



September 2016

Regional nonmanufacturing activity in September grew at a slightly slower pace, according to firms responding to this month's *Nonmanufacturing Business Outlook Survey*. The survey's indexes for current general activity at the firm level and in the region remained positive but suggest a continuation of a slight softening in the region. In addition, firms reported slower growth in sales and new orders. The index for full-time employment rose, however. Firms reported stronger increases in prices for inputs than in prices received for their goods and services. Despite declines in the survey's current activity indicators, the respondents expressed greater optimism about activity over the next six months.

### Firms Report Lower Growth

The diffusion index for current activity at the firm level fell from 19.5 in August to 16.7 in September (see Chart 1). This index is lower than any value recorded over the prior 12 months and is also below its historical average (28.5), which suggests a slowdown in growth for nonmanufacturing firms in the region. Nonetheless, more firms reported an increase in activity at their firm (41 percent) than reported a decrease (25 percent). In the prior month, however, a larger share (47 percent) reported an increase in activity at their firm, while the share who reported a decrease was little changed. The diffusion index for current general activity in the region decreased 1 point, to 23.7. This index is close to its historical average (23.0).

### New Orders and Sales Weaken

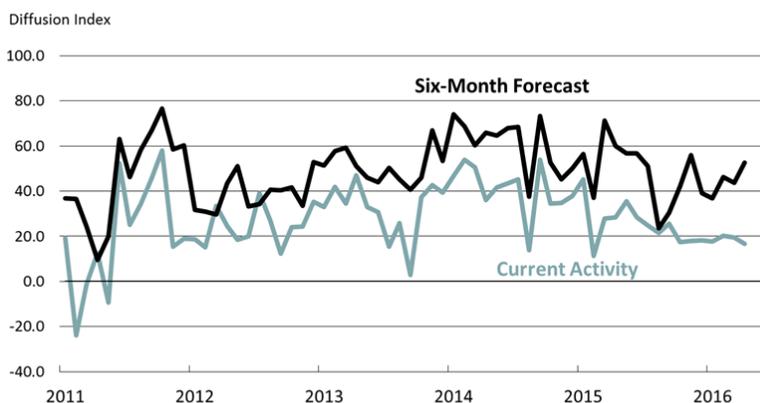
Firms reported a decline in the growth of new orders and sales this month. The new orders index fell 4 points, to 10.6. While the share of firms reporting increases in new orders (33 percent) exceeded the share of firms reporting decreases (23 percent), the share of firms reporting an increase was higher last month (38 percent). The sales/revenues index also fell, dropping 11 points to 11.1. The share of firms reporting a decline in sales grew, from 22 percent last month to almost 30 percent this month.

### Full-time Employment Improves

In September, the index for full-time employment rose 9 points, to 19.3. This is only the second month in 2016 that this index has been above its historical average of 14.2. Conditions for part-

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

March 2011 to September 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.

time employment deteriorated, however, as the index for part-time employment decreased 24 points, to -5.0. The workweek index held steady at 12.5, and the wages and benefits index fell 1 point, to 30.5.

### Firms Report Increases in Prices Paid

The prices paid index rose 19 points, to 29.9, in September. Thirty percent of the firms reported an increase in input prices, and none reported a decrease. Fewer firms reported increases in prices for their own goods and services compared with last month. Nonetheless, the index for prices received rose 3 points, to 13.2, due to a drop in the share who reported decreases in prices for their own goods and services.

### Firms Increase Capital Spending

The index for capital spending on physical plant rose 4 points, to 13.1, as the share of firms reporting increased spending in this category rose 5 points from last month's reading. The index for equipment and software spending fell 10 points, to 19.0. The share of the respondents who reported increases in spending on software and equipment remains relatively high at 30 percent.

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The next *Nonmanufacturing Business Outlook Survey* will be released on October 25, 2016.



### Reasons for Capital Spending

In this month's special questions, firms were asked about spending plans related to achieving company growth. Modernization of business processes (76 percent) was the most frequently cited goal, followed by expansion of facilities (36 percent). Fewer firms, but still notable percentages, indicated other goals to achieve growth: launching of new units (22 percent), joint ventures (22 percent), and acquisition of another company (12 percent).

### Optimism for Future Activity Remained High

Respondents continue to be optimistic about future activity. The firm-level future activity index rose 9 points, to 52.7 (see Chart 1). Nearly 61 percent of the respondents expect activity to increase at their firms, while 8 percent expect activity to decrease. The regional future activity index moved up 5 points, to 39.8. Forty-nine percent of the firms expect activity to increase in the region, while 9 percent expect activity to decrease in the region.

### Summary

Results from the *Nonmanufacturing Business Outlook Survey* suggest a slight weakening in current conditions. The indicators for general activity at the firm level were more pessimistic than indicators for general activity in the region. While full-time

### Special Questions (September 2016)

Which of the following best characterizes your company's spending plan goals with regard to achieving future growth?	
	Percentage Indicating Goal
Modernization of business processes	76.0
Expansion of physical facilities	36.0
Launching of new units	22.0
Joint ventures	22.0
Acquisition of another company	12.0
Internationalization	10.0
Purchase of other company's assets	6.0
Other	14.0
Percentages do not sum to 100 because firms could choose more than one category.	

employment improved, other employment indicators weakened. The index for prices paid rose more than the index for prices received. The respondents were optimistic about growth over the next six months. ■

NONMANUFACTURING BUSINESS OUTLOOK SURVEY September 2016	September vs. August					Six Months from Now vs. September				
	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?	24.8	34.2	48.1	10.4	23.7	34.4	49.1	31.8	9.3	39.8
What is your assessment of general business activity for your firm?	19.5	41.2	32.0	24.5	16.7	43.7	60.5	27.0	7.7	52.7
Company Business Indicators										
New Orders	14.7	33.0	20.5	22.5	10.6					
Sales or Revenues	22.5	40.6	24.7	29.5	11.1					
Unfilled Orders	-0.7	12.0	23.0	3.0	9.0					
Inventories	-4.2	5.1	22.6	6.3	-1.1					
Prices Paid	10.6	29.9	52.9	0.0	29.9					
Prices Received	10.5	18.3	60.4	5.1	13.2					
Number of Employees – Full-time Permanent	10.0	24.8	61.7	5.5	19.3					
Number of Employees – Part-time, Temporary, and Contract	19.0	12.0	67.7	17.1	-5.0					
Average Employee Workweek	12.3	25.1	56.6	12.5	12.5					
Wage and Benefit Costs	31.4	32.7	59.1	2.1	30.5					
Capital Expenditures – Physical Plant	9.5	19.9	52.6	6.8	13.1					
Capital Expenditures – Equipment & Software	29.0	30.0	54.7	11.0	19.0					

#### 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 September 15, 2016.