

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

Current Business Conditions Continued to Improve in May; Respondents Remained Optimistic

Overview

The Carolinas' economy expanded at a faster pace in May, according to responses to the latest Carolinas Business Activity survey. The headline current general business conditions index leaped to its highest level in more than two years during the month as the region's economy continued to recover from weather-related softening early in the year. After jumping in April, the current sales measure gave back a little ground in May but remained very high by historical standards. The corresponding expectations metrics edged down this month but were solidly in positive territory.

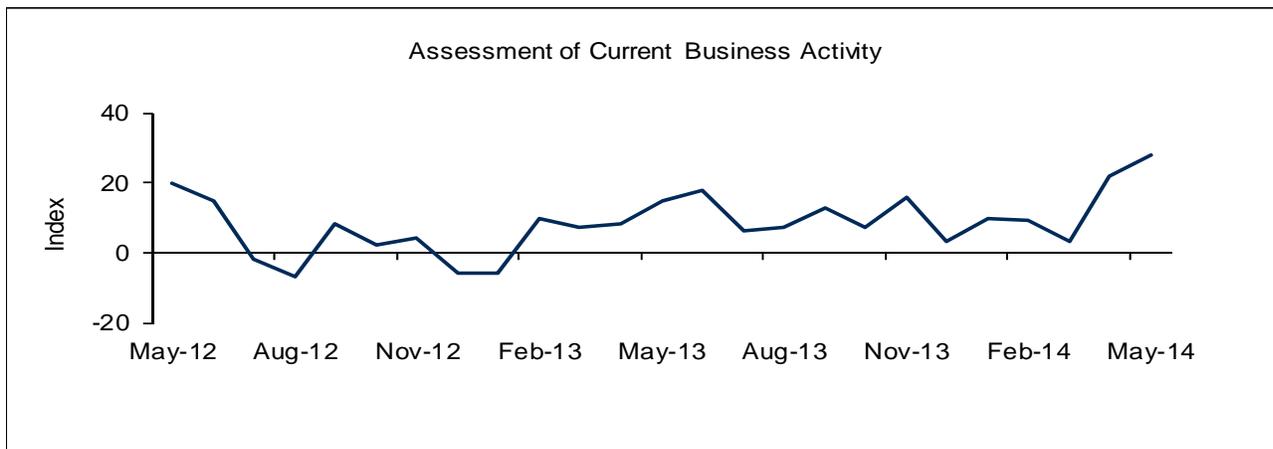
The acceleration in general business activity apparently led to further increases in labor demand. The current number of workers index rose in May for the fourth month in a row and increased to its highest level in nearly three years. Meanwhile, the current average workweek also jumped. Analogous expectations metrics pointed to more hiring in coming months.

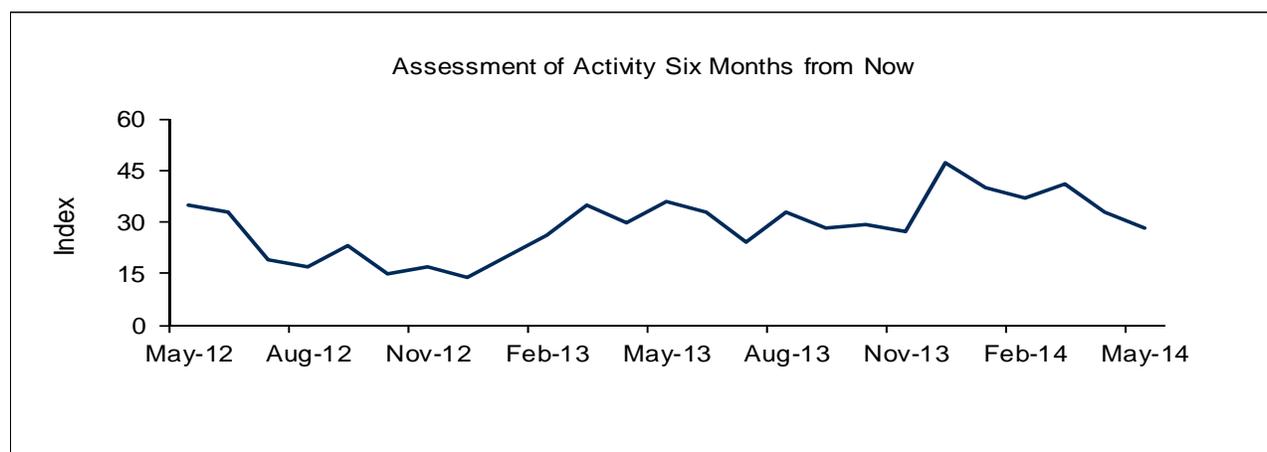
Current business spending accelerated in May, according to the survey's results. Planned expenditures remained entrenched in positive territory.

