

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Carolinas' Expansion Accelerated in June; Respondents Remained Bullish About the Future

Overview

Business conditions continued to improve into June, according to the latest responses to our Carolinas Survey of Business Activity, as did firms' expectations for activity in coming months. Both broad-based measures of current activity – general business conditions and revenues – increased for the third straight month and both settled into their highest levels in more than a year. In addition, respondents' expectations for business activity six months out remained high.

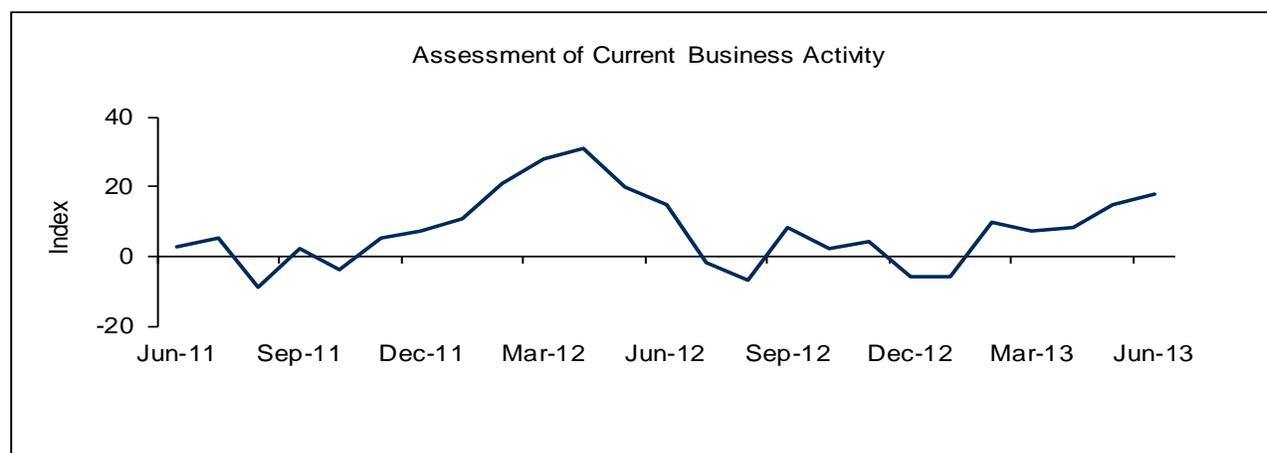
Moreover, labor demand continued to solidify. After a run of weak readings that stretched from July 2012 through April, our current labor demand indicator posted its second straight solid reading in June. Similarly, the current average weekly hours index moved higher this month. In addition to firming current conditions, expected labor demand jumped in June to its highest reading in 13 months.

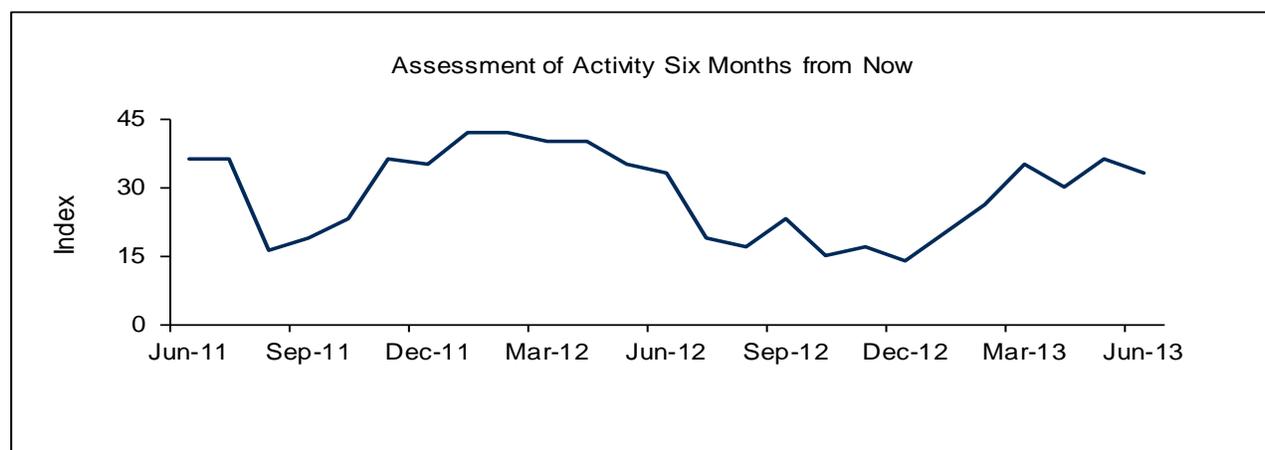
On balance, business spending increased in June, as each of our three current spending measures were positive, but a decline in each indicator suggested it was expanding at a slower pace. The three corresponding expectations measures moved higher, with each ending the month at its highest reading so far this year.

