

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Carolinas Expansion Moderated in May; Outlook is Still Very Positive

Overview

The Carolinas Business Activity Index remained positive in May, although it declined materially from the prior month, indicating a slower pace of business expansion. Both the current general business activity and sales indexes declined this month. The six-month expectations indexes also retreated somewhat, but were still firmly in expansion territory. Thus, while many respondents saw slower growth during the month, the outlook for six months out remains solidly positive.

Despite the moderation in the headline index, the labor market diagnostics were quite encouraging. The current number of employees and average workweek indicators remained positive and changed little over the month, a pattern that is broadly consistent with improved hiring conditions. The movement in the current wages paid index was in harmony with the general narrative of modestly improving labor markets as well. On balance, the expected labor demand indicators were stronger than a month earlier. On the labor supply side, the current availability of skills metric backpedaled in May but remained positive. This reading is consistent with persistent, but diminishing slack in the labor force. The expected availability of skills index suggests that respondents do not expect labor shortages in the longer term.

The business spending and spending expectations indexes were positive in May, although the directional changes varied slightly. On balance, business spending appears to be on firmer footing than just a few months ago. The prices paid and prices received indexes (both current and expected) point to continued margin pressures even as increases in prices paid appeared to be leveling off.

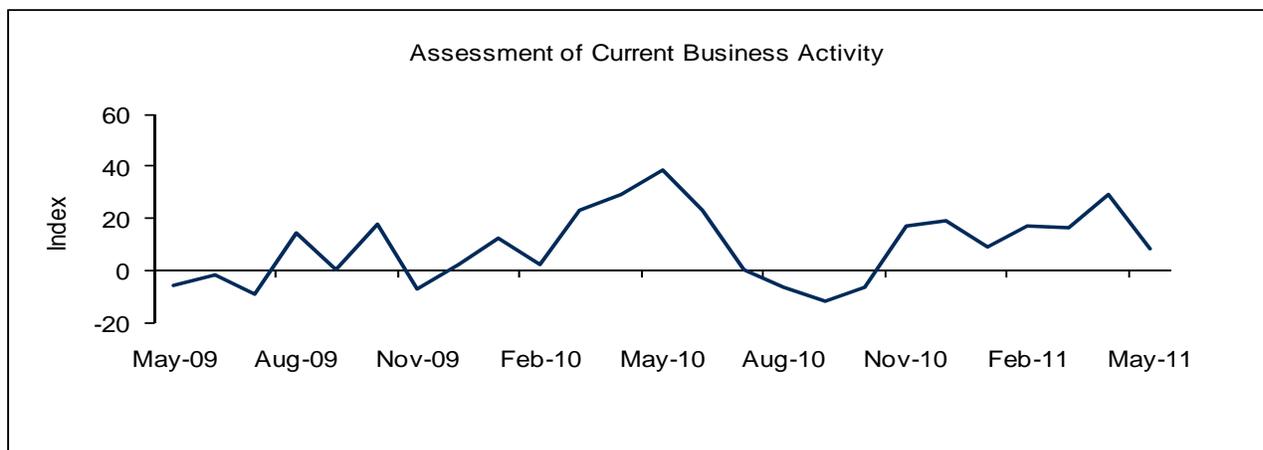
General Business Assessments

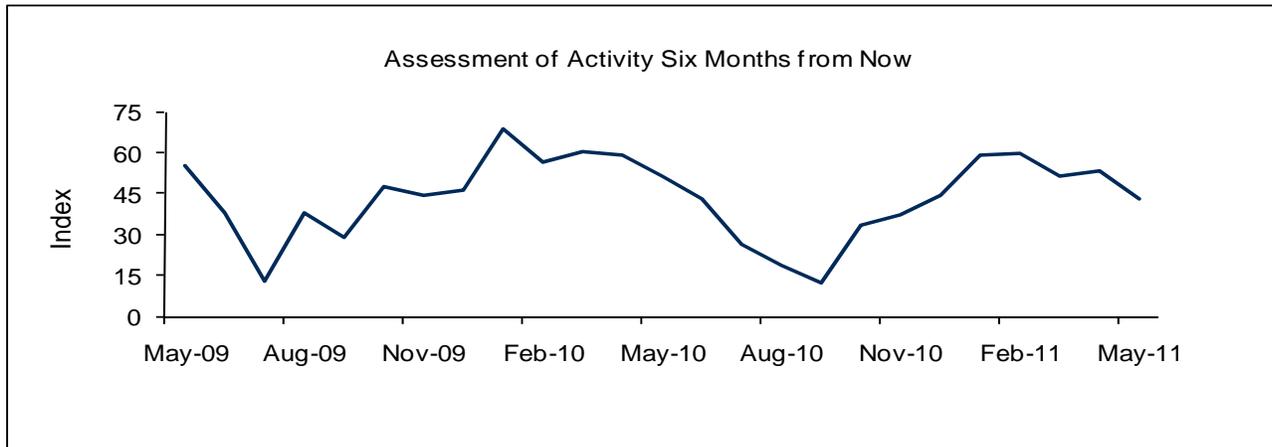
The current general business conditions index (which was positive the prior six months) was 8 this month compared to 29 in April. The smaller positive reading suggests a slower expansion – readings greater than 0 indicate that more respondents reported an increase in activity than those respondents that noted a decrease. Not surprisingly then, the decline in general business activity was accompanied by a 23-point drop in the current sales index.

The general business conditions expectations index fell ten points to 43 in May, a still robust reading. Sales expectations experienced a similar decline during the month, with the index moving down to 38 from 47 in April. Taken together, these indexes point to continued expansion in coming months.

Labor Market Conditions

The softer readings in current general business activity did not translate into weaker demand for





labor. The current number of employees index increased to 12 in May from 10 in April. Meanwhile, the current average workweek indicator slipped a bit, to 7 this month from 9 a month earlier. The expected number of employees metric was unchanged at 26, pointing to healthy demand for labor in the next six months. At the same time, the expected average workweek increased to 21 in May from 15 a month earlier.

