

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Economic Activity in Decline:

Labor Conditions Worsen In December; Expectations Remain Downbeat

Overview

According to the results of the most recent survey, business activity in Maryland contracted in December. The decline in activity was widespread across different company indicators including sales, number of employees, hours worked, and customer traffic. Although improving modestly, survey respondents' assessment of current activity at the state and national level remained pessimistic. Looking ahead, respondents' expectations for economic activity six months from now remained negative, although there was some improvement in sentiment regarding the national economy.

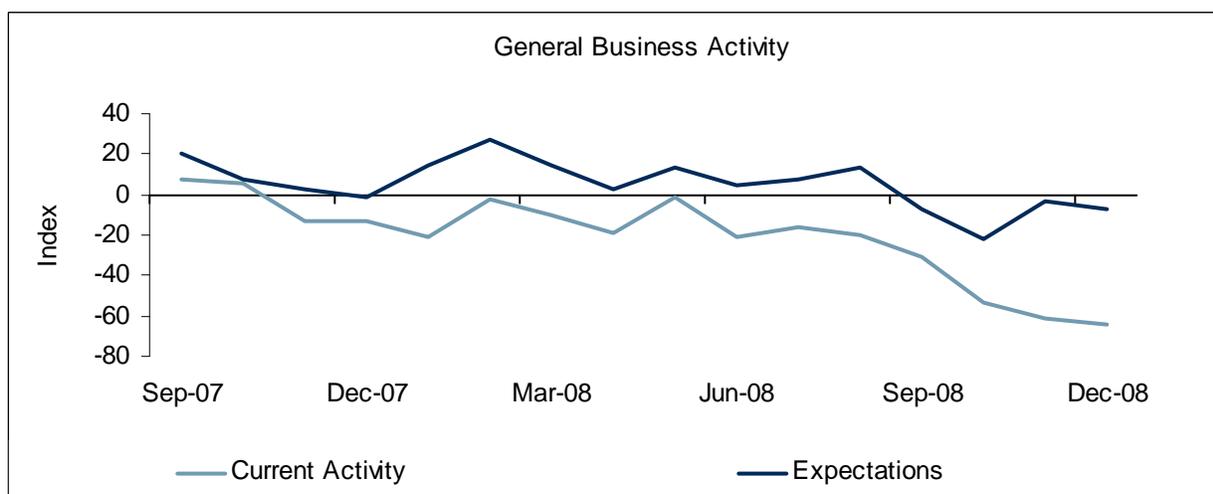
Current Activity

Respondents indicated that general business activity fell sharply again in December with steep declines in most company indicators. The general business activity index stood at -64, marginally lower than -61 in November. Respondents reported another sharp drop in sales as the index

declined to -57 from -54 last month. At the same time, customer traffic also fell sharply with the index reading at -60. The level of investment in new equipment and software fell at a sharper pace as the index fell to -54 from -36 in November. Coincident with the weaker economic environment, respondents indicated that prices received fell again in December for the fourth consecutive month. There was a near consensus of survey respondents that activity in the nation and in Maryland continued to decline in December. The general business activity index for the nation and the state stood at -91 and -89, respectively.

