

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Softens in May; Employment Index Suggests Improving Labor Market

Overview

According to the latest survey results, business activity in Maryland increased solidly in May. The general business activity index registered 16, down from 29 in April. Despite the solid increase in general business conditions, however, sales revenues were modest for the month. Notably, respondents reported sharp increases in employment and capital expenditures. Profit margins continued to come under pressure with input costs rising faster than output prices. Expectations for activity in the near future remained strong with nearly 60 percent of respondents anticipating greater business activity six months from now.

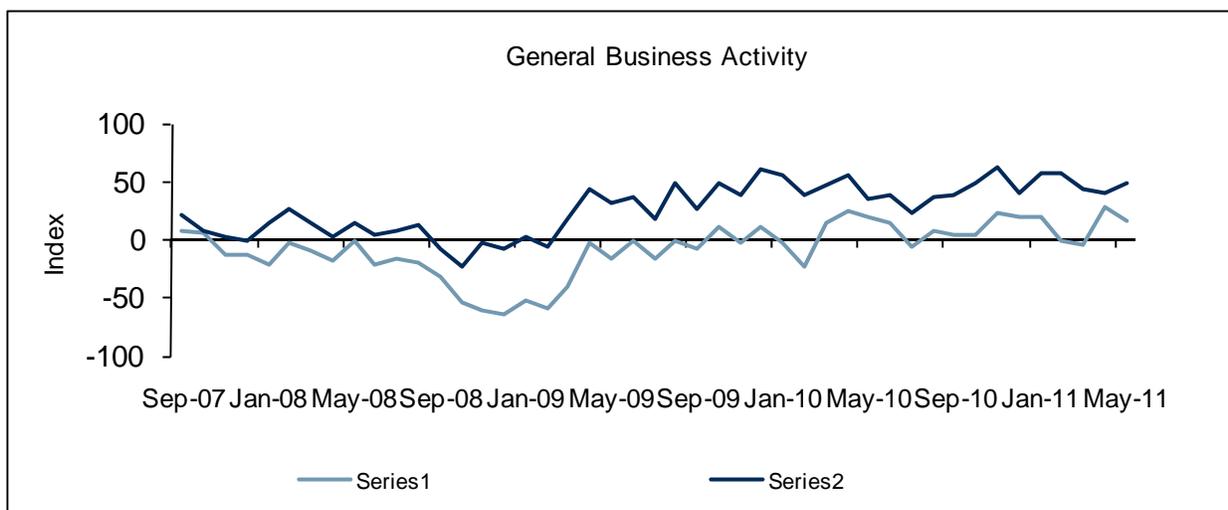
Current Activity

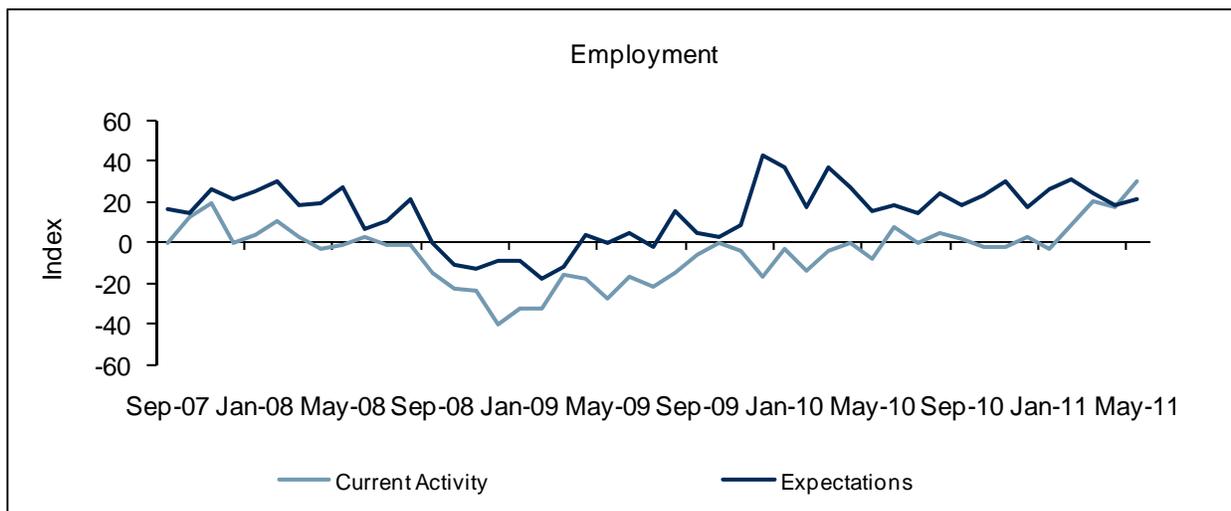
Business activity softened in May with the current business activity index declining thirteen points to 16. Sales revenue declined sharply, however, as the sales index dropped to 5 from 22 last month. Despite the moderation in activity and sales, respondents reported a notable pickup in business spending on services and capital expenditures.

