

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Carolinas Economy Slowed in August; Outlook Deteriorated Again

Overview

Current economic conditions continued to soften in the Carolinas in August according to responses to our Carolinas Survey of Business Activity, and expectations for activity six months down the road were lowered. The current general business conditions index fell further into negative territory while the closely correlated current sales measure remained there. Given the recent trend in current conditions, it is not at all surprising that respondents' expectations for their sales, as well as the broader economy, continued to erode.

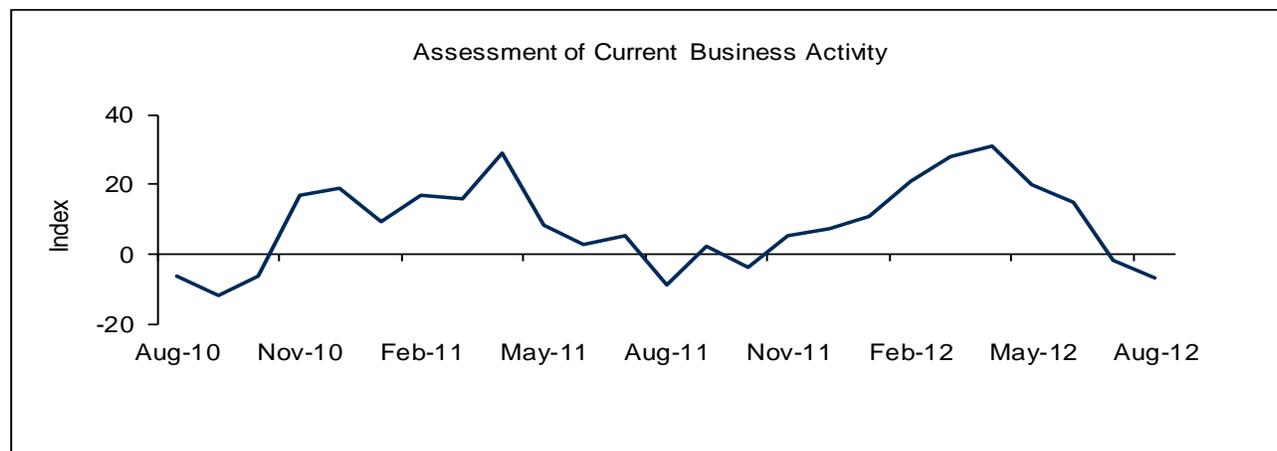
Labor demand was soft again in August, but did not deteriorate noticeably from July. The current number of workers index was negative for the second straight month and the current average workweek moved down further. The expected labor demand measures were little changed in August. While current and expected labor demand measures suggested little hiring, they do not point to widespread job cuts either.

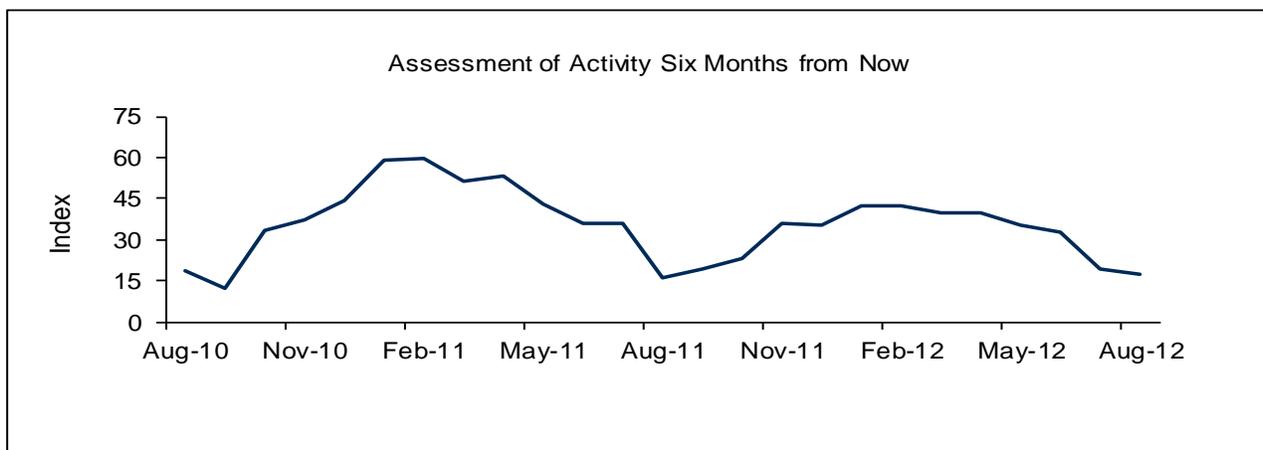
The recent softening in general business conditions is finally showing up in the measures of business spending. While the current capital equipment spending indexes – total and computers/software – remained positive, a smaller share of survey

