

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Expansion Continued to Broaden in January; Outlook Moved Higher Still

Overview

Results from the January Carolinas Business Activity survey suggest that the region's expansion broadened during the month. The current general business conditions index (previously referred to as the company specific index) was positive for the third month in a row as business activity further distanced itself from the fall lull. A positive reading indicates that a greater share of respondents reported a pickup in activity than those who noted a slowdown. Firms appeared increasingly confident that momentum will build in coming months as the general business expectations index moved up to its highest reading since April 2010.

On balance, the labor market indicators point to modestly improving conditions. The current number of employees and wages indexes remained in positive territory while the hours worked measure was negative. The comparable labor market expectations metrics were little changed from December, with the exception of the expected wages component, which moved materially higher. Both the current and expected availability of labor indexes were above 0.

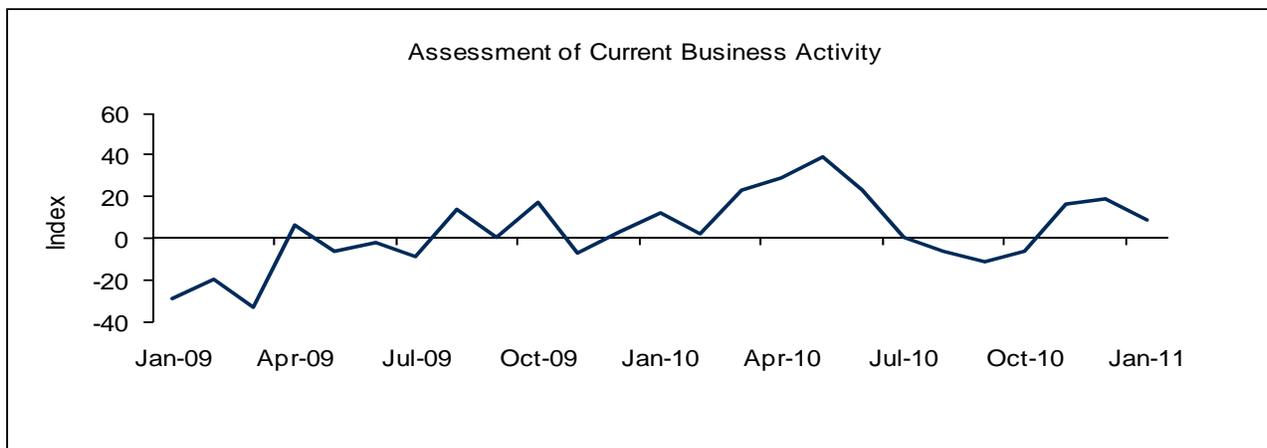
The indexes reflecting current business spending were mixed with the equipment indicators showing

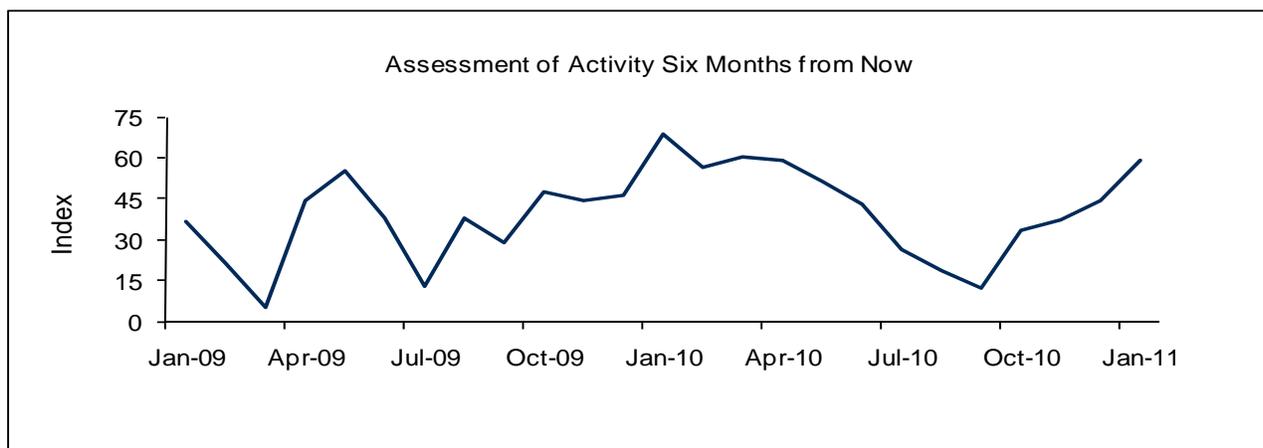
more strength than services measure. Business spending expectations continued to move higher. The price indexes showed persistent pressure on margins.

