

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Business Activity Flat in January; Capital Spending and Employment Conditions Weaken

Overview

According to the latest survey results, business activity in Maryland was essentially flat in January. The general business activity index registered -2 for the month, down 9 points from December. The sales index edged higher to a reading of 5. Business expenditures on services and capital investment were flat. Labor market conditions weakened as more firms indicated that they shed workers than added workers in January. Profit margins continued to come under pressure with increases in input costs outpacing output prices. Despite weaker conditions in December, expectations for activity in the near future remained positive. Forty-five percent of respondents anticipated greater business activity six months from now while twelve percent expected activity to decline.

Current Activity

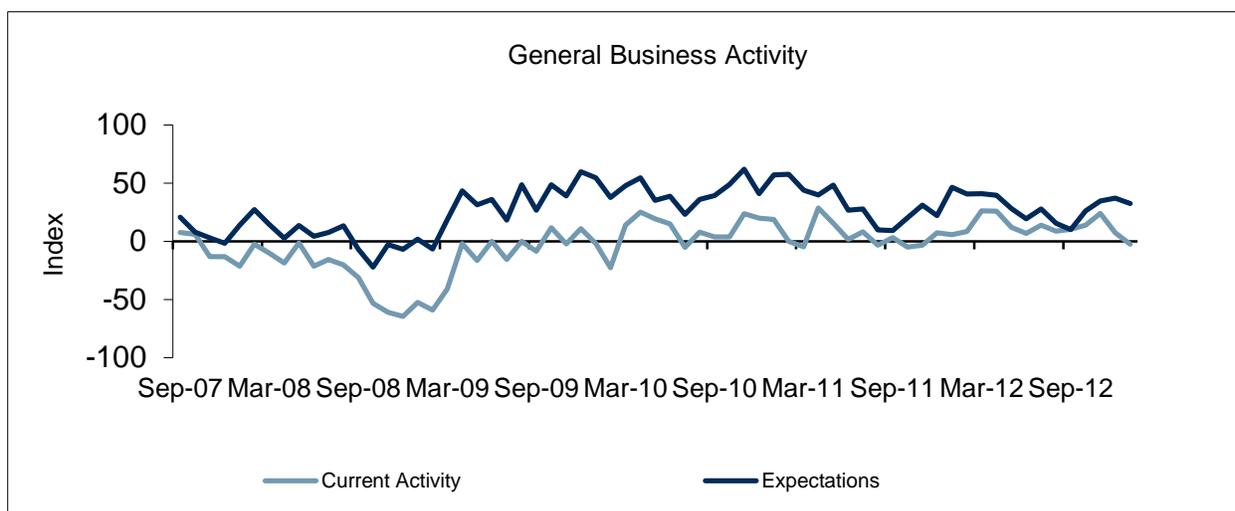
Business activity edged lower in December as the general business activity index registered -2, declining 9 points from last month. Sales increased modestly, however, as the sales index increased 5 points to 5. After modest increases in November and December, business spending weakened in January.

