

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Declines for a Second Consecutive Month; Six-Month Expectations Improve

Overview

According to the latest survey results, business activity in Maryland edged lower for a second consecutive month in November. The general business activity index registered -3, up slightly from October but still remaining in negative territory. Survey respondents reported that sales edged lower and that labor market conditions remained soft. However, business spending rebounded from recent declines and business investment firmed. Profit margins continued to come under pressure with input costs rising faster than output prices. Respondents reported that both input and output prices increased at a faster rate than last month. Despite weaker current conditions, expectations for activity in the near future improved for a second consecutive month. Close to 40 percent of respondents anticipate greater business activity six months from now—up from 30 percent last month.

Current Activity

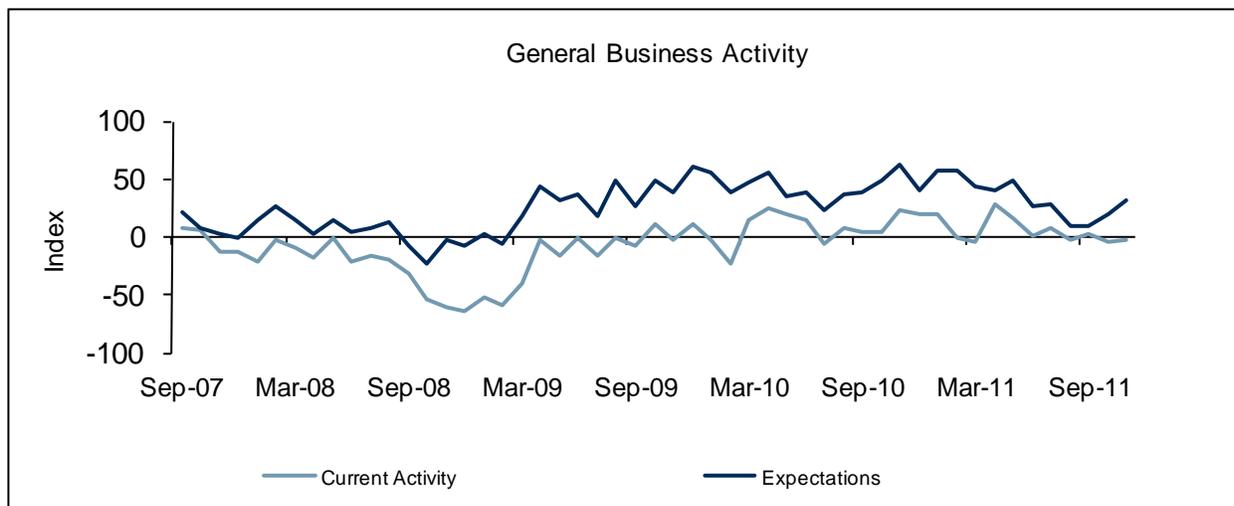
Business activity declined slightly in November as the general business activity index remained in

negative territory in November. The index edged higher by two points to -3 from -5 in October. Over the past six months the business activity index has averaged 0 and has been in negative territory in three out of the last four months, highlighting the weakness in the state economy. The sales revenue edged lower to a reading of -2 indicating that sales and shipments declined slightly in November—for just the second time in 2011.

The outlook for business spending and investment improved after weaker readings in recent months. Spending on business services rebounded to 7 from -9 last month while business spending on plant and equipment rose moderately. The total capital expenditures index rose to 11 from a flat reading last month while the index for business investment on equipment and software increased to 11 from 4.

Employment

Labor market conditions remained soft in November. According to survey participants, employment was unchanged with the employees index declining eight points to 0. The average workweek rose notably with the index increasing from -2 last month to 10. Despite





weak labor market conditions, respondents noted difficulty finding workers with needed skills as well as a notable increase in wages. The wage index jumped to 25 from 14 last month—its highest reading since prior to the recession.

Expectations for future labor conditions remained soft in November. The employment expectations index increased to 8 from its October and September readings of 0 but remained considerably lower than its average of 22 for the first six months of 2011. At a reading of 5, the average workweek index also remained well below its average of 14 for the first half of the year. In addition, respondents indicated that they anticipate having some difficulty finding workers with appropriate skills in the future and anticipate wage increases over the next six months.

Prices

Businesses reported that margins remained under pressure in November with input prices rising faster than output prices. Respondents reported that input prices increased 1.9 percent in November, up from 1.3 percent in October but still below the average of 2.6 percent for the first nine months of the year. Output prices rose by half a percent on an annualized basis in November after a small increase of 0.3 percent in October. Businesses expect profit margins to remain under pressure over the next six months with input price growth to continue to outpace increases in output prices.

Expectations

Expectations of economic activity six months from now improved in November for a second consecutive month. The expectations index for general business conditions increased eleven points to 31 while the expected sales index rose by thirteen points to 25. Roughly 40 percent of respondents in the November survey expect business conditions and sales revenue to improve over the next six months—up from 30 percent in October but still below expectations in the first half of the year where over 50 percent of respondents anticipated higher activity and sales. Overall, the less sanguine expectations in recent months suggest that respondents anticipate weaker economic 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		
	Nov-11	Oct-11	Sep-11	Nov-11	Oct-11	Sep-11
General Business Conditions	-3	-5	3	31	20	9
Sales	-2	0	8	25	12	11
Employment						
Number of Employees	0	8	5	8	0	0
Availability of Skills Needed	-2	7	5	-3	3	8
Average Workweek	10	-2	6	5	7	-2
Wages	25	14	17	23	17	16
Spending						
Business Services Expenditures	7	-9	-10	7	0	-12
Total Capital Expenditures	11	0	8	16	10	5
Equipment or Software	11	4	3	21	17	17
Price Trends³						
Prices Paid for Inputs	1.9	1.3	2.0	2.3	2.3	2.5
Prices Received for Outputs	0.5	0.3	0.0	0.9	1.0	0.3

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.

