

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Edges Higher; Six-Month Expectations Improve

Overview

According to the latest survey results, business activity in Maryland increased moderately in December. The general business activity index registered 7, increasing from -3 last month. Survey respondents reported that sales improved for the month while labor market conditions remained soft. Business spending declined for the month. Profit margins continued to come under pressure as input costs rose faster than output prices. Respondents reported that both input and output prices increased at a faster rate than last month. Expectations for activity in the near future remained solid. Roughly 35 percent of respondents anticipate greater business activity six months from now.

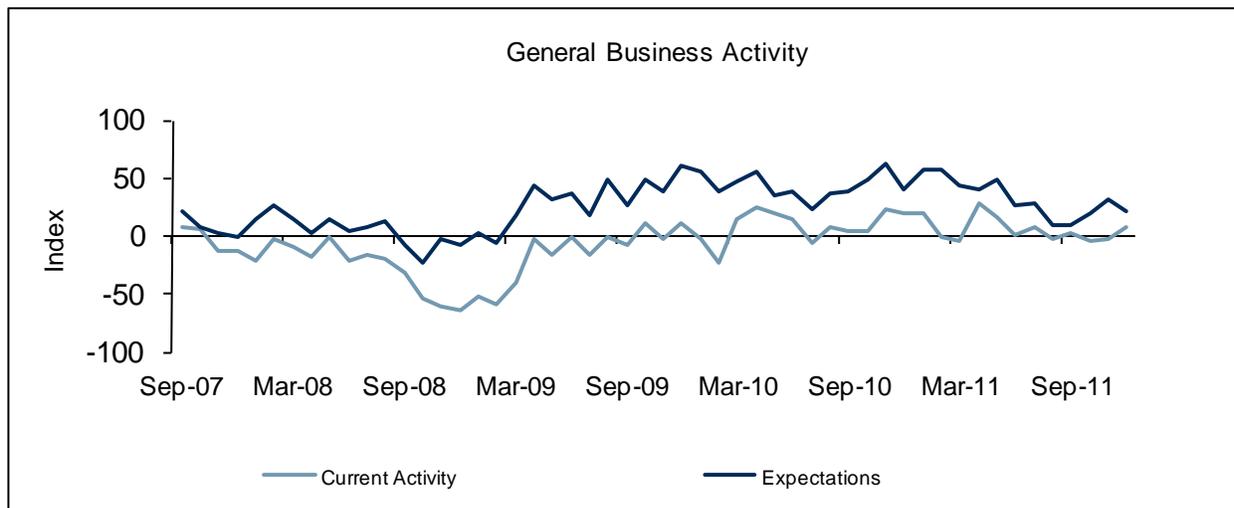
Current Activity

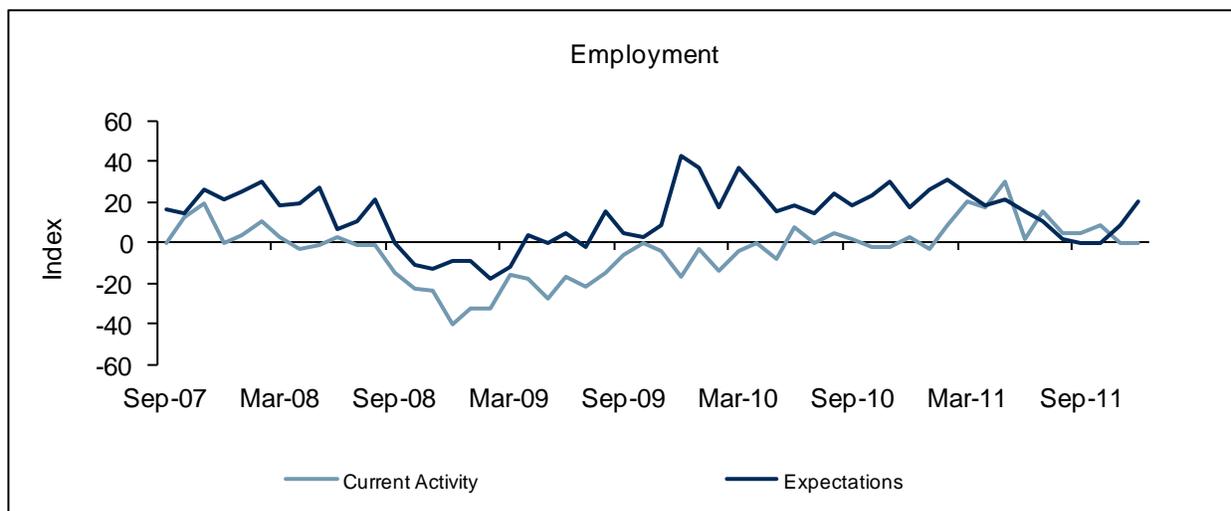
Business activity increased slightly in December as the general business activity index rose to 7 from -3 last month – the first positive reading since September and only the second positive reading in the last six months of 2011. In the second half of 2011 the index registered 1, down from 10 in the first

