

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Slightly Higher in June; Capital Spending and Business Expectations Soften

Overview

According to the latest survey results, business activity in Maryland increased at a modest pace in June. The general business activity index registered 7 for the month, down slightly from 12 in May. The sales index rebounded to 14 after dropping unexpectedly to -7 last month from 22 in April. Business spending on services and capital expenditures were essentially flat for the month. Businesses continued to report increases in employment, although the gains were more tempered in June. Profit margins continued to come under pressure, with increases in input costs outpacing output price increases. Expectations for activity in the near future remained positive but were more moderate than in May. Thirty percent of respondents anticipate greater business activity six months from now, down from 40 percent in May and 55 percent in April.

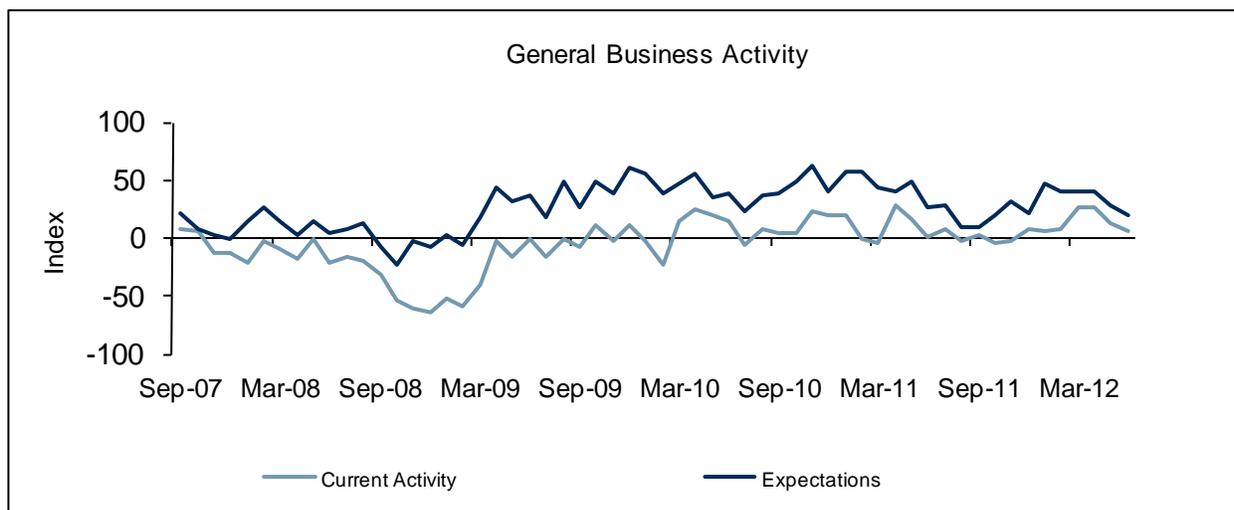
Current Activity

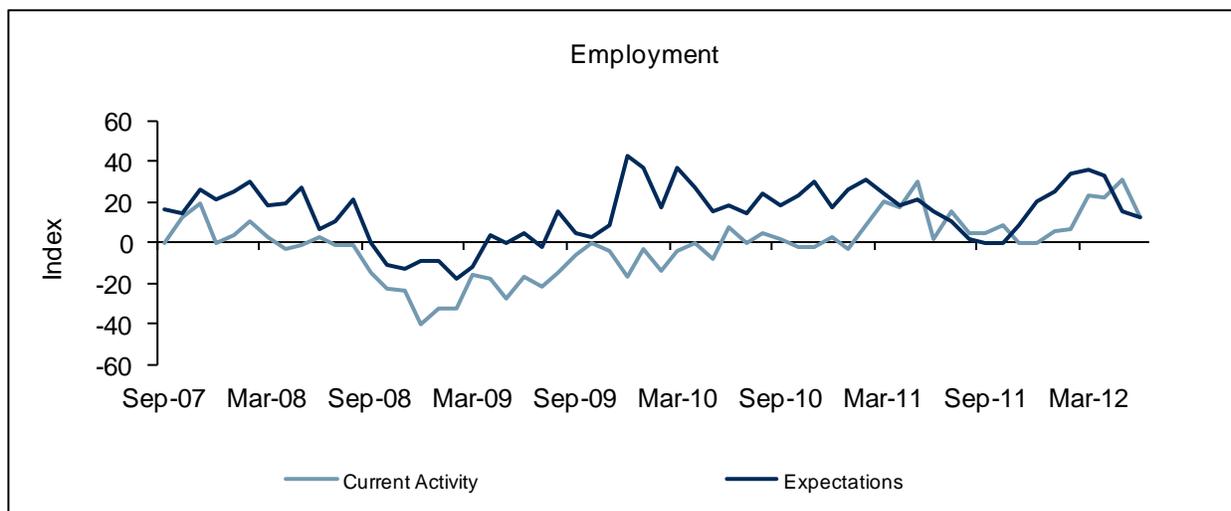
Business activity increased at a modest pace in June as the general business activity index registered 7, down slightly from 12 in May. Businesses also reported a moderate increase in sales, with the sales index registering 14 after dropping to -7 last month.

