

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Business Activity Remained Soft, Expectations Inched Higher in January

Overview

Business conditions in the region changed little to start the new year as the softening that became apparent in December persisted into January, according to responses to our Carolinas Business Activity Survey. As was the case at the end of 2012, the current business conditions indicator and the current sales measure were firmly negative in January. And while expectations for economic activity six months from now were still positive and rose a bit from December, they are much lower than at the same time in 2012.

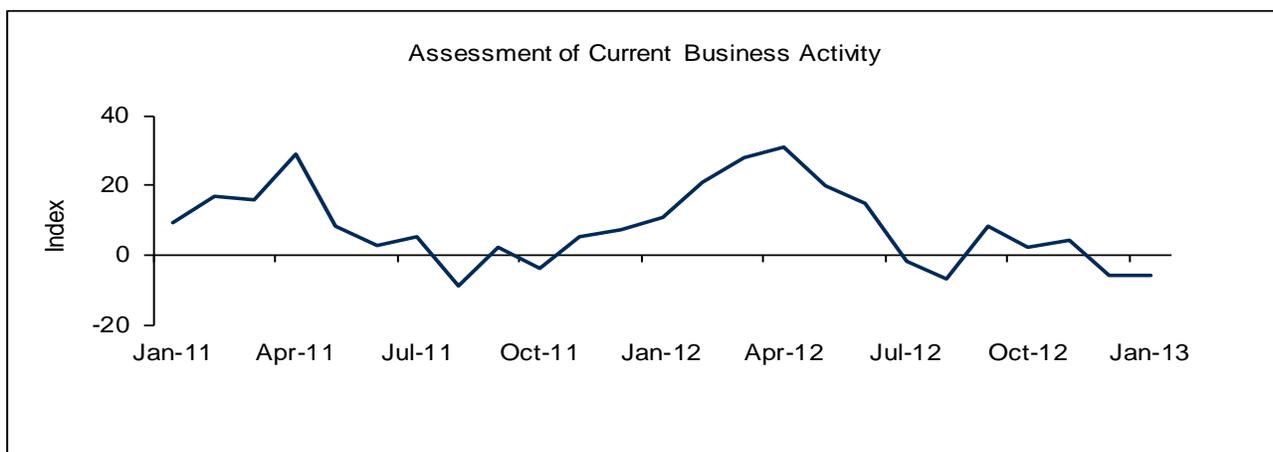
Accompanying the weakness in general business activity was an air of caution regarding hiring. Our current labor market utilization measures, number of employees and the average hours worked, were deeply entrenched in negative (or contraction) territory in January. On a slightly more positive note, the expected labor demand measures firmed, on balance, although they were still soft.

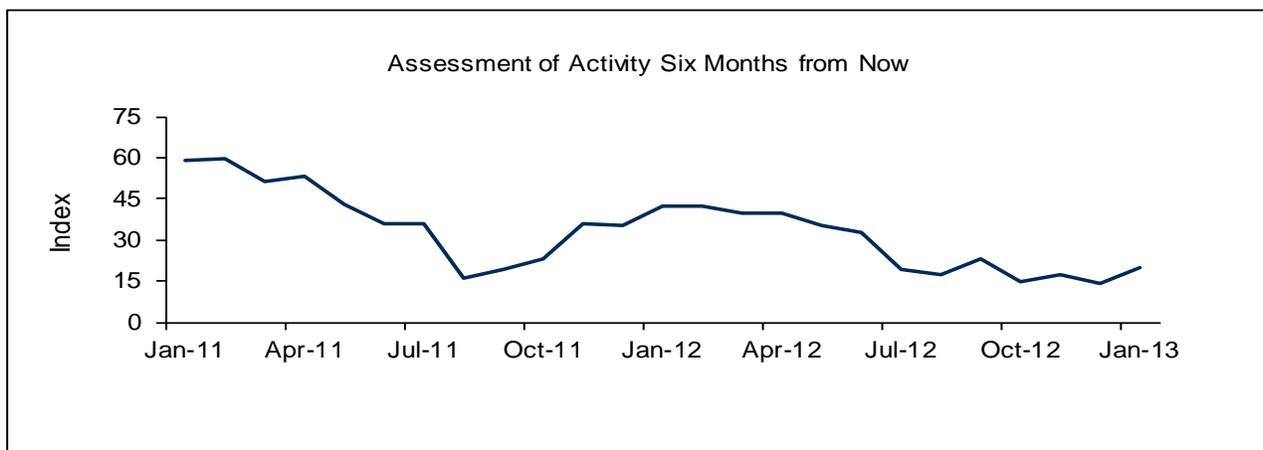
While difficult to discern the causes of the weakness in the labor demand indicators, anecdotal comments suggest that at least some of it can be attributed to indecision in Washington regarding the nation's fiscal future. And that indecision can affect longer term investment decisions as well. For the second

