

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Carolinas Business Activity Edged Down in August; Expectations Still Positive, But Lower

Overview

Responses to our Carolinas Business Activity survey suggest that regional business activity continued to soften in August. The company specific current activity index dipped into negative territory for the first time since November 2009. Respondents' perceptions of regional and national economic activity eroded again during the month as their respective indexes fell further into negative territory. While responses suggest that activity will pick up in coming months at the company and regional levels, those expectations have been lowered. Meanwhile the national expectations index fell into negative territory for the first time since March 2009.

Perhaps reflecting a continued sense of uncertainty, changes in the company specific current subcomponents were quite mixed. By contrast, most of the corresponding expectations subcomponents moved higher. Importantly, survey responses continued to point to increased hiring and longer hours in coming months.

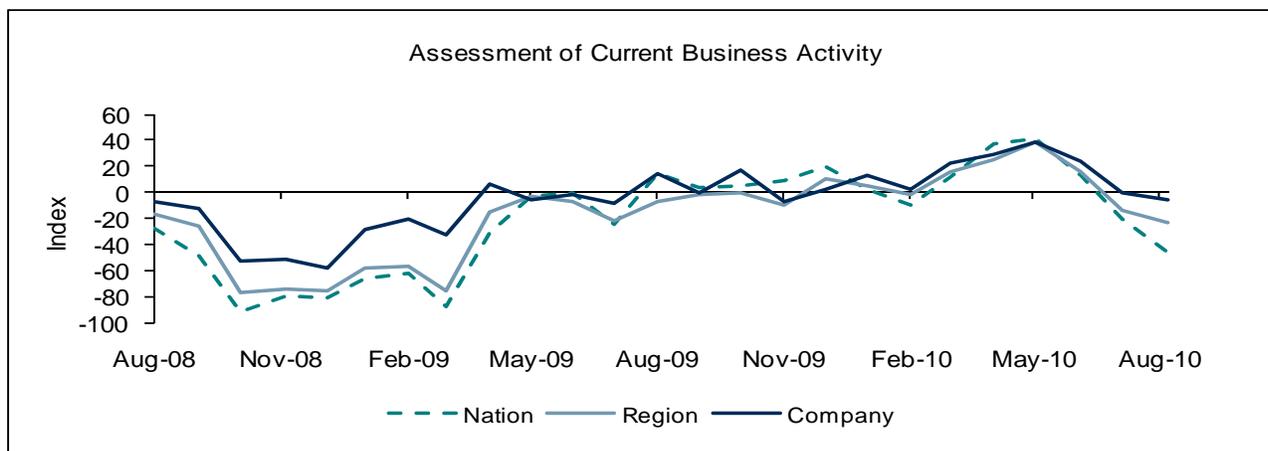
The current availability of labor indexes decreased month to month in August, although both remained positive. Respondents expect labor markets to tighten modestly in coming months. The current

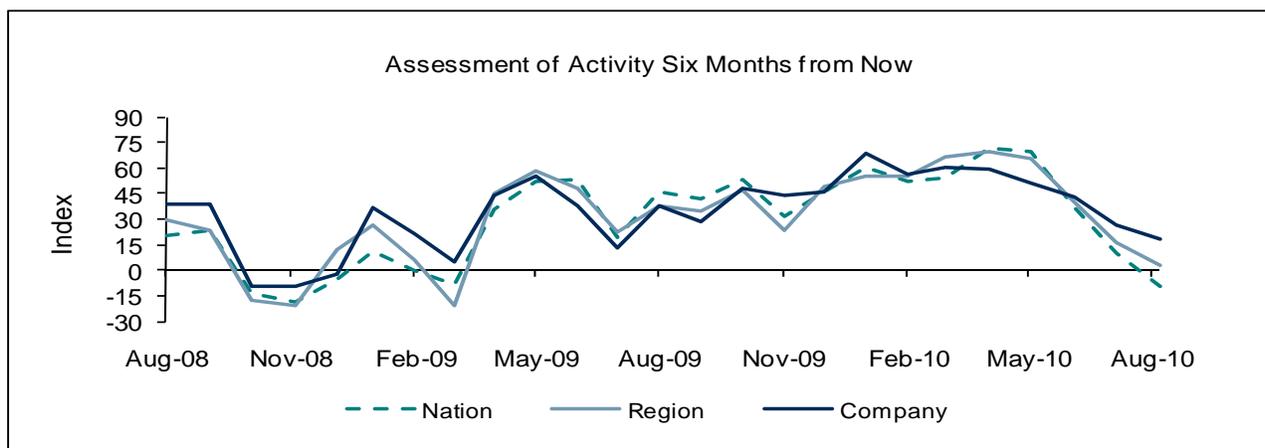
business spending index for equipment or software increased in August while the comparable index for business services declined. Both business spending expectations indexes were negative, indicating less business spending in coming months.

