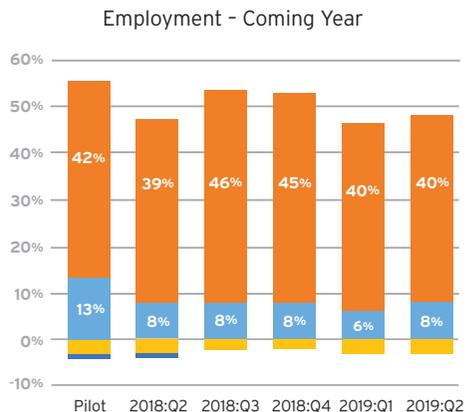
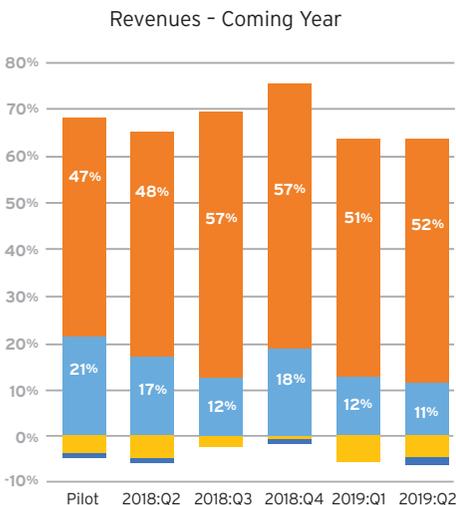
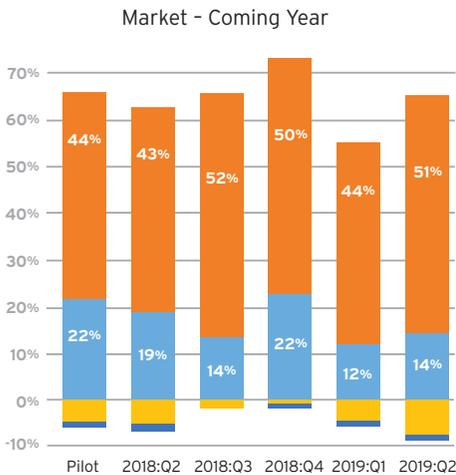
Continued Optimism for Future Growth

Despite reporting worse revenue and employment performance, the Maryland businesses surveyed remain optimistic for future growth. Sixty-five percent of those surveyed expect their markets to grow, higher than 56% in first quarter

2019, but below 72% expecting growth in fourth quarter 2018. One troubling note is that the number of firms expecting a market decline in the coming year, at 8%, is the highest level in the past four quarters.

>> 63% of firms reported they expect an increase in sales in the coming year, while 6% expected revenues to decline, approximately the same as in first quarter 2019, but below the 74% expecting revenue growth in fourth quarter 2018; and

>> 48% of firms reported they expect to increase their employment in the coming year, while 3% expected their employment to decline, again comparable with the first quarter but below the 53% of firms that expected to add jobs in the fourth quarter of 2018.

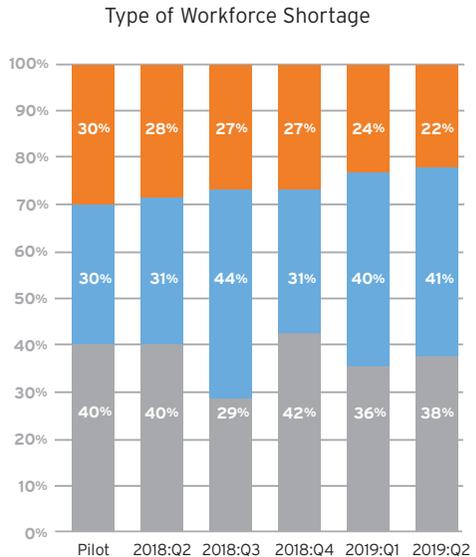
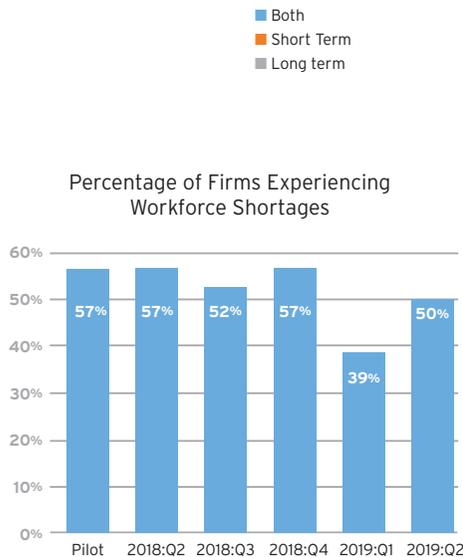