month in a row, none of our three current business spending measures topped 0, while expectations for such spending generally moved lower. Price pressures remained relatively benign in January. The current and expected prices paid metrics increased modestly during the month, but the current and expected prices received indicators were lower, suggesting more pressure on firms' margins.

General Business Assessments

According to January's survey results, overall economic conditions in the Carolinas remained sluggish into 2013 and little changed from December. Our headline indicator, the current general business conditions index, was unchanged at -6. While the index itself was in negative territory, it did not deteriorate further as it had in the prior three months. The current sales measure came in at a similar -7 in January, which represents a two-point decline from December. With regards to respondents' expectations, the outlook appeared to improve modestly since last month. Our expected business conditions index rose six points from a month earlier, to 20. A year ago, this measure stood at 42. Meanwhile, the expected sales metric inched up to 17 in January from 16 in December.





Labor Market Conditions

Taking into account the weakness evident in the current and expected general business conditions metrics, it is not at all that surprising that respondents' demand for labor remained on the weak side. After all, if firms do not expect business to pick up, they are not going to add new workers. Our primary labor demand indicator, the number of employees, edged a little deeper into contraction territory, moving down to -13 in January from -12 a month earlier. Moreover, the current average workweek measure remained weak at -8, although that does represent an improvement from December. Looking forward, respondents expect labor market conditions to improve modestly in coming months. In December, the expected number of employees index fell into negative territory for the first time in more than three years, but it climbed back above 0 (to 5) in January. The expected average workweek measure remained positive at 2, which was seven points lower than the prior month.

Business Spending

The current business services spending metric slid further into contraction territory, moving down to -13 in January from -10 in December. January's was the weakest reading for this measure since the autumn of 2010. The current equipment or software indicator also declined, but barely, as it reached -1 compared to 0 a month earlier. Our current total capital expenditures index did move up four points in January, to 0, but for the second straight month none of the three current business spending measures signaled expansion.

The current uncertain business environment appeared to leave many firms less willing to spend in the future as well. On balance, our expected business spending measures softened in January. The expected total capital expenditures indicator fell ten points to 4, while the expected equipment or software spending metric decreased by six points to 3. The expected business services spending index rose in January, but the four-point gain left the index at 0, suggesting no increase or decrease in spending plans.

Prices

Inflation remained subdued, but input costs appeared to be squeezing margins a bit more. The average increase in current prices paid rose to 2.20 percent in January compared to 1.97 percent in December, while the average increase in current prices received fell to 1.27 percent from 1.36 percent.

Similarly, the average increase in expected prices paid rose to 2.63 percent from 2.53 percent a month earlier, while the average increase in expected prices received dipped to 1.58 percent in January from 1.59 percent in December.

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Business Activity Indexes^{1, 4}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	Jan-13	Dec-12	Nov-12	Jan-13	Dec-12	Nov-12
General Business Conditions	-6	-6	4	20	14	17
Sales	-7	-5	9	17	16	23
Employment						
Number of Employees	-13	-12	-5	5	-1	3
Availability of Skills Needed	-3	0	-4	2	0	1
Average Workweek	-8	-13	1	2	9	4
Wages	6	3	-1	22	25	30
Spending						
Business Services Expenditures	-13	-10	-4	0	-4	0
Total Capital Expenditures	0	-4	6	4	14	12
Equipment or Software	-1	0	4	3	9	15
Price Trends³						
Prices Paid for Inputs	2.20	1.97	1.91	2.63	2.53	2.62
Prices Received for Outputs	1.27	1.36	1.32	1.58	1.59	1.95

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