

Note: Survey responses were collected from May 7 to May 21.

May 2020

Responses to the May *Nonmanufacturing Business Outlook Survey* suggest continued weakness in nonmanufacturing activity in the region. Despite remaining well below zero, the survey's current indicators for general activity at the firm level, new orders, sales/revenues, and full-time employment all increased this month after reaching all-time low readings in April. The firms continued to report overall decreases in prices of both their inputs and their own goods and services for the second consecutive month. The survey's index for firm-level future activity returned to positive territory and suggests optimism about growth over the next six months.

Current Indicators Remain Negative

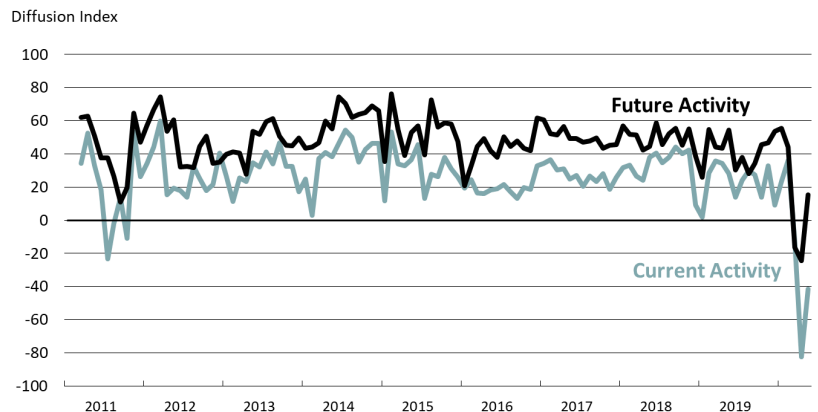
After reaching an all-time low in April, the indicator for firm-level general activity rose 41 points to -41.4, its third consecutive negative reading (see Chart). Although a smaller share of firms reported decreases this month compared with last month, the percentage of firms reporting decreases this month (57 percent) far exceeded the percentage reporting increases (16 percent). The new orders index remains negative but rose 35 points out of an all-time low for the series last month, from -67.2 to -32.4. Over 13 percent of the firms reported an increase in new orders, up from none in April, while 46 percent reported decreases, down from 68 percent last month. The sales/revenues index increased 37 points out of an all-time low last month, from -87.9 to -50.8. Over 11 percent of the firms reported an increase in sales/revenues, up from none in April, while 62 percent reported decreases, down from 88 percent last month. The index measuring firms' perception of regional activity rose 28 points to -68.6.

Employment Indicators Suggest Continued Declines

Responding firms continued to report overall decreases in both full- and part-time employment. The full-time employment index rose 24 points to -23.4 in May. The share of firms reporting decreases in full-time employment (31 percent) exceeded the share reporting increases (7 percent); the majority (59 percent) reported no change. The part-time employment index rose 22 points to -37.3, while the average work-week index increased 14 points to -36.9. The wages and benefits indicator rose 21 points to -14.9.

Chart. Current and Future General Activity Indexes for Firms

March 2011 to May 2020



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

Firms Report Overall Price Decreases

The indexes for prices paid for inputs and prices received for the firms' own products and services both remained in negative territory for the second consecutive month. The prices paid index fell 6 points to -6.2. Seventeen percent of the respondents reported decreases in input prices, while 11 percent reported increases. The prices received index edged up 4 points to -11.2 in May. Over 17 percent of the firms reported decreases in prices received, while 6 percent reported increases. A majority of the firms (53 percent) reported no change in their own prices.

Firms Expect Own Prices to Rise Slower Than Inflation

In this month's special questions, the firms were asked to forecast the changes in the prices of their own products and services and for U.S. consumers over the next four quarters (see Special Questions). Regarding their own prices, the firms' median forecast was for an increase of 1.0 percent, down from 2.0 percent when the question was last asked in February. Regarding the firms' historical own price change over the previous year, the median response was 1.0 percent, up from

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the previous report of zero percent. When asked about the rate of inflation for U.S. consumers over the next year, the firms' median forecast was unchanged at 2.0 percent. The firms expect their employee compensation costs (wages plus benefits per employee) to rise 2.0 percent over the next four quarters, lower than the 3.0 percent that was forecast when the same question was last asked in February. The firms' forecast for the long-run (10-year) inflation rate remained at 3.0 percent.

Firms Regain Optimism About Their Own Future Growth

Readings from both future activity indexes increased from all-time lows last month. The diffusion index for future activity at the firm level rose 40 points to 15.4, its first positive reading since February (see Chart). Nearly 50 percent of the firms expect a rise in activity at their firms over the next six months, compared with 34 percent that expect a decline. The future regional activity index increased 36 points to -10.0 in May.

Summary

Results from this month's *Nonmanufacturing Business Outlook Survey* suggest continued weakness in regional non-manufacturing activity. The indicators for firm-level general activity, new orders, sales/revenues, and full-time employment increased from their all-time low readings in April but remained negative. However, respondents expect growth at the firm level over the next six months. ■

Special Questions (May 2020)		
Please list the annual percent change with respect to the following:		
	Current	Previous (February 2020)
For your firm:		
<i>Forecast for next year (2020Q2–2021Q2)</i>		
1. Prices your firm will receive (for its own goods and services sold).	1.0	2.0
2. Compensation your firm will pay per employee (for wages and benefits).	2.0	3.0
<i>Last year's price change (2019Q2–2020Q2)</i>		
3. Prices your firm did receive (for its own goods and services sold) over the last year.	1.0	0.0
For U.S. consumers:		
4. Prices consumers will pay for goods and services over the next year.	2.0	2.0
5. Prices U.S. consumers will pay for goods and services over the next 10 years (2020–2029).	3.0	3.0
The numbers represent medians of the individual forecasts (percent changes). For question 5, firms reported a 10-year annual-average change.		

NONMANUFACTURING BUSINESS OUTLOOK SURVEY May 2020	May vs. April					Six Months from Now vs. May				
	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your assessment of general business activity for the region?	-96.4	3.0	23.6	71.6	-68.6	-45.8	38.7	9.2	48.7	-10.0
What is your assessment of general business activity for your firm?	-82.5	15.5	27.5	57.0	-41.4	-24.5	49.4	15.9	33.9	15.4
Company Business Indicators										
New Orders	-67.2	13.1	15.1	45.5	-32.4	NOTES: (1) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease. (2) All data are seasonally adjusted. (3) Percentages may not sum to 100 percent because of rounding, omission by respondents, or both. (4) Survey results reflect data received through May 21, 2020.				
Sales or Revenues	-87.9	11.3	21.9	62.1	-50.8					
Unfilled Orders	-18.8	8.0	10.4	14.3	-6.3					
Inventories	1.9	3.3	11.6	11.9	-8.5					
Prices Paid	-0.4	10.8	51.2	17.0	-6.2					
Prices Received	-15.4	6.1	52.8	17.3	-11.2					
Number of Employees – Full-Time Permanent	-47.5	7.4	58.5	30.8	-23.4					
Number of Employees – Part-Time, Temporary, and Contract	-58.9	5.0	38.7	42.3	-37.3					
Average Employee Workweek	-50.7	10.2	39.4	47.2	-36.9					
Wage and Benefit Costs	-35.7	9.4	62.8	24.3	-14.9					
Capital Expenditures – Physical Plant	-41.3	7.0	20.8	35.2	-28.2					
Capital Expenditures – Equipment & Software	-40.5	13.7	27.0	35.4	-21.7					