

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Stalls in June; Weaker Activity Also Reflected in Near-Term Expectations

Overview

According to the latest survey results, business activity in Maryland was flat in June. The general business activity index was 0, indicating that an equal percentage of respondents reported a decline in activity for the month as those who reported an increase. This represented a 16-point decline from last month and 29 points from May. The moderation in activity was widespread as survey respondents noted weaker labor market conditions and more moderate business spending. Profit margins continued to come under pressure with input costs rising faster than output prices, although both input and output prices increased at a slower rate than in May. Expectations for activity in the near future softened in June. However, expectations for future capital expenditures and hiring remained solid. Roughly 40 percent of respondents still anticipate greater business activity six months from now.

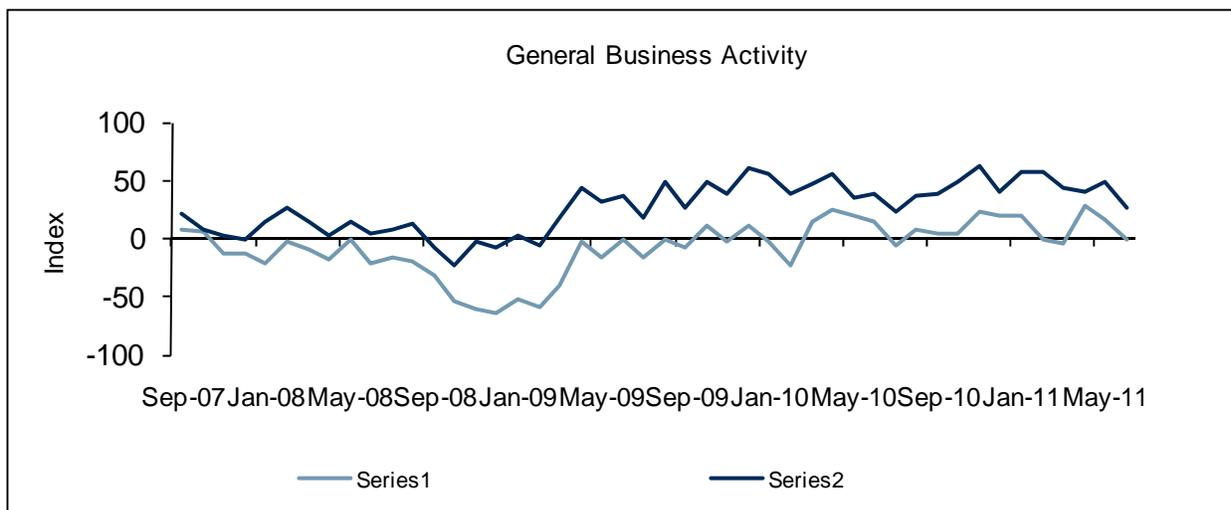
Current Activity

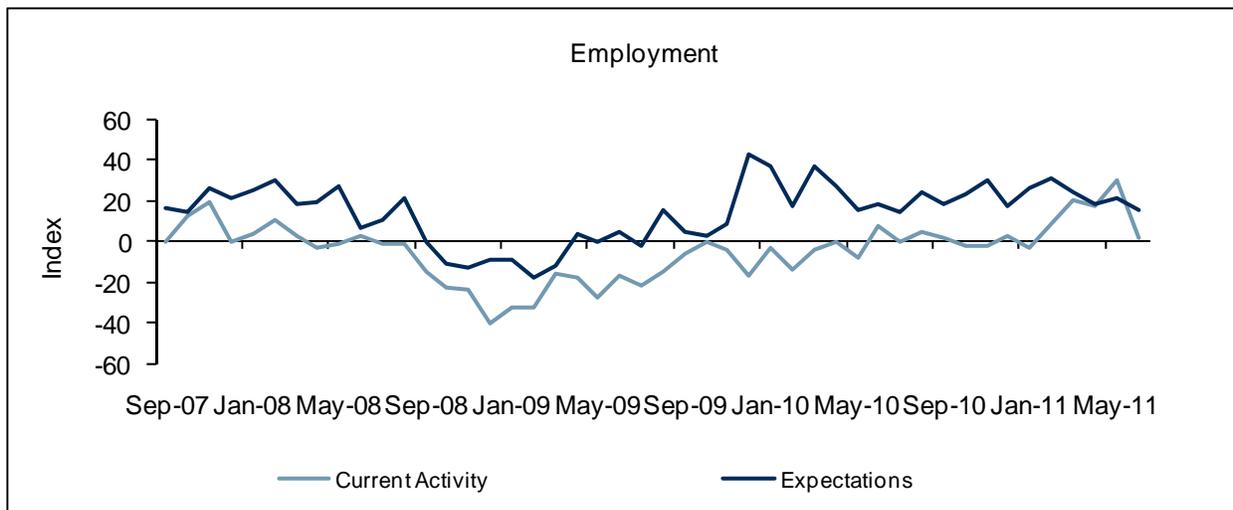
Business activity was flat in June with the current business activity index declining 16 points to 0. Sales revenue increased modestly, however, with

