

Regional Surveys of Business Activity

Carolinas Survey of Business Activity

The Region's Economic Expansion Continued to Slow in June; Optimism Waned

Overview

The region's economic expansion continued to slow in June, according to the latest results from the monthly Carolinas Survey of Business Activity, and respondents grew less optimistic about activity six months from now. Both the current general business conditions index and the current revenues index declined for the second month in a row in June, although both also remained in positive territory. Moreover, respondents became less optimistic about general business conditions and sales prospects six months from now as both the expected general business conditions and expected sales measures moved materially lower.

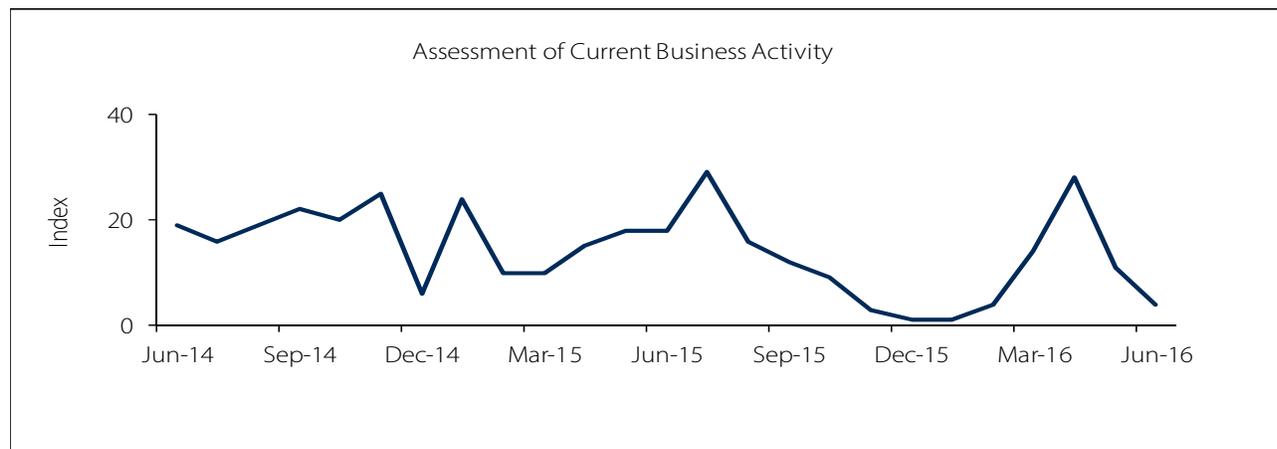
In spite of slower growth in business activity, labor demand remained solid. Both measures of current labor demand, number of workers and average workweek, gave up a little ground in June although both remained in solid positive territory. By contrast, while the measures of expected labor utilization were positive on balance, both the expected number of workers metric and the anticipated average workweek measure declined notably over the month. Responses suggested that skills shortages persisted in June and are expected to continue in the six months ahead.

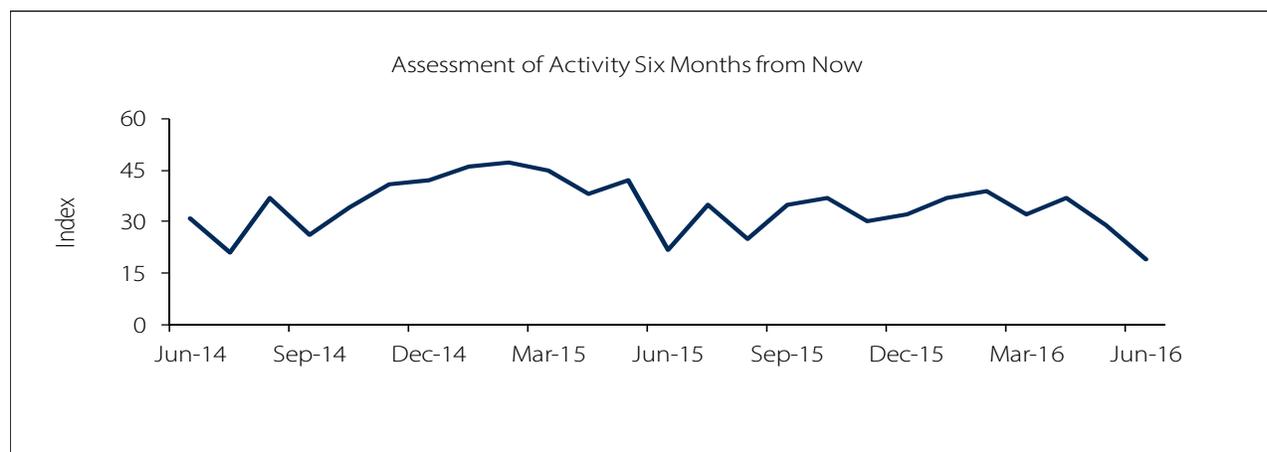
On balance, the measures of current business spending growth softened somewhat in June, as each of the three measures decreased from the prior month. Still, each remained in solid positive territory. The corresponding business spending expectations metrics were mostly down as well, although the total capital expenditures index inched up in June.