General Business Assessments

The August results suggest that current business activity slipped in the Carolinas during August and respondents' views on regional and national activity dimmed. The company specific current conditions index fell to -7 in August from 0 the prior month, suggesting an outright slowdown in business activity. The regional current conditions index declined to -24 from -14 in July and the national index plunged to -46 from -21. Recent readings reflect a sharp swing in sentiment from as recently as May, when all three current conditions indexes reached series' highs.

The apparent slowdown has also impacted respondents' expectations for activity six months out. The company specific and regional expectations indexes remained positive in August, although both declined somewhat from July. The national expectations index fell to -9, a 19-point swing from the prior month and its first negative reading since early 2009.





Company Conditions

Despite a retreat in the current business activity index, the company specific current sales revenue/shipments index actually increased to -2 in August from -13 in July. The slightly negative reading is consistent with relatively flat shipments. The revenue/shipments expectations index remained positive in August (at 8) although it did decline 13 points from a month earlier. The current inventories component dropped to -18 in August but the corresponding expectations index jumped to 20 from -10 in July.

On the inflation front, the general softening in overall business activity was accompanied by an easing of price pressures. The current prices paid index was 13 in August, a 15-point decrease from July. At the same time, the current prices received index fell to 0 from 7. The gap between the two (reflecting margin pressures) declined from 21 to 13. By contrast, results indicate that respondents expect prices to increase in coming months. The prices paid expectations index moved up to 29 from 23 in July while the prices received expectations metric rose to 20 from 0. The decline in the gap between the two (to 9 from 23) means that survey respondents expect margin pressures to ease further in coming months.

Labor Market Conditions

Taken as a group, the labor demand and weekly hours results point to continued modest improvement in labor markets. The number of employees index decreased to -2 during the month suggesting a slowdown in hiring from recent

months. Importantly however, the labor demand expectations index increased to 12 from 8 indicating that more firms plan to add to their payrolls over the next six months. The current weekly hours worked index jumped to 2 from -13 in July and the expectations index remained in positive territory, and largely unchanged from the prior month.

Survey responses generally suggest that firms are not having trouble finding workers, although they do expect labor markets to tighten a bit in coming months. The current company specific labor availability index decreased to 7 in August from 10 in July and the corresponding expectations index declined to -3 from 5.

Business Spending

The index for current spending on equipment or software increased to 5 in August from -2 a month earlier. However, the index for business services spending remained negative. Expectations for business spending six months out deteriorated during the month, particularly in regards to spending on business services.

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Business Activity Indexes						
General Business Assessment	Current Conditions			Expectations		
	Aug-10	Jul-10	Jun-10	Aug-10	Jul-10	Jun-10
Nation	-46	-21	13	-9	10	37
County/Region	-24	-14	15	2	17	39
Company	-7	0	23	19	26	43
Company Conditions						
Sales Revenue/Shipments	-2	-13	17	8	21	34
Inventories	-18	-7	-8	20	-10	-8
Number of Employees	-2	15	5	12	8	27
Weekly Hours	2	-13	8	7	8	11
Average Wages/Employee Compensation	-5	-10	-3	23	22	22
Prices Paid	13	28	18	29	23	39
Prices Received	0	7	11	20	0	18
Labor Market Conditions						
General Availability of Labor	14	18	5	7	13	3
Company-specific Needs	7	10	-3	-3	5	-3
Business Spending						
Equipment or Software	5	-2	3	-3	2	11
Business Services	-15	-10	-6	-14	-2	3

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.