the sales index edging higher to 7 from 5 last month. Along with the flat activity, respondents reported a notable slowdown in business spending on services and total capital expenditures. The business services index declined to 5 from 12 in May while the total capital expenditures index dropped to 7 from 23. However, the index for spending on equipment or software registered 14 — same as last month and near its historical high of 17 in April. Capital expenditures are forward-looking, reflecting expectations about future economic conditions. The increase in capital expenditures in recent months is a positive indication of confidence in the direction of the state economy and, perhaps, suggests that businesses anticipate the current slowdown as transitory.

Employment

In previous months, the survey results suggested a notable improvement in labor market conditions. For most of last year the number of employees index was near 0, indicating no significant hiring by survey respondents. These results were consistent with payroll employment data from the Bureau of Labor Statistics. From February through May, however, the employees index averaged 22.





With the weaker activity in June, hiring declined sharply — the number of employees index dropped from 30 to 2. Along with the slower hiring, businesses reported fewer hours worked in June. The workweek index declined to 0 from 9 last month. Despite softer conditions, the wages index remained positive, declining moderately to 12 from 17.

Despite lackluster activity in June, survey respondents remain positive about the near-term direction of the labor market, although that optimism was tempered somewhat. Looking at respondents' expectations six months from now, the number of employees index edged lower to 15 from 21 last month while the average workweek index fell for a second consecutive month to -2 from 11. Finding workers with the needed skills in the future remains a concern of businesses, with that index remaining near 0 for a third consecutive month. Roughly one-third of respondents anticipate expanding their workforce over the next six months.

Prices

Businesses reported that margins remained under pressure in June as input prices rose and prices received for final goods and services were flat. Respondents reported input prices increased 2.9 percent in June, down from 3.6 percent last month, while output prices were essentially unchanged. 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 softened in June. The expectations index for general business conditions dropped 21 points to 27 while the sales expectation index declined to 33. Roughly 40 percent of respondents anticipate an increase in business activity over the next six months — down from 60 percent last month. However, expectations for future business spending on capital expenditures strengthened, with roughly 35 percent of respondents saying they anticipate increasing capital expenditures over the next six months. Perhaps, this suggests that respondents view the current lull in business activity as temporary.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	Jun-11	May-11	Apr-11	Jun-11	May-11	Apr-11
General Business Conditions	0	16	29	27	48	40
Sales	7	5	22	33	47	48
Employment						
Number of Employees	2	30	17	15	21	18
Availability of Skills Needed	3	-2	5	2	-3	-3
Average Workweek	0	9	6	-2	11	23
Wages	12	17	15	25	16	35
Spending						
Business Services Expenditures	5	12	0	4	3	13
Total Capital Expenditures	7	23	11	24	11	34
Equipment or Software	14	14	17	25	16	34
Price Trends³						
Prices Paid for Inputs	2.9	3.6	2.6	2.9	3.5	3.2
Prices Received for Outputs	0.4	1.1	0.6	1.1	1.2	1.1

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.