

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

The Region's Expansion Steadied in April, But Firms Grew More Cautious About Hiring

Overview

As was the case last month, those who responded to the Carolinas Survey of Business Activity saw little change in current general business conditions from March to April as the regional economy continued to expand. While the assessment of general business conditions didn't change much, the current sales metric jumped to its highest level in a year. Meanwhile, respondents continued to expect general business conditions and their own sales to pick up in coming months.

Despite seeing little change in overall business conditions, fewer survey respondents indicated that they were employing more labor resources. Both current labor demand indicators (number of employees and average hours worked) reversed course and declined in April. Moreover, while still positive, a smaller net percentage of employers plan to add workers in the coming six months.

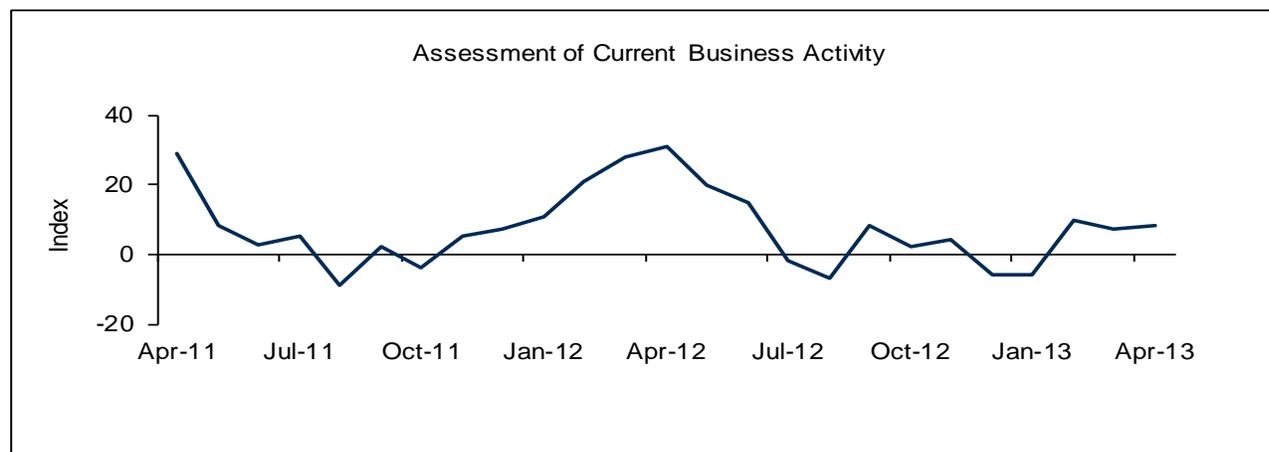
Respondents' caution also manifested itself in the measures of business spending. Of the three current spending measures, only the equipment or software index increased from March to April, while the total capital spending and business services spending metrics moved lower. The equipment spending indexes were positive, but soft, and the business services measure was negative. The

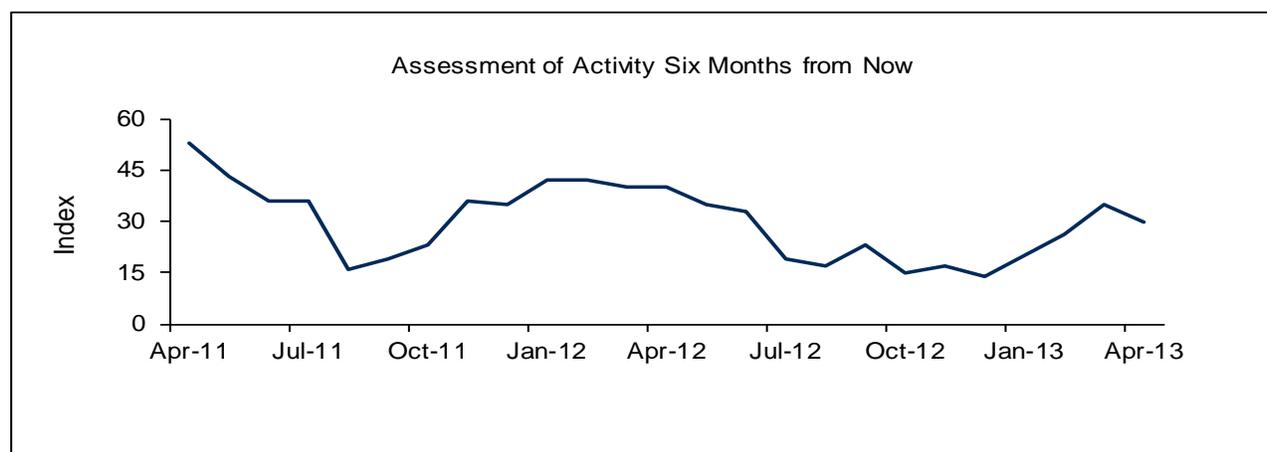
business spending expectations numbers were higher than the current measures, but moved lower, on balance. The current pricing growth rates were virtually unchanged in April, for both inputs and outputs. With regards to future pricing, however, respondents generally expect inflation to accelerate slightly, but remain low.

