

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Carolinas Business Index Increases, but Still Negative; Expectations Improve in October

Overview

The Carolinas Business Activity index increased in October, although it remained in negative territory. Readings below zero suggest that a greater number of respondents reported a decline in activity compared to the number that reported an increase. The relative improvement was evidenced in each of the three current activity indexes – the headline company specific index as well as the regional and national indexes. Respondents continued to hold a more positive view of their own fortunes compared to those of the region and the nation. Each of the three general business expectations indexes were positive.

Reflecting the uncertainty at the headline level, the company specific subcategories were mixed while the comparable expectations metrics were mostly lower. On balance, current demand for labor firmed in October, as did the comparable expectations index.

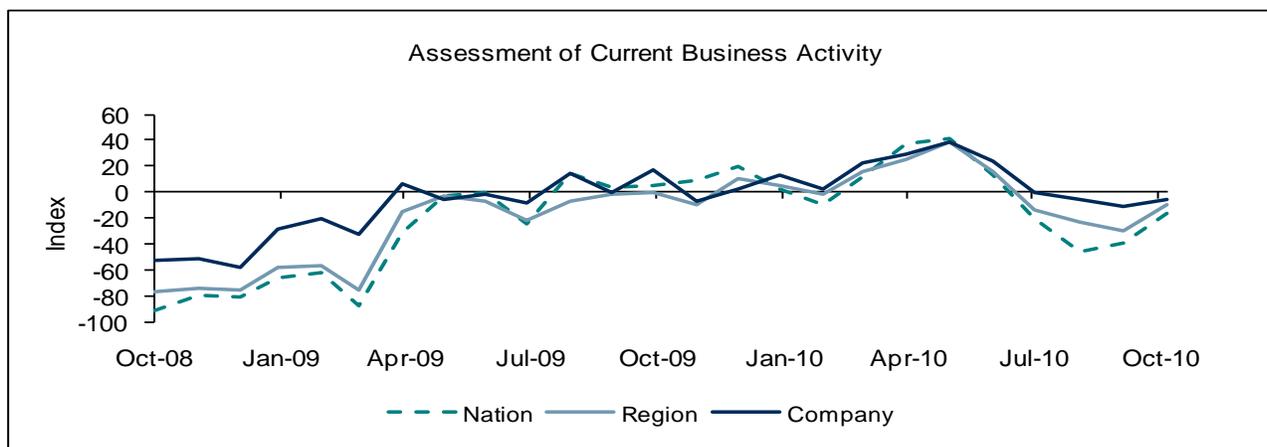
The current availability of labor indexes rose over the month, suggesting that firms were not having difficulty finding labor, and expectations were for more of the same. Business spending on equipment and software was flat for the second month in a row while spending for business services

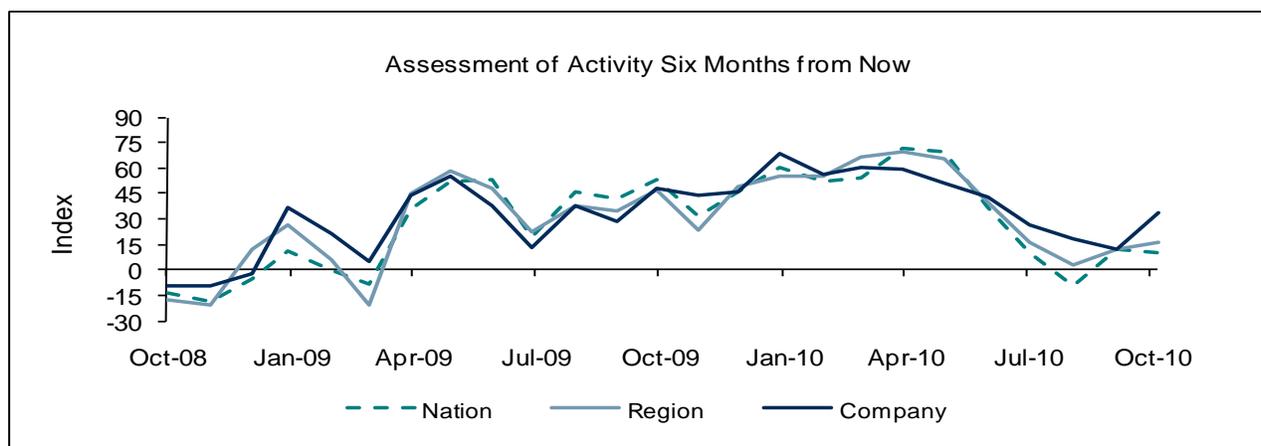
was down. Respondents plan on spending more in coming months, but the increase is likely to be modest.

