

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Weakens in August; Six-Month Expectations Decline Sharply

Overview

According to the latest survey results, business activity in Maryland declined slightly in August. The general business activity index dropped 11 points to -3, the second negative reading this year. The moderation in activity was widespread as survey respondents noted a decline in sales, weaker labor market conditions, a modest decline in business spending on services, and less capital expenditures. Profit margins continued to come under pressure with input costs rising faster than output prices although both input prices increased at a slower rate than in July. Expectations for activity in the near future declined sharply in August. Respondents are less optimistic about the overall outlook for business conditions, sales, and labor conditions and as a result have pared back plans for business spending. Roughly 25 percent of respondents anticipate greater business activity six months from now—down from 40 percent in June and nearly 60 percent in May.

Current Activity

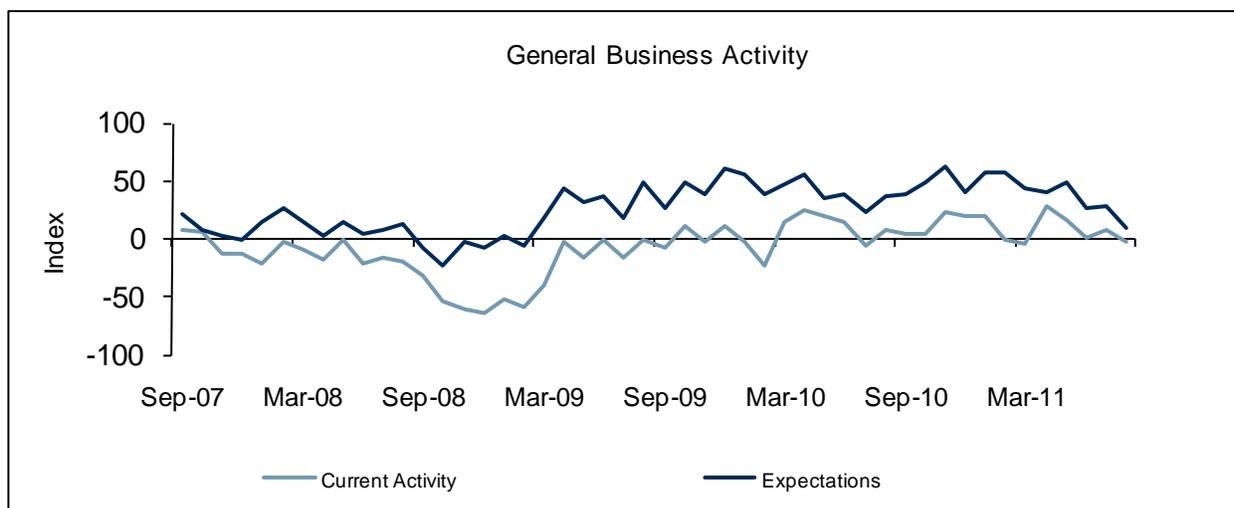
Business activity declined slightly in August as the general business activity index dropped to -3 from 8 in July. Sales revenue also declined for the month,

