

# Regional Surveys of Business Activity

## Carolinas Survey of Business Activity

*Growth in Business Activity Slowed in the Carolinas in May, But Firms Remained Optimistic*

### Overview

The latest Carolinas Survey of Business Activity suggested that the region's economy continued to expand in May, albeit at a slightly slower pace than during April. The current general business conditions index declined for the first time in eight months, but remained solidly in positive territory. A similar softening was evident in the current sales metric. The corresponding expectations indexes also dipped from April's very robust readings, but remained firmly above 0.

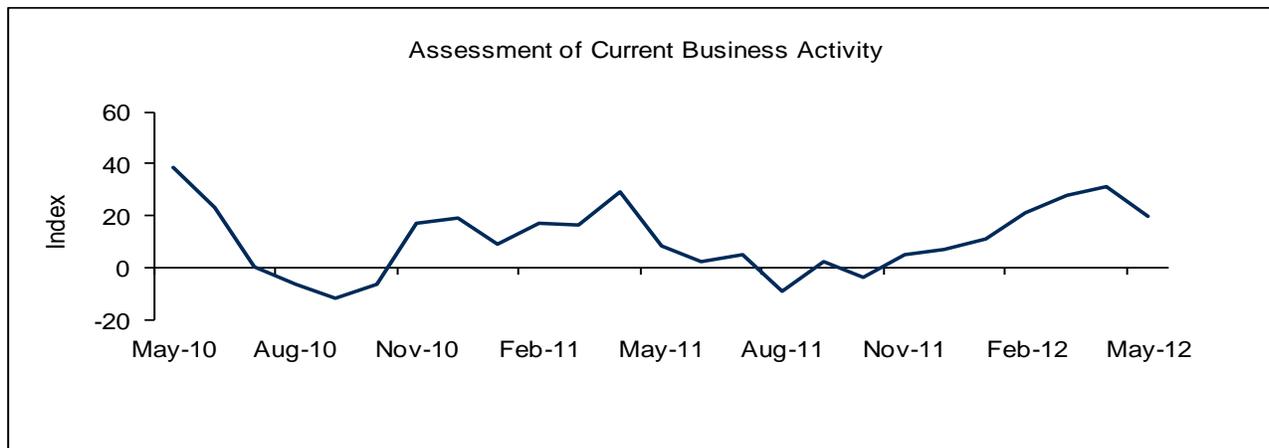
In spite of the deceleration in business activity growth in May, labor demand apparently continued to increase. The indicators that reflect current labor demand in the region (number of workers and average weekly hours) moved up sharply during the month, a welcome development given recent weakening in the government's payroll employment statistics. In addition, the two comparable expectations indexes remained at levels consistent with more hiring over the next six months, even though the numbers declined somewhat from April to May.

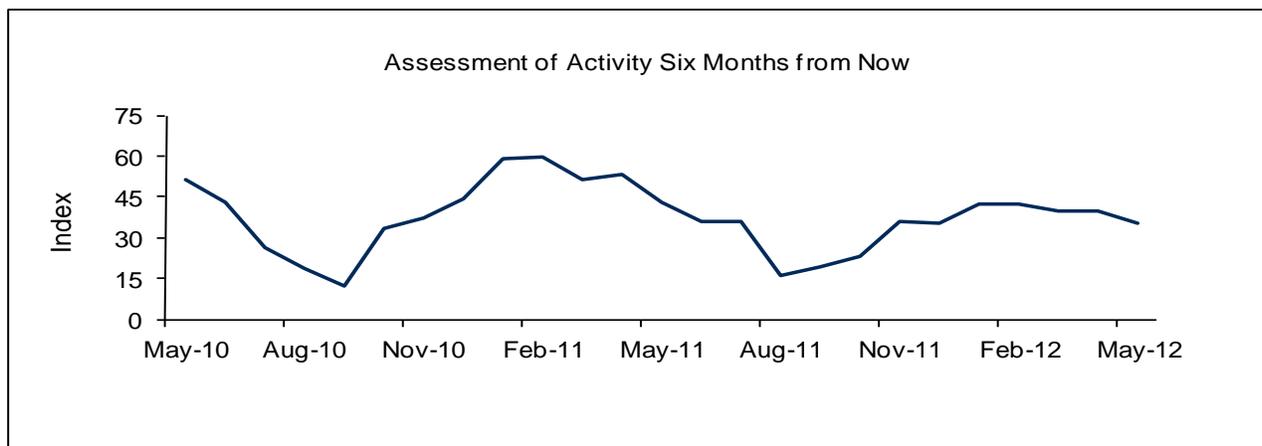
In addition to labor demand, spending plans are a critical piece of understanding what businesses expect of current and future activity. In our survey,

