

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Carolinas Business Index Dipped in October; Expectations Up, But Still Cautious

Overview

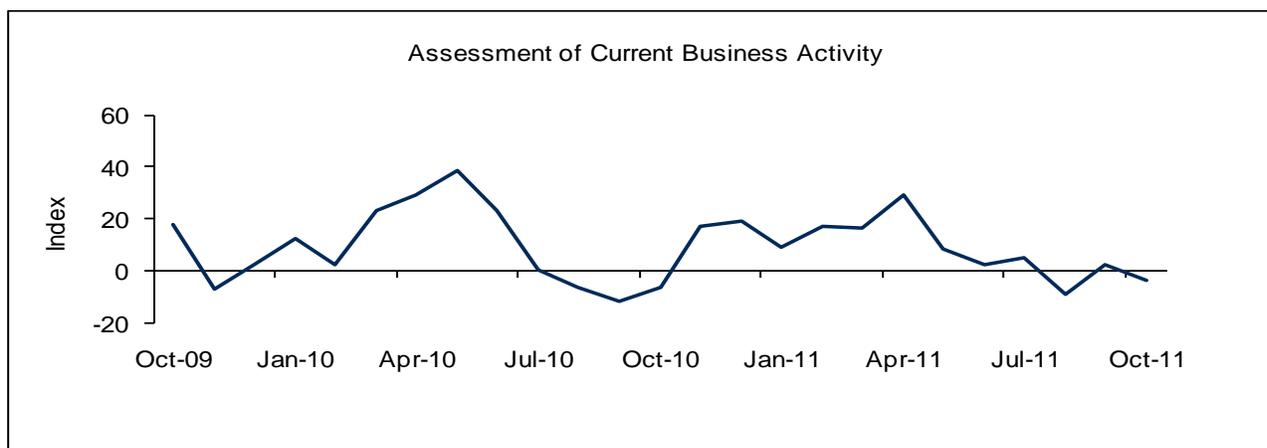
Responses to our most recent Carolinas Business Activity survey indicate that business conditions softened a bit further in October, although firms remained optimistic conditions will improve. The current general business activity index swung back into negative territory after climbing out of it a month earlier. As is often the case, the move back in the headline index was associated with a similar retreat in the current sales measure. Despite the declines in current measures of business activity, both comparable measures of expectations edged up further into positive territory.

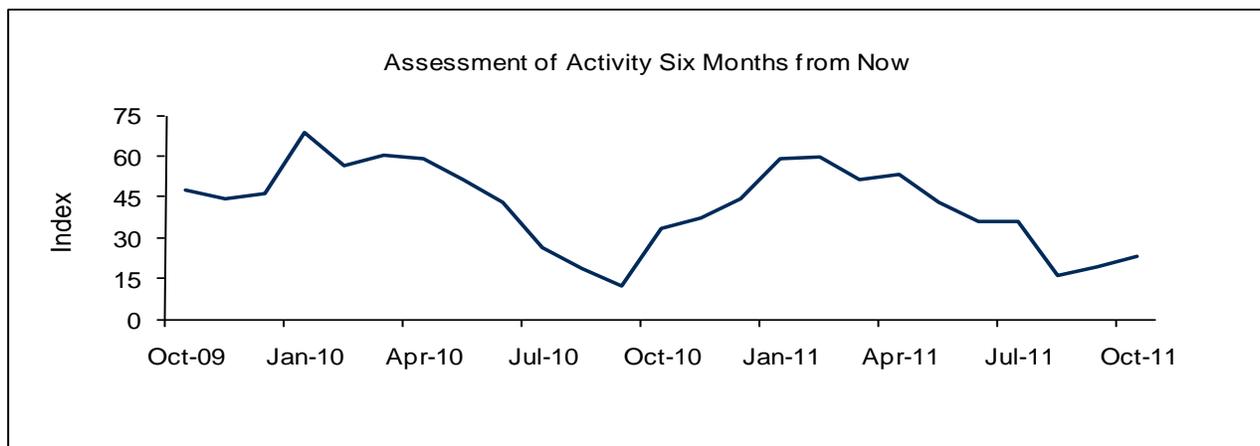
The slowdown in business activity apparently affected firms' staffing decisions. The current labor demand index fell again in October and is at a level consistent with no growth in private sector hiring. The same can be said of current average hours index as well. Future labor demand appeared to follow along with the increases in anticipated business activity as both the expected number of workers metric and expected average hours index increased. Despite high unemployment in the Carolinas, the availability of skills indexes – current and expected – were close to breakeven.

