

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

The Recovery Broadened Further in May; Respondents Remain Upbeat for the Future

Overview

Business activity continued to solidify during May, according to results from our latest Carolinas Survey of Business Activity, and expectations for future activity remained high. All three of the general current conditions indexes increased in May with each topping its previous series high (dating back to January 2008). The general business expectations indexes were solidly in positive territory in May, although each slipped a bit from April.

The company specific general business conditions index jumped in May, reaching a new record high. Moreover, most of the specific components of current company conditions increased over the month. The company specific general expectations index did edge down in May from April but remained solidly in positive territory. Thus, a preponderance of firms anticipates stronger business conditions six months from now.

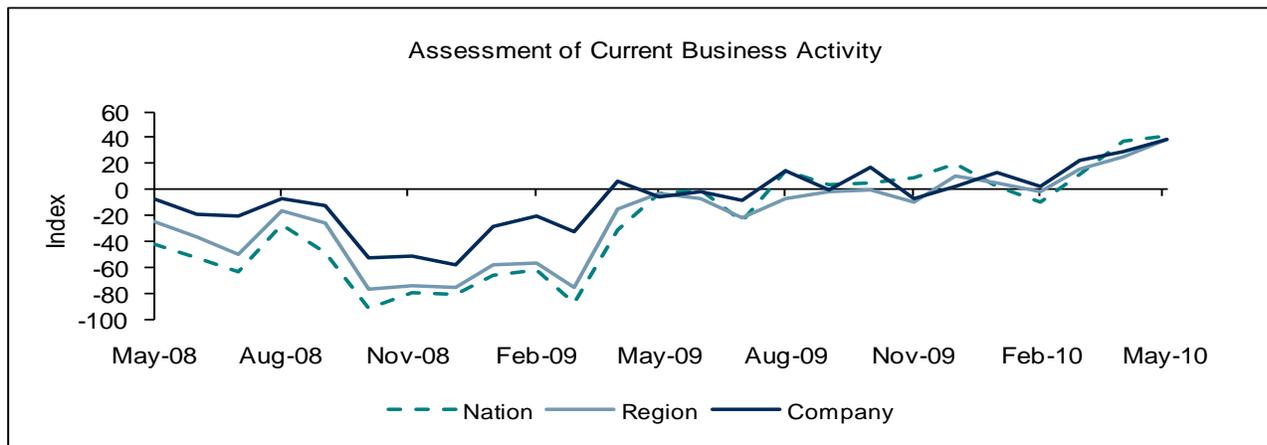
With increasing business activity, the general availability of labor indexes moved materially lower, suggesting some tightening of labor markets in May. Meanwhile, both labor market

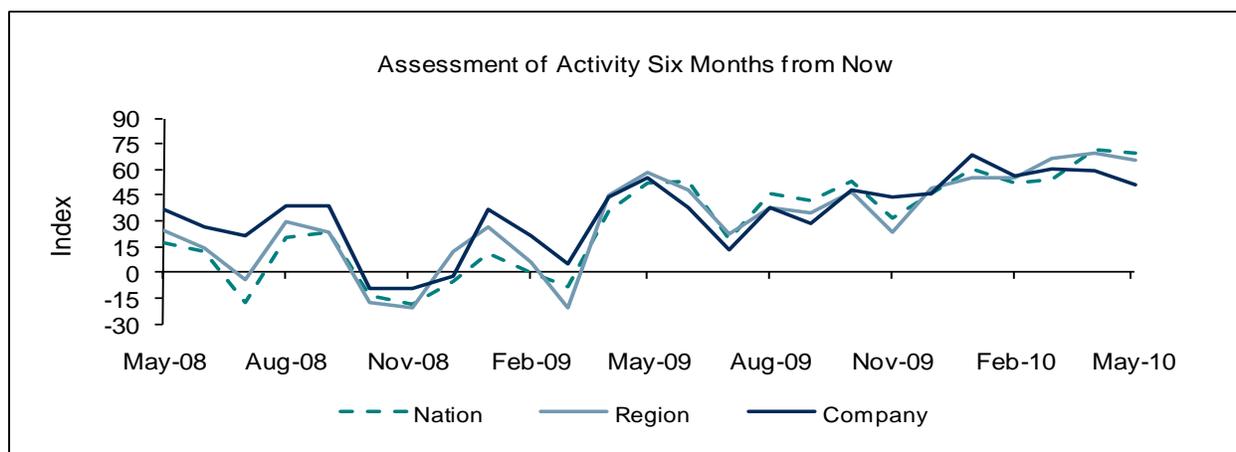
expectations indexes were negative, indicating that respondents expect those markets to tighten further in coming months. The business spending and spending expectations indexes were positive, indicating a broader recovery in business spending.