The average increase in current prices paid moved up again in May, but the average increase in prices received fell for the second month in a row. Meanwhile, expectations for increases in prices paid rose moderately in May while those for expected prices received were mostly unchanged.

General Business Assessments

Following a weather-related slowdown early in 2014, the regional economy appeared to be expanding at a faster pace in May, according to the results of the most recent Carolinas Business Activity Survey. The current general business conditions index increased to 28 this month, a six-point increase from the prior month, and its highest reading since April 2012. The current sales metric softened a bit in May, but only after rising sharply in April. Moreover, at 19, the current sales metric was at its second-highest level of the past two years. The measures reflecting respondents' expectations for the future moved down modestly but continued to point to a solid expansion in the coming six months. The expected general business conditions index dipped to 28 in May from 33 in April, while the expected sales measure declined to 26 from 29 a month earlier.





Labor Market Conditions

The recent improvement in business conditions (current and expected) has helped to solidify labor demand and boost hiring expectations. The current number of workers index, the survey's key hiring measure, increased to 15 in May from 12 in April. It was the current hiring measure's highest reading since June 2011. At the same time, the current average workweek indicator jumped to 15 from 8 a month earlier. The seven-point gain left the current average workweek index at its highest since May 2012. With current demand so high, expectations for hiring have eased back a bit, although they remain solid. The expected number of workers measure edged down three points in May, to 16, which is still well above the average reading of the past three years. Meanwhile, the average expected workweek metric declined to 5 this month from 11 in April. Wage pressures appeared to be increasing somewhat.

Business Spending

With the improvement in current economic conditions, more respondents reported that they had increased their spending. In fact, two of the three current business spending metrics rose to historic highs in May. The total capital spending index moved up to 24 this month (a five-point gain from April), attaining its highest reading since the series started in December 2010. The current equipment or software spending indicator inched up to 25 in May from 22 in April, which tied its all-time high. And the current business services spending measure increased seven points in May, to 14, the second-highest outcome in the history of the series.

Expectations for future expenditures were mixed but, on balance, changed little from the prior month. The equipment or software spending plans index increased five points (to 18), while the measure for total capital spending decreased five points (to 15) in May. The expected business services spending index edged up to 10, a one-point gain from April.

Prices

The average increase in current prices paid moved up to 2.01 percent in May from 1.84 percent in April. At the same time, the average increase in current prices received slipped to 1.16 percent from 1.31 percent. These measures suggest a little more pressure on profit margins than a month earlier.

Meanwhile, the expected average increase in prices paid measure moved up to 2.07 percent from 1.88 percent, while the expected average increase in prices received was largely unchanged at 1.39 percent in May.

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		
	May-14	Apr-14	Mar-14	May-14	Apr-14	Mar-14
General Business Conditions	28	22	3	28	33	41
Sales	19	23	-3	26	29	45
Employment						
Number of Employees	15	12	7	16	19	19
Availability of Skills Needed	-1	-3	-2	1	7	-1
Average Workweek	15	8	3	5	11	11
Wages	17	15	10	22	21	23
Spending						
Business Services Expenditures	14	7	16	10	9	16
Total Capital Expenditures	24	19	21	15	20	27
Equipment or Software	25	22	25	18	13	20
Price Trends³						
Prices Paid for Inputs	2.01	1.84	1.81	2.07	1.88	1.79
Prices Received for Outputs	1.16	1.31	1.63	1.39	1.38	1.38

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