The recent improvement in labor demand has been accompanied by a modest tightening in a still slack labor supply. The current availability of company specific skills index decreased to 2 from 8 during the month. Meanwhile, the comparable skills availability expectations measure moved up to 13 in May from 9 in April. Thus firms that plan to hire still do not anticipate broad based skills shortages in the near future.

Business Spending and Inventories

The current business spending indexes were positive again in May, but generally softer than in April. The current business services spending index increased to 9 this month from 7 a month earlier, recouping much of the ground it had lost in April. By contrast, the current total capital expenditures measure moved down eight points in May (to 11). At the same time, the index for current expenditures on equipment and software eased back to 14 in May following two straight monthly readings of 17.

Indexes reflecting business spending plans for the next six months generally leveled off after jumping in

April. The business services spending expectations metric moved up to 15 in May from 8 the prior month, but the total capital spending expectations measure fell to 25 from 32. The equipment or software expectations index was unchanged at 24. All told, these indexes suggest that business spending will continue to solidify over the next six months.

Prices

On the heels of several months of commodities price increases, respondents indicated that the rate of increase in general prices slowed somewhat in May. The current prices paid index edged down to an annualized rate of 3.3 percent in May compared to a 3.8 percent pace in April. Meanwhile, the prices received index also decreased to 1.8 percent from 2.2 percent. Despite these changes, margin pressure appeared to change little over the month. Meanwhile, the expected prices paid index inched up to 3.9 percent from 3.8 percent in April and the expected prices received measure slipped to a 2.6 percent annualized rate from 2.8 percent.

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Business Activity Indexes^{1, 4}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	May-11	Apr-11	Mar-11	May-11	Apr-11	Mar-11
General Business Conditions	8	29	16	43	53	51
Sales	2	25	21	38	47	54
Employment						
Number of Employees	12	10	6	26	26	24
Availability of Skills Needed	2	8	3	13	9	11
Average Workweek	7	9	2	21	15	26
Wages	13	15	13	31	34	32
Spending						
Business Services Expenditures	9	7	10	15	8	8
Total Capital Expenditures	11	19	18	25	32	25
Equipment or Software	14	17	17	24	24	18
Price Trends³						
Prices Paid for Inputs	3.29	3.79	3.58	3.88	3.81	3.90
Prices Received for Outputs	1.79	2.18	1.79	2.57	2.81	2.42

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.
- Table has been revised to reflect changes in survey questions beginning December 2010