

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Carolinas Business Index Dropped in August; Outlook Index was Less Optimistic

Overview

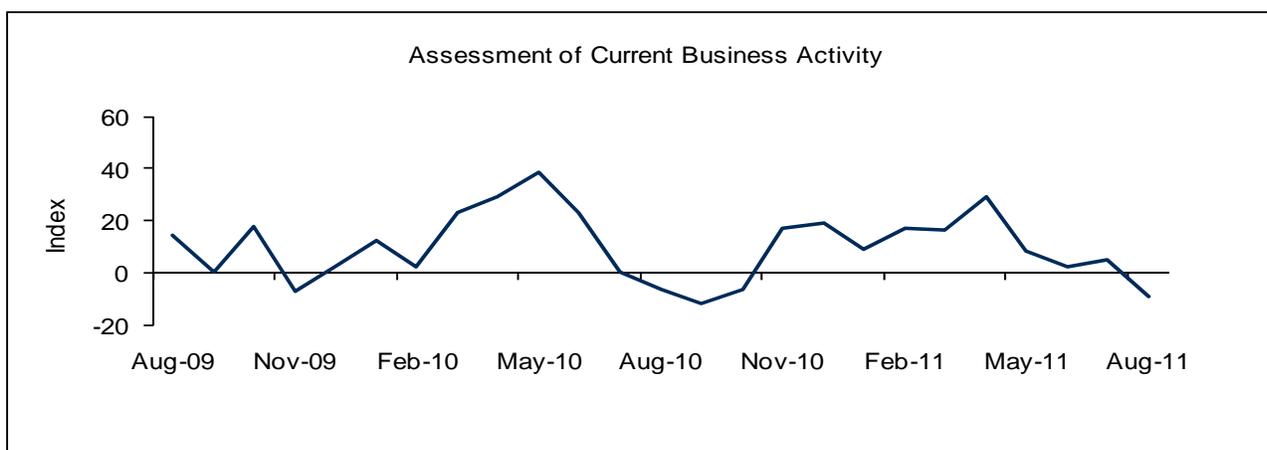
Business sentiment deteriorated in August after showing a little improvement in July. The current Carolinas Business Activity Index dropped into negative territory in August, the first negative reading since October 2010. The decline in the current conditions index coincides with a sharp drop in the sales metric. An even larger decline was recorded in the measure reflecting expectations for business activity, although it remained positive. Like the current conditions index, the downturn in expectations was driven by diminished sales prospects.

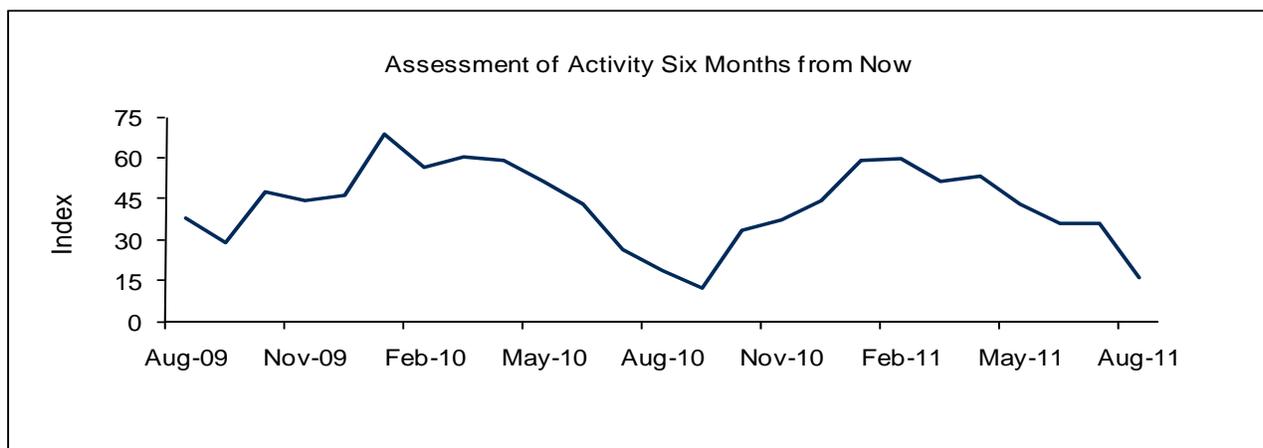
The slip in business sentiment weighed on labor demand indicators as well. The current number of workers index and average workweek indicators slipped from July to August and are now only modestly above 0. A more pronounced dip was registered in the expected labor demand indexes, but they too remained positive. Wage indexes, current and expected, eased a bit in August. The availability of skills needed question drew responses that suggest firms saw more slack in the labor force in August, a trend that is expected to continue in coming months.

