

Firms responding to July's *Nonmanufacturing Business Outlook Survey* reported a deceleration in the pace of regional nonmanufacturing activity. While the survey's diffusion index for current activity remains positive, it fell significantly from its June reading. Nonetheless, firms are highly optimistic about activity increasing in the region over the next six months. The employment indicators revealed that firms held their staff levels relatively fixed. Most of the other diffusion indexes that are related to current conditions were both negative and significantly lower than their prior month values. Because of the survey's short history, the Philadelphia Fed does not currently adjust for seasonal factors, but preliminary seasonal analysis shows that lower-than-average responses about current conditions are common in July.

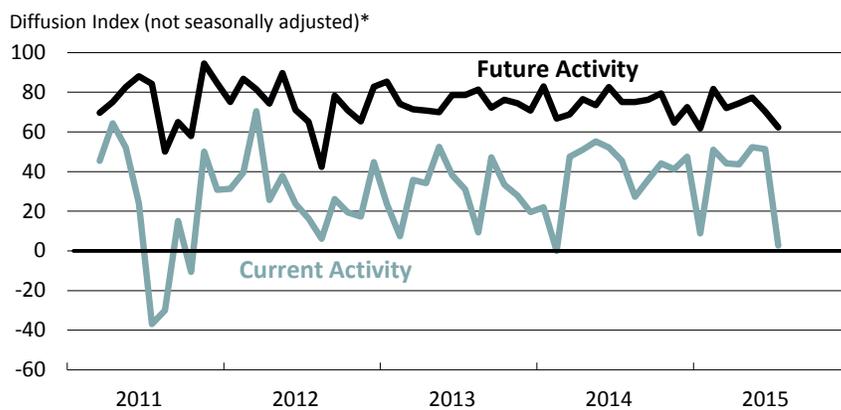
Nonmanufacturing Activity Fell

The diffusion index for current activity at the firm level fell 49 points to 2.7 in July (see chart). Forty percent of the respondents reported increasing activity at their own firms this month, down from almost 60 percent last month. The percentage of firms reporting decreasing activity rose — from 8 percent in June to 38 percent in July. The diffusion index for current activity for the region also fell — dropping 46 points to 8.1 in July, as the percentage of firms reporting decreasing activity for the region rose from 5 percent in June to 27 percent in July. These two indexes are significantly below their historical averages (31.0 for general activity at the firm level; 24.5 for general activity in the region), and this is the lowest reading for current activity at the firm level since early 2014. It is unlikely that the declines are a sign of sudden weakness in the regional economy but are instead partially related to normal seasonal patterns. The special questions for this month asked firms to provide an assessment of how seasonal patterns affect their businesses, and many reported that seasonal influences have a negative effect at this time of the year. (For a further discussion of this issue, see *Seasonal Factors Matter for Many* later in this survey.)

New Orders and Sales Indexes Are Negative

The new orders index fell from 27.0 in June to -5.4 in July, which is the first negative value for this index since late 2013. The sales/revenue index hit an even lower value of -21.6, falling 54

Chart 1. Current and Future General Activity Indexes for Firms (March 2011 to July 2015)



* Percentage of respondents indicating an increase minus percentage indicating a decrease

points from June. The unfilled orders and inventories indexes also fell into negative territory, with both recording a value of -2.7 in July. Some of these declines are surely related to seasonal influences on current activity.

Most Firms Held Employment at Last Month's Levels

The full-time employment index fell 19 points to 5.4 in July. Only 16 percent of the respondents reported an increase in full-time staff, compared with 35 percent reporting an increase last month. A strong majority, 73 percent, reported no change this month. The part-time employment index also decreased, from 32.4 in June to -2.7 in July. Sixty-two percent of the respondents reported no change in part-time staff levels this month. The workweek index decreased from 18.9 in June to zero in July, as 70 percent of the respondents reported no change in the average employee workweek.

Price Pressures Moderated

The prices paid index fell 16 points to 18.9, which is close to its historical average of 20.9. The percentage of respondents reporting increases in prices paid fell from 38 percent in June to 22 percent in July, and the percentage of respondents reporting decreases held at 3 percent. The prices received index dropped 27 points to 5.4 in July. The share of firms reporting no change in prices received rose from 51 percent to 57 percent.