Business spending was essentially flat for the month. Spending on business services registered 3, down 11 points from last month. Total capital expenditures registered 2, considerably weaker than in recent months, while the index for investment in equipment and software dropped to 3. Overall, the survey results for June indicate a noticeable slowdown for a second consecutive month. In addition, businesses reported less optimistic expectations in June for business activity and capital expenditures six months from now. In prior months businesses reported much more robust activity in terms of business activity, sales, and business spending and stronger expectations for future activity.

Employment

According to the survey results, labor market conditions improved modestly in June. Survey participants reported a net increase in employment for the month as the employment index registered 12, down slightly from May's reading of 16. Roughly 30 percent of respondents indicated that they added workers while seventeen percent reported a decline. The average workweek was largely unchanged with the index registering 3, down from 10 last month.





Despite considerable slack in the labor market, respondents reported increasing wages in June. The wage index registered 17, down four points from May.

Expectations for future labor market conditions edged lower but remained positive in June. The expectations index declined to 12 from 16 last month. This is the second consecutive month where the index has registered below its recent, more solid trend. Over the six months ending in April, the index averaged almost 30 over the period—up considerably from its average of 2 in the fall of 2011. Still, 30 percent of respondents anticipate expanding their workforce over the next six months, roughly the same as last month but down considerably from 43 percent in April. At the same time, the average workweek index declined to -5 from -2 last month. 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 June, with input prices rising faster than output prices. Respondents reported that input prices increased 2.3 percent in May on an annualized basis, up from 1.8 percent in April. Output prices remained flat, increasing by 0.7 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 edged lower in June. The expectations index for general business conditions declined to 19 from 28 while the sales index decreased to 25 from 35. Thirty percent of respondents in the June survey expect business conditions to improve over the next six months while 40 percent expect sales revenue to improve over the next six months. Both percentages have declined notably over the past two months. The outlook for business spending also softened in June. Overall the June survey results indicates that activity slowed for a second consecutive month and expectations for future growth were pared back. It appears that uncertainty regarding events in Europe and fiscal issues in U.S. have dampened current business activity as well as the near-term economic outlook.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	Jun-12	May-12	Apr-12	Jun-12	May-12	Apr-12
General Business Conditions	7	12	26	19	28	40
Sales	14	-7	22	25	35	40
Employment						
Number of Employees	12	31	22	12	16	33
Availability of Skills Needed	3	0	-2	2	3	0
Average Workweek	3	10	14	-5	-2	14
Wages	17	21	28	12	29	34
Spending						
Business Services Expenditures	3	14	20	11	7	16
Total Capital Expenditures	2	12	14	5	11	21
Equipment or Software	3	12	12	7	21	24
Price Trends³						
Prices Paid for Inputs	2.3	1.8	2.6	3.1	2.6	2.9
Prices Received for Outputs	0.7	0.5	0.8	1.2	0.8	1.2

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.