The business services index rose to 12 from a flat reading in April while the total capital expenditures index rose to 23 from 11. The index for spending on equipment or software registered 14—down slightly from its historical high of 17 last month. Capital expenditures are forward-looking as they reflect expectations about future economic conditions. As such, the increase in capital expenditures in recent months is an indication of confidence in the near-term direction of the state economy. Overall, despite high energy and commodity prices, business activity expanded in May at a solid pace.

Employment

Recent survey results suggest a notable improvement in labor market conditions. For most of last year the employees index was near 0, indicating no significant hiring by survey respondents. These results were consistent with the payroll employment data. Over the past three months, however, there has been a notable increase in the employees index, registering 20, 17, and 30 in March, April, and May, respectively.





Roughly 1 in 3 survey respondents increased their workforce in May. In addition, survey respondents have indicated in recent months that there have been fewer workers available with the skills needed by their businesses—with the index falling into negative territory in May. The wages index has also indicated improvement with the index averaging 17 over the past three months after averaging 5 over the previous 12 months. Along with the increase in employment, businesses are also gradually increasing hours worked during the week. The workweek index edged higher to 9 from 6 last month.

Survey respondents remain positive about the near-term direction of the labor market. Looking at respondents' expectations six months from now, the number of employees index edged higher to 21 from 18 last month while the average workweek index fell to 11 from 23. Finding workers with the needed skills in the future remains a concern of businesses with that index remaining in negative territory for a second consecutive month. Roughly 40 percent of respondents anticipate expanding their workforce over the next six months.

Prices

Businesses reported that margins remained under pressure in May as input prices rose at a faster pace than prices received for final goods and services. Respondents reported input prices increased 3.6 percent in May, up from 2.6 percent

last month, while output prices rose 1.1 percent. Businesses expect profit margins to remain under pressure over the next six months with input price growth to continue to outpace output price growth.

Expectations

Expectations of economic activity six months from now remained solid in May. The expectations index for general business conditions increased eight points to 48 while the sales expectation index edged down to 47. Roughly 60 percent of respondents anticipate an increase in business activity over the next six months. Expectations for future business spending on services and capital expenditures softened in May after posting very strong readings last month. Still, close to 30 percent of respondents anticipate increasing capital expenditures over the next six months.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	May-11	Apr-11	Mar-11	May-11	Apr-11	Mar-11
General Business Conditions	16	29	-5	48	40	44
Sales	5	22	4	47	48	35
Employment						
Number of Employees	30	17	20	21	18	24
Availability of Skills Needed	-2	5	3	-3	-3	3
Average Workweek	9	6	3	11	23	19
Wages	17	15	20	16	35	43
Spending						
Business Services Expenditures	12	0	-7	3	13	14
Total Capital Expenditures	23	11	0	11	34	26
Equipment or Software	14	17	0	16	34	20
Price Trends³						
Prices Paid for Inputs	3.6	2.6	3.2	3.5	3.2	4.0
Prices Received for Outputs	1.1	0.6	1.0	1.2	1.1	1.5

Technical Notes:

- Each index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. Data are not seasonally adjusted.
- Expectations refer to the time period six months out from the survey period.
- Price changes are expressed as a percent change, annualized.