Spending on Equipment and Software Decreased

The diffusion index for capital expenditures for equipment and software fell for the third consecutive month and currently stands at 5.4. The index for capital expenditures for physical plant fell over 5 points, to 10.8. The share of firms reporting no change in capital expenditures for equipment and software was 57 percent, and the share of firms reporting no change in capital expenditures for physical plant was 51 percent.

Optimism for the Region Unchanged

The future activity diffusion index for the region held steady at 81.1, which is 5 points above its historical average. None of the respondents foresee a decline in regional activity over the next six months. Seasonal patterns are not evident in this indicator of future activity. There was a decline in the future activity diffusion index at the individual firm level in both June and July, and the July level of 62.2 is 12 points below its historical average.

Seasonal Factors Matter for Many

In this month's special questions, firms were asked to assess the importance of seasonal factors in their firm's activity level. They were also asked to identify months with higher- or lower-than-normal activity and whether these seasonal factors have changed in importance over time. Forty-six percent of the responding firms reported that seasonal factors are important,

and 47 percent of these respondents felt that the seasonal factors have not changed. Analysis of seasonal patterns in the current indicators confirms reports of seasonal increases in activity in the spring, decreases in activity in mid-summer (July and August, in particular), increases in the fall, and declines during the winter months. Nonetheless, preliminary seasonal analysis shows that the readings from the current indicators this July were lower than the declines that would be expected based solely on prior seasonal patterns. Unfortunately, the survey's short history prevents Philadelphia Fed researchers from making a complete set of seasonal adjustments to the diffusion indexes at this time.

Summary

Results from the *Nonmanufacturing Business Outlook Survey* show a deceleration in current activity in July, which is probably a temporary change that is partially driven by seasonal patterns. Firms are optimistic about future growth, as index readings for future activity at both the company and regional levels remain in clearly positive territory. ■

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The August *Nonmanufacturing Business Outlook Survey* will be released on August 25, 2015, at 10:00 a.m. ET.

| NONMANUFACTURING BUSINESS OUTLOOK SURVEY July 2015 | July vs. June | | | | | Six Months from Now vs. July | | | | |
|--|--------------------------------|----------|--------------|----------|--------------------|---|----------|--------------|----------|--------------------|
| | 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? | 54.1 | 35.1 | 37.8 | 27.0 | 8.1 | 81.1 | 81.1 | 13.5 | 0.0 | 81.1 |
| What is your assessment of general business activity for your firm? | 51.4 | 40.5 | 21.6 | 37.8 | 2.7 | 70.3 | 67.6 | 13.5 | 5.4 | 62.2 |
| Company Business Indicators | | | | | | | | | | |
| New Orders | 27.0 | 24.3 | 24.3 | 29.7 | -5.4 | NOTES: (1) Items may not add up to 100 percent because of omission by respondents. (2) Data are not seasonally adjusted. (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease. (4) Survey results reflect data received through July 16, 2015. | | | | |
| Sales or Revenues | 32.4 | 21.6 | 32.4 | 43.2 | -21.6 | | | | | |
| Unfilled Orders | 10.8 | 10.8 | 21.6 | 13.5 | -2.7 | | | | | |
| Inventories | 5.4 | 5.4 | 13.5 | 8.1 | -2.7 | | | | | |
| Prices Paid | 35.1 | 21.6 | 64.9 | 2.7 | 18.9 | | | | | |
| Prices Received | 32.4 | 16.2 | 56.8 | 10.8 | 5.4 | | | | | |
| Number of Employees – Full-time Permanent | 24.3 | 16.2 | 73.0 | 10.8 | 5.4 | | | | | |
| Number of Employees – Part-time, Temporary, and Contract | 32.4 | 16.2 | 62.2 | 18.9 | -2.7 | | | | | |
| Average Employee Workweek | 18.9 | 13.5 | 70.3 | 13.5 | 0.0 | | | | | |
| Wage and Benefit Costs | 35.1 | 24.3 | 67.6 | 0.0 | 24.3 | | | | | |
| Capital Expenditures – Physical Plant | 16.2 | 13.5 | 51.4 | 2.7 | 10.8 | | | | | |
| Capital Expenditures – Equipment & Software | 18.9 | 10.8 | 56.8 | 5.4 | 5.4 | | | | | |