

# Regional Surveys of Business Activity

## Carolinas Survey of Business Activity

*Carolinas Business Activity Was Flat in July; Expectations Are Still Positive, But Tempered*

### Overview

Our latest survey results suggest that business activity was flat in the Carolinas during July. The current company specific index fell to a breakeven reading of 0 (indicating an equal percentage of positive and negative responses), while perceptions of current national and regional conditions dropped into negative territory. Each of the three corresponding expectations indexes fell in July as well, although each remained positive. This suggests that respondents still expect modest improvement in coming months.

The decline in the current company specific index left it at its lowest point since November 2009. Perhaps reflecting a more uncertain economic environment, the subcomponent measures were much more mixed than they had been in recent months. The company specific expectations index declined as well, but the decrease was less pronounced than in the current index, and it remained firmly positive.

The current availability of labor indexes both increased in July, more than reversing the declines in recent months. A similar pattern is evident in the comparable expectations index as respondents expect a little more slack in labor markets than they did one month earlier. The

current business spending indexes fell further in July with both now in negative territory, and expectations deteriorated further.

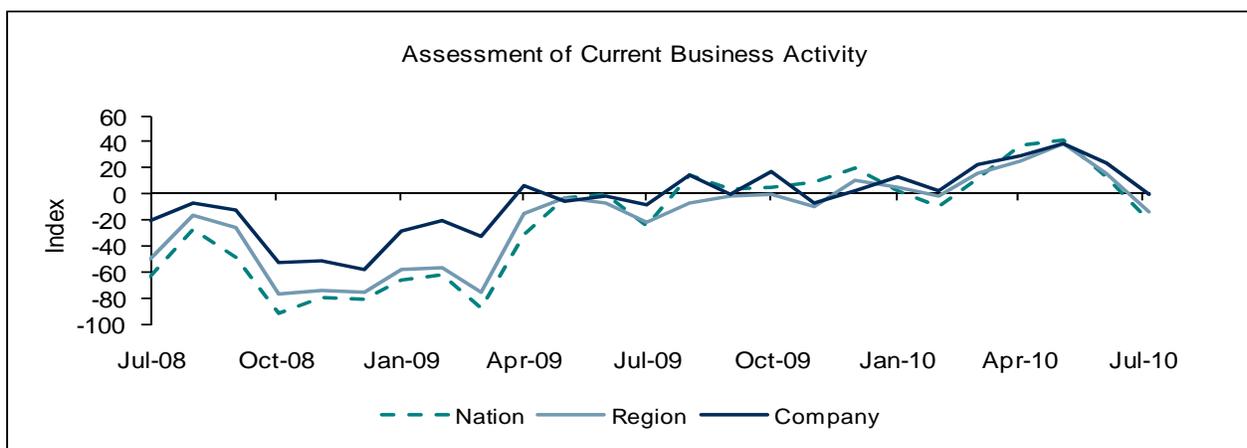
### General Business Assessments

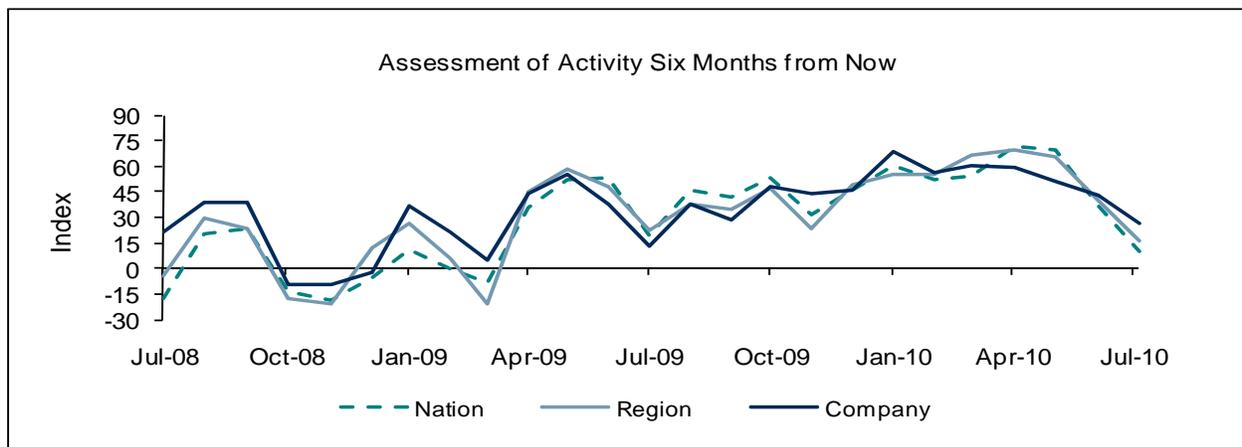
Responses to our Carolinas Survey of Business Activity suggest that business activity was flat in July as respondents' assessment of national and regional activity deteriorated significantly. The current company specific index fell to 0 in July from 23 a month earlier. A reading of 0 indicates that the percentage of respondents indicating an increase in activity was matched by the percentage reporting a decrease. By far, most respondents indicated "no change" in business activity. The current national activity index dropped to -21 from 13 and the regional index fell to -14 from 15. These declines mark a significant turnaround from record-high readings in May.