Average increases in current prices have been trending up over the past three months, on balance. In contrast, the measures reflecting pricing expectations moved a little lower this month.

General Business Assessments

The region's economic expansion slowed further in June and survey respondents were a little less optimistic about activity in the coming six months. The headline current general business conditions index fell to 4 this month from 11 in May. At the same time, the current sales metric also decreased notably, to 4 this month from 10 a month earlier. These declines left both current measures near the lows experienced around the turn of the year. Meanwhile, the expected business conditions indicator decreased to 19 in June from 29, while the expected sales metric dropped to 18 during the month from 37 in May.





Labor Market Conditions

Indicators of current labor demand in the region remained surprisingly resilient in June given the apparently slower growth in general business activity. The current number of workers index lost two points during the month, but at 16 it was the second highest reading of the past year. Meanwhile, the current average workweek metric declined slightly from a month earlier, but it remained in solid positive territory at 13.

In contrast to the current readings, the metrics reflecting expected labor utilization fell meaningfully in June. The expected number of workers measure dropped to 8 this month (its lowest reading in more than a year and a half) from 23 in May. The expected average weekly hours indicator also declined notably in June, to -1, its first negative reading in more than a year and a half. Skills shortages persisted in the region as the current availability of skills index came in at -6 in June, down from -4 in May. Respondents expect labor supply conditions to remain tight in coming months.

Business Spending

Current business spending appeared to grow at a slower pace in June, according to survey responses. Each of the three current business spending metrics moved lower, although they collectively point to a continued modest increase in spending.

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

month as it inched up to 18 from 17 in May. The expected business services spending index and the expected equipment or software spending measure declined. Still, with readings well above 0, firms are likely to see continued growth in spending in the months ahead, albeit at a slower pace than was expected when the survey was conducted last month.

Prices

Inflationary pressures reflected in this month's survey results remain low by historical standards, even though they have trended up in recent months. The average increase in current prices paid moved up to 1.50 percent in June from 1.30 percent in May, while the average increase in current prices received inched up to 1.05 percent from 0.96 percent. Inflation expectations reflected in the survey results remain low. The expected average increase in prices paid edged down to 1.70 percent from 1.72 percent a month ago. At the same time, the expected increase in prices received decreased to 1.27 percent from 1.43 percent in May.

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Business Activity Indexes^{1, 4}

Business Conditions in the Carolinas	Current Conditions			Expectations ²		
	Jun-16	May-16	Apr-16	Jun-16	May-16	Apr-16
General Business Conditions	4	11	28	19	29	37
Sales	4	10	36	18	37	37
Employment						
Number of Employees	16	18	12	8	23	24
Availability of Skills Needed	-6	-4	0	-6	-8	-1
Average Workweek	13	14	15	-1	12	7
Wages	20	21	24	26	31	25
Spending						
Business Services Expenditures	11	14	12	10	16	12
Total Capital Expenditures	15	20	20	18	17	33
Equipment or Software	13	14	22	11	14	30
Price Trends³						
Prices Paid for Inputs	1.50	1.30	1.25	1.70	1.72	1.66
Prices Received for Outputs	1.05	0.96	1.19	1.27	1.43	1.30

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