

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Solid in April For A Second Consecutive Month; Expectations Remain Positive

Overview

According to the latest survey results, business activity in Maryland increased at a solid pace in April. Survey respondents reported a broad increase in activity for the month. The general business activity index was unchanged at 26 while the sales index increased to 22 from 15. In addition, business spending on services and capital expenditures increased for the month. Businesses reported stronger labor market conditions in April with an increase in hiring and a longer workweek. Profit margins continued to come under pressure with increases in input costs outpacing 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.

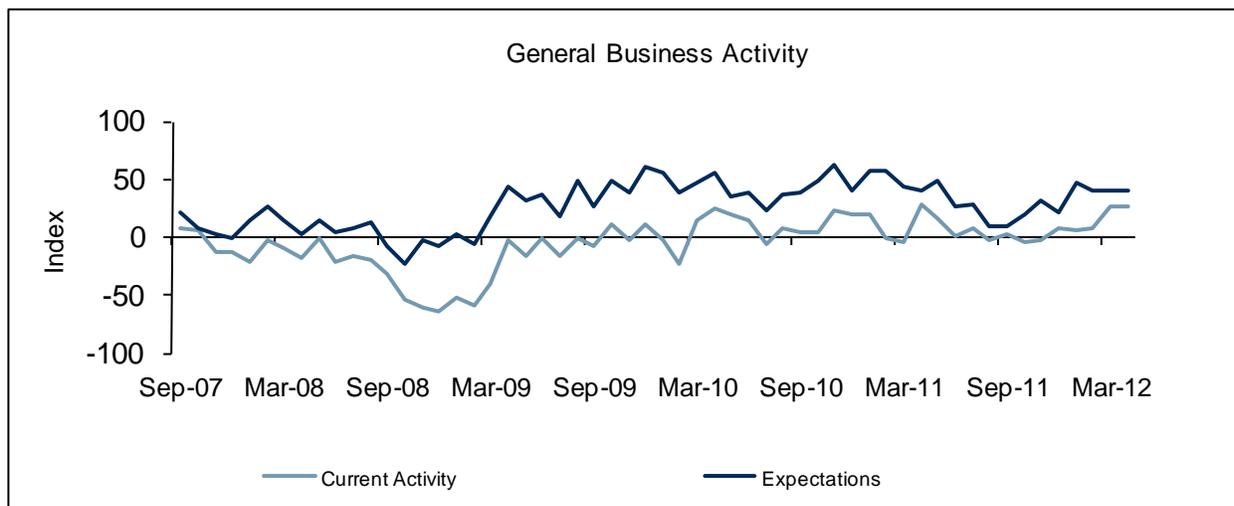
Current Activity

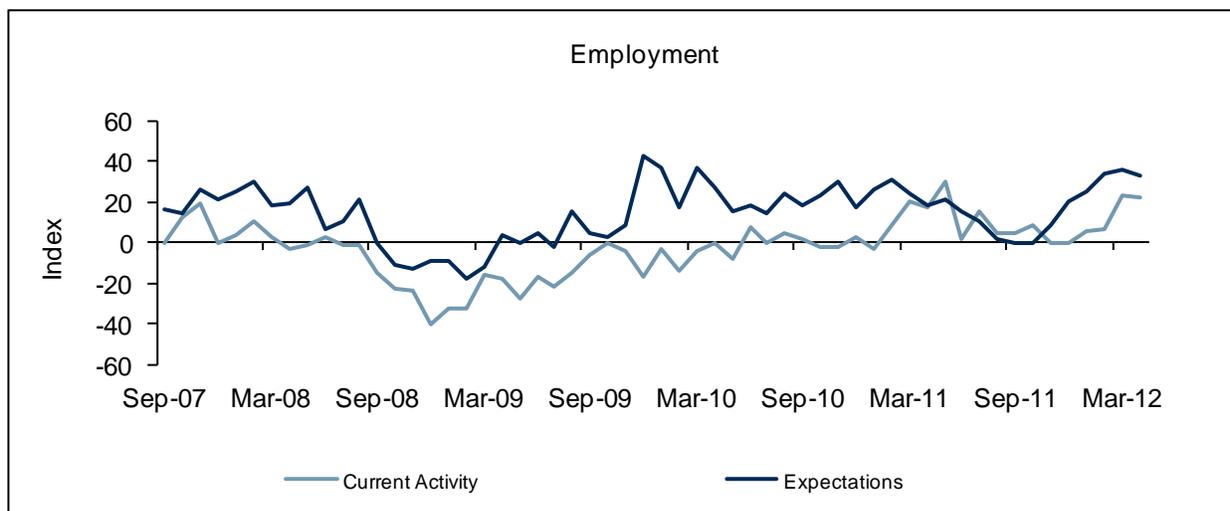
Business activity increased at a solid pace in April as the general business activity index remained at 26. This was the first back-to-back double-digit reading for the index since April and May 2011. From May 2011 to February 2012, the index remained in the

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 22 from 15. There was a moderate increase in business spending in April as spending on business services registered 20, down two points from last month; and total capital expenditures registered 14, four points lower from March. The index for investment in equipment and software declined to 12 from 18, also indicating moderate expenditures for the month. Overall, the survey results in March and April indicated a significant improvement in business activity from prior months.

Employment

Labor market conditions remained positive in April. According to survey participants, employment increased solidly for a second consecutive month with the employees index at 22, down one point from March. The average workweek was also little changed, registering 14. Despite considerable slack in the labor market, more respondents reported increasing wages in April. The wage index increased for a fourth consecutive month to 28 from 21.





Expectations for future labor market conditions also remained positive in April. The expectations index edged lower to 33 from 36 last month—43 percent of respondents anticipate expanding their workforce over the next six months. There has been a notable improvement in the index over the past five months, averaging 30 over the period—up considerably from its average of 2 over the previous four months. At the same time, the average workweek expectations index edged higher by one point to 14. 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 April with input prices rising faster than output prices. Respondents reported that input prices increased 2.6 percent in April, unchanged from last month. Output prices increased by 0.8 percent on an annualized basis. 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 solid in April. The expectations index for general business conditions was little changed, down one point to 40, while the sales index also registered 40. Roughly 50 percent of respondents in

the April survey expect business conditions and sales revenue to improve over the next six months. Over 20 percent of respondents anticipate increasing spending on business services over the next six months while close to one-third are planning to increase capital expenditures.

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

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		
	Apr-12	Mar-12	Feb-12	Apr-12	Mar-12	Feb-12
General Business Conditions	26	26	8	40	41	41
Sales	22	15	-2	40	43	42
Employment						
Number of Employees	22	23	7	33	36	33
Availability of Skills Needed	-2	0	7	0	-2	0
Average Workweek	14	15	2	14	13	10
Wages	28	21	15	34	33	28
Spending						
Business Services Expenditures	20	22	0	16	20	3
Total Capital Expenditures	14	18	5	21	25	13
Equipment or Software	12	18	18	24	31	17
Price Trends³						
Prices Paid for Inputs	2.6	2.6	2.4	2.9	2.8	3.0
Prices Received for Outputs	0.8	0.1	0.2	1.2	0.6	1.2

Technical Notes:

- 1 Each index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. Data are not seasonally adjusted.
- 2 Expectations refer to the time period six months out from the survey period.
- 3 Price changes are expressed as a percent change, annualized.