

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

The Region's Economic Expansion Decelerated in May, But Hiring Picked Up

Overview

The region's economic expansion slowed somewhat in May, according to the latest results from the monthly Carolinas Survey of Business Activity, although respondents continued to suggest that hiring was strong. The current general business conditions index fell this month, but from a very high reading last month, and it remained firmly entrenched in positive territory. The current sales metric also declined in May, although it too was firmly positive. The seemingly slower growth appeared to adversely impact respondents' expectations for activity in coming months as both the expected general business conditions and expected sales measures moved lower.

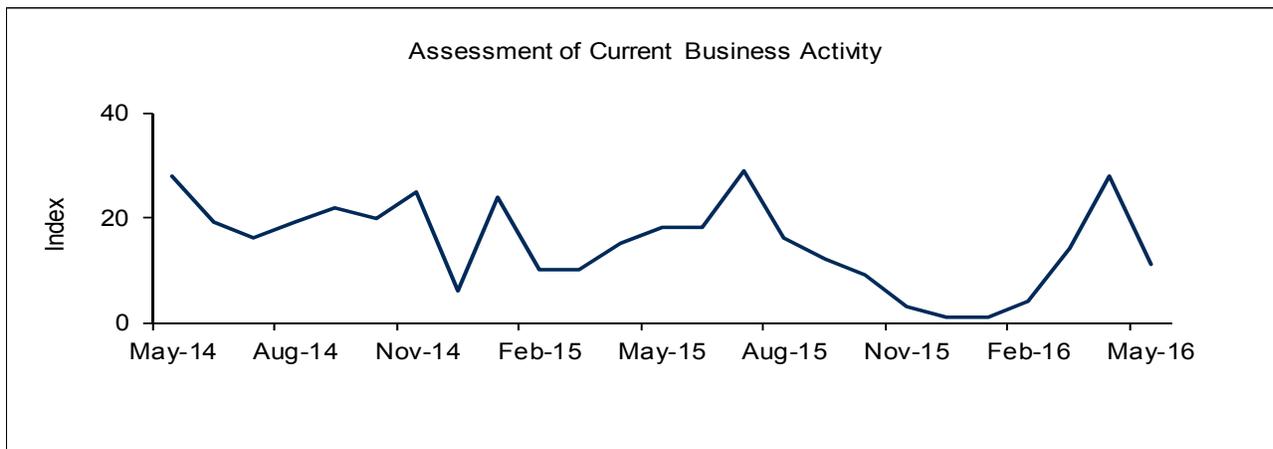
In spite of slower growth in business activity, labor demand appeared to firm. The current number of workers index increased from an already solid reading while the current average weekly hours measure remained well above 0. With regards to future labor utilization, responses to the survey indicate that firms intend to add workers at a relatively steady pace while simultaneously adding to their average weekly hours. The survey's measures of skills availability, current and expected, were both in negative territory this month.

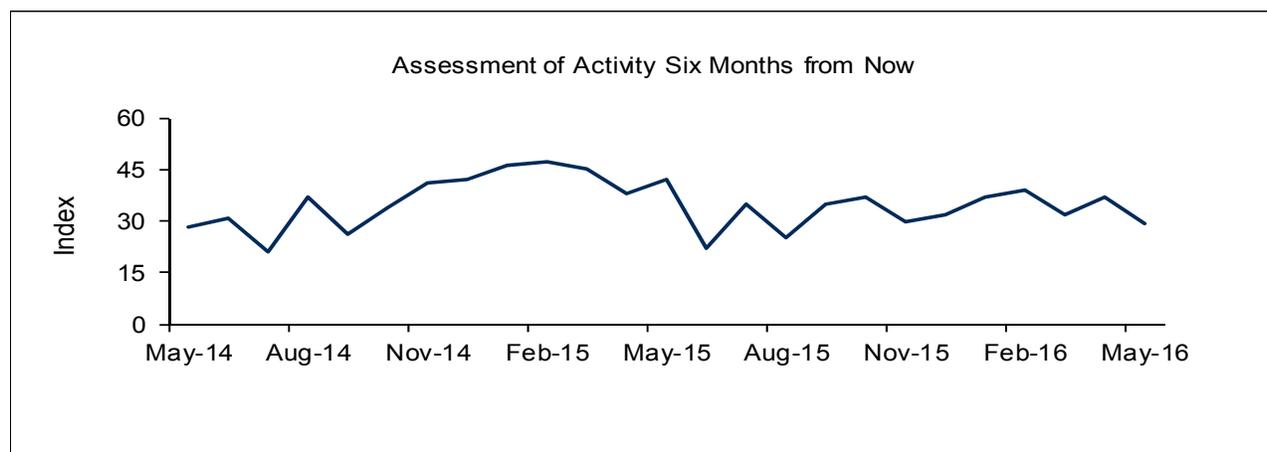
Measures of current capital equipment and business services spending changed little and were positive. However, while the metric reflecting spending on equipment and software was positive, it was lower than it was in April. Responses suggest that firms plan to increase spending in coming months, but at a somewhat slower pace than anticipated in April.

