

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Falls Slightly in October; Six-Month Expectations Remain Lackluster

Overview

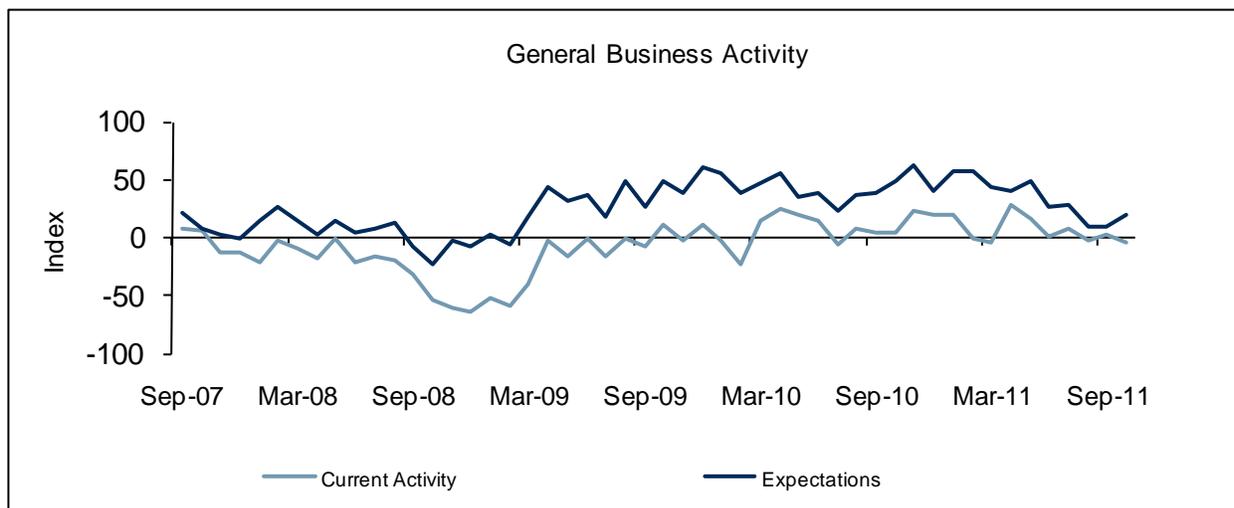
According to the latest survey results, business activity in Maryland edged lower in October. The general business activity index declined eight points to -5. Survey respondents reported that sales were flat, business spending declined, business investment was modest, and labor market conditions remained soft. Profit margins continued to come under pressure with input costs rising faster than output prices, although input prices increased at a slower rate than in previous months. Expectations for activity in the near future edged higher from last month but remained tepid. In general, respondents are more optimistic about the overall outlook for business conditions, sales, and labor conditions than a few months ago. Roughly 30 percent of respondents anticipate greater business activity six months from now—down from 40 percent in June and nearly 60 percent in May.