each of the three current business spending measures (total capital expenditures, equipment or software, and business services spending) remained at very strong levels in May, as did the corresponding expectations indexes. Current input prices increased at a slightly higher rate in May, but the pace of current output price increases was unchanged. On average, survey respondents expect price pressures to ease somewhat in the months ahead, but margins are expected to remain very tight.

### General Business Assessments

Responses to our Carolinas Survey of Business Activity for May suggest that businesses continued to expand, although activity eased back somewhat. The current general business conditions index decreased to 20 last month from 31 in April. April's reading was the highest in nearly two years. May's decline was the first in the last eight months, but still left the index in strongly positive territory. An identical 11-point decline was experienced in the current sales index as well, which is not surprising given its historically strong correlation with changes in general business conditions. Meanwhile, the expected business conditions index came in at 35 in May, compared to 40 the prior month, while the sales expectations number eased back to 32.





### Labor Market Conditions

The labor demand indicators remained encouraging, even though the region's expansion appeared to slow in May. The current number of workers index jumped to 12 during the month from 6 in April. It was the third highest result for this index in the past 1 ½ years. And the current average hours worked index increased to 16 in May from 12 a month earlier. Looking forward, respondents apparently expect business conditions to warrant more hiring. The expected number of workers index inched down two points but, at 15, remained consistent with further job gains. Similarly, the expected average hours metric dipped to 9 from 12.

The current availability of skills index was at 0 in May, indicating that just as many respondents saw an increase in the supply of adequately skilled workers as those who saw a decrease. At the same time, the expected availability of skills index remained at 8 in May. A reading above 0 for this measure shows that more respondents expect availability to increase in coming months compared to those who expect it to decrease.

### Business Spending

Readings for current business spending categories remained among the most robust since these series were initiated. The current total capital expenditures index jumped to 21 in May, a 10-point improvement over April's reading, and its highest in the 18-month history of this series. The current equipment and software spending measure inched up to 18 from 17 a month earlier while the business services spending metric eased back to 9 in May from 10 in April.

The business spending expectations indexes were largely unchanged as well. The business services expectations index remained at 8 in May, while the total capital spending measure edged up 1 point to 22. The equipment or software metric dipped to 22 from 24 one month earlier. Combined, the current and future business spending indexes paint a picture of more optimistic firms.

### Prices

The current prices paid index rose to 2.70 percent in May from 2.49 percent in April, suggesting a little more pressure from input prices. However, with no change in the current prices received index (which remained at 1.26 percent), it did not appear that firms were able to pass those higher input costs along to their customers.

Meanwhile, both of the expected price trends measures moved down in May. Taken as a whole, the four price trend indexes suggest that there was little change in the inflationary environment last month.

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

Business Conditions in the Carolinas	Current Conditions			Expectations <sup>2</sup>		
	May-12	Apr-12	Mar-12	May-12	Apr-12	Mar-12
General Business Conditions	20	31	28	35	40	40
Sales	11	22	19	32	34	34
<b>Employment</b>						
Number of Employees	12	6	7	15	17	14
Availability of Skills Needed	0	-1	5	8	8	-1
Average Workweek	16	12	7	9	12	14
Wages	5	10	14	23	22	22
<b>Spending</b>						
Business Services Expenditures	9	10	5	8	8	6
Total Capital Expenditures	21	11	18	22	21	19
Equipment or Software	18	17	16	22	24	17
<b>Price Trends<sup>3</sup></b>						
Prices Paid for Inputs	2.70	2.49	2.93	2.69	3.02	3.02
Prices Received for Outputs	1.26	1.26	1.62	1.36	1.79	1.82

### Technical Notes:

- <sup>1</sup> Each index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. Data are not seasonally adjusted.
- <sup>2</sup> Expectations refer to the time period six months out from the survey period.
- <sup>3</sup> Price changes are expressed as a percent change, annualized.
- <sup>4</sup> Table has been revised to reflect changes in survey questions beginning December 2010