

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Increased Moderately in July; Expectations for Labor Market Conditions Soften

Overview

According to the latest survey results, business activity in Maryland increased at a moderate pace in July. The general business activity index registered 14 for the month, up slightly from 7 in June. The sales index, however, dropped to 2 from 14. Business spending on services and capital expenditures rose sharply after a tepid increase in June. The survey results continued to report a net increase in employment with more respondents indicating that they expanded their workforce than reduced it. However, the employment gains were more moderate for a second consecutive month. 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, slightly better than in June but less sanguine than earlier in the year. Forty percent of respondents anticipate greater business activity six months from now, down from 55 percent in April.

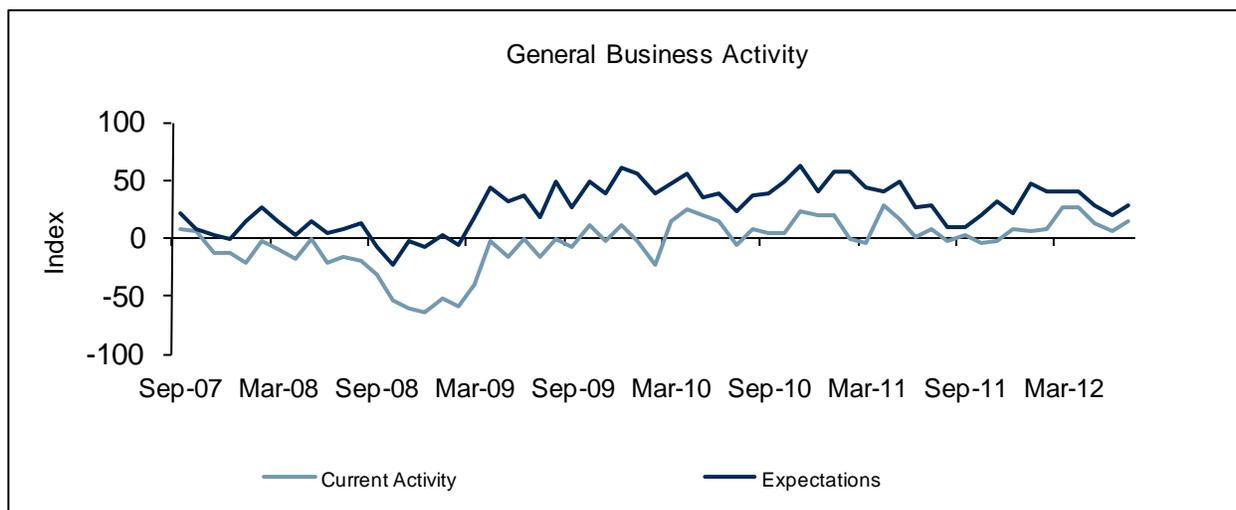
Current Activity

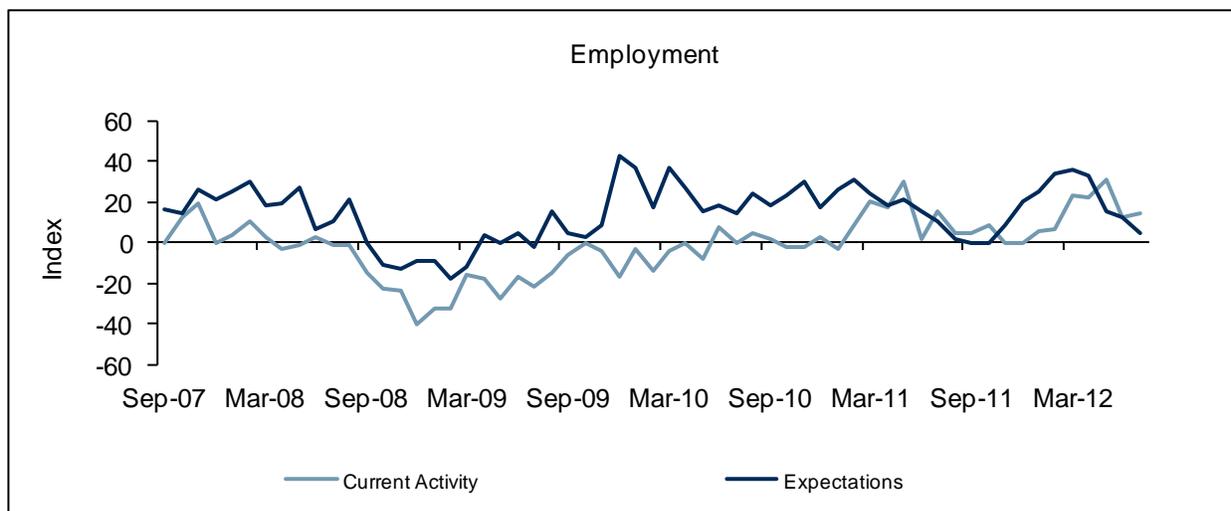
Business activity increased at a moderate pace in