Worker Shortages Remain a Problem

In the second quarter of 2019, half of firms reported experiencing worker shortages, above the 39% figure in the first quarter, but below levels in the prior year. Throughout 2018, more than half of responding Maryland businesses reported difficulties in finding workers with the skills necessary to fill specific job requirements. With half the businesses in lead sectors of Maryland’s economy having trouble finding workers, shortages remain a barrier to growth.

Workforce shortages appear to be getting worse. The share of firms characterizing these shortages as both short- and long-term in nature has risen steadily over the past six quarters. In second quarter

2019, 78% of responding businesses said they experienced both long-term and combined long- and short-term shortages, up from 70% in the beginning of 2018. Shortages were reported across all skill levels to include manufacturing workers (30 firms reporting), unskilled workers or laborers (9 Firms), and engineers or scientists (22 firms). Maryland businesses thus appear to be experiencing worker shortages across the low, middle, and high skilled spectrum of occupations. Of the businesses reporting workforce shortages in second quarter 2019, 42% were forced to recruit from out-of-state, 6% recruited workers internationally, and 12% said they had difficulty finding workers with a security clearance.



Impact of State and Local Taxes on Meeting Goals

Businesses were asked to what extent state or local taxes hindered their ability to meet their strategic goals. In the second quarter of 2019, 63% reported taxes had some negative impact on their operations (little, moderate, or great impact). Results from the second quarter include the following:

- >> 37% indicated taxes had no impact;
- >> 24% indicated taxes had little impact;
- >> 30% indicated taxes had a moderate impact; and
- >> 9% indicated taxes had a great impact.

Asked which tax categories were most burdensome, companies responded with the below breakdown:

- Income Taxes
- Payroll Taxes
- Sales or Use Taxes
- Property Taxes
- Taxes in General



Which tax do you find most burdensome to your company

Businesses Indicate Overall Positive View of State's Business Climate

Businesses were asked to rate Maryland's overall business climate.

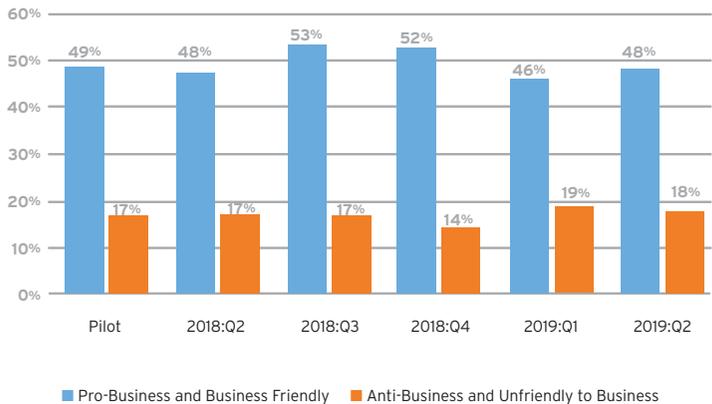
- >> 48% rated Maryland's overall business climate either pro-business or business friendly;
- >> 34% rated Maryland's overall business climate neutral; and
- >> 18% rated Maryland's overall business climate either unfriendly or anti-business.