General Business Assessments

Responses to our October survey suggest that business activity continued to slow in the Carolinas, albeit at a slower pace. The company specific current conditions index (the survey's headline indicator) increased to -6 from -12 in September. Meanwhile, the region specific current conditions index increased to -10 from -29 and the national index rose to -16 from -39. While all three indexes remain in negative territory, each showed marked improvement in October.

Respondents were still optimistic that business would improve in coming months, especially for their own businesses. The company specific business expectations index jumped to 33 in October from 12 a month earlier, more than reversing declines over the prior two months. The regional and national expectations indexes were still positive, but remain well below the series highs reached in the second quarter. Apparently, respondents have more confidence in their own prospects than they have for the macroeconomy.





Company Conditions

Like the headline index, the company specific current sales revenue/shipments index improved but remained negative. In October, the company specific current revenue/shipments indicator increased to -4 from -12 a month earlier. The corresponding revenue/shipments expectations index was relatively flat (14 in October compared to 16 in September). Firms were drawing down stocks during the month as the current inventories index declined to -9 from 0 a month earlier. Respondents also pared their expectations for inventories in coming months.

The softening in current business conditions appeared to have an impact on pricing from both the purchasing and selling perspectives. The current prices paid index fell to -4 in October from 21 a month earlier. This is the first negative reading in current prices paid since April 2009. The current prices received index also dropped, to -18 from -6. Thus, the gap between the two (a crude representation of margin pressures) narrowed to 14 from 27 a month earlier. Expectations for prices paid were largely unchanged in October while prospects for prices received moved higher. So while the gap between the two remains large, respondents appear to anticipate slightly less (but still considerable) margin pressures in coming months.

Labor Market Conditions

The current labor demand indicators improved in October, reversing recent trends. The current number of employees index increased to 3 from -12 in September while the weekly hours worked

measure rose to 0 from -9. Taken together, these readings suggest that regional labor markets have stabilized somewhat after weakening over the past few months. Expectations for hiring six months out were basically stable in October, as this index edged up to 10 from 9 a month earlier. By contrast, expectations for weekly hours declined to -10 in October from -6.

The labor supply indicators suggest that firms were having little difficulty finding workers in October. And while they expect labor markets to firm in coming months, the indicators suggest that they do not anticipate shortages any time soon.

Business Spending

Business spending was weak again in October. The metric for current spending on equipment and software was 0 for the second straight month while the index for business services spending declined to -11 from -6. Expectations remained soft as well, with the equipment/software expectations index coming in at 7 and the comparable business services index registering 0.

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Business Activity Indexes						
General Business Assessment	Current Conditions			Expectations		
	Oct-10	Sep-10	Aug-10	Oct-10	Sep-10	Aug-10
Nation	-16	-39	-46	10	13	-9
County/Region	-10	-29	-24	16	12	2
Company	-6	-12	-7	33	12	19
Company Conditions						
Sales Revenue/Shipments	-4	-12	-2	14	16	8
Inventories	-9	0	-18	0	14	20
Number of Employees	3	-12	-2	10	9	12
Weekly Hours	0	-9	2	-10	-6	7
Average Wages/Employee Compensation	-3	-3	-5	13	19	23
Prices Paid	-4	21	13	39	41	29
Prices Received	-18	-6	0	18	13	20
Labor Market Conditions						
General Availability of Labor	21	15	14	10	0	7
Company-specific Needs	11	0	7	4	-6	-3
Business Spending						
Equipment or Software	0	0	5	7	3	-3
Business Services	-11	-6	-15	0	3	-14

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.