General Business Assessments

The Carolinas Business Activity indexed remained positive in January, although it was below December's reading. The current general business conditions index (which was called the company specific current conditions index prior to December) moved down ten points, to 9. For context, a reading that exceeds 0 indicates that a greater percentage of respondents reported an increase in business activity than those who reported a decline. So a smaller positive reading is consistent with business activity that expanded at a slower pace (as opposed to an outright contraction).

Despite the decline in January's current conditions index, respondents became increasingly confident about business conditions six months out. The general business conditions expectations index jumped fifteen points to 59 in January. The increase was the index's fourth in a row and left it within one point of its all time high of 60, reached in April 2010. This series has been tallied for a little more than three years.





Labor Market Conditions

On balance, labor markets continued to firm in recent months. The current demand indicator (number of employees) declined to 2 in January from 13 a month earlier. However, it was the index's fourth positive reading in a row, which indicates a greater share of respondents were adding to their headcount compared to those who were subtracting from it. The current average workweek index fell to -4 from 7 in December, suggesting that workers were generally working fewer hours. Looking forward, the expected number of workers index came in at 24 this month, a slight retreat from the 27 registered in December, but still well above a neutral reading of 0. The expected average workweek index also dipped this month but remained positive at 9.

The labor supply indexes suggest that slack persists in labor markets. The availability of company specific skills index decreased to 4 in January from 11 in December, while the comparable expectations measure was mostly unchanged at 10.

Business Spending and Inventories

Current spending on capital equipment and software is generally stronger than spending on business services. The current capital equipment spending index came in at 5 this month, suggesting that more firms had increased spending than those that had cut it. But the index was down five points from December, showing that the pace of expansion had slowed. Current spending on equipment and software was a little more robust. By contrast, current spending on business services remained fairly flat as the index moved down to -2 from 1 a month earlier.

The measures reflecting firms' business spending plans increased and were more robust than current metrics. The capital equipment spending expectations measure increased to 34 in January from 29 in November while the same metric for equipment and software rose to 36 (a near record high) from 29. The business services expectations index also increased from December (by eight points) to 21 and was at its highest level since reaching a series high in the spring.

Prices

The pricing indexes, which are now presented as annualized percent changes, continued a recent trend that suggests persistent pressure on firms' profit margins. The current prices paid index showed an average 4.7 percent annualized increase in January while the prices received index displayed a more modest 3.1 percent gain. The pricing expectations measures suggest a little less pressure on margins six months out as the gap between prices paid and received is expected to narrow.

Contact

Rick Kaglic

Regional Economist
Research Dept./Regional Economics
Federal Reserve Bank of Richmond
Charlotte Office
Office 704-358-2116 · Fax 704-358-2300
richard.kaglic@rich.frb.org
www.richmondfed.org

Business Activity Indexes^{1, 4, 5}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	Jan-11	Dec-10	Nov-10	Jan-11	Dec-10	Nov-10
General Business Conditions	9	19	17	59	44	37
Sales	-2	10	0	47	42	30
Employment						
Number of Employees	2	13	17	24	27	20
Availability of Skills Needed	4	11	6	10	11	-3
Average Workweek	-4	7	14	9	13	6
Wages	9	8	3	46	29	23
Spending						
Business Services Expenditures	-2	1	0	21	13	16
Total Capital Expenditures	5	10	--	34	29	--
Equipment or Software	7	9	9	36	29	22
Price Trends³						
Prices Paid for Inputs	4.67	3.24	--	4.57	3.63	--
Prices Received for Outputs	3.11	2.46	--	3.94	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