

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Carolinas Expansion Appeared to Stall in July; Outlook is Still Positive, But More Cautious

Overview

The region's economic recovery slowed to a crawl in July, according to the results from our latest Carolinas Business Activity Survey. The current general business conditions indicator fell sharply, turning negative for the first time in nine months. The sales revenue/shipments index also swung from solidly positive to negative during the month. In addition to the marked deterioration in the current conditions indexes, the comparable expectations measures moved lower, suggesting that respondents are expecting sluggish growth to persist.

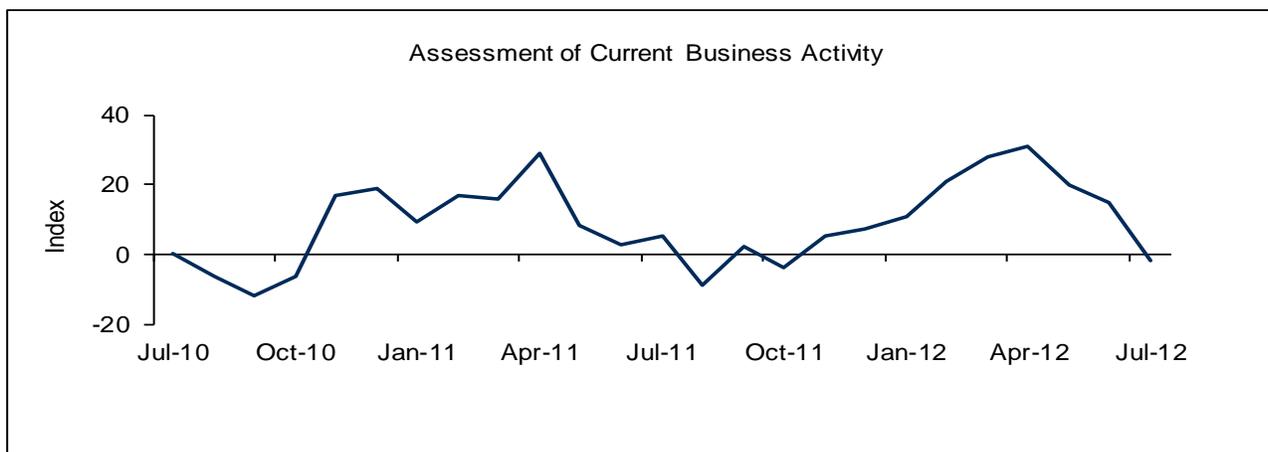
The current labor demand indicators, which had been holding firm in the face of softening general business conditions in recent months, also dropped in July. The number of workers index moved from positive to negative territory and the current average hours metric held very close to 0. While the expected number of workers measure was still positive in July, it was well below the average levels seen earlier in the year.

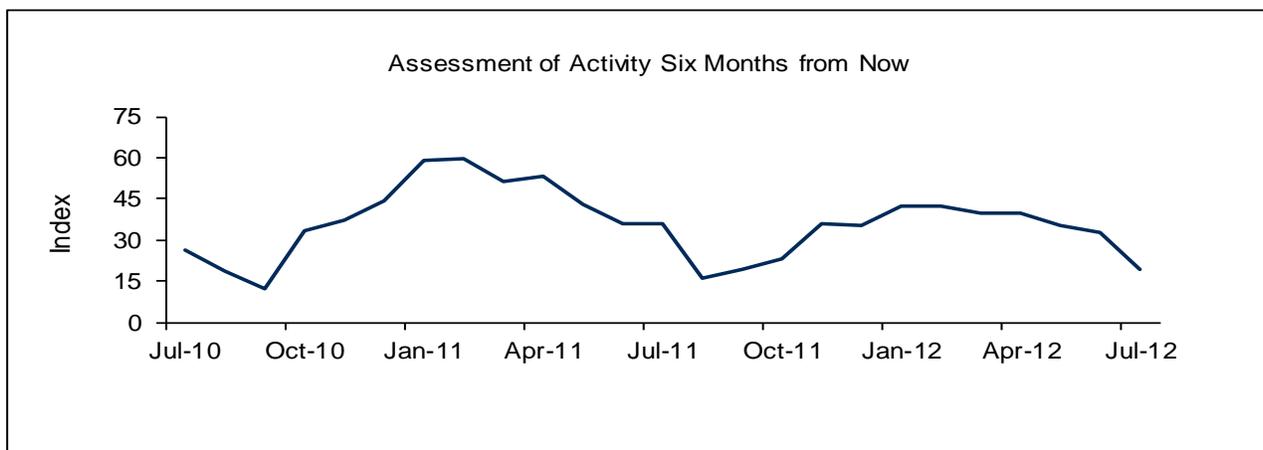
There was some softening in business spending measures as well, but it was not universal. Indeed, spending for capital equipment (total and equipment/software) largely held up. However, the