When analyzing the business climate regionally:

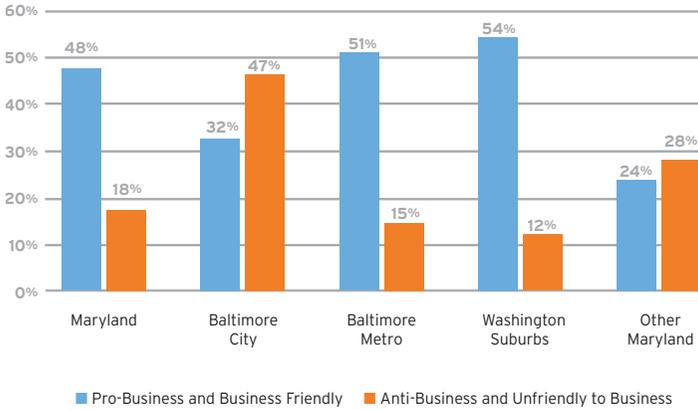
- >> 32% of firms in Baltimore City had a positive view of the State's business climate while 47% had a negative view;
- >> 54% of firms in the Washington suburbs had a positive view of the State's business climate;
- >> 51% of firms in the Baltimore metropolitan area had a positive view of the State's business climate; and
- >> 24% of firms in the rest of Maryland had a positive view of the State's business climate.



Perceptions of Maryland's Business Climate Over Time



Regional View of Business Climate



Maryland's Competitiveness Compared with Neighboring States

Firms were asked to compare Maryland's Taxes, Regulations, Infrastructure and Labor Markets with neighboring states. The second quarter 2019 results were as follows:

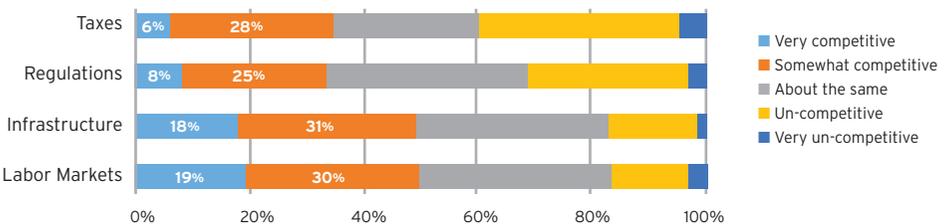
>> 34% of responding Maryland businesses ranked the State's taxes as competitive with other states, while 40% ranked them as uncompetitive;

>> 33% ranked the State's regulations as competitive with other states, while 32% ranked them as uncompetitive;

>> 49% ranked the State's infrastructure as competitive, while 17% ranked it as uncompetitive; and

>> 49% ranked the State's labor markets competitive, while 16 percent ranked them uncompetitive.

Maryland's Competitiveness with Neighboring States in Key Business Climate Factors



Maryland Business Climate Survey Methodology

The Maryland Business Climate Survey offers an unparalleled resource for analyzing both the direction and perception of the state's economy. The Jacob France Institute of the University of Baltimore began the survey in the second quarter of 1995, inspired by work it was doing for the Maryland Chamber of Commerce and some of the state's leading corporations in developing a business-oriented strategic plan for Maryland.

For more than a decade, the survey took the pulse of the business community and contributed to a better understanding of the issues facing businesses in all parts of the state. The survey was ended in 2006 but re-started in the second quarter of 2010 through 2011 with the support of the Merrick School of Business of the University of Baltimore.

In 2017, the Maryland Public Policy Institute teamed with the Jacob France Institute with the Baltimore Business Journal as media partner to restart the survey. Each quarter, the Schafer Center at the University of Baltimore conducted telephone interviews with senior executives in 250 or more businesses with 10 or more employees from across Maryland. This survey had a total of 1,031 completed interviews by the end of the pilot and three-quarters of the 2018 survey period—a standard sample size for many types of surveys seeking a margin of error of 3 percent for the overall state-level results.

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