

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Picks Up Sharply; Sizable Increase in Hiring and Business Expansion

Overview

According to the latest survey results, business activity in Maryland increased at a solid pace in March. Survey respondents reported a broad increase in activity for the month. The general business activity index jumped to 26 from 8 while the sales index increased to 15 from -2. In addition, business spending on services and capital expenditures increased solidly. Businesses also reported stronger labor market conditions in March with an increase in hiring and a longer workweek. 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 higher sales six months from now.

Current Activity

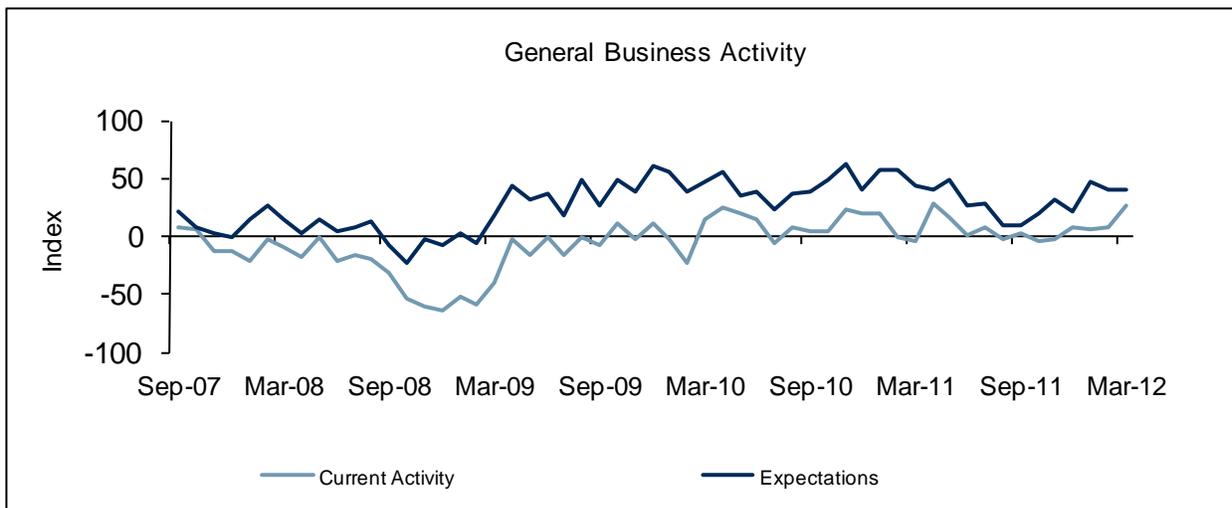
Business activity increased at a solid pace in March as the general business activity index jumped to 26 from 8—the highest reading since April 2011 and the second highest reading in the history of the survey. It is also the first double-digit reading since May 2011. Since May, the index has remained in the single digits and on two occasions fell below 0. Along with the increase in overall activity, businesses reported an increase in sales with the sales index rising to 15 from

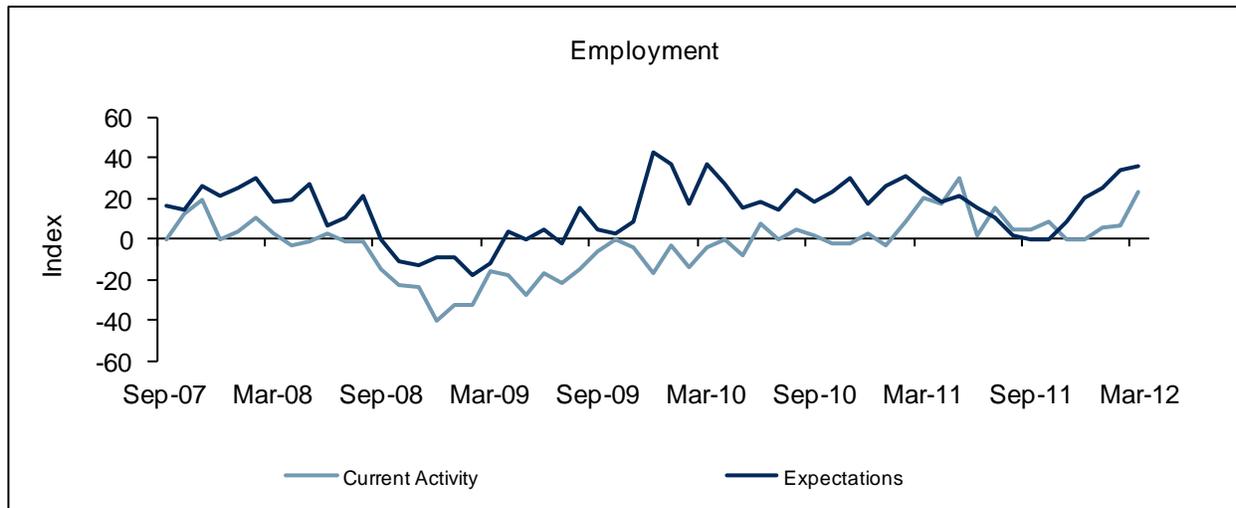
-2. Business spending improved notably in March as spending on business services jumped to 22 from 0 and total capital expenditures increased to 18 from 5—both indicating a moderate increase in activity for the month. The index for investment in equipment and software was unchanged at 18, also indicating moderate, but solid, expenditures on equipment and software in March.

