

# Regional Surveys of Business Activity

## Carolinas Survey of Business Activity

*Business Activity Increased in December; Expectations Continued to Improve*

### Overview

Business conditions continued to improve in the Carolinas during December, according to the results of our latest survey. The current general business conditions index (previously called the company specific index) moved higher and was in positive territory for the second straight month. The comparable expectations index also advanced, indicating that respondents were more optimistic about activity six months from now. Taken together, these indexes provide evidence that the economy is moving out of the soft patch that characterized activity in the fall.

The labor market indicators point to firmer conditions in December. Both the number of employees and average workweek metrics were solidly in positive territory. With that, the average weekly wage indicator increased month to month. The availability of skills index remained positive, suggesting that firms were having little difficulty finding workers. The labor market expectations measures indicate more robust hiring in coming months.

Despite the pickup in activity, business spending on equipment and services was still tempered, as were spending expectations. Prices paid reportedly increased faster than prices received, suggesting continued margin pressures.

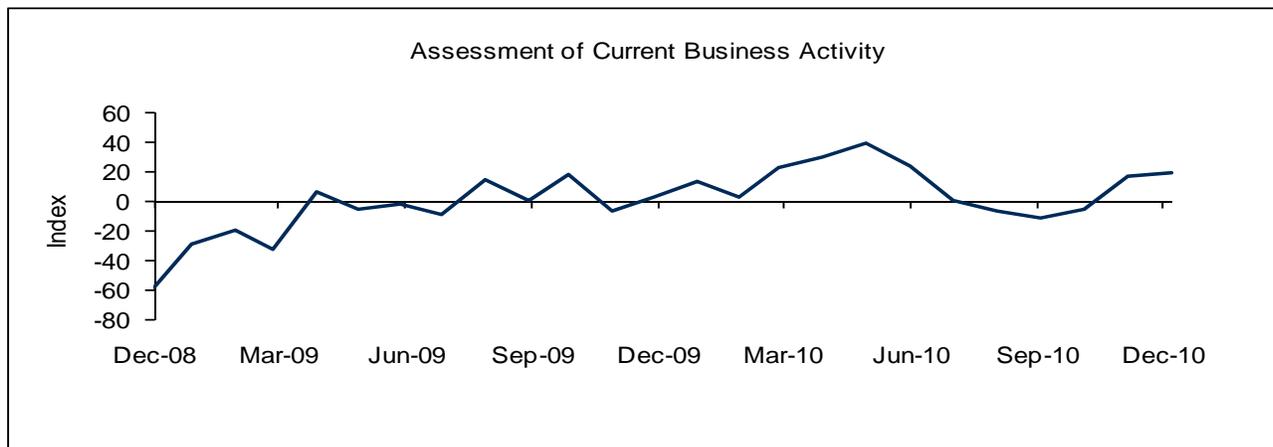
### General Business Assessments

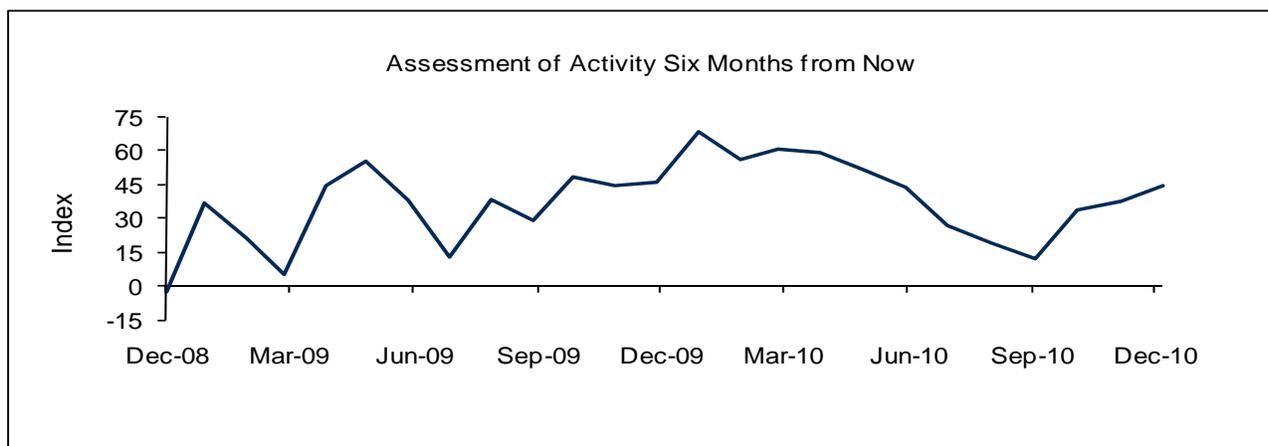
The Carolinas Business Activity Index increased in December as sentiment continued to rebound. The headline current general business conditions index increased to 19 in December from 17 a month earlier. This index had dipped to a recent low of -12 in September during the post-stimulus workout period. With December's gain, the third straight improvement in the monthly index, it appears that the regional economy continues to recover from the soft patch that persisted for much of the late summer and fall.