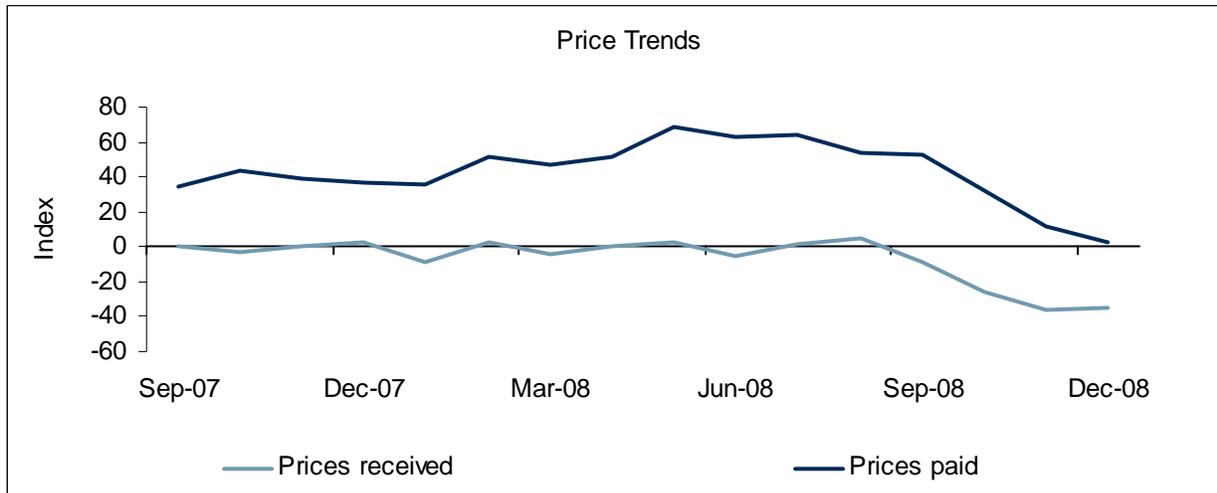
Employment

According to the survey, the labor market weakened significantly in December. Survey respondents indicated that employment and hours worked both fell sharply. The number of employees index dropped to -40 while the index of weekly hours fell back to -36 from -21 last month. Firms reported that average wages were down as



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the index declined to -18 from -11 last month. Also consistent with a weakening labor market, respondents continued to indicate that skilled workers were less difficult to find.

Prices

Along with the decline in business activity, respondents are reporting weaker price pressures with lower finished goods prices and flat to declining input prices. The prices received by firms for their products declined for the fourth consecutive month. Over the same period, prices paid for materials have steadily moderated with the index dropping from 53 in September to just 2 in December. Notably, prices paid for energy posted its second consecutive decline as the index fell to -30 from -7 in November. The recent price trends represent a significant change from earlier in the year. From March to July, the prices paid for materials index averaged 58 while the prices paid for energy index averaged 82. Expectations for prices to be paid for materials six months from now rebounded slightly in the latest survey as the index rose to 17 from 11. Expectations for prices paid for energy continued to decline.

Expectations

Expectations of economic activity six months from now slipped slightly in the latest survey at the

business level but improved moderately at the state and national level. The expectations index for business activity at respondents' company declined to -7 from -3 last month while the indexes for Maryland and the nation both rose to -28. There was a moderate improvement in expectations for a number of specific company indicators including sales, number of employees, weekly hours, inventories, and customer traffic. Expectations for investment in new equipment or software remained quite weak, however. Respondents' expectations for prices received declined for the third consecutive month with the index dropping to -24 from -18 in November.

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Business Activity Index

	Current Conditions			Expectations ¹		
	Dec-08	Nov-08	Oct-08	Dec-08	Nov-08	Oct-08
General business assessment²						
In the Nation	-91	-99	-95	-28	-43	-49
In the State	-89	-94	-85	-28	-33	-44
At your Company	-64	-61	-53	-7	-3	-22
Company conditions						
Sales	-57	-54	-57	0	-3	-12
Number of Employees	-40	-24	-23	-9	-13	-11
Weekly Hours	-36	-21	-36	0	-13	-23
Prices Received	-35	-36	-26	-24	-18	-6
Product Inventories	-16	-12	-14	0	-26	-33
Customer Traffic or Inquiries	-60	-50	-59	-2	3	-2
Investment in New Equipment/Software	-54	-36	-38	-27	-19	-23
Labor market conditions						
Average Wages	-18	-11	7	24	13	17
Availability of labor w/ skills needed by your company	44	42	29	44	35	33
Price trends						
Prices Paid for Materials	2	12	32	17	11	31
Prices Paid for Energy	-30	-7	19	9	14	29

Technical note:

- 1 Expectations refer to the time period six months out from the survey period.
- 2 All firms surveyed are located within Maryland.