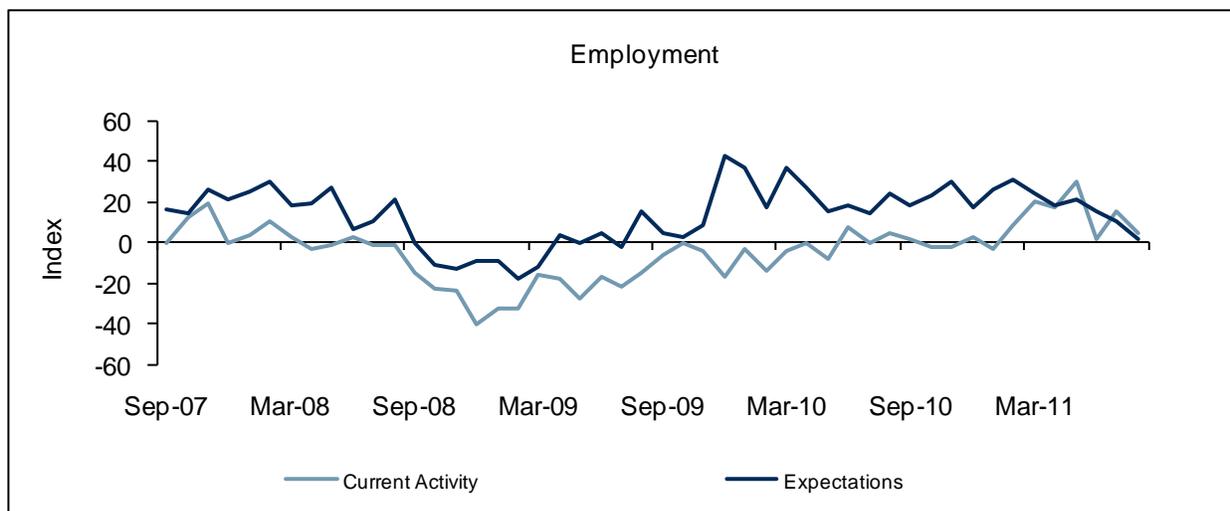
with the sales index falling twenty-one points to -6. With the August readings, the general business conditions and sales indexes have averaged 2 and 5 over the past three months. Clearly, the weak readings reflect the slowdown in the economy. While part of the slowdown is due to temporary factors such as higher commodity prices and supply disruptions from the disaster in Japan, the change in current business spending and expectations for future activity suggests that respondents view the slowdown to be somewhat persistent.

Spending on business services edged lower with the index decreasing to -2 from 12 last month. Business spending on plant and equipment remained positive but moderated considerably. The total capital expenditures index and the index for spending on equipment and software declined by twelve and four points, respectively, to 3 and 8—well below their average of 14 over the previous four months.

Employment

Labor market conditions weakened in August. Fewer firms indicated that they increased their workforce and as a consequence the employees index declined to 5 from 15 in July. Over the past three months, the employees index has averaged 7, well below the





average of 22 in the previous three months. Clearly, the recent slowdown in the economy has impacted labor market conditions and the demand for labor. Despite weaker hiring conditions, wages and the workweek continued to expand but at a more moderate pace than in July. The average workweek index dropped to 3 from 11. Over the past six months respondents have indicated only a very modest increase in the workweek with the index averaging 6.

Notably, expectations for future labor conditions weakened considerably in August. The employment expectations index decreased eight points to 2—its lowest level since October 2009 and considerably lower than its average of 22 for the first six months of 2011. Furthermore, the wages expectations index also declined, falling ten points to a level of 10. The average workweek expectations index fell back into negative territory and remains well below its average of 14 for the first half of the year.

Prices

Businesses reported that margins remained under pressure in August as input prices continue to rise faster than output prices. Respondents reported input prices increased 2.3 percent in August, down from 2.7 percent last month, while output prices edged up 0.7 percentage points. 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 dropped sharply in August. The expectations index for general business conditions fell eighteen points to a reading of 10 while the expected sales index plummeted twenty-five points to 3—their lowest readings since February 2009, before the recession ended. Roughly 25 percent of respondents in the August survey expect business conditions and sales revenue to improve in the next six months. In the first half of the year, over 50 percent of respondents anticipated higher activity and sales. In addition, expectations for future business spending also weakened. The expectations index for business spending on services and for capital expenditures declined by eleven and nine points, respectively, to readings of 0 and 10. Clearly, respondents view the current slowdown in activity to persist through the end of 2011.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	Aug-11	Jul-11	Jun-11	Aug-11	Jul-11	Jun-11
General Business Conditions	-3	8	2	10	28	27
Sales	-6	15	7	3	28	32
Employment						
Number of Employees	5	15	2	2	10	15
Availability of Skills Needed	8	3	3	3	3	2
Average Workweek	3	11	0	-2	2	-2
Wages	8	13	12	10	20	25
Spending						
Business Services Expenditures	-2	12	5	0	11	4
Total Capital Expenditures	3	15	7	10	19	24
Equipment or Software	8	12	14	10	26	25
Price Trends ³						
Prices Paid for Inputs	2.3	2.7	2.5	2.6	3.5	3.3
Prices Received for Outputs	0.7	0.6	0.3	0.9	1.6	1.2

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.