

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Improved in July After a Sharp Drop in June; Expectations Held Steady

Overview

According to the latest survey results, business activity in Maryland rebounded moderately in July. The general business activity index gained six points to reach a level of 8, although the index remained well below May. Furthermore, businesses reported more internal activity, as the indexes for employment and business expenditures both increased. Profit margins continued to come under pressure with input costs rising faster than output prices. Both input and output prices increased at a faster rate than in May. Expectations for activity in the near future essentially held steady at a much lower level than was seen earlier in the year. Nonetheless, roughly 40 percent of respondents still anticipate greater business activity six months from now. Many respondents attributed their subdued expectations to uncertainty in future business conditions.

Current Activity

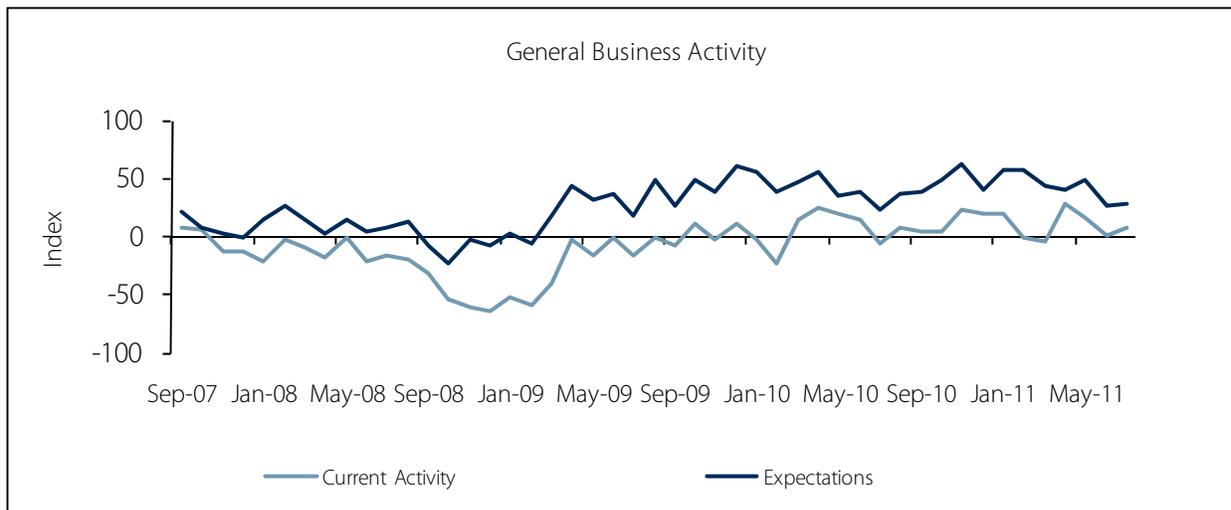
Business activity expanded modestly in July, as the general business activity index regained six of the 14 points lost in June. Sales revenue increased notably, with the sales index more than doubling to a level of 15. The increase in activity was accompanied by a

higher level of both business services expenditures and capital spending. The business services expenditure index rose to 12 from 5 in June while the total capital expenditures index gained eight points to reach a level of 15. However, the index for spending on equipment or software edged down two points to a level of 12.

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 economic state as transitory.

Employment

In the early months of the year, the survey results suggested a notable improvement in labor market conditions. For most of 2010 the employment index was near 0, indicating no significant net hiring by survey respondents. These results were consistent with BLS payroll employment data. From February through May, however, there had been a notable increase in the employment index, averaging 22 for





those months. After a decline of twenty-eight points in June, the index climbed to a level of 15 in July—a solidly positive figure. In addition, the average workweek index rose as firms increased employee hours, while the wage index edged up one point.

Despite the improvement in the current labor markets, employment expectations largely weakened in July. The employment expectations index decreased by another five points in July to a level of 10, as businesses expressed concern about the future business conditions. Furthermore, the wages expectations index also declined, falling five points to a level of 20. Finding workers with the needed skills in the future remains a concern of businesses with that index remaining very low for a fourth consecutive month, although it edged up one point. The average workweek expectations index also improved marginally, turning from negative to positive.

Prices

Businesses reported that margins remained under pressure in July, as input prices rose and prices received for final goods and services were more subdued. Respondents reported input prices increased 2.7 percent in July, up from 2.5 percent last month, while output prices edged up 0.6 percentage point. 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 essentially held steady in July. The expectations index for general business conditions inched up one point to a reading of 28, while the expected sales index declined four points to a level of 28. The general business conditions index remained subdued in comparison to its May level of 48. Roughly 40 percent of respondents expected business conditions to improve in the next six months, whereas 60 percent of respondents to our May survey expected business conditions to improve. However, expectations for future business spending remained strong with roughly 30 percent of respondents anticipate increasing capital expenditures over the next six months, indicating solid long-term plans for expansion.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	Jul-11	Jun-11	May-11	Jul-11	Jun-11	May-11
General Business Conditions	8	2	16	28	27	48
Sales	15	7	5	28	32	47
Employment						
Number of Employees	15	2	30	10	15	21
Availability of Skills Needed	3	3	-2	3	2	-3
Average Workweek	11	0	9	2	-2	11
Wages	13	12	17	20	25	16
Spending						
Business Services Expenditures	12	5	12	11	4	3
Total Capital Expenditures	15	7	23	19	24	11
Equipment or Software	12	14	14	26	25	16
Price Trends³						
Prices Paid for Inputs	2.7	2.5	3.6	3.5	3.3	3.5
Prices Received for Outputs	0.6	0.3	1.1	1.6	1.2	1.2

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.