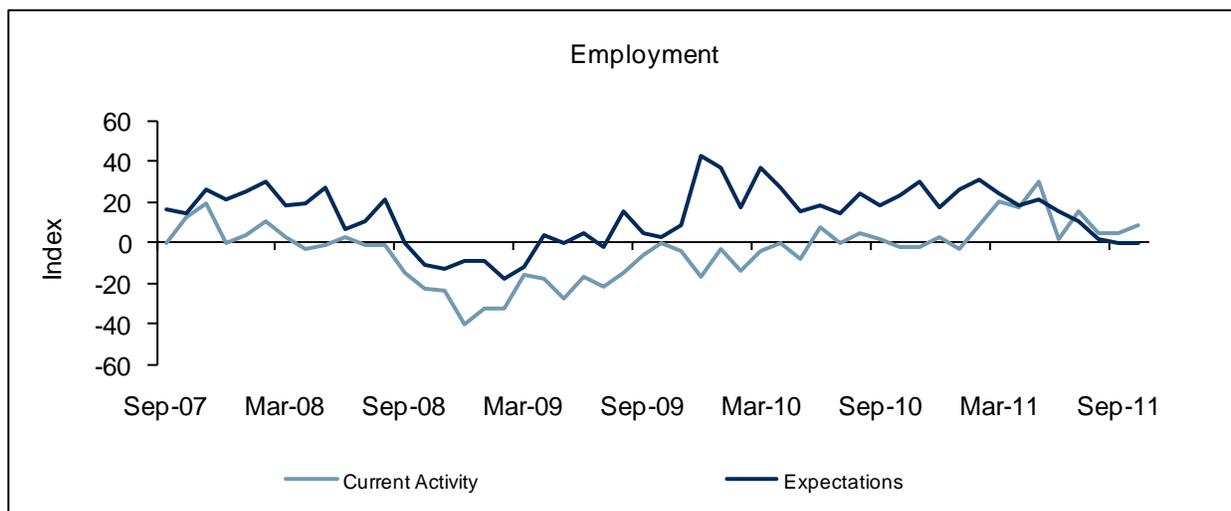
Current Activity

Business activity declined slightly in October as the general business activity index decreased to -5 from 3 in September. Over the past five months the business activity index has averaged 1 and has been

in negative territory in two out of the last three months, highlighting the slowdown in the state economy over the summer. After rebounding into positive territory last month, sales revenue edged back down to an index value of 0—indicating that sales were flat in October among survey respondents. The sales revenue index has averaged 5 over the past five months, another signal of the very modest growth 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 expectations for future sales and activity suggests that other factors are at work and businesses anticipate the slowdown to be somewhat persistent.

The outlook for business spending and investment weakened for a third consecutive month. Spending on business services remained in negative territory with the index improving to -2 from -10 last month while business spending on plant and equipment remained soft. The total capital expenditures index declined eight points to 0 while the index for business investment on equipment and software edged up one point to a modest reading of 4. From April to July both indexes averaged 14 indicating solid expansion in





business spending. With greater uncertainty about the direction of the economy, businesses have responded by moderating spending plans.

Employment

Labor market conditions remained soft in October. According to survey participants, employment rose modestly in October with the employees index increasing three points to 8—although still well below its average of 22 from March through May. The average workweek decreased with the index dropping eight points to -2. Despite weak labor market conditions, respondents noted increasing average wages with the index registering 14, down from 17 in September.

Notably, expectations for future labor conditions remained soft in September. The employment expectations index remained at 0 for a second consecutive month—its lowest level since July 2009 and considerably lower than its average of 22 for the first six months of 2011. Although the average workweek expectations index rose to 7 from -2 in September, it remains well below its average of 14 for the first half of the year.

Prices

Businesses reported that margins remained under pressure in October with input prices rising faster than output prices. Respondents reported that input prices increased 1.3 percent in October – down from 2.0 percent last month – while output prices were essentially flat. Businesses expect profit margins to

remain under pressure over the next six months with input price growth to outpace output price growth.

Expectations

Expectations of economic activity six months from now improved in October but remained lackluster for a third consecutive month. The expectations index for general business conditions increased 11 points to 20 while the expected sales index edged higher by one point to 12. Roughly 30 percent of respondents in the October survey expect business conditions and sales revenue to improve over the next six months. In the first half of the year, over 50 percent of respondents anticipated higher activity and sales. Clearly, respondents view the current slowdown in activity to persist through the end of 2011 and into 2012.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	Oct-11	Sep-11	Aug-11	Oct-11	Sep-11	Aug-11
General Business Conditions	-5	3	-3	20	9	10
Sales	0	8	-6	12	11	3
Employment						
Number of Employees	8	5	5	0	0	2
Availability of Skills Needed	7	5	8	3	8	3
Average Workweek	-2	6	3	7	-2	-2
Wages	14	17	8	17	16	10
Spending						
Business Services Expenditures	-9	-10	-2	0	-12	0
Total Capital Expenditures	0	8	3	10	5	10
Equipment or Software	4	3	8	17	17	10
Price Trends³						
Prices Paid for Inputs	1.3	2.0	2.3	2.3	2.5	2.6
Prices Received for Outputs	0.3	0.0	0.7	1.0	0.3	0.9

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.