

# Regional Surveys of Business Activity

## Maryland Survey of Business Activity

*Business Activity Expands at a Modest Pace; Six-Month Expectations Jump Sharply*

### Overview

According to the latest survey results, business activity in Maryland increased at a modest pace in January. The general business activity index edged down by one point to 6 from last month. Survey respondents reported that sales were slightly lower for the month while labor market conditions remained soft. Business spending rebounded from a drop in December. Profit margins continued to come under pressure with rising input costs and weak output prices. Respondents reported that input prices increased at a slightly faster rate than last month while output prices were essentially flat. Expectations for activity in the near future improved notably. Over 50 percent of respondents anticipate greater business activity six months from now.

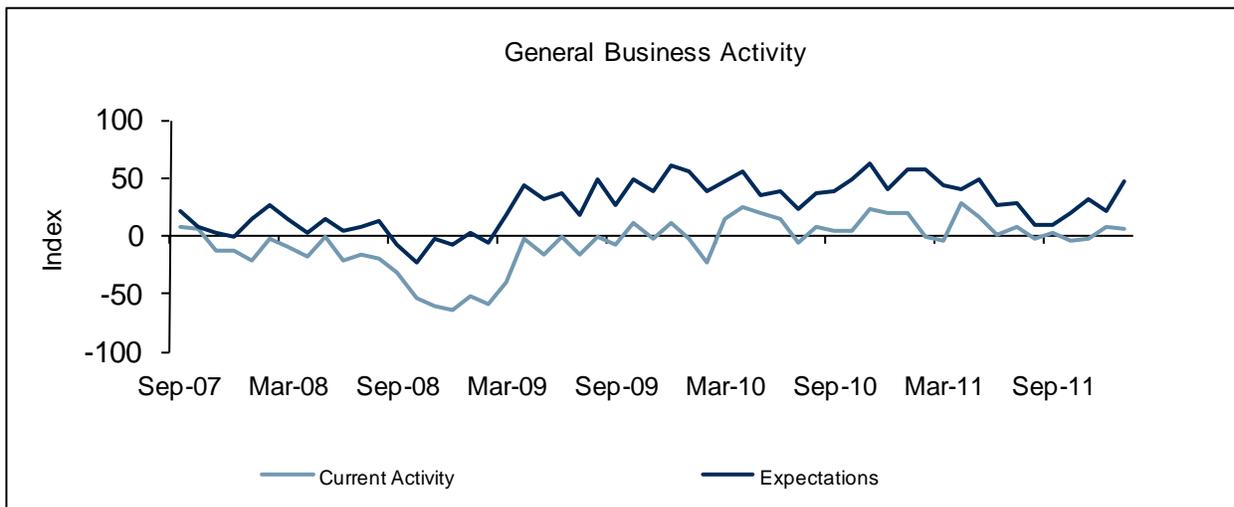
### Current Activity

Business activity increased at a modest pace in January as the general business activity index registered 6, down one point from December. It was the first consecutive positive reading since July as in three out of the last six months of 2011 the index dipped below 0. For 2011, the general business

conditions index averaged a very modest level of 10, indicating slow growth in the state economy. However, the index averaged just 1 over the final six months of 2011 and was flat in the fourth quarter, indicating that economic activity was essentially flat during the last half of the year. Respondents reported weak sales in January as the sales revenue index dropped back into negative territory for the second time in three months. The index fell from 10 to -3. Business spending and investment improved in January after a weak December. The business services spending index rebounded to 6 after dropping to -10 last month while business spending on plant and equipment edged higher. The total capital expenditures index rose to 4 from -4 while the index for business investment on equipment and software increased to 8 from 1.

### Employment

Labor market conditions remained soft in January. According to survey participants, employment edged slightly higher, with the employees index increasing to 6 after two consecutive readings of 0. The average workweek edged slightly lower, however. Despite weak labor market conditions, respondents reported





a modest increase in wages for the month. The wage index declined one point to 13.

Expectations for future labor market conditions improved in January. The employment expectations index increased to 25 from 20 in December—its highest reading since February 2011. The expectations index fell off considerably in the second half of the year—from an average of 22 in the first six months to an average of 7 in final six months. The average workweek expectations index edged lower in January, slipping three points to 7. Just as the employment expectations index weakened considerably in the second half of the year, average workweek expectations also softened considerably—averaging -1 in the third quarter. However, in the fourth quarter and in January there has been an improvement in workweek expectations—although the current level remains considerably lower than first quarter 2011 average of 18.

**Prices**

Businesses reported that margins remained under pressure in January, with input prices rising faster than output prices. Respondents reported that input prices increased 2.2 percent in January, up from 2.1 percent last month but still below the average of 2.4 percent for 2011. Output prices were essentially flat—declining by 0.2 percent on an annualized basis—after an increase of 0.7 percent in December. Businesses expect profit margins to remain under pressure over the next six months, with input price

growth to continue to outpace increases in output prices.

**Expectations**

Expectations of economic activity six months from now improved sharply in January. The expectations index for general business conditions jumped 24 points to 46—its highest level since May 2011. Similarly, the sales index leaped twenty five points to 44. Over 50 percent of respondents in the January survey expect business conditions and sales revenue to improve over the next six months. Overall, the January survey is consistent with the view that the economy continues to proceed at a sluggish pace. The number of respondents anticipating an improvement in the economy over the next six months jumped sharply in January, however, suggesting acceleration in growth in the first half of 2012.

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## Business Activity Indexes<sup>1</sup>

Business Conditions in Maryland	Current Conditions			Expectations <sup>2</sup>		
	Jan-12	Dec-11	Nov-11	Jan-12	Dec-11	Nov-11
General Business Conditions	6	7	-3	46	22	31
Sales	-3	10	-2	44	19	25
<b>Employment</b>						
Number of Employees	6	0	0	25	20	8
Availability of Skills Needed	7	3	-2	9	3	-3
Average Workweek	-3	0	10	7	10	5
Wages	13	14	25	41	31	23
<b>Spending</b>						
Business Services Expenditures	6	-10	7	7	14	7
Total Capital Expenditures	4	-4	11	10	13	16
Equipment or Software	8	1	11	14	20	21
<b>Price Trends<sup>3</sup></b>						
Prices Paid for Inputs	2.2	2.1	1.9	2.7	2.4	2.3
Prices Received for Outputs	-0.2	0.7	0.5	0.4	1.3	0.9

### 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.