

# Regional Surveys of Business Activity

## Carolinas Survey of Business Activity

### *Business Activity Softened in December, Expectations Were Lowered*

#### Overview

Business activity continued to slow in the Carolinas as 2012 was drawing to a close, according to responses to our Carolinas Survey of Business Activity. Moreover, while still positive, respondents' confidence regarding economic conditions six months from now moved lower over the past three months. In December, our current general business conditions index dropped into negative territory for the first time since August, and the current sales metric came fell below 0 for the fourth time in the past six months.

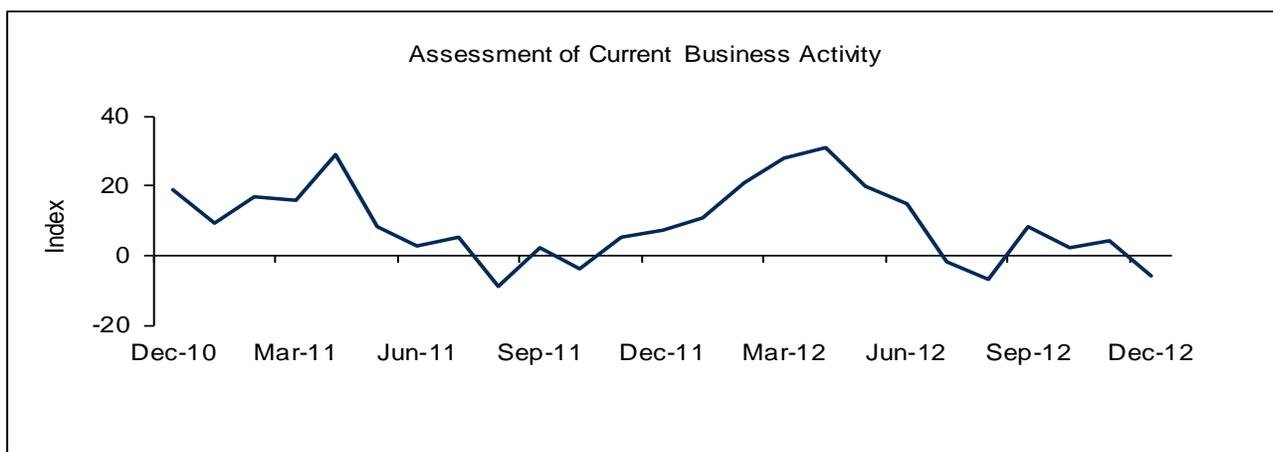
Perhaps more disconcerting, the slump in business activity apparently led many firms to rethink their hiring plans. Our current labor market indicators – the number of employees and the average hours worked – were both in clear contraction territory in December, indicating that labor demand softened considerably. In addition, the expected number of workers index fell into negative territory as well.

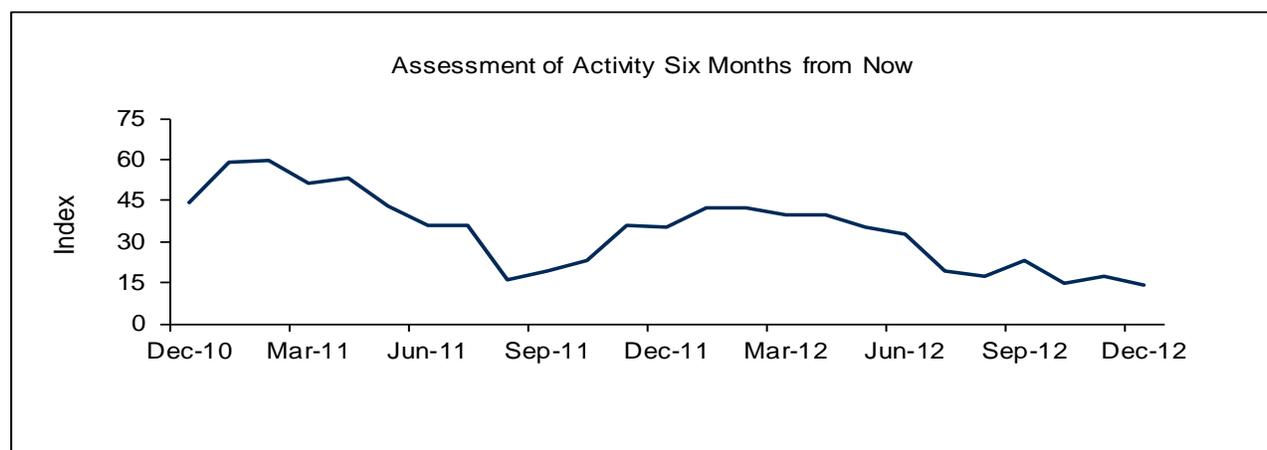
With the perceived softening in current economic conditions and heightened uncertainty caused by political indecision, business spending ground to a virtual halt in December. None of our three current business spending metrics topped 0, with two of them falling into clear negative territory. While two of

