

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Modest Increase in Activity While Sales Edged Lower in August; Expectations Less Sanguine

Overview

According to the latest survey results, business activity in Maryland increased at a modest pace in August. The general business activity index registered 9 for the month, down slightly from 14 in July. The sales index, however, dropped to -5 from 2. Business spending on services was weak while capital expenditures rose moderately for a second consecutive month. The survey results continued to report a net increase in employment, with more respondents indicating that they expanded their workforce than reduced it. Profit margins continued to come under pressure as increases in input costs outpaced output price increases. Expectations for activity in the near future declined in August but remained positive. One-third of respondents anticipate greater business activity six months from now, down from 53 percent in April.

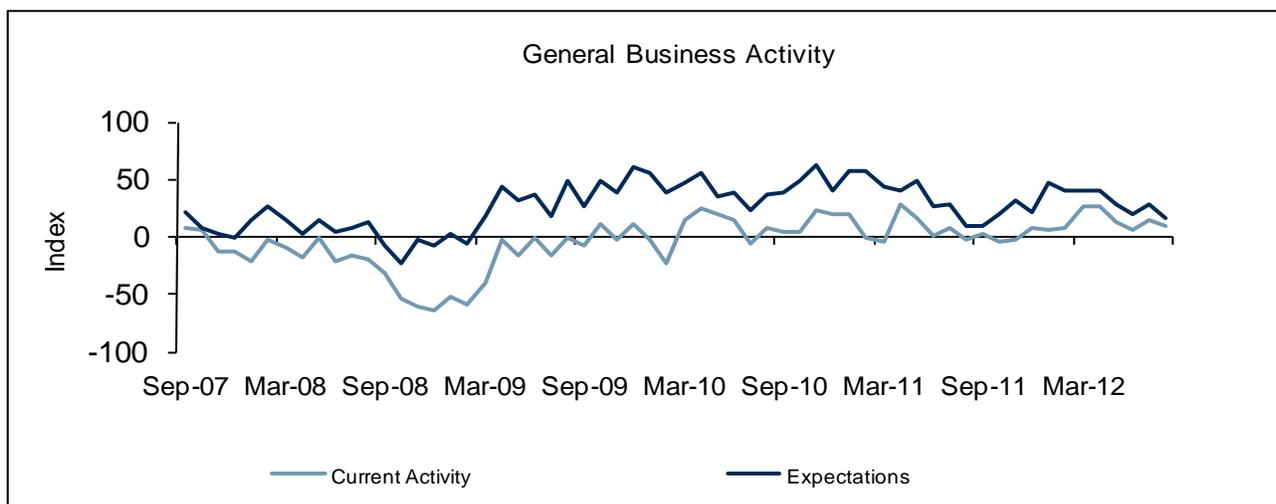
Current Activity

Business activity increased at a modest pace in August as the general business activity index registered 9, down slightly from 14 in July. Businesses reported that sales edged slightly lower

for the month. The sales index registered -5, down from 2 in July. Somewhat surprisingly, given the heightened uncertainty regarding the economic outlook, capital expenditures increased moderately for a second consecutive month. However, spending on business services registered 4, down 12 points from last month. Total capital expenditures registered 14 after matching its high over the past 14 months in July. Investment in equipment and software also increased notably in August. The index registered 21, one point less than the historic high of 22 reached in July.

Employment

According to the survey results, labor market conditions improved modestly in August. Survey participants reported a modest net increase in employment for the month as the employment index registered 12, down slightly from July's reading of 14. Twenty-six percent of respondents indicated that they added workers while 14 percent reported a decline. The average workweek was largely unchanged as the index registered two, up from a reading of 0 last month. Despite considerable slack in the labor market, respondents reported higher wages in August. The wage index was unchanged at 14.





Expectations for future labor market conditions deteriorated in August for a sixth consecutive month. The expectations index for number of employees declined to 0 from 4 last month. The index peaked at 36 in March and steadily declined over the past six months. Still, 21 percent of respondents anticipated expanding their workforce over the next six months, less than the 30 percent of respondents in June and considerably less than 43 percent in April. At the same time, the number of firms planning on reducing their workforce edged higher from 10 percent in April to 21 percent in August. Although a few respondents were more concerned about future worker supply, the overwhelming majority of respondents did not anticipate considerable difficulty finding workers with the needed skills over the next six months.

Prices

Businesses reported that margins remained under pressure in August, with input prices rising faster than output prices. Respondents reported that input prices increased 1.8 percent in August on an annualized basis, down from 0.7 percent in July. Output prices remained flat. 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 declined in August. The expectations index for general business conditions fell to 16 from 28 while

the sales index dropped by 14 points to 22—the lowest readings since October 2011. Roughly one-third of respondents in the August survey expect business conditions and sales to improve over the next six months. The outlook for business spending moderated in August. Respondents indicated that they anticipated little increase in business services or overall capital expenditures over the next six months. However, almost 30 percent of respondents anticipated increasing investment in equipment and software.

Overall, the August survey results indicated that business activity continued to moderate, with uneven spending. As a result of the slowdown in activity in recent months and perhaps due to uncertainty regarding events in Europe and concerns regarding the sustainability of growth in the U.S., respondents became less sanguine about the outlook over the near term.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	Aug-12	Jul-12	Jun-12	Aug-12	Jul-12	Jun-12
General Business Conditions	9	14	7	16	28	19
Sales	-5	2	14	12	26	25
Employment						
Number of Employees	12	14	12	0	4	12
Availability of Skills Needed	0	6	3	-5	4	2
Average Workweek	2	0	3	-2	8	-5
Wages	14	14	17	19	12	12
Spending						
Business Services Expenditures	4	16	3	4	4	11
Total Capital Expenditures	14	18	2	2	18	5
Equipment or Software	21	22	3	12	20	7
Price Trends³						
Prices Paid for Inputs	1.8	2.0	2.3	2.1	2.2	3.1
Prices Received for Outputs	0.7	0.1	0.7	1.3	0.9	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.