The general business activity expectations index had fallen along with the current conditions index in the late summer and fall. Not surprisingly, it is now trending higher. The general business conditions expectations index moved up to 44 in December from 37 a month earlier. The seven-point increase left the general expectations metric at its highest level since May when it reached 60, the highest reading in the history of the series.

### Labor Market Conditions

Labor markets in the Carolinas improved gradually in recent months. The number of workers indicator was 13 in December. While this is down from 17 in November, the positive number still indicates that a greater percentage of respondents are hiring than the percentage that is firing. In addition, the average





hours index was positive again in December (at 7) indicating a longer workweek. Labor demand is expected to continue firming in coming months. The labor demand expectations index has increased three months in a row and, at 27, is at its highest level since June. The average hours expectations index increased to 13 in December from 6 a month earlier.

The labor supply indexes suggest that firms are not having much difficulty filling open positions. The availability of company specific skills index increased to 11 in December from 6 in November. Meanwhile, the comparable expectations measure jumped to 11 from -3.

**Business Spending and Inventories**

On balance, the business spending metrics suggest that firms remain cautious even while business activity is picking up. The current business services spending index edged up to 1 in December from 0 the previous month. This metric has not topped 10 in more than two years. The current equipment and software component increased to 9 last month and held steady in December. Meanwhile, the initial reading for total capital equipment expenditures came in at 10. Business inventories increased modestly in December with the raw materials index at 11 and the finished goods measure at 10.

Businesses do plan to spend more in coming months. The business services spending expectations index declined 3 points in December, but at 13 remained solidly in expansion territory. The comparable equipment and software spending expectations index increased to 29 from 22. This

measure has been on an upward trend for the past three months and currently stands at its highest level since January 2008. The initial total capital equipment spending expectations measure was 29 in December. Inventory levels were expected to increase modestly in coming months.

**Prices**

The pricing indexes are now reported as annualized percent changes. Previously, the pricing metrics were reported as diffusion indexes.

In December, respondents indicated that current prices paid were increasing at an annualized rate of 3.2 percent while prices received increased at a pace of 2.5 percent. This suggests pressure on profit margins. In coming months, firms expect prices paid to advance at a 3.6 percent annualized rate while prices received are expected to climb at a steady rate of 2.5 percent.

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## Business Activity Indexes<sup>1, 4, 5</sup>

Business Conditions in the Carolinas	Current Conditions			Expectations <sup>2</sup>		
	Dec-10	Nov-10	Oct-10	Dec-10	Nov-10	Oct-10
General Business Conditions	19	17	-6	44	37	33
Sales	10	0	-4	42	30	14
<b>Employment</b>						
Number of Employees	13	17	3	27	20	10
Availability of Skills Needed	11	6	11	11	-3	4
Average Workweek	7	14	0	13	6	-10
Wages	8	3	-3	29	23	13
<b>Spending</b>						
Business Services Expenditures	1	0	-11	13	16	0
Total Capital Expenditures	10	--	--	29	--	--
Equipment or Software	9	9	0	29	22	7
<b>Price Trends<sup>3</sup></b>						
Prices Paid for Inputs	3.24	--	--	3.63	--	--
Prices Received for Outputs	2.46	--	--	2.47	--	--

### Technical Notes:

- Each index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. Data are not seasonally adjusted.
- Expectations refer to the time period six months out from the survey period.
- Price changes are expressed as a percent change, annualized.
- Dashes represent indexes not previously calculated.
- Table has been revised to reflect changes in survey questions beginning December 2010