Overall, the March survey indicated a significant improvement in business activity from recent months. Given the concern over rising energy prices and their impact on consumers and businesses this, perhaps, is somewhat of a surprise. However, the increase in activity and more optimistic outlook may reflect recent improvements in the labor market and greater activity in the housing market than in recent years.

Employment

Labor market conditions improved considerably in March. According to survey participants, employment increased solidly with the employees index increasing by sixteen points to 23. The average workweek also rose notably, increasing to 15 from 2 last month—its highest reading since December 2010. Despite considerable slack in the labor market, more respondents reported increasing wages in March. The wage index increased six points to 15.





Expectations for future labor market conditions improved again in March. The expectations index edged higher to 36 from 33 last month—its highest reading since March 2010. There has been a steady rise in the index over the past four months, averaging 29 over the period—up considerably from its average of 2 over the previous four months. Forty-six percent of respondents anticipate expanding their workforce over the next six months. At the same time, the average workweek expectations index also edged higher to 13 from 10. Expectations of worker supply remains positive with firms not anticipating considerable difficulty finding workers with the needed skills.

Prices

Businesses reported that margins remained under pressure in March with input prices rising faster than output prices. Respondents reported that input prices increased 2.6 percent in March, up from 2.4 percent last month and their fifth consecutive increase. Output prices were essentially flat, increasing just 0.1 percent on an annualized basis but decreasing by the same amount compared to February. 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 March. The expectations

index for general business conditions was unchanged at 41 while the sales index edged up one point to 43.

Roughly 50 percent of respondents in the March survey expect business conditions and sales revenue to improve over the next six months. Roughly one-quarter of the survey respondents anticipate increasing spending on business services over the next six months while one-third are planning to increase capital expenditures.

Overall, the results of the March survey are considerably stronger than the results over the past nine months. It remains to be seen whether this level of business activity will continue, particularly given higher energy prices. However, the stronger March results along with greater-than-expected gains in payroll employment, a decline in the unemployment rate, and anecdotal reports of increased activity in the residential sector suggest acceleration in activity through the spring and into summer of this year.

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Business Activity Indexes¹

| Business Conditions in Maryland | Current Conditions | | | Expectations ² | | |
|---------------------------------|--------------------|--------|--------|---------------------------|--------|--------|
| | Mar-12 | Feb-12 | Jan-12 | Mar-12 | Feb-12 | Jan-12 |
| General Business Conditions | 26 | 8 | 6 | 41 | 41 | 46 |
| Sales | 15 | -2 | -3 | 43 | 42 | 44 |
| Employment | | | | | | |
| Number of Employees | 23 | 7 | 6 | 36 | 33 | 25 |
| Availability of Skills Needed | 0 | 7 | 7 | -2 | 0 | 9 |
| Average Workweek | 15 | 2 | -3 | 13 | 10 | 7 |
| Wages | 21 | 15 | 13 | 33 | 28 | 41 |
| Spending | | | | | | |
| Business Services Expenditures | 22 | 0 | 6 | 20 | 3 | 7 |
| Total Capital Expenditures | 18 | 5 | 4 | 25 | 13 | 10 |
| Equipment or Software | 18 | 18 | 8 | 31 | 17 | 14 |
| Price Trends³ | | | | | | |
| Prices Paid for Inputs | 2.6 | 2.4 | 2.2 | 2.8 | 3.0 | 2.7 |
| Prices Received for Outputs | 0.1 | 0.2 | -0.2 | 0.6 | 1.2 | 0.4 |

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.