General Business Assessments

Responses to our Carolinas Survey suggest that the recovery continued to gain traction in May. (It is important to note that our index is a diffusion index and addresses the breadth of the recovery more so than the magnitude.) Each of the three general current conditions indexes reached record highs again in May – the national index increased to 41 in May from 37 in April; the regional index rose to 39 from 24; and the company specific index improved to 39 from 29.

Each of the three general expectations indexes slipped from April to May. However, with the national index at 70, the regional index at 65, and the company specific index at 51, respondents continue to expect business conditions to improve markedly in coming months.





Company Conditions

Respondents' confidence regarding current business conditions has improved materially since the first of the year. The current company specific index increased to 39 in May from 29 in April, reaching a new series high. Attitudes were no doubt boosted by rising demand. The sales revenue/shipments index jumped 15 points in May (to 30), mostly reversing April's 16-point drop. Meanwhile, the sales revenue/shipments expectations index dipped to 45 in May from 54 the prior month. While lower, the expectations index remained solid and shows that more firms expect sales to increase than those that expect sales to decrease.

The improvement in revenues was accompanied by an increase in demand for workers. Our current labor demand index increased to 12 in May from 0 in April and the hours worked index jumped to 18 from 5. When considered together, these indexes are very encouraging and point to stronger hiring in May. The comparable expectations indexes both slipped from April to May. However, with the labor demand expectation index at 40 and the hours worked expectation index at 21, respondents still expect to utilize more labor in coming months.

Respondents indicated that margins remained under considerable pressure recently. The current prices paid index rose to 42 in May from 28 in April. With the current prices received index dipping to 2 from 3 the prior month, the gap between prices paid and prices received widened considerably (from 25 to 40). And respondents expect little relief from

these pressures in coming months. The expectations index for prices paid increased to 51 from 46 while the expectations for prices received rose to 29 from 18.

Labor Market Conditions

Survey respondents were seeing tighter labor markets in May. The general availability of labor index fell to 9 from 21 in April and the company specific index declined to 0 from 13. The expectations indexes both fell in May and were negative, indicating that firms expect labor markets to tighten further in the next six months.

Business Spending

On balance, the business spending indexes improved. The current equipment/software spending index increased to 12 in May from 5 in April and the business services spending index rose to 8 from zero. Moreover, the expectations indexes were solidly positive in May, indicating that firms planned to spend more for both equipment/software and services in coming months.

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Business Activity Indexes						
General Business Assessment	Current Conditions			Expectations		
	May-10	Apr-10	Mar-10	May-10	Apr-10	Mar-10
Nation	41	37	11	70	72	55
County/Region	39	24	16	65	69	66
Company	39	29	23	51	59	60
Company Conditions						
Sales Revenue/Shipments	30	5	31	45	54	51
Inventories	-16	-8	7	-10	28	7
Number of Employees	12	0	5	40	45	35
Weekly Hours	18	5	9	21	25	28
Average Wages/Employee Compensation	7	7	9	37	35	30
Prices Paid	42	28	33	51	46	43
Prices Received	2	3	9	29	18	29
Labor Market Conditions						
General Availability of Labor	9	21	19	-10	0	2
Company-specific Needs	0	13	12	-18	-6	-3
Business Spending						
Equipment or Software	12	5	0	20	6	17
Business Services	8	0	10	22	25	13

Technical Note:

The responses to the survey are converted into diffusion indexes by subtracting the percentage of reported decreases from the percentage of increases. Thus, positive index numbers indicate a net increase for that survey item, while negative index numbers show a net decline.