July as the general business activity index registered 14, up slightly from 7 in June. Businesses reported that sales were essentially flat for the month. The sales index registered 2, down sharply from 14 in June. Somewhat surprisingly, given the heightened uncertainty regarding the economic outlook, business spending picked up notably in July. Spending on business services registered 16, up thirteen points from last month. Total capital expenditures registered 18, matching its high over the past 14 months. Investment in equipment and software also increased sharply in July, with the index rising to a historic high of 22.

Employment

According to the survey results, labor market conditions improved modestly in July. Survey participants reported a net increase in employment for the month as the employment index registered 14, up slightly from June's reading of 12. Roughly 30 percent of respondents indicated that they added workers while 16 percent reported a decline. The average workweek was largely unchanged with the index registering 0, down from 3 last month. Despite considerable slack in the labor market, respondents





reported increasing wages in July. The wage index registered 14, down 3 points from June.

Expectations for future labor market conditions deteriorated in July for a fifth consecutive month. The expectations index for number of employees declined to 4 from 12 last month. The index peaked at 36 in March and steadily declined over the past five months. Still, 26 percent of respondents anticipate expanding their workforce over the next six months, less than the 30 percent in June and considerably less than the 43 percent in April. At the same time, the number of firms planning on reducing their workforce edged higher from 10 percent in April to 22 percent in July. Expectations of worker supply remained positive with firms not anticipating considerable difficulty finding workers with the needed skills.

Prices

Businesses reported that margins remained under pressure in July with input prices rising faster than output prices. Respondents reported that input prices increased 2.0 percent in July on an annualized basis, down from 2.3 percent in June. Output prices remained flat. 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 higher in July. The expectations index for general business conditions rebounded to 28 from 19 while the sales index edged higher by one point to 26. Forty percent of respondents in the July survey expect business conditions and sales to improve over the next six months. The outlook for business spending was somewhat mixed in July. Respondents indicated that they anticipate little increase in business services expenditures over the next six months. However, nearly 30 percent of respondents anticipate increasing capital spending and investment in equipment and software.

Overall the July survey results indicate that business activity continues to be moderate, with uneven spending. However, respondents remain positive about the outlook despite uncertainty regarding events in Europe and fiscal issues in U.S.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	Jul-12	Jun-12	May-12	Jul-12	Jun-12	May-12
General Business Conditions	14	7	12	28	19	28
Sales	2	14	-7	26	25	35
Employment						
Number of Employees	14	12	31	4	12	16
Availability of Skills Needed	6	3	0	4	2	3
Average Workweek	0	3	10	8	-5	-2
Wages	14	17	21	12	12	29
Spending						
Business Services Expenditures	16	3	14	4	11	7
Total Capital Expenditures	18	2	12	18	5	11
Equipment or Software	22	3	12	20	7	21
Price Trends³						
Prices Paid for Inputs	2.0	2.3	1.8	2.2	3.1	2.6
Prices Received for Outputs	0.1	0.7	0.5	0.9	1.2	0.8

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.

