

Firms responding to January's *Nonmanufacturing Business Outlook Survey* reported that while regional nonmanufacturing growth remained positive, the pace has slowed considerably. The survey's index for current general activity for the region fell far below its historical average, and the survey's indicators for current activity at the firm level and for sales, new orders, and employment weakened as well. The indicators for average workweek and wages rose, however. The diffusion indexes for future general activity declined but continue to be positive.

### Seasonal Adjustments Introduced

Throughout this report, the assessment of nonmanufacturing activity in the region is based on seasonally adjusted indicators and indexes.\* This is the first month that the survey is reported in seasonally adjusted terms. The adjustments are designed to better highlight cyclical movements in the respondents' answers to the survey questions by identifying and removing regular and transient seasonal patterns.

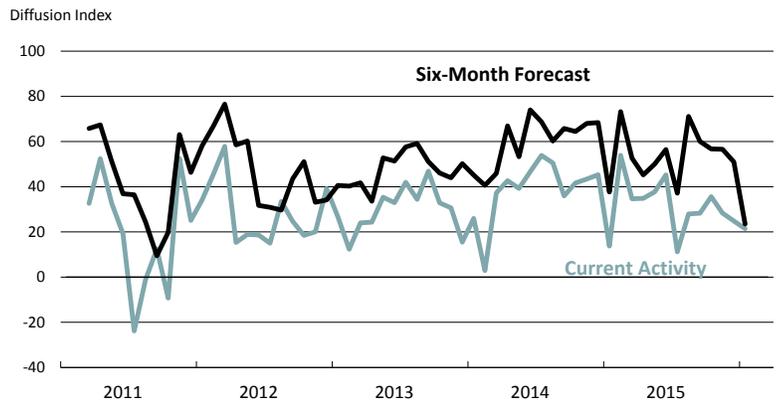
### Nonmanufacturing Activity Declines

The diffusion index for current general activity for the firm fell 3 points, to 21.4, in January, as the proportion of firms reporting a decrease in regional activity rose from 18 percent in December to 21 percent in January (see Chart 1). The diffusion index for current activity for the region fell by a much larger amount, from 26.7 in December to 5.1 in January. The proportion of firms reporting a decrease in current general activity in the region rose from 12 percent in December to 20 percent in January. Nonetheless, most of the respondents report no change. Both indexes are below their historical averages of 29.7 at the firm level and 24.0 at the regional level.

### Orders and Sales Weaken

In January, the new orders index fell 6 points, to 14.5, and the unfilled orders index fell 2 points, to 1.7. The sales/revenues index fell 12 points, to 14.0. The change in the sales index was largely driven by an increase in the share of firms reporting a decrease in sales, but the January share of decreasing sales, 26 percent, is close to historical norms.

**Chart 1. Current and Future General Activity Indexes for Firms**  
March 2011 to January 2016



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.

### Full-Time Employment Softens Slightly

Responses to the survey indicate slightly weaker conditions for full-time employment in January, as the index for full-time employment fell 4 points, to 12.8, slightly below its historical average of 14.7. The average workweek index rose 9 points, to 19.2, however. The index for wages and benefits rose as well, from 28.2 in December to 32.6 in January. The share of firms reporting an increase in wages and benefits climbed 5 points to 35 percent in January.

### Little Change in Prices Paid and Received

The prices paid index fell 3 points, to 16.8 (see Chart 2). The prices received index rose 1 point, to 16.7. The share of firms reporting no change in prices paid was 58 percent, while the share of firms reporting no change in prices received was 59 percent. These no-change shares are slightly above historical averages, and the prices paid index has been relatively steady for the past three months.

Released January 26, 2016, at 8:30 a.m. ET. The next *Nonmanufacturing Business Outlook Survey* will be released on Tuesday, February 23, 2016, at 8:30 a.m. ET.

\* Information about the seasonal adjustments and a full set of seasonally adjusted historical data can be found at [www.philadelphiafed.org/nonmanufacturing-bos](http://www.philadelphiafed.org/nonmanufacturing-bos).



