

Regional Surveys of Business Activity

Maryland Survey of Business Activity

Hiring Remains Strong Despite Sluggish Business Conditions; Expectations More Subdued

Overview

According to the latest survey results, business activity in Maryland was sluggish in May. The general business conditions index increased to 3 from -3 last month. The sales index showed a moderate decline with a reading of -6, down 14 points from last month. Labor market conditions remained solid as respondents reported continued hiring. Business spending was soft, with a modest increase in spending on services and a moderate increase in capital spending. Expectations for overall business activity in the near term remained subdued for a second consecutive month. Just 27 percent of respondents expected general business conditions to improve over the next six months while 18 percent expected conditions to worsen.

Current Activity

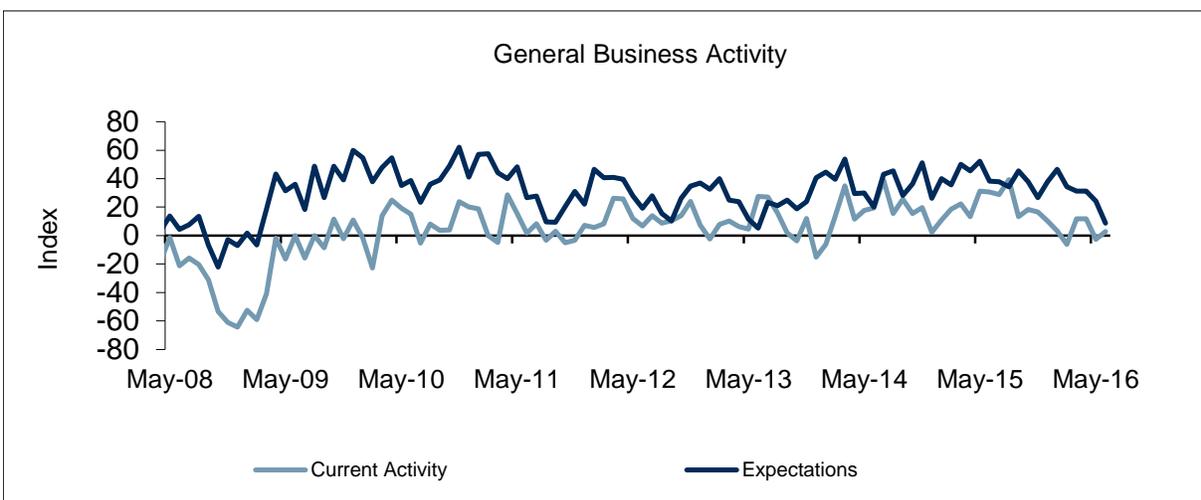
Overall business activity was sluggish in May. The general business conditions index registered 3, up six points from last month, as only 19 percent of firms surveyed indicated that general business conditions increased while 17 percent reported a decline. The sales index dropped 14 points to -6 — the third negative reading this year. Twenty-nine percent of respondents indicated an increase in sales while 34 percent indicated a decline. Business spending was moderate in May. The

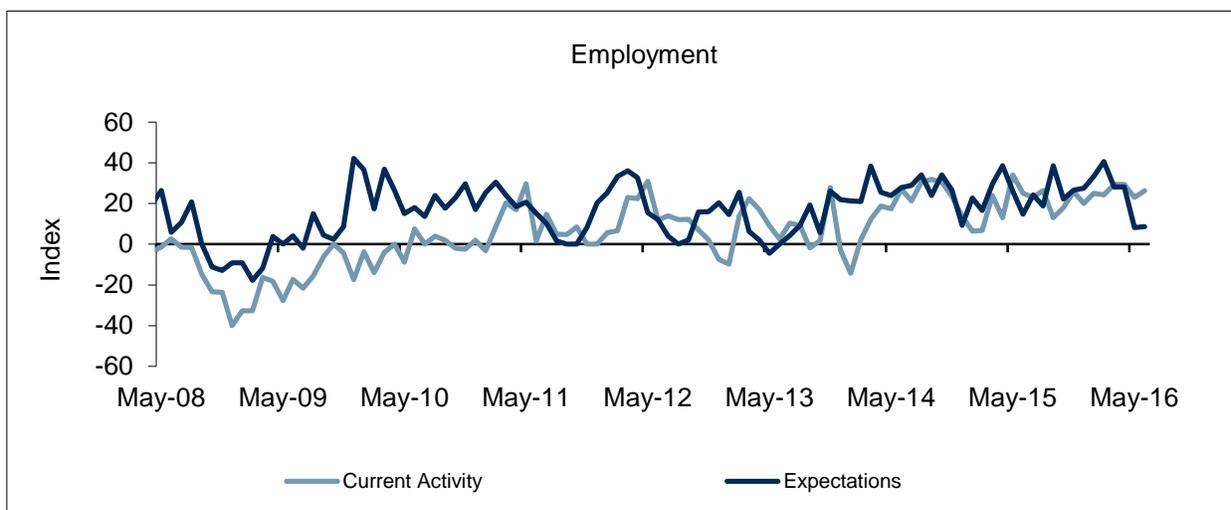
business spending on services index registered 6, up one point from last month, while the total capital expenditures index edged down to 8. Business investment on equipment and software was stronger. The equipment or software index registered 22. Twenty-five percent of respondents indicated that they increased spending on equipment or software in May.

