

The respondents to this month's *Nonmanufacturing Business Outlook Survey* reported a slow pace of growth for current general business activity in the region. The assessments of firm-level activity were more optimistic: The February diffusion index for current general activity at the firm level was higher than the diffusion index for the region and rose slightly from its January reading. The firm-level indicators for sales and employment fell but remain positive, while the indicators for new orders held steady. The responding firms continue to be optimistic about business activity at their own firms and in the region over the next six months.

#### Nonmanufacturing Activity Remains Positive

The diffusion index for current activity for the region fell slightly, to 3.6. The diffusion index for current activity at the firm level stands at 25.6, rising 4 points from its January reading (see Chart 1). The proportion of firms reporting an increase in activity rose 4 points, to 46 percent, while the proportion reporting a decrease in activity held at 21 percent. Both indexes remain below their 2015 averages (32.0 for current activity for the region; 31.4 for current activity at the firm level).

#### New Orders and Sales Are Mixed

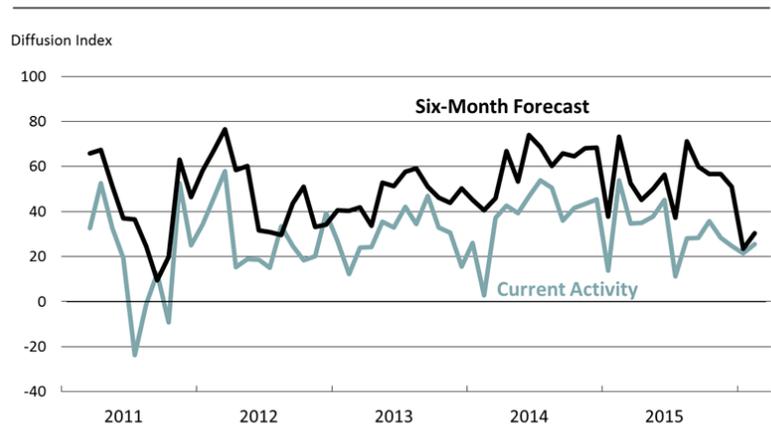
The new orders index held steady at 14.6. The share of firms reporting an increase in new orders (36 percent) rose slightly, as did the share of firms reporting a decrease (21 percent). The sales/revenues index fell 5 points, to 9.1, in February. The decline in the sales index was driven almost entirely by a rise in the share of firms reporting a decrease in their sales this month. While this index remains positive, it is far below its 2015 average of 23.6.

#### Employment Conditions Are Steady

The employment indicators revealed that firms held their staff levels relatively fixed from January to February. The full-time employment index fell 2 points, to 11.1; the part-time index fell slightly to 20.1; and the average workweek index rose 4 points, to 23.2. This month, 18 percent of the firms reported an increase in full-time employment (down 6 points), 30 percent reported an increase in part-time employment (down 2 points), and 35 percent reported an

**Chart 1. Current and Future General Activity Indexes for Firms**

March 2011 to February 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.

increase in the average workweek (up 7 points). The index for wages and benefits rose 2 points, to 34.3.

#### Firms Report Slightly Higher Prices

The prices paid index rose 2 points, to 18.9. The prices received index rose 6 points, to 22.4. The share of firms reporting no change in prices paid was 65 percent, while the share of firms reporting no change in prices received was 51 percent. These two series have stayed in a relatively tight range of 15 to 22 in recent months.

#### Spending on Equipment and Software Remains Steady

The diffusion indexes for capital spending were unchanged. The share of firms reporting increases or decreases in capital expenditures for physical plant showed little change (24 and 5 percent, respectively), as did the share of firms reporting increases or decreases in capital expenditures for equipment and software (24 percent and 7 percent, respectively).

#### Optimism About the Future Rose

The respondents to the survey remain optimistic about future activity over the next six months. At the individual firm level, the future activity diffusion index rose 7 points, to 30.5, in February. Fifty-three percent of the respondents foresee

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higher activity at their firms over the next six months. At the regional level, the future activity diffusion index was 13.7 in February, increasing more than 2 points from January. Neither one of these future indexes is near its 2015 average (54.0 for the firm and 52.3 for the region).

### Special Questions About the Future Rate of Inflation

In this month's special questions, firms were asked about changes in the prices of their own products, in compensation to their employees, and in prices their employees and U.S. consumers will pay over the next four quarters. The median forecast was for an increase of 3 percent for their own prices and compensation, which matched the median response from a similar survey conducted in November. Firms expect price increases for their employees and for U.S. consumers to be lower over the next year (2 percent). In the previous survey, the median forecast for both parameters was 3 percent. For the expected average rate of inflation for consumers over the next 10 years, the median of firms' responses was 2.5 percent, down from 3 percent in the November survey.

### Summary

Results from the February *Nonmanufacturing Business Outlook Survey* suggest slow to modest growth in the region among nonmanufacturing firms. The future activity indicators show optimism about growth over the next six months at both the company and regional levels. ■

Special Questions (February 2016)	
For the period 2016:Q1 to 2017:Q1, please list your expected annual percent change with respect to the following:	
	Percent Change*
<b>1. For your firm:</b>	
Prices your firm will receive (for its own goods and services sold).	3.0
Compensation your firm will pay per employee (for wages and benefits).	3.0
<b>2. For your employees:</b>	
Prices your employees will pay (for goods and services where they live).	2.0
<b>3. For U.S. consumers:</b>	
Prices U.S. consumers will pay (for goods and services).	2.0
<b>For the next 10 years (2016 through 2025), what is your expected annual average percent change with respect to the following:</b>	
<b>4. For U.S. consumers:</b>	
Prices U.S. consumers will pay (for goods and services).	2.5
* Figures represent median forecasts.	

NONMANUFACTURING BUSINESS OUTLOOK SURVEY February 2016	February vs. January					Six Months from Now vs. February				
	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?	5.1	29.0	45.6	25.4	3.6	11.2	38.1	31.6	24.3	13.7
What is your assessment of general business activity for your firm?	21.4	46.4	32.3	20.8	25.6	23.5	52.7	23.3	22.3	30.5
Company Business Indicators										
New Orders	14.5	35.5	26.0	20.9	14.6	<b>NOTES:</b> (1) Items may not add up to 100 percent because of omission by respondents. (2) All items are seasonally adjusted. (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease. (4) Survey results reflect data received through February 18, 2016.				
Sales or Revenues	14.0	40.1	25.9	31.1	9.1					
Unfilled Orders	1.7	9.2	20.7	6.6	2.6					
Inventories	1.5	6.4	16.3	6.9	-0.5					
Prices Paid	16.8	23.5	65.3	4.5	18.9					
Prices Received	16.7	28.8	50.8	6.3	22.4					
Number of Employees – Full-time Permanent	12.8	17.9	67.0	6.8	11.1					
Number of Employees – Part-time, Temporary, and Contract	21.0	30.4	58.3	10.3	20.1					
Average Employee Workweek	19.2	35.1	53.1	11.8	23.2					
Wage and Benefit Costs	32.6	34.9	64.2	0.6	34.3					
Capital Expenditures – Physical Plant	18.8	23.6	45.5	5.0	18.6					
Capital Expenditures – Equipment & Software	17.7	24.1	54.2	7.0	17.0					