

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Business Activity Picked Up in the Carolinas During May; Labor Demand Firmed

Overview

Business activity seemed to accelerate in the Carolinas during May, according to the latest responses to the Carolinas Survey of Business Activity. The current general business conditions index increased notably, settling at a level very close to the current sales metric, which had increased a month earlier. The generally upbeat tone about current conditions raised respondents' expectations of future activity as well, unlike in April.

Importantly, the labor market picture appeared to brighten in May. After registering negative readings in nine of the prior 10 months, the survey's current labor demand indicator jumped into solid positive territory, as did the current average workweek measure. Expectations for labor demand six months out changed little during the month, remaining modestly upbeat.

The improved assessment of general business conditions likely contributed to a broad-based and significant increase in the three current business spending metrics addressed in the survey. The jump in the business services spending metric was particularly welcome after months of weakness. In addition to the increase in current metrics, the comparable expectations measures remained solidly in positive territory. The acceleration in

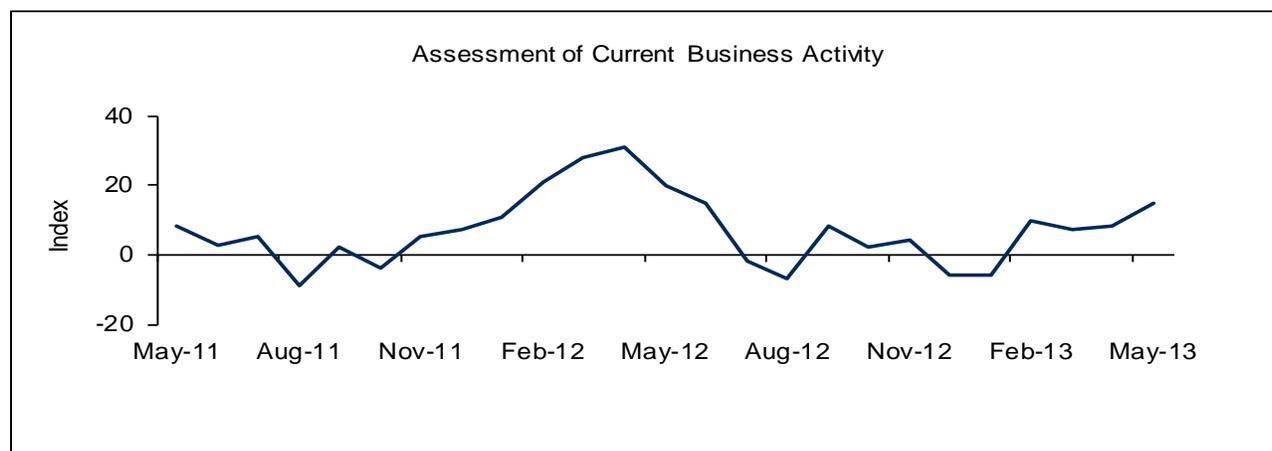
current business activity was accompanied by an increase in the wage index, as well as some acceleration in current price growth (paid and received). In addition, respondents raised their expectations for future inflation, albeit slightly.