index reflecting spending on business services plunged to near 0. Looking forward, it is interesting to note that each of the three comparable business spending expectations metrics were positive in July and little changed from June. The recent softening in general business conditions has eased price pressures. Our current pricing measures (paid and received) were virtually unchanged during the month. Moreover, respondents expect price pressures to remain subdued in coming months.

General Business Assessments

The current Carolinas general business activity index dropped to -2 in July from 15 in June. The decline was the sharpest in the current conditions measure in more than a year, and left the index in negative territory for the first time since October 2011, when the region was still stuck in the autumn lull. Also in July, the current revenues/shipments index fell twenty points to -8 during the month, its lowest reading since September 2010. The deterioration in current activity left respondents less confident of the future as well. The most recent decline in general business expectations (fourteen points in July) was the largest since last August, when the federal government's long-term debt outlook was downgraded. The revenue expectations measure also moderated since June.





Labor Market Conditions

Labor market conditions clearly softened in July. Our labor demand indicators held firm in May and June, even as the general economic expansion slowed. In July, however, the current number of workers index dropped twelve points, leaving the index at -2, its first negative reading since October 2011. Moreover, the average weekly hours measure remained very close to 0, after dropping fifteen points in June. Readings so close to 0 suggest that labor demand stalled in the region. Softening was also evident in the hiring plans measures, as the expected number of workers index dipped four points to 8; and the expected average hours metric remained barely above breakeven at 1.

The current availability of labor index, a reflection of labor supply, dipped into negative territory in July. A reading of -2 suggests that firms are not seeing a glut of qualified workers despite persistently high unemployment rates in the region. And, in spite of softer business conditions and labor demand, our current wages index is higher compared to two months earlier. Expectations for availability of labor and wages were little changed in July.

Business Spending

The survey's current capital spending measures remained relatively solid in July, but business services spending softened. The current equipment and software spending index inched up to 15 this month from 14 in June, while the current total capital equipment measure decreased five points to 11. The current business services spending metric fell to 1 from 8 a month earlier.

Meanwhile, expectations for business spending six months out were only slightly softer. The expected equipment and software expenditures index decreased to 11 from 14 while the expected total capital spending measure dipped one point to 17. The business services spending expectations index remained at 3. While these measures were down only slightly on balance, each was well below levels seen in the first quarter.

Prices

The recent softening in general business conditions has been accompanied by an easing of price pressures. The current prices paid and prices received indexes barely moved in July, coming in at 2.26 percent and 1.00 percent, respectively. Respondents expect input prices to increase at a more or less steady pace in coming months, but anticipate that prices received will increase at a slower pace, thereby intensifying margin pressures.

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Business Activity Indexes^{1, 4}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	Jul-12	Jun-12	May-12	Jul-12	Jun-12	May-12
General Business Conditions	-2	15	20	19	33	35
Sales	-8	12	11	18	24	32
Employment						
Number of Employees	-2	10	12	8	12	15
Availability of Skills Needed	-2	1	0	2	2	8
Average Workweek	2	1	16	1	1	9
Wages	13	13	5	18	17	23
Spending						
Business Services Expenditures	1	8	9	3	3	8
Total Capital Expenditures	11	16	21	17	18	22
Equipment or Software	15	14	18	11	14	22
Price Trends³						
Prices Paid for Inputs	2.26	2.19	2.70	2.43	2.38	2.69
Prices Received for Outputs	1.00	0.98	1.26	1.11	1.57	1.36

Technical Notes:

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