Employment

Labor market conditions were solid in May. The employment index registered 26 — the seventh consecutive month at 20 or higher. In the May survey, 34 percent of respondents indicated they added workers for the month while 8 percent reported a decline. The average workweek index indicated an expanding workweek as the labor availability index remained in negative territory for an eighth consecutive month and has been negative in 16 of the last 19 months, indicating that businesses continue to encounter difficulty finding workers.

Expectations for future labor market conditions remained subdued in May. The employment expectations index registered 9, up one point from April but down 19 points from March and 32 points from its near historic reading of 41 in February. Just 17 percent of respondents anticipated hiring





over the next six months while 9 percent planned on reducing their workforce. Despite weaker hiring plans, survey respondents are anticipating higher wages in the near term. Thirty-four percent of respondents indicated they planned on raising wages over the next six months.

Prices

Respondents reported that input prices rose 1.4 percent in May on an annualized basis, down from 2.4 percent last month. Output prices rose by 1.3 percent. Expectations for input prices over the next six months were 1.9 percent with expectations of a 1.8 percent increase in output prices, on an annualized basis.

Expectations

Expectations of economic activity moderated in May. The expectations index for general business conditions declined to 9 from 24 last month. The series peaked at 47 in January and has declined in each of the last four months. Twenty-seven percent of respondents expected business conditions to improve over the next six months, down from 47 percent in January, while 18 percent anticipated a decline. Expectations for sales also peaked in January, at 53, and declined through April to 19 but rebounded slightly in May, up 10 points to 29. Expectations for hiring were also notably lower in April and May — at 8 and 9, respectively — than at the start of 2016. In January the index stood at 33. Expectations for

business spending were stronger but were also off somewhat from earlier readings.

The latest survey results indicated that overall business activity in Maryland was sluggish in May. There was a slight improvement in overall business conditions and a modest decrease in sales. Respondents indicated brisk hiring but moderate business spending. Expectations for future business conditions and hiring remained more downbeat for a second consecutive month.

While recent survey results have not been decidedly negative, they do indicate a sluggish economy during the first five months of the year. Perhaps this sluggish start is weighing on expectations for the second half of the year. Still, the continued hiring and investment suggest that the current unevenness is likely to be temporary and will not persist into the second half of 2016.

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Business Activity Indexes¹

Business Conditions in Maryland	Current Conditions			Expectations ²		
	May-16	Apr-16	Mar-16	May-16	Apr-16	Mar-16
General Business Conditions	3	-3	12	9	24	31
Sales	-6	8	6	29	19	42
Employment						
Number of Employees	26	23	29	9	8	28
Availability of Skills Needed	-21	-18	-3	-17	-16	0
Average Workweek	11	10	12	6	3	16
Wages	29	31	32	29	43	44
Spending						
Business Services Expenditures	6	5	19	18	14	16
Total Capital Expenditures	8	11	27	11	22	28
Equipment or Software	22	16	31	20	22	32
Price Trends³						
Prices Paid for Inputs	1.4	2.4	1.6	1.9	2.0	0.7
Prices Received for Outputs	1.3	2.4	1.8	1.8	3.6	0.6

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.