half of the year, highlighting the slowdown in activity over the course of the year and the general weakness in the state economy. The sales revenue index improved to 10 from -2, indicating that sales and shipments increased moderately in December after edging slightly lower in November and a flat reading in October. Business spending and investment dropped in December after a solid increase last month. Spending on business services fell back to -10 from 7 while business spending on plant and equipment edged lower. The total capital expenditures index dropped to a reading of -4 from 11 while the index for business investment on equipment and software declined to 1 from 11.

Employment

Labor market conditions remained soft in December. According to survey participants, employment was flat with the employees index remaining at 0 for a second consecutive month. The average workweek was also unchanged with the index dropping to a reading of 0 from 10 last month. Despite weak labor market conditions, respondents reported an increase in wages. The wage index declined to 14 from 25 last month.





Expectations for future labor market conditions improved. The employment expectations index increased to 20 from 8 in November. The expectations index fell off considerably in the second half of the year—from an average of 22 in the first six months to an average of 7 in the final six months. The average workweek expectations index also moderated from the first half of the year, averaging just 3 in the second half of the year after an average of 14 in the first half of the year. In December, the index improved from 5 to 10. In addition, respondents indicated that they do not expect greater difficulty in finding workers with appropriate skills in the future. However, they do anticipate wage increases over the next six months.

Prices

Businesses reported that margins remained under pressure in December as input prices rose faster than output prices. Respondents reported that input prices increased 2.1 percent in December, up from 1.9 percent in November but still below the average of 2.4 percent for 2011. Output prices rose by 0.7 percent on an annualized basis in December after an increase of 0.5 percent in November. 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 moderated slightly in December but continued to indicate expectations for solid growth in the near

term. The expectations index for general business conditions declined nine points to 22 while the expected sales index decreased to 19 from 25. Roughly 35 percent of respondents in the December survey expect business conditions and sales revenue to improve over the next six months. That is below expectations expressed in the first half of the year, when over 50 percent of respondents anticipated higher activity and sales.

Overall, the December survey is consistent with the view that respondents anticipate a gradual improvement in the economy over the next six months, although the pace of improvement is expected to be less robust than anticipated earlier this year. It appears that respondents expect some of the factors that restrained growth in 2011 are likely to contribute to less robust growth in the first half of 2012.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	Dec-11	Nov-11	Oct-11	Dec-11	Nov-11	Oct-11
General Business Conditions	7	-3	-5	22	31	20
Sales	10	-2	0	19	25	12
Employment						
Number of Employees	0	0	8	20	8	0
Availability of Skills Needed	3	-2	7	3	-3	3
Average Workweek	0	10	-2	10	5	7
Wages	14	25	14	31	23	17
Spending						
Business Services Expenditures	-10	7	-9	14	7	0
Total Capital Expenditures	-4	11	0	13	16	10
Equipment or Software	1	11	4	20	21	17
Price Trends³						
Prices Paid for Inputs	2.1	1.9	1.3	2.4	2.3	2.3
Prices Received for Outputs	0.7	0.5	0.3	1.3	0.9	1.0

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.