respondents indicated that they had increased such spending in August. But when it came to spending on business services, more respondents said that they had cut expenditures compared to those who said they had increased spending. Expectations for business services spending also fell into negative territory in August. The slowdown in general economic activity was accompanied by some relatively benign readings on prices.

General Business Assessments

General business conditions softened again in August, according to responses to our Carolinas Survey of Business Activity. The current general business conditions indicator (our headline measure) dipped to -7 in August, the fourth monthly decline in a row and the second straight negative reading. The current sales metric actually improved from July but, at -4, still shows that a larger share of respondents reported a decrease in sales compared to those who reported an increase. The steady drumbeat of disappointing sales results appeared to be weighing on firms' expectations as well. The general business expectations index was down again in August, falling to 17 from 19 a month earlier. Meanwhile, the sales expectations metric fell to 13, its lowest level in approximately two years.





Labor Market Conditions

Labor demand remained comparatively soft in the Carolinas during August. However, our measures of labor demand suggested that while there was little momentum in hiring, there was no evidence of widespread job cuts either. The current number of employees index inched up to -1 in August from -2 in July. The vast majority of respondents (about 76 percent) reported no change in the number of employees. At the same time, the average workweek metric declined seven points in August to -5. The corresponding labor demand expectations measures changed little in August. The results suggest that firms still anticipate a greater need for labor inputs later in the year, but less so than they were anticipating in the January through April period.

The current supply of labor has changed little in recent months. In fact, our current availability of skills index came in at -2 in August, which is the average reading during the prior four months. Here too, the vast majority of firms reported no change in the availability of skills needed for current open positions. Given the elevated unemployment rates in the region, it is noteworthy that our availability indexes, current and expected, remained so low.

Business Spending

The recent deterioration in general business conditions showed up more prominently in measures of business spending during August. The current business services spending metric fell another eight points from July, coming in at -7. The current total capital spending measure fell to 5 in

August from 11 a month earlier. But the biggest decline took place in the current equipment and software index, which dropped 15 points to 1.

The business spending expectations indexes generally eased as well, but not to the same extent as the current measures. The biggest decline took place in the expected business services spending metric, which fell five points to -2. The corresponding equipment/software index eased three points to 8, while the total spending expectations measure was unchanged.

Prices

The current prices paid measure moved down to 1.74 percent in August from 2.26 percent, while the expected prices paid index dipped to 2.33 percent from 2.43 percent. The current prices received index was virtually unchanged at 1.01 percent and the expected prices received measure increased to 1.36 percent from 1.11 percent. All of these readings are low by historical standards.

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Business Activity Indexes^{1, 4}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	Aug-12	Jul-12	Jun-12	Aug-12	Jul-12	Jun-12
General Business Conditions	-7	-2	15	17	19	33
Sales	-4	-8	12	13	18	24
Employment						
Number of Employees	-1	-2	10	7	8	12
Availability of Skills Needed	-2	-2	1	0	2	2
Average Workweek	-5	2	1	2	1	1
Wages	10	13	13	16	18	17
Spending						
Business Services Expenditures	-7	1	8	-2	3	3
Total Capital Expenditures	5	11	16	17	17	18
Equipment or Software	1	15	14	8	11	14
Price Trends³						
Prices Paid for Inputs	1.74	2.26	2.19	2.33	2.43	2.38
Prices Received for Outputs	1.01	1.00	0.98	1.36	1.11	1.57

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