Total current capital spending and equipment and software spending appeared to increase slightly in October, but spending on business services continued to ease. Each of the three spending expectations measures increased during the month, not surprising given anticipated improvements in general business conditions. Respondents apparently saw a little relief on current margin pressures as prices received rose and prices paid fell. The changes, however, were modest. Price expectations changed little.

General Business Assessments

Business activity appeared to slow slightly in the Carolinas during October. The current business activity index slipped to -4 this month from 2 in September. It was the second negative reading in the last three months. As is often the case, the decline in the headline index was influenced by a decline in the revenue index, which fell 14 points to -7 in October, its lowest reading in more than a year. Despite the apparent softening in current conditions, respondents remained optimistic that activity will increase in coming months. The general business conditions expectations index increased to 23 in October from 19 a month earlier and the revenue expectations index held at 17.





Labor Market Conditions

The indicators reflecting demand for labor inputs (number of employees and average weekly hours) signaled additional softening in the job market. The current number of workers index dipped to 1 in October after averaging 5 the prior three months. The current average hours worked index edged up to 0 from -1 in September, meaning effectively no change in hours. Like the general conditions indicators, the expected labor demand index increased, to 10 from 6 in September. At the same time, the expected average workweek was largely unchanged.

On the supply side, respondents generally indicated that the availability of workers with the right skills for open positions remained less than earlier in the year. The current availability of skills index swung to 1 in October from -1 a month earlier while the comparable six-month expectations index dipped to 0 from 1 in September.

Business Spending

The indicators reflecting business spending stabilized in October after deteriorating in prior months. The current total capital spending index increased to 3 from 1 in September, the first increase in this component in four months. The current equipment and software spending index also rose two points to 7 in October. The current business services spending index was unchanged at -6.

All three of the business spending expectations metrics remained positive and, indeed, increased

during the month. The expected capital expenditures index jumped to 17 in October from 10 a month earlier, while the equipment and software spending expectations component also settled in at 17 after reading 15 in September. The business services expectations index moved up to 3 from 1.

Prices

Margin pressures appeared to ease a bit in October as the average prices received index increased (to 1.51 from 1.31) while the prices paid index declined (to 2.01 from 2.04). Meanwhile, the average weekly wage index moved down to 7 in October from 9 a month earlier, suggesting that wages were rising at a slower rate.

Respondents expect the pace of price increases to accelerate a bit in coming months. The expected prices paid index increased to 2.58 from 2.28 and the expected prices received metric rose to 1.86 from 1.70. The expected wages index dipped two points in October but, at 19, suggests a large net percentage of respondents still expect wages to rise.

Contact

Rick Kaglic

Regional Economist
 Research Dept./Regional Economics
 Federal Reserve Bank of Richmond
 Charlotte Office
 Office 704-358-2116 · Fax 704-358-2300
richard.kaglic@rich.frb.org
www.richmondfed.org

Business Activity Indexes^{1, 4}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	Oct-11	Sep-11	Aug-11	Oct-11	Sep-11	Aug-11
General Business Conditions	-4	2	-9	23	19	16
Sales	-7	7	-3	17	17	18
Employment						
Number of Employees	1	5	4	10	6	8
Availability of Skills Needed	1	-1	4	0	1	5
Average Workweek	0	-1	5	2	1	5
Wages	7	9	9	19	21	14
Spending						
Business Services Expenditures	-6	-6	4	3	1	5
Total Capital Expenditures	3	1	7	17	10	16
Equipment or Software	7	5	10	17	12	12
Price Trends³						
Prices Paid for Inputs	2.01	2.04	2.44	2.58	2.28	2.70
Prices Received for Outputs	1.51	1.31	1.27	1.86	1.70	1.55

Technical Notes:

- 1 Each index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. Data are not seasonally adjusted.
- 2 Expectations refer to the time period six months out from the survey period.
- 3 Price changes are expressed as a percent change, annualized.
- 4 Table has been revised to reflect changes in survey questions beginning December 2010