

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 February. The general business activity index edged higher to 8 from 6 last month. Survey respondents reported that sales were slightly lower for the month while labor market conditions remained soft. Business spending was mixed overall, however business investment on equipment and software increased notably for the month. Profit margins continued to come under pressure with rising input costs and flat output prices. Expectations for activity in the near future remained positive. Roughly 50 percent of respondents anticipate greater business activity and sales six months from now.

Current Activity

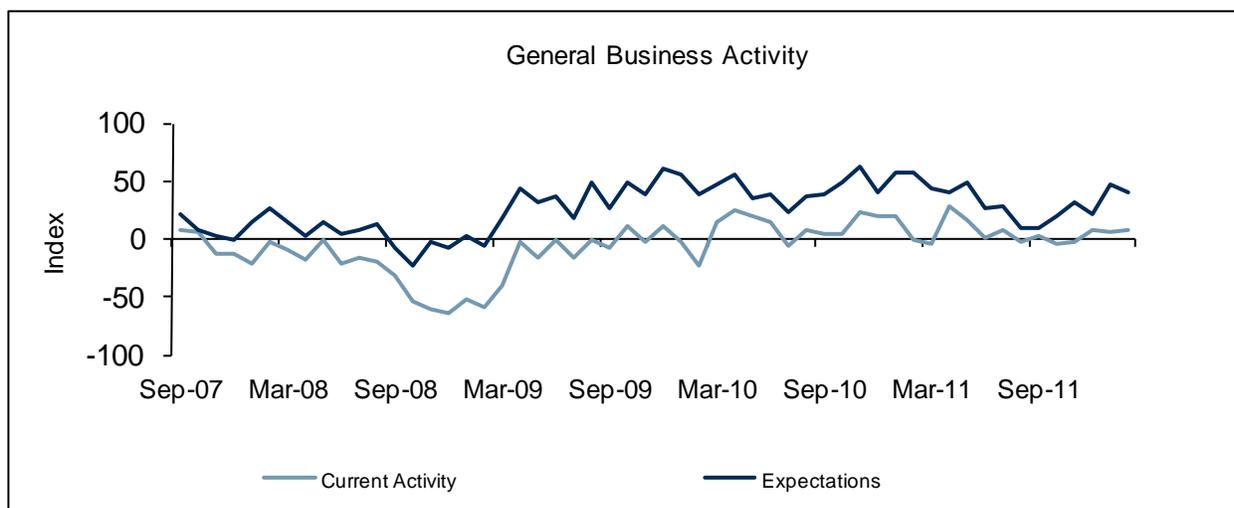
Business activity increased at a modest pace in February as the general business activity index registered 8, up two points from January. This was the third consecutive month with the index near this level. Respondents reported weak sales as the sales revenue index remained in negative territory for