the three business spending expectations indicators moved lower as well, the erosion was not as pronounced as in the current measures. General price pressures were fairly benign in December, according to our survey respondents. The current measures, paid and received, showed a small upward movement in the rate of growth while the expected price indicators moved slightly in the other direction.

#### General Business Assessments

According to our survey results, economic conditions in the region deteriorated considerably in December. The current general business conditions indicator, our headline metric, fell ten points from November to -6. December's decline was the index's third straight and left it in negative territory for the first time since August. Meanwhile, the current sales metric dropped fourteen points from November's reading to -5. The current sales measure has been negative in four of the past six months. As progress on avoiding the fiscal cliff proved elusive, our survey respondents became less optimistic about activity in coming months. The expected general business conditions index eased back to 14 in December from 17 a month earlier, while the expected sales metric fell to 16 from 23.





### Labor Market Conditions

Given the deterioration in the general business climate, it is not surprising that labor demand fell off as well. The current number of employees indicator fell further into negative territory in December and, at -12, was at its lowest level in more than two years. After several months of near zero readings, it appears that firms have adopted a “less is more” approach to hiring. Meanwhile, the average number of hours index plunged to -13, its lowest reading since July 2010.

Turning to the outlook for labor demand, firms showed less appetite for new workers but planned to work their employees longer hours. The expected number of workers index fell four points from November to -1. December’s was the first negative reading in the expected number of workers index since the recovery got under way in mid-2009. By contrast, the expected average hours index rose to 9 from 4.

### Business Spending

In addition to weaker hiring plans, firms also appeared more reluctant to spend on capital equipment and business services late in 2012. As has been the case recently, the current business services spending measure was particularly weak. In December, this metric fell to -10 from -4 in November, marking the fifth straight negative monthly reading. The current capital equipment spending measure fell ten points to -4, while the current equipment and software indicator dropped to 0 from 4.

The comparable business spending expectations metrics were mixed, but softer on balance. The expected business services spending index remained the weakest of the three measures as it fell to -4 in December from 0 in November. The equipment and software spending expectations index showed the biggest decline, however, falling to 9 from 15. By contrast, the total capital equipment spending expectations actually strengthened in December, rising to 14 from 12 the prior month.

### Prices

The survey’s inflation measures changed little in recent months. The current prices paid index showed a 1.97 percent increase in December compared to a 1.91 percent rise in November. The current prices received measure indicated a 1.36 percent gain compared to 1.32 percent the prior month.

On balance, respondents expect inflation to ease a bit in coming months. The expected prices paid measure dipped to 2.53 percent in December from 2.62 percent, while the expected prices received index fell to 1.59 percent from 1.95 percent.

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

Business Conditions in the Carolinas	Current Conditions			Expectations <sup>2</sup>		
	Dec-12	Nov-12	Oct-12	Dec-12	Nov-12	Oct-12
General Business Conditions	-6	4	2	14	17	15
Sales	-5	9	-1	16	23	13
<b>Employment</b>						
Number of Employees	-12	-5	-1	-1	3	0
Availability of Skills Needed	0	-4	4	0	1	5
Average Workweek	-13	1	2	9	4	2
Wages	3	-1	8	25	30	22
<b>Spending</b>						
Business Services Expenditures	-10	-4	-7	-4	0	1
Total Capital Expenditures	-4	6	-5	14	12	4
Equipment or Software	0	4	3	9	15	7
<b>Price Trends<sup>3</sup></b>						
Prices Paid for Inputs	1.97	1.91	2.36	2.53	2.62	2.73
Prices Received for Outputs	1.36	1.32	1.49	1.59	1.95	1.96

### 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