The three general expectations indexes declined in July as well, and have lost considerable ground since May. However, each of the measures remained above 0, indicating that respondents expect activity to increase modestly in coming months.

### Company Conditions

The company specific current conditions index fell 23 points to 0 in July, and is down 39 points from May.





That the index did not fall into negative territory is somewhat surprising given respondents' loss of confidence in national and regional economic conditions. The current revenue shipments metric declined to -13 in July, a sharp turnaround from 17 in June. The sales revenue/shipments expectations index decreased materially as well, to 21 from 34 in June, but the still positive reading suggests that more survey participants are expecting business to pick up than those who are expecting declines.

Given the deterioration in current business sentiment, an increase in the labor demand index was surprising. The current labor demand index jumped to 15 in July from 5 a month earlier, indicating that a greater share of firms had hired additional workers. But a decline in the weekly hours worked index (to -13 from 8 in June) indicates that hours were being reduced. Meanwhile, expectations for labor demand were still positive in July (8) but had softened from one month earlier (27). A similar pattern was evident in the weekly hours expectations index.

An increase in the current prices paid index and a decrease in the current prices received index suggest more pressure on margins during July. The current prices paid index increased to 28 in July from 18 in June while the prices received component decreased to 7 from 11. With a weaker outlook for future growth, survey participants expect input pressures to abate somewhat as the prices paid expectations index fell to 23 from 39. Because of an accompanying decline in expectations for prices received in six months, respondents do not expect much respite on their profit margins.

### Labor Market Conditions

Survey respondents reported more slack in labor markets during July. The current general availability of labor and company specific needs indexes both increased 13 points in July, more than reversing the prior month's decline. The comparable expectations indexes also increased over the month. With both labor availability expectations indexes in positive territory, respondents do not anticipate facing labor shortages in coming months.

### Business Spending

Given the deterioration in respondents' business activity expectations, it is not a shock that the business spending measures retreated in July. The current equipment/software spending component fell to -2 from 3 in June while the services spending component fell further into negative territory. The corresponding business spending expectations components declined as well.

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<b>Business Activity Indexes</b>						
<b>General Business Assessment</b>	<b>Current Conditions</b>			<b>Expectations</b>		
	<b>Jul-10</b>	<b>Jun-10</b>	<b>May-10</b>	<b>Jul-10</b>	<b>Jun-10</b>	<b>May-10</b>
Nation	-21	13	41	10	37	70
County/Region	-14	15	39	17	39	65
Company	0	23	39	26	43	51
<b>Company Conditions</b>						
Sales Revenue/Shipments	-13	17	30	21	34	45
Inventories	-7	-8	-16	-10	-8	-10
Number of Employees	15	5	12	8	27	40
Weekly Hours	-13	8	18	8	11	21
Average Wages/Employee Compensation	-10	-3	7	22	22	37
Prices Paid	28	18	42	23	39	51
Prices Received	7	11	2	0	18	29
<b>Labor Market Conditions</b>						
General Availability of Labor	18	5	9	13	3	-10
Company-specific Needs	10	-3	0	5	-3	-18
<b>Business Spending</b>						
Equipment or Software	-2	3	12	2	11	20
Business Services	-10	-6	8	-2	3	22

**Technical Note:**

The responses to the survey are converted into diffusion indexes by subtracting the percentage of reported decreases from the percentage of increases. Thus, positive index numbers indicate a net increase for that survey item, while negative index numbers show a net decline.