The slowdown's impact on current business spending was less noticeable. In fact, on balance, the current spending indexes were largely unchanged. On the expectations side, however, spending plans measures were still positive, but deteriorated a bit. In a continuation of recent trends, the pricing indexes edged down from July to August. These results were little comfort to respondents, who reported bigger declines in prices received than prices paid, keeping pressure on margins.

General Business Assessments

Business conditions appeared to deteriorate in the Carolinas during August, according to survey results, and expectations continued on a downward trend. The current Carolinas Business Activity Index swung to a -9 in August from 5 in July. It was the current measure's first negative reading since October 2010. A similar pattern is evident in the current sales index, which sank to -3 from 9 in the same timeframe. In addition, the corresponding expectations metrics resumed a downward trend after stabilizing in July. The expected general business conditions index fell to 16 in August from 36 a month earlier. The 20-point drop was the largest in more than two years. The sales expectations measure saw a smaller 11-point drop during the month.





Labor Market Conditions

The decline in business sentiment was accompanied by slight softening in labor market indicators. However, the key demand metrics remained in positive territory. The current number of employees index edged down to 4 in August from 6 in July and the average workweek indicator eased to 5 from 6. A positive reading in our indexes indicates that a greater share of respondents reported an increase than that which reported a decrease. Thus a smaller positive reading points to slower expansion. While current demand indicators held up well, there was more of a decrease in labor demand expectations. The expected number of employees index decreased to 8 from 14 while the expected workweek measure declined to 5 from 13.

Looking at the supply side indicators, the current availability of skills index edged up to 4 in August from 2 a month earlier while the corresponding expectations measure increased to 5 from 2.

Business Spending

The current business spending indicators did not show a material deterioration in line with general business conditions, and all three remained positive. There was a slight decline in total capital expenditures (down to 7 from 9) and a small uptick in business services (up to 4 from 3). The current equipment or software index was unchanged in August (at 10).

Looking forward, the expectations for business equipment or software index fell to 12 in August from 22 in July while the expectations for business

services measure dipped to 5 from 10. The total capital expenditures expectations metric edged down to 16 from 17 a month earlier.

Prices

As business activity weakened, recent trends in pricing continued in August with both prices paid and prices received metrics moving lower. The average current prices paid measure decreased to 2.44 percent from 2.54 percent in July while the average current prices received index fell to 1.27 percent from 1.41 percent. The bigger decline in prices received signals more margin pressures currently.

Price expectations eased as well. The expected prices paid measure retreated to 2.70 percent in August from 2.78 percent in July while the expected prices received index decreased to 1.55 percent from 1.68 percent. So while firms expect some relief on the prices paid front, they expect little relief on profit margins in coming months.

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Business Activity Indexes^{1,4}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	Aug-11	Jul-11	Jun-11	Aug-11	Jul-11	Jun-11
General Business Conditions	-9	5	3	16	36	36
Sales	-3	9	1	18	29	36
Employment						
Number of Employees	4	6	16	8	14	23
Availability of Skills Needed	4	2	7	5	2	10
Average Workweek	5	6	9	5	13	15
Wages	9	18	13	14	22	24
Spending						
Business Services Expenditures	4	3	-1	5	10	3
Total Capital Expenditures	7	9	13	16	17	21
Equipment or Software	10	10	11	12	22	25
Price Trends³						
Prices Paid for Inputs	2.44	2.54	3.12	2.70	2.78	3.11
Prices Received for Outputs	1.27	1.41	1.76	1.55	1.68	1.88

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