

# Regional Surveys of Business Activity

## Carolinas Survey of Business Activity

### *Business Activity Bounced Up in February, and Expectations Firmed*

#### Overview

Business conditions in the Carolinas appeared to improve in February, according to responses to our Carolinas Survey of Business Activity. The headline current business conditions index jumped into positive territory, following two straight negative readings in December and January. However, the sentiment reflecting general business conditions did not carry over to the current sales metric, which remained weak. As is often the case, the improvement in current conditions raised respondents' expectations for future activity.

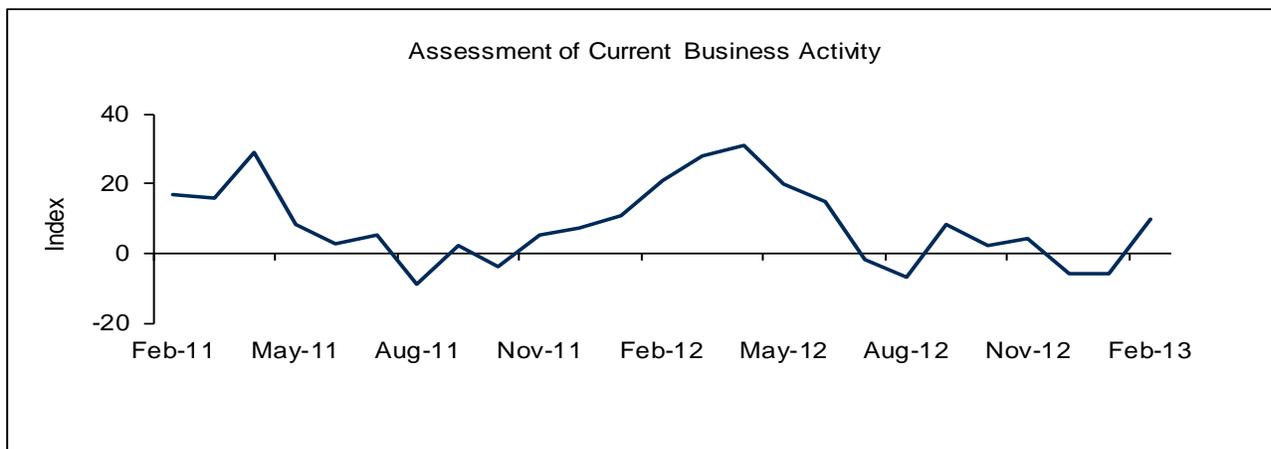
Despite the increase in our current business conditions index, the current labor demand indicators remained weak, although they both increased from very low levels in December and January. Simply put, firms maintained a cautious approach to hiring. That said, more firms expect to add to their payrolls in coming months than those who expect to subtract from them.

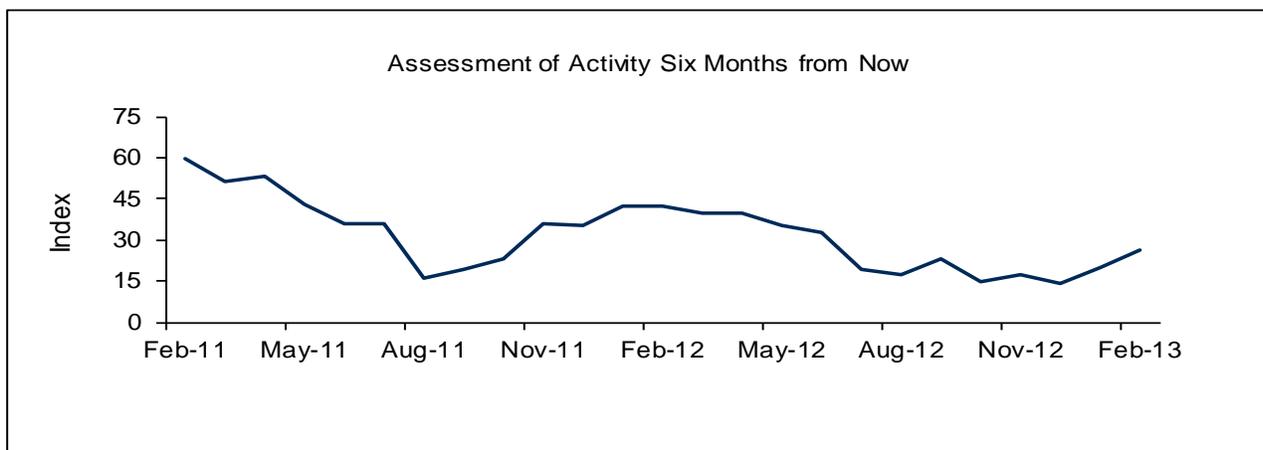
Meanwhile, the renewed sense of optimism about the economy was accompanied by an increase in current business spending. All three of our current metrics bounced back into positive territory in February. For the business services index, it marked the first positive result in seven months. Moreover,