With regard to inflation pressures, the measure of current wages moved down somewhat in June, although it was positive, and the average increase in prices paid dipped. The average increase in prices received edged up, yet was still very low by historical standards. Changes in the corresponding cost and price metrics were insignificant.

General Business Assessments

The region's economic expansion appeared to gather momentum in June, according to survey responses. The headline metric (current general business conditions) rose three points from May, settling in at 18. June's was the highest reading in current general business conditions since it registered 20 in May 2012. After slipping considerably around the turn of the year, the economy has clearly regained traction. Stronger revenues were likely the driving force behind the upbeat assessment of overall conditions, as the current sales measure increased for the fifth month in a row in June, reaching 17, its highest level since April 2012. Respondents' expectations remained bullish for general business conditions six months out, although its measure dipped to 33 in June from 36 a month earlier. A similar situation played out with sales expectations, as this metric edged down one point to 32 in June.





Labor Market Conditions

It appeared that employers had finally regained some confidence with regards to hiring in recent months, following a considerable period of caution that persisted through the third and fourth quarters of 2012 and the first quarter of 2013. The current number of workers index, the survey's headline labor demand metric, increased two points in June to 10, its highest level since June of last year. Meanwhile, firms' responses suggested that their current workforce was working more hours, as the current average weekly hours index increased to 12 in June from 8 in May. Combined, the increases in number of workers and average weekly hours worked point to a clear firming in labor demand in the Carolinas. The expected labor demand metric jumped to 15 in June from 5 the prior month, and the 10-point increase was the largest month-to-month gain in 2 ½ years. The expected average workweek was positive in June, and largely unchanged from May.

Business Spending

Business spending continued to rise in June, although our measures of such spending softened somewhat, on balance. The total capital expenditures metric fell to 9 in June from 19 a month earlier, but that was still the second highest reading in the last 11 months. The current equipment or software spending measure eased to 11 from 12. The current business services spending index was 4 in June, four points lower than in May.

In contrast to the current measures, each of the three business spending expectations metrics rose in June. The total capital expenditures expectations index saw

the sharpest increase, as it jumped to 21 this month from 11 in May. The measure for expected outlays for equipment or software leaped eight points, to 16 in June. This measure has seen only one negative reading since September 2009. Meanwhile, the expected business services spending indicator increased to 10 from 6 a month earlier. June's was this metric's strongest reading in 16 months.

Prices

Margin pressures appeared to ease in June, even if only slightly. The average current prices paid index decreased to 1.89 percent this month from 2.14 percent in May, while at the same time, the current prices received measure rose to 1.48 percent from 1.41 percent.

Meanwhile, respondents expect prices to rise at a modest pace in the coming six months, as the expected prices paid increase averaged 2.32 percent in June and the expected prices received increase averaged 1.74 percent. These compare to 2.45 percent and 1.78 percent in May, respectively.

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Business Activity Indexes^{1, 4}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	Jun-13	May-13	Apr-13	Jun-13	May-13	Apr-13
General Business Conditions	18	15	8	33	36	30
Sales	17	16	14	32	33	29
Employment						
Number of Employees	10	8	-1	15	5	5
Availability of Skills Needed	5	5	-5	5	4	1
Average Workweek	12	8	-2	5	6	7
Wages	11	15	7	22	19	25
Spending						
Business Services Expenditures	4	8	-4	10	6	0
Total Capital Expenditures	9	19	3	21	11	16
Equipment or Software	11	12	3	16	8	7
Price Trends³						
Prices Paid for Inputs	1.89	2.14	1.81	2.32	2.45	2.35
Prices Received for Outputs	1.48	1.41	1.12	1.74	1.78	1.60

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