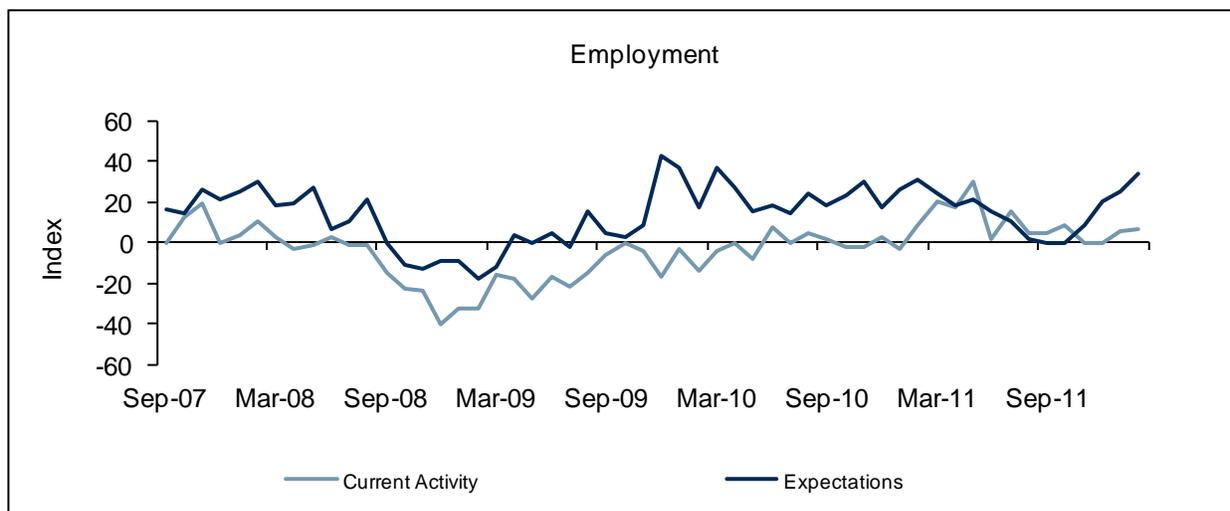
a second consecutive month. The index edged up to -2 from -3 in January. Overall, business spending was mixed in February as spending on business services was flat while capital expenditures posted a modest increase. The business services spending index decreased to 0 from 6 last month while the total capital expenditures index edged up one point to 5. The index for investment in equipment and software increased considerably in February, rising to 18 from 8 last month—the series' highest level since April 2011.

Employment

Labor market conditions remained soft in February. According to survey participants, employment edged slightly higher with the employees index up one point to 7. The average workweek was little changed with the index at 2, up from -3 last month. Despite weak labor market conditions, respondents continued to report modest wages increases. The wage index edged up two points to 15.

Expectations for future labor market conditions improved in February. The February expectations index increased to 33 from 25 in January—its highest





reading since March 2010. Over the past three months the index has averaged 26, up considerably from its average of 2 over the previous four months. Close to 40 percent of respondents anticipate expanding their workforce over the next six months. At the same time, the average workweek expectations index edged higher to 10 from 7 last month. Expectations of worker supply remains positive with firms not anticipating considerable difficulty finding workers with the needed skills. The expectations index for workers with needed skills decreased from 9 to 0 and has averaged 2 over the past 12 months.

Prices

Businesses reported that margins remained under pressure in February with input prices rising faster than output prices. Respondents reported that input prices increased 2.4 percent in February, up from 2.2 percent last month and their fourth consecutive increase. Output prices were essentially flat—increasing by 0.2 percent on an annualized basis—after a reported decline of 0.2 percent in January. 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 remained positive in February after a sharp

improvement in January. The expectations index for general business conditions decreased five points to 41 while the sales index edged down two points to 42. Roughly 50 percent of respondents in the February survey expect business conditions and sales revenue to improve over the next six months. Overall, the February 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 remains relatively strong, however, suggesting acceleration in growth in the first half of 2012.

Contact

Andy Bauer

Regional Economist
 Research Dept./Regional Economics
 Federal Reserve Bank of Richmond
 Baltimore Branch
 Ph. 410· 576· 3392 · Fax 410· 576· 3391
andy.bauer@rich.frb.org
www.richmondfed.org

Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	Feb-12	Jan-12	Dec-11	Feb-12	Jan-12	Dec-11
General Business Conditions	8	6	7	41	46	22
Sales	-2	-3	10	42	44	19
Employment						
Number of Employees	7	6	0	33	25	20
Availability of Skills Needed	7	7	3	0	9	3
Average Workweek	2	-3	0	10	7	10
Wages	15	13	14	28	41	31
Spending						
Business Services Expenditures	0	6	-10	3	7	14
Total Capital Expenditures	5	4	-4	13	10	13
Equipment or Software	18	8	1	17	14	20
Price Trends³						
Prices Paid for Inputs	2.4	2.2	2.1	3.0	2.7	2.4
Prices Received for Outputs	0.2	-0.2	0.7	1.2	0.4	1.3

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.