## Capital Spending Mixed

The index for physical plant spending rose 7 points, to 18.8. The index for capital spending on equipment and software fell 6 points, however, to 17.7. For both questions regarding capital spending, the share of respondents reporting a decrease in spending is relatively low but not as low as the share that reported a decrease in December.

## Optimism About the Future Declines

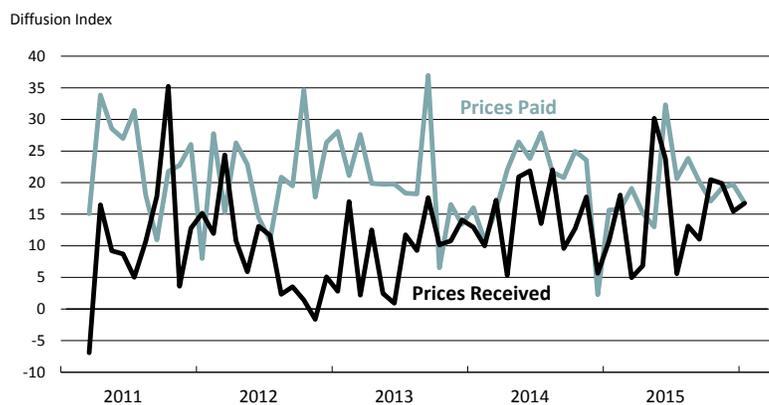
While respondents to the survey remain optimistic about future activity over the next six months, they report a lower degree of optimism. At the regional level, the future activity diffusion index fell 30 points, to 11.2, its lowest reading since October 2011. Thirty-six percent of the respondents foresee higher activity in the region over the next six months, down from 50 percent in the December report. At the individual firm level, the future activity diffusion index fell 28 points, to 23.5. The share of firms foreseeing higher activity fell from 59 percent in December to 53 percent in January.

## Summary

Results from the January *Nonmanufacturing Business Outlook Survey* suggest continued expansion in the region among

**Chart 2. Prices Paid and Prices Received Indexes**

March 2011 to January 2016



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.

nonmanufacturing firms but at a slower pace. The future activity indexes at both the company and regional levels show a general decline in optimism about growth over the next six months. ■

NONMANUFACTURING BUSINESS OUTLOOK SURVEY January 2016	January vs. December					Six Months from Now vs. January				
	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?	26.7	25.4	52.3	20.4	5.1	40.7	35.6	35.8	24.4	11.2
What is your assessment of general business activity for your firm?	24.8	42.4	36.6	21.0	21.4	51.0	52.7	18.1	29.2	23.5
<b>Company Business Indicators</b>										
New Orders	20.5	32.3	25.2	17.8	14.5	<b>NOTES:</b> (1) Items may not add up to 100 percent because of omission by respondents. (2) All items are <b>seasonally adjusted</b> , including items in the "Previous Diffusion Index" column. (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease. (4) Survey results reflect data received through January 21, 2016. (5) The "Number of Employees – Part-time, Temporary, and Contract" was not reported (NR) in December 2015.				
Sales or Revenues	26.1	39.6	27.8	25.5	14.0					
Unfilled Orders	3.3	9.6	22.7	7.9	1.7					
Inventories	4.5	8.5	11.6	7.0	1.5					
Prices Paid	19.7	25.4	58.1	8.6	16.8					
Prices Received	15.5	21.7	59.0	5.0	16.7					
Number of Employees – Full-time Permanent	16.6	24.2	58.2	11.5	12.8					
Number of Employees – Part-time, Temporary, and Contract	NR	32.0	50.9	10.9	21.0					
Average Employee Workweek	10.6	27.9	63.0	8.7	19.2					
Wage and Benefit Costs	28.2	35.2	60.8	2.7	32.6					
Capital Expenditures – Physical Plant	12.1	24.3	35.2	5.5	18.8					
Capital Expenditures – Equipment & Software	23.6	25.3	46.0	7.6	17.7					