respondents to the survey indicated that they will be spending more in the coming six months. The current pricing metrics increased somewhat during the month, but profit margin pressures eased for some respondents. The results on pricing expectations were mixed in February, as firms generally anticipate input price growth to slow somewhat while output price growth accelerates.

#### General Business Assessments

Economic conditions seemed to improve markedly in the region during February, as both our current and expected measures of business activity increased. After languishing in negative territory in December and January, the current general business conditions index jumped sixteen points in February to 10. While the current sales metric rose six points during the month, its slightly negative reading (-1) suggests that firms' sales had not risen materially, despite the improvement in general economic conditions. However, with their assessment of current conditions improving and their expectations for more of the same (the expected general business conditions index increased to 26 in February from 20 a month earlier), respondents expect sales trends to follow suit. The expected sales measure rose twelve points from January to 29 in February.





### Labor Market Conditions

In light of the improvement in general business conditions in February, it is disappointing that labor demand indicators (number of employees and average hours) remained so soft. While the current number of employees metric increased nine points to -4 during the month, February marked the eighth straight month in which it has come below 0. A negative reading means that a greater share of respondents reported employing fewer workers during the month than that which reported employing more. Similarly, the current average hours worked index was negative for the third month in a row, even after it increased five points from January to -3 in February. Expectations firmed slightly. The expected number of employees index increased to 7 in February from 5 a month earlier, while the expected average hours measure moved up to 9 from 2. While the improvement in expectations was welcome, both indexes remained well below the range established in early 2012.

### Business Spending

Accompanying the improved assessment of current economic conditions, each of our current business spending measures increased from January to February, with all three ending in positive territory for the first time in seven months. The current business services spending index, which had been the weakest of the three, jumped 16 points in February to 3. At the same time, the current equipment or software measure rose seven points to 6 while the current total capital expenditures measure edged up three points to 3.

The general increase in optimism carried over into business spending expectations as well, as all three measures rose. The expected business services spending measure moved up from 0 in January to 5 in February, its highest reading since May 2012. Late in 2012 and early in 2013, the two expected capital equipment measures had softened, but both improved in February – the total capital spending metric rose to 12 from 4 and the equipment or software measure increased to 9 from 3.

### Prices

Current input price growth accelerated slightly, to 2.29 percent in February from 2.20 percent a month earlier, but remained well within the modest range established over the past two years. Respondents' expectations for input price increases edged down to 2.48 percent in February from 2.63 percent.

Meanwhile, the current prices received measure moved up to 1.72 percent in February from 1.27 percent, while the expected prices received metric increased to 1.82 percent from 1.58 percent. The smaller gap between prices paid and received suggests that margin pressures eased a bit.

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

Business Conditions in the Carolinas	Current Conditions			Expectations <sup>2</sup>		
	Feb-13	Jan-13	Dec-12	Feb-13	Jan-13	Dec-12
General Business Conditions	10	-6	-6	26	20	14
Sales	-1	-7	-5	29	17	16
<b>Employment</b>						
Number of Employees	-4	-13	-12	7	5	-1
Availability of Skills Needed	2	-3	0	-1	2	0
Average Workweek	-3	-8	-13	9	2	9
Wages	14	6	3	25	22	25
<b>Spending</b>						
Business Services Expenditures	3	-13	-10	5	0	-4
Total Capital Expenditures	3	0	-4	12	4	14
Equipment or Software	6	-1	0	9	3	9
<b>Price Trends<sup>3</sup></b>						
Prices Paid for Inputs	2.29	2.20	1.97	2.48	2.63	2.53
Prices Received for Outputs	1.72	1.27	1.36	1.82	1.58	1.59

### 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