

# Regional Surveys of Business Activity

## Maryland Survey of Business Activity

*Modest Increase Business Activity in May; Labor Market Indicators Remain Solid*

### Overview

According to the latest survey results, business activity in Maryland increased at a modest pace in May. The general business activity index declined to 12 from 26 while the sales index dropped sharply to -7 from 22. Business spending on services and capital expenditures increased for the month. Businesses continued to report stronger labor market conditions in May with an increase in hiring and a longer workweek. Profit margins continued to come under pressure with increases in input costs outpacing output price increases. Expectations for activity in the near future remained positive. Roughly 50 percent of respondents anticipate greater business activity and higher sales six months from now.

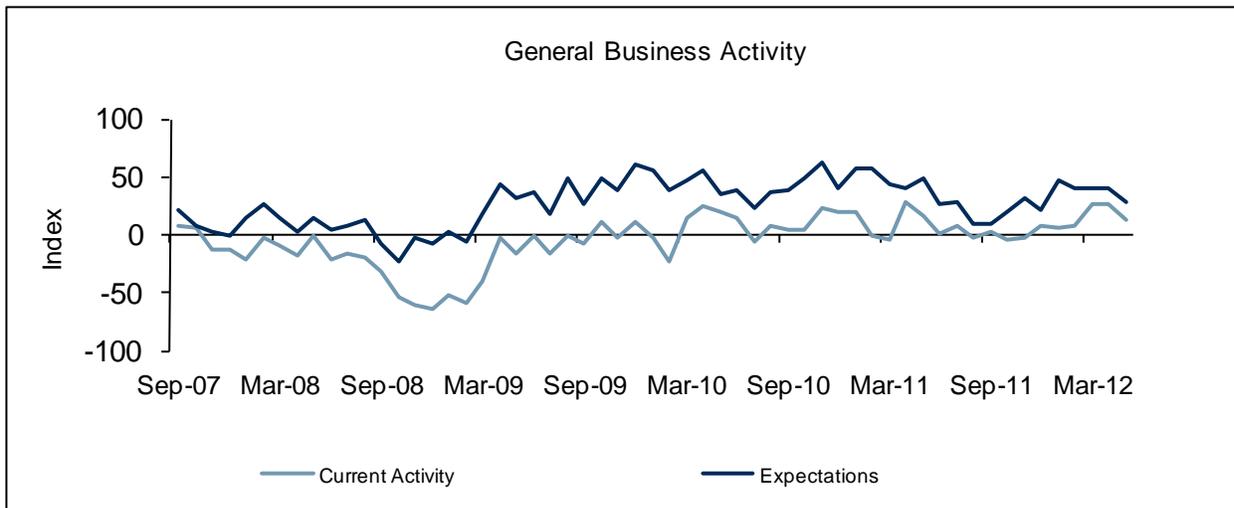
### Current Activity

Business activity increased at a modest pace in May as the general business activity index declined to 12 from 26. However, businesses reported a decline in sales with the sales index dropping to -7 from 22. There was a moderate increase in business spending in May as spending on business services

registered 14—down six points from last month—and total capital expenditures edged down two points to 12. The index for investment in equipment and software remained at 12, also indicating moderate expenditures for the month. Overall, the survey results for May indicate a noticeable slowdown from the previous two months where businesses reported much more robust activity. However, despite the weaker activity and drop in sales, the employment picture and capital spending were largely unaffected.

### Employment

Labor market conditions remained positive in May. According to survey participants, employment increased solidly for a third consecutive month with the employees index increasing to 31 from 22 in April—the highest reading in the history of the survey. Over 30 percent of respondents indicated that they increased their workforce in May while just five percent shed workers. The average workweek remained positive, down four points to 10 for the month. Despite considerable slack in the labor market, respondents reported increasing wages in May. The wage index registered 2, down seven points from April.





Expectations for future labor market conditions remained positive in May. The expectations index declined to 16 from 33 last month. Thirty percent of respondents anticipate expanding their workforce over the next six months, down from 43 percent last month. There has been a notable improvement in the index over the past six months, averaging almost 30 over the period—up considerably from its average of 2 over the previous four months. At the same time, the average workweek unexpectedly fell to -2 from 14 last month however. Expectations of worker supply remains positive with firms not anticipating considerable difficulty finding workers with the needed skills.

**Prices**

Businesses reported that margins remained under pressure in May with input prices rising faster than output prices. Respondents reported that input prices increased 1.8 percent in May on an annualized basis, down from 2.6 percent in April. Output prices remained flat, increasing by 0.5 percent on an annualized basis. 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 were solid in May. The expectations index for general business conditions declined to 28 from 40

while the sales index edged lower to 35 from 40. Roughly 40 percent of respondents in the May survey expect business conditions to improve over the next six months while close to 50 percent expect sales revenue to improve over the next six months. Over 20 percent of respondents anticipate increasing spending on business services over the next six months while close to one-third are planning to increase capital expenditures.

Overall, the May survey results are somewhat mixed as general activity was moderate and sales fell. However, labor market conditions and capital spending remained positive. In addition, respondents maintained a positive outlook for business activity, sales, employment and capital spending over the next six months.

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## Business Activity Indexes<sup>1</sup>

Business Conditions in Maryland	Current Conditions			Expectations <sup>2</sup>		
	May-12	Apr-12	Mar-12	May-12	Apr-12	Mar-12
General Business Conditions	12	26	26	28	40	41
Sales	-7	22	15	35	40	43
<b>Employment</b>						
Number of Employees	31	22	23	16	33	36
Availability of Skills Needed	0	-2	0	3	0	-2
Average Workweek	10	14	15	-2	14	13
Wages	21	28	21	29	34	33
<b>Spending</b>						
Business Services Expenditures	14	20	22	7	16	20
Total Capital Expenditures	12	14	18	11	21	25
Equipment or Software	12	12	18	21	24	31
<b>Price Trends<sup>3</sup></b>						
Prices Paid for Inputs	1.8	2.6	2.6	2.6	2.9	2.8
Prices Received for Outputs	0.5	0.8	0.1	0.8	1.2	0.6

### 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.