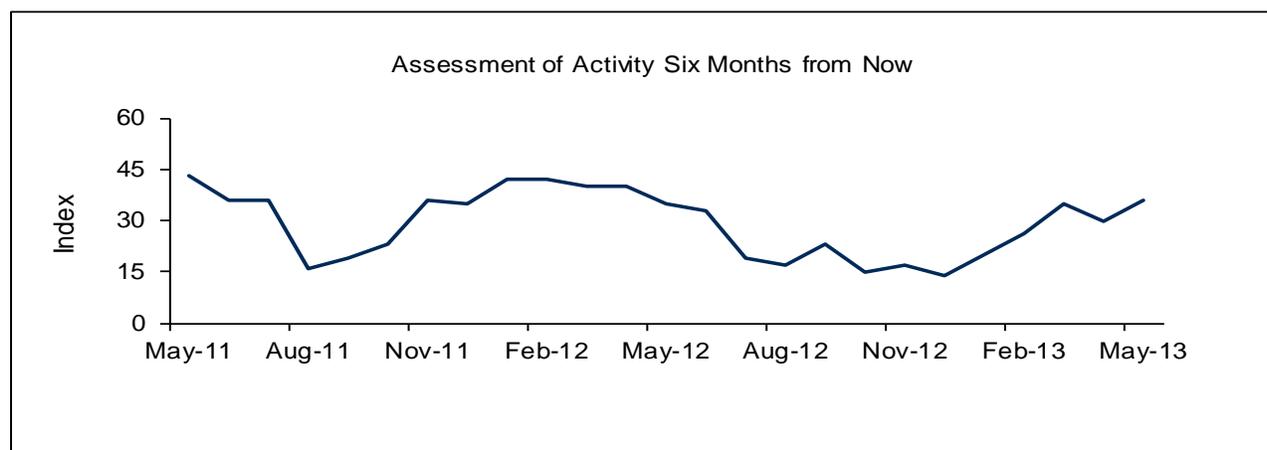
General Business Assessments

The region's economic expansion appeared to gather momentum in May as each of the measures of current activity increased from April. On the output front, the current general business conditions index (the survey's headline metric) increased by seven points to 15, its highest reading since June of last year. The improvement in respondents' sense of general business activity lagged an increase in their reported sales by one month. The current sales metric increased seven points in April and by another two points in May, settling in at its highest level in more than a year (16). Unlike last month, the recent acceleration in economic activity raised respondents' expectations for the coming six months as well, with the expected general business conditions index rising to 36 in May from 30 in April, and the expected sales metric increasing to 33 from 29.

Labor Market Conditions

Labor demand firmed in the Carolinas, according to this month's survey results, as the two key measures





of labor demand – number of employees and average workweek – jumped from April’s readings. The current number of workers index came in at 8 in May, a nine-point improvement from the prior month. It was only the second positive reading in this metric in the past 11 months. Meanwhile, the current average workweek measure increased to 8 from -2 in the same timeframe. The current labor demand indicators had remained stubbornly weak in recent months, even as respondents’ assessments of general business conditions improved.

On the expectations side, the measures remained positive but, on balance, did not improve. The expected number of workers index was unchanged in May, at 5, while the expected average workweek edged down to 6, a one-point slide from April. On the supply side, the current availability of skills metric jumped to 5 in May from -5 a month earlier.

Business Spending

Business demand for inputs other than labor appeared to rise as well. The current total capital expenditures index increased 16 points in May to 19, its highest reading in a year and the second highest dating back to December 2010. The current equipment or software measure rose to 12 from 3 a month earlier. Meanwhile, the current business services spending indicator, which had been particularly soft in recent months, jumped to 8 in May from -4 in April.

While each of the comparable business spending expectations indexes was in positive territory in May, the month to month changes were mixed. Moving in a positive direction, the business services

spending expectations indicator increased to 6 in May from 0 in April. The equipment or software spending expectations metric improved at a slower pace, inching up to 8 this month from 7 last month. The total capital spending expectations index declined to 11 in May from 16 a month earlier. Still, a reading of 11 is solidly in expansion territory.

Prices

Price growth accelerated a bit in May, in both current and expected measures. The average current prices paid index increased to 2.14 percent this month compared to 1.81 percent in April, while the current prices received measure rose to 1.41 percent from 1.12 percent.

Meanwhile, respondents expect prices to rise at a slightly faster pace in the coming six months, as the expected prices paid increase came in at 2.45 percent in May and the expected prices received increase at 1.78 percent. These compare to 2.35 percent and 1.60 percent in April, respectively.

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Business Activity Indexes^{1, 4}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	May-13	Apr-13	Mar-13	May-13	Apr-13	Mar-13
General Business Conditions	15	8	7	36	30	35
Sales	16	14	7	33	29	35
Employment						
Number of Employees	8	-1	4	5	5	8
Availability of Skills Needed	5	-5	2	4	1	7
Average Workweek	8	-2	-1	6	7	14
Wages	15	7	5	19	25	24
Spending						
Business Services Expenditures	8	-4	-1	6	0	5
Total Capital Expenditures	19	3	6	11	16	13
Equipment or Software	12	3	2	8	7	11
Price Trends³						
Prices Paid for Inputs	2.14	1.81	1.76	2.45	2.35	2.18
Prices Received for Outputs	1.41	1.12	1.12	1.78	1.60	1.31

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