General Business Assessments

The economic expansion in the Carolinas held relatively steady in April, according to responses to the Carolinas Survey of Business Activity. The current general business conditions index was little changed as it inched up to 8 in April from 7 a month earlier. After dropping into negative territory at the turn of the year, this index has been positive for three successive months. While the survey results suggested little change in general business conditions, a greater net share of respondents said that sales had increased, with this measure jumping seven points in April to its highest reading in a year (14).

Interestingly, the general firming in current conditions and sales did not translate into more optimism for the future. The expected general business conditions and expected sales measures both fell in April, although they remained firmly in positive territory.





Labor Market Conditions

The current number of workers index, after climbing into positive territory in March for the first time in nine months, fell back into negative territory (-1) in April. This reading was particularly disappointing in light of the increases in the current general business conditions and sales indexes.

Adding to the softening labor market conditions, the current average hours worked metric edged down to -2 in April from -1 a month earlier. This index has been negative for the past five months. And while firms still expect to employ more labor inputs in the coming six months, the expected labor demand indicators slipped in April. The expected number of workers index dipped to 5 this month from 8 in March while the expected average hours worked measure decreased to 7 from 14. In spite of the apparent softening in demand for labor, the wage indexes (current and expected) remained firmly entrenched in positive territory, pointing to higher wage pressures.

Business Spending

In addition to softer demand for labor, respondents generally grew more cautious about their business spending and spending plans. The current business spending metrics were down, on balance, although the equipment or software indexed eked out a one point gain in April (rising to 3 from 2 in March). Of the three, however, the business services spending metric was the only current spending measure to register a negative reading during the month.

The directional trends in the expected business spending indexes were not vastly different from

those seen in the current measures, although the levels were modestly higher. The expected business services spending metric fell five points in April to 0. The expected equipment or software spending measure fell to 7 in April from 11 a month earlier, more than erasing the prior month's gain. In contrast, the total capital expenditures spending plans index increased by three points in April to 16, its highest reading since August 2012.

Prices

Current inflationary pressures were virtually unchanged in April and remained well contained. The average current prices paid measure edged up to 1.81 percent from 1.76 percent a month earlier, while the current prices received metric held at 1.12 percent.

Meanwhile, respondents' expectations for future price increases moved a little higher. The expected prices paid index inched up to 2.35 percent from 2.18 percent and the expected prices received measure increased to 1.60 percent from 1.31 percent.

Contact

Rick Kaglic

Senior Regional Economist
Research Dept./Regional Economics
Federal Reserve Bank of Richmond
Charlotte Office
Office 704-358-2116 • Fax 704-358-2300
richard.kaglic@rich.frb.org
www.richmondfed.org

Business Activity Indexes^{1, 4}

| Business Conditions in the Carolinas | Current Conditions | | | Expectations ² | | |
|--------------------------------------|--------------------|--------|--------|---------------------------|--------|--------|
| | Apr-13 | Mar-13 | Feb-13 | Apr-13 | Mar-13 | Feb-13 |
| General Business Conditions | 8 | 7 | 10 | 30 | 35 | 26 |
| Sales | 14 | 7 | -1 | 29 | 35 | 29 |
| Employment | | | | | | |
| Number of Employees | -1 | 4 | -4 | 5 | 8 | 7 |
| Availability of Skills Needed | -5 | 2 | 2 | 1 | 7 | -1 |
| Average Workweek | -2 | -1 | -3 | 7 | 14 | 9 |
| Wages | 7 | 5 | 14 | 25 | 24 | 25 |
| Spending | | | | | | |
| Business Services Expenditures | -4 | -1 | 3 | 0 | 5 | 5 |
| Total Capital Expenditures | 3 | 6 | 3 | 16 | 13 | 12 |
| Equipment or Software | 3 | 2 | 6 | 7 | 11 | 9 |
| Price Trends³ | | | | | | |
| Prices Paid for Inputs | 1.81 | 1.76 | 2.29 | 2.35 | 2.18 | 2.48 |
| Prices Received for Outputs | 1.12 | 1.12 | 1.72 | 1.60 | 1.31 | 1.82 |

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