

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

The Carolinas Business Expansion Slowed Somewhat in October; But Hiring Continued

Overview

The regional economy continued to expand in October, according to the results of the Carolinas Business Activity survey, although it did so at a slightly slower pace than was evident over the summer months. The headline current general business conditions index eased back from September, although it remained in firm positive territory; while the current sales metric was unchanged. Meanwhile, respondents became slightly more optimistic about the economy six months from now as both expectations measures (general business conditions and sales) inched up.

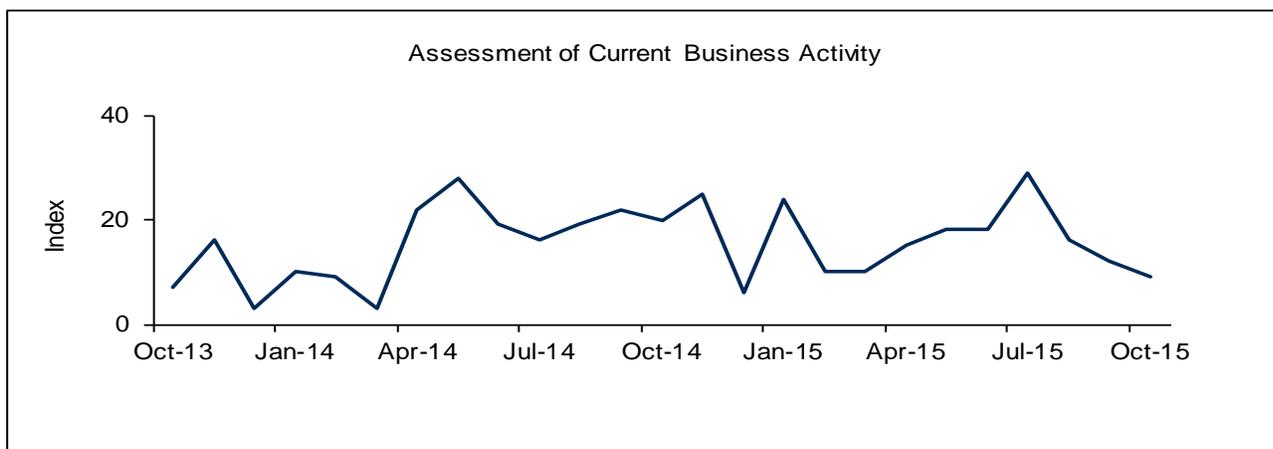
On balance, the demand for labor increased in the Carolinas during October. The current number of workers index (a measure of net hiring) bounced up this month after falling in August and September. In contrast, the current average workweek measure dipped into negative territory for the first time in 21 months. At the same time, responding firms indicated that they would be utilizing more labor in the months ahead, although the outlook was not quite as optimistic as during September. Both of the corresponding expectations measures eased down in October, although they remained firmly in positive territory.

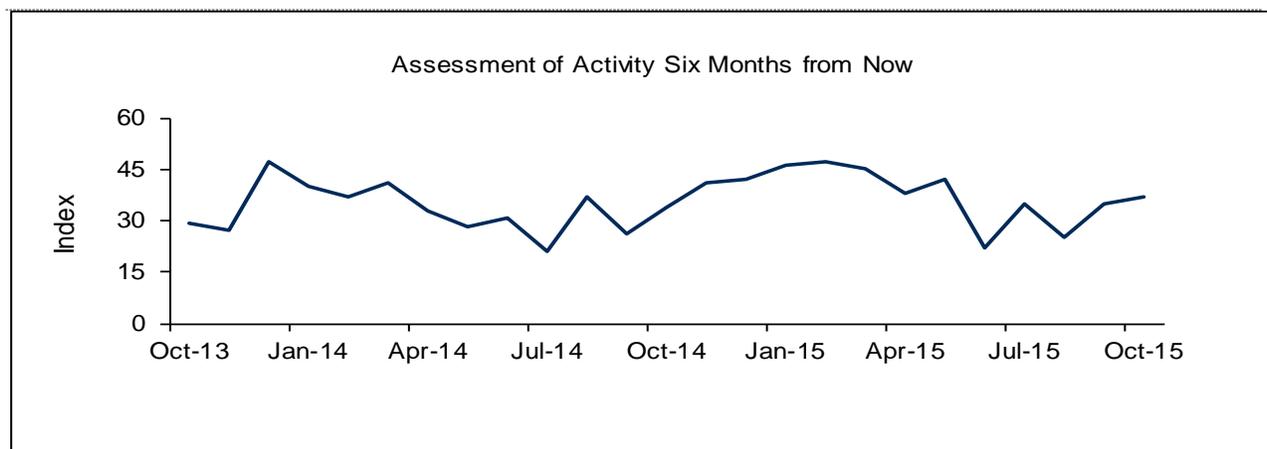
While current business spending increased again, it appeared to do so at a much slower pace than during September. Each of the survey's three current spending metrics saw a notable decline in October, although each remained positive. Spending plans held firm.