Movements in measures of current price changes were mixed, but remain low by historical standards. Metrics reflecting pricing expectations increased for the second month in a row.

General Business Assessments

The region's economic expansion slowed in May and survey respondents were a little less bullish about activity in the months ahead. The headline current general business conditions index fell to 11 this month from 28 in April. At the same time, the current sales metric also decreased notably, to 10 this month from 36 a month earlier. While these declines were meaningful, the indexes remain firmly in expansion territory, suggesting that the economy continues to grow, but at a slower pace. Meanwhile, the expected business conditions indicator decreased eight points to 29, while the expected sales metric was unchanged over the month at 37.





Labor Market Conditions

Indicators of current labor demand in the region were solid again in May, in fact, even more so than they were in April. The current number of workers index increased six points this month to 18, its highest reading since the recovery got under way. Meanwhile, the current average workweek metric showed a negligible decline from a month earlier, and remained solidly positive (at 14).

Looking forward, responses indicate that hiring is likely to remain robust in the months ahead. The expected number of workers measure edged down a point, settling in at a positive 23. The expected average weekly hours indicator jumped to 12 in May from 7 a month earlier. Skills shortages apparently persisted in the region as the current availability of skills index dropped to -4 this month from 0. And respondents expect conditions to tighten further in the coming six months

Business Spending

Current business spending continued to rise this month according to respondents, although not uniformly. The current business services and current total capital spending measures changed little over the month and remained high by recent historical standards, at 14 and 20, respectively. By contrast, the current equipment or software expenditures metric fell to 14 in May from 22 in April.

Meanwhile, the indexes reflecting firms' spending plans six months from now suggested slower growth than was anticipated a month earlier. The expected business services spending index was the only one of the three indicators to show an increase over the

month as it rose to 16 in May from 12 in April. Both the expected total capital expenditures index and the expected equipment or software measure declined by 16 points this month, to 17 and 14, respectively. Still, with readings well above the breakeven level (zero), firms are likely to see continued growth in spending in the months ahead, albeit at a slower pace than was expected in April.

Prices

The average increase in current prices paid moved up to 1.30 percent in May from 1.25 percent in April, while the average increase in current prices received dipped to 0.96 percent from 1.19 percent. Inflation expectations reflected in the survey results remain low even though they increased for the second month in a row. The expected average increase in prices paid moved up to 1.72 percent from 1.66 percent a month ago. At the same time, the expected increase in prices received increased to 1.43 percent from 1.30 percent in April.

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Business Activity Indexes^{1, 4}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	May-16	Apr-16	Mar-16	May-16	Apr-16	Mar-16
General Business Conditions	11	28	14	29	37	32
Sales	10	36	28	37	37	39
Employment						
Number of Employees	18	12	15	23	24	21
Availability of Skills Needed	-4	0	-5	-8	-1	-5
Average Workweek	14	15	20	12	7	15
Wages	21	24	14	31	25	27
Spending						
Business Services Expenditures	14	12	11	16	12	8
Total Capital Expenditures	20	20	21	17	33	24
Equipment or Software	14	22	22	14	30	21
Price Trends³						
Prices Paid for Inputs	1.30	1.25	0.91	1.72	1.66	1.15
Prices Received for Outputs	0.96	1.19	0.88	1.43	1.30	0.92

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