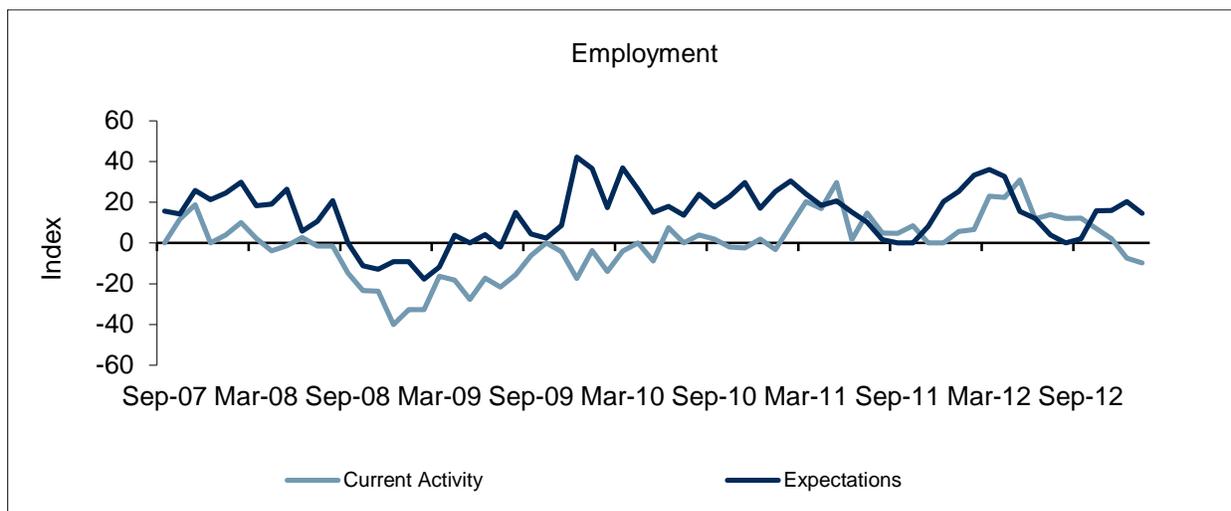
Spending on business services dropped 11 points to a reading of -2—its weakest reading since December 2011. Total capital expenditures declined 7 points to 2, also the lowest reading since December 2011. Spending on equipment or software decreased to 5 from 17 last month, a significant drop from the average of 18 over previous six months.

Employment

According to the survey results, labor market conditions deteriorated in January as a greater number of respondents indicated that they shed workers than added workers. The employment index registered -10—down from -7 in December. Fifteen percent of respondents indicated that they added workers for the month; however twenty-four percent reported a decline. This was the first consecutive negative reading since the end of 2010. There was little change in the workweek. The average workweek index was unchanged at 2. Despite considerable slack in the labor market, respondents reported higher wages in January. The wage index increased 4 points to 24.

Expectations for future labor market conditions remained relatively positive in January, however. The





number of employees index registered 15, down 5 points from last month. Nearly one in three respondents indicated that they anticipated expanding their workforce over the next six months while seventeen percent anticipated reducing their workforce. Expectations remain below where they were one year ago, however. The number of employees expectations index peaked at 36 in March 2012 and steadily declined through August where it reached zero and remained near that level in September. In the October and November surveys, the index increased to 16 before edging higher to 20 in December. While the last four months represent an improvement, expectations are still less than in early 2012 when 43 percent of respondents in the April survey anticipated expanding their workforce.

Prices

Businesses reported that margins remained under pressure in January with increases in input prices outpacing output prices. Respondents reported that input prices rose 2.6 percent in January on an annualized basis. Output prices reportedly increased at a faster rate in January than in previous months, by 1.7 percent at an annual rate. Businesses expected profit margins to remain under pressure over the next six months. Input prices were expected to increase at a 3.0 percent annualized rate while output prices were expected to increase by 2.2 percent.

Expectations

Despite weaker activity in January, expectations of economic activity six months from now improved. The expectations index for general business conditions edged lower to 33 from 37 in December. The sales index also decreased by 4 points to 36. Roughly forty-five percent of respondents in the January survey expected business conditions and sales to improve over the next six months. Just seven percent expected business conditions to worsen. Overall the January survey results indicated that business activity was flat or edged slightly lower in January while expectations for future activity remained positive. Notably, despite the modest and uneven pace of growth and uncertainty related to the U.S. economic outlook, respondents continued to be more positive about the outlook over the near term.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	Jan-13	Dec-12	Nov-12	Jan-13	Dec-12	Nov-12
General Business Conditions	-2	7	24	33	37	35
Sales	5	0	18	36	40	28
Employment						
Number of Employees	-10	-7	2	15	20	16
Availability of Skills Needed	-2	0	6	-2	-4	4
Average Workweek	2	2	4	7	6	14
Wages	24	20	26	39	37	50
Spending						
Business Services Expenditures	-2	9	6	2	8	4
Total Capital Expenditures	2	9	6	27	13	10
Equipment or Software	5	17	12	37	20	22
Price Trends³						
Prices Paid for Inputs	2.6	1.9	2.5	3.0	3.2	3.3
Prices Received for Outputs	1.7	0.7	0.8	2.2	1.4	1.1

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.