Average current price increases fell further in October and respondents to the survey expect price pressures to remain subdued in the months ahead.

General Business Assessments

The Carolinas economy continued to expand in recent weeks although it appears to have done so at a pace that is somewhat slower than that which was evident in the summer months. The current general business conditions index moved down for the third month in a row, to 9 in October from 12 in September. October's reading was the survey's lowest since May 2015. The current sales metric came in at 11 for the second straight month. Expectations for business activity six months from now remained high. The expected general business conditions index inched up to 37 in October from 35 in September while the expected sales measure increased to 35 from 31 over the month. Both





expectations measures were very close to the average for the past 12 months.

Labor Market Conditions

In spite of seemingly slower growth in business activity, labor demand remained firm and appeared to strengthen further. The current number of workers index (the survey's best measure of hiring) rose for the first time since July, as it increased to 9 in October from 4 the prior month. Meanwhile, the average workweek indicator lost four points during the month as it settled in at -2, this metric's first negative reading since January 2014.

Respondents generally expect to add more labor inputs in the coming six months, although they appear less optimistic that they will be able to find workers with the right skills. The expected number of workers index decreased three points in October but remained solidly in positive territory (at 15). Meanwhile, the expected average workweek metric eased down to 5, from 9 a month earlier. Taken in combination, these metrics suggest that firms plan to add more labor in the coming six months, but at a slightly slower pace than they were anticipating last month. Finding the right workers may be a challenge in coming months, as the expected availability of workers indicator has been negative for 10 straight months.

Business Spending

Current business spending slowed in October according to survey results. Each of the three current spending measures experienced a notable decline during the month. The largest decrease occurred in the current business services spending category, where the index moved down to 2 this

month from 16 in September. The current equipment and/or software metric dropped to 11 from 23, and the current total capital expenditures measure fell to 12 from 18 the prior month.

Expectations for business spending were more optimistic. In fact, the expected business services spending metric was the only one of the three to decline over the month (to 20 from 24), but it remained solidly in positive territory. The metric reflecting expectations for total capital spending increased to 28 from 24 while the indicator for equipment and/or software spending expectations rose to 25, from 21 in September.

Prices

Price increases continued to wane. The average increase in current prices paid moved down to 0.88 percent in October from 0.92 percent in September, while the average increase in current prices received decreased to 0.59 percent from 0.95 percent. Meanwhile, inflation expectations reflected in the survey results also appear well-contained. The expected increase in average prices paid dipped to 1.24 percent in October from 1.53 percent in September. At the same time, the expected increase in prices received dropped to 0.98 percent from 1.59 percent a month earlier.

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		
	Oct-15	Sep-15	Aug-15	Oct-15	Sep-15	Aug-15
General Business Conditions	9	12	16	37	35	25
Sales	11	11	13	35	31	31
Employment						
Number of Employees	9	4	5	15	18	15
Availability of Skills Needed	-7	-7	-13	-5	-3	-6
Average Workweek	-2	2	18	5	9	0
Wages	8	12	19	36	34	31
Spending						
Business Services Expenditures	2	16	11	20	24	16
Total Capital Expenditures	12	18	18	28	24	23
Equipment or Software	11	23	23	25	21	17
Price Trends³						
Prices Paid for Inputs	0.88	0.92	1.24	1.24	1.53	1.77
Prices Received for Outputs	0.59	0.95	1.24	0.98	1.59	1.50

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