

The respondents to May's *Nonmanufacturing Business Outlook Survey* continued to report moderate growth in current activity at their firms. The diffusion indexes for new orders and sales rose, while the index for full-time employment was little changed. However, responding firms reported a lower level of optimism about future activity at the firm level and in the region over the next six months than in the previous survey.

#### General Activity at the Firm Level Held Steady

The diffusion index for current activity at the firm level was little changed at 18.2 in May (see Chart). The share of firms reporting no change rose nearly 9 points to 47 percent this month, while the share of firms reporting increases (34 percent) exceeded the share of firms reporting decreases (16 percent). The general activity index for the region declined from 13.5 in April to 4.6 in May, which is near the readings recorded at the beginning of the year. Twenty-one percent of the firms reported an increase in regional activity this month, while 59 percent reported no change.

#### Sales and New Orders Indexes Rose

The demand for firms' services, as measured by the new orders and sales/revenues indexes, rose this month. The new orders index increased 9 points, to 23.1, in May. Thirty-seven percent of the firms reported increases in new orders, compared with 14 percent of the firms that reported decreases. The sales/revenues index experienced a sharper increase, rising 14 points, to 23.6. Forty-three percent of the respondents reported increases in sales this month, up from 32 percent last month.

#### Labor Market Conditions Remained Steady

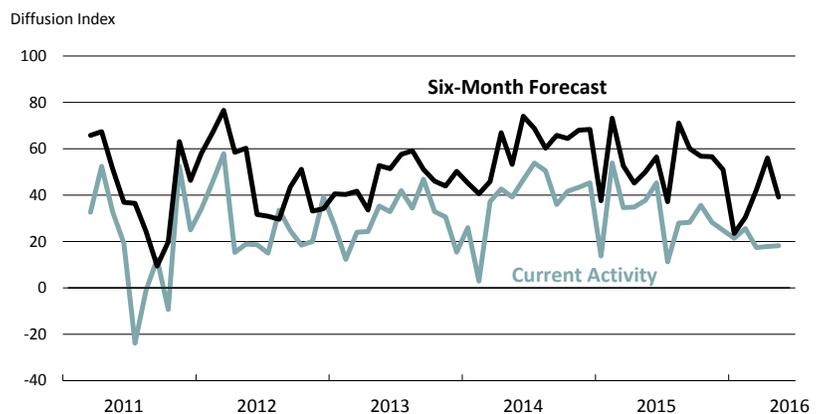
Survey results suggest a relatively steady labor market. The full-time employment index increased 3 points, to 10.6. This index has remained near its current value since the start of this year. The part-time employment index edged up slightly to 11.2. The workweek index decreased 6 points, to 19.3, and the wages and benefit costs index fell 14 points, to 26.6.

#### Firms Reported Increases in Input Prices

The index for prices paid increased from 10.9 in April to 22.4 in May, which suggests that, on balance, firms experienced higher input costs. A larger share of firms reported increases in input

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

March 2011 to May 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.

prices this month (28 percent) compared with last month (20 percent), and a smaller share reported decreases in input prices this month (5 percent) compared with last month (9 percent). The prices received index fell 8 points, to 5.5. The share of firms reporting no change in prices received rose from 57 percent last month to 64 percent this month.

#### Capital Expenditures Held Steady

The equipment and software expenditures index held steady at 20.5. Twenty-five percent of the respondents reported increases in equipment and software spending, but a much larger share, 59 percent, reported no change. The index for expenditures on physical plant increased 2 points, to 18.2. Fifty-nine percent of the respondents reported no change in capital expenditures on plant in May, up from 47 percent in April.

#### Special Questions About the Future Rate of Inflation

In this month's special questions, firms were asked about the future rate of inflation in the prices of their own products, in employee compensation, and in prices their employees and U.S. consumers will pay. The median forecast for the next four quarters was for an increase of 2 percent in their own prices and an increase of 2.5 percent in employee compensation. These

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values represent 1 and 0.5 point drops, respectively, from a similar survey conducted in February. Firms expect price increases for their employees and for U.S. consumers to be 2 percent over the next four quarters, unchanged from the February survey. For the average rate of inflation for U.S. consumers over the next 10 years, the median response was 2.5 percent, which also is unchanged.

### Future Indicators Decreased

Although a large share of the respondents expected activity to increase or hold steady at their firms, the firm-level future general activity index decreased 17 points, to 39.1 (see Chart). In last month's survey, 63 percent of the respondents expected activity to increase at their firms, and this share fell to 48 percent this month. The future activity index for the region also decreased, falling 10 points to 25.5. Nonetheless, only 9 percent of the respondents expect activity to decrease either at their own firms or in the region.

### Summary

This month's *Nonmanufacturing Business Outlook Survey* suggests relatively slow but steady expansion among the region's nonmanufacturing firms. The indicators for general activity remained positive, but the diffusion index for current activity at the firm level remained below its historical average. In addition, the view conveyed by firms about growth over the next six months is less optimistic than was reported in April. ■

Special Questions (May 2016)	
Over the next year (2016:Q2 to 2017:Q2), 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).	2.0
Compensation your firm will pay per employee (for wages and benefits).	2.5
<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
* Numbers represent median forecasts.	

NONMANUFACTURING BUSINESS OUTLOOK SURVEY May 2016	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?	13.5	21.0	59.2	16.5	4.6	35.2	34.4	53.0	8.9	25.5
What is your assessment of general business activity for your firm?	17.8	33.9	47.4	15.7	18.2	56.0	47.9	42.0	8.8	39.1
<b>NOTES:</b>										
(1) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.										
(2) All items 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 19, 2016.										
Company Business Indicators										
New Orders	13.9	36.7	39.1	13.6	23.1					
Sales or Revenues	9.6	42.6	38.5	18.9	23.6					
Unfilled Orders	6.2	4.5	34.3	0.1	4.4					
Inventories	6.5	12.4	16.7	3.4	8.9					
Prices Paid	10.9	27.6	56.8	5.1	22.4					
Prices Received	13.9	17.0	64.2	11.5	5.5					
Number of Employees – Full-time Permanent	7.5	24.3	60.8	13.7	10.6					
Number of Employees – Part-time, Temporary, and Contract	10.5	23.7	62.0	12.6	11.2					
Average Employee Workweek	24.8	25.0	69.2	5.8	19.3					
Wage and Benefit Costs	40.3	28.8	67.6	2.3	26.6					
Capital Expenditures – Physical Plant	16.1	18.2	59.0	0.0	18.2					
Capital Expenditures – Equipment & Software	20.4	25.0	58.7	4.5	20.5					