

Responses to the *Nonmanufacturing Business Outlook Survey* suggest that business activity continued to expand in February. The firm-level index of general activity increased for the third consecutive month, and the indexes for new orders, sales/revenues, and full-time employment remained positive despite moderating somewhat from their January readings. Indicators for prices paid and prices received fell. The future activity indexes also fell from their readings last month but continue to reflect optimism about growth over the next six months.

Current Indicators Suggest Continued Improvement

The diffusion index for current general activity at the firm level rose from 33.3 in January to 38.0 in February (see Chart). This index is at its highest reading since June 2015, as 44 percent of the firms reported an increase in activity, while only 6 percent reported a decrease. Firms' perceptions of current activity in the region weakened somewhat, however. The regional activity index fell 8 points, to 29.3, but remains above its historical average of 22.7.

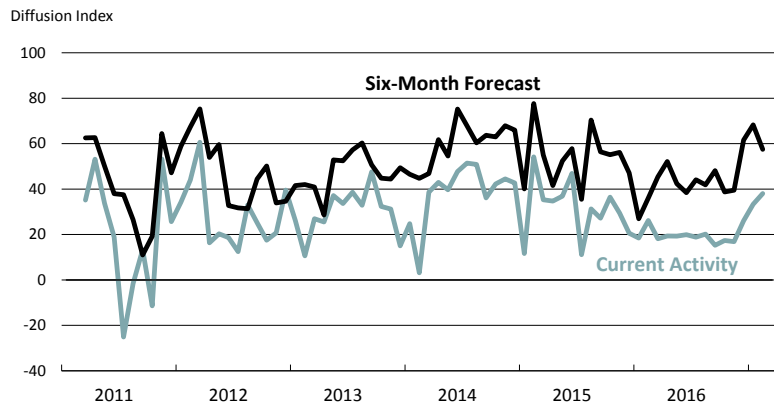
The indicators for new orders and sales/revenues fell from their readings last month but remain elevated compared with 2016 levels. The new orders index fell 4 points, to 25.3. Nearly 33 percent of the respondents reported increases in new orders, while 7 percent reported decreases. The sales/revenues index fell 11 points, to 32.5. The percentage of firms reporting an increase (45 percent) exceeded the percentage of firms reporting a decrease (13 percent).

Full-Time Employment Growth Moderates

The indicator for full-time employment moderated from the prior month, while the indicator for part-time employment held steady. The full-time employment index fell 7 points, to 12.4, slightly below its historical average of 14.2. Although most firms (53 percent) reported no change in full-time employment, the percentage of firms reporting an increase (27 percent) exceeded the percentage reporting a decrease (15 percent). The part-time employment index was essentially unchanged at 5.6. The wages and benefits indicator fell 14 points to 26.7 in February, as a smaller share of firms reported increases this month (31 percent) compared with last month (43 percent).

Current and Future General Activity Indexes for Firms

March 2011 to February 2017



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.

Price Pressures Soften

The prices paid index decreased 14 points, to 15.3, falling below its historical average of 20.1. More than 19 percent of the respondents reported increases in input prices compared with 4 percent who reported decreases. The prices received index fell from 22.1 in January to -1.3 in February. Although most firms reported no change (69 percent), the percentage of firms that reported a decrease in prices received (9 percent) narrowly exceeded the percentage of firms that reported an increase (7 percent).

Firms' Own Prices Expected to Be Higher Than the Rate of Inflation

In this month's special questions, firms were asked to forecast the changes in the prices of their own products and services and for U.S. consumers over the next four quarters (see Special Questions, next page). The median forecast was for an increase in their own prices of 2.5 percent, slightly down from the 2.8 percent median forecast in the fourth quarter of 2016 when the same questions were last asked. When asked about the average rate of inflation for U.S. consumers over the next year, the

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median response was 2.0 percent. Firms forecast an increase in compensation per employee of 3.0 percent over the next year, the same rate reported last quarter.

Firms Continue to Expect Future Growth

The respondents to this month's survey remained optimistic about future activity over the next six months; however, the index readings fell from last month. The diffusion index for future activity at the firm level fell 11 points, to 57.5 (see Chart). Nearly 63 percent of the firms expect to see an increase in activity at their firms over the next six months, and only 5 percent expect a decline. Forecasts for growth in the region also dampened, with the future regional activity index falling 22 points, to 48.4. Despite the decreases, both future indexes remain above their historical averages.

Summary

Results from this month's *Nonmanufacturing Business Outlook Survey* suggest continued business expansion. The indicator for firm-level general activity edged up, and the indicators for new orders, sales/revenues, and full-time employment remained positive but fell from their readings in January. Respondents remain optimistic about growth over the next six months. ■

Special Questions (February 2017)		
Over the next year (2017:Q1 to 2018:Q1), please list your expected annual percent change with respect to the following:		
	Percent Change over Next Year*	
	First Quarter 2017 Forecast	Fourth Quarter 2016 Forecast
1. For your firm:		
Prices your firm will receive (for its own goods and services sold).	2.5	2.8
Compensation your firm will pay per employee (for wages and benefits).	3.0	3.0
2. For your employees:		
Prices your employees will pay (for goods and services where they live).	3.0	2.0
3. For U.S. consumers		
Prices U.S. consumers will pay (for goods and services).	2.0	2.0
For the next 10 years (2017 through 2026), what is your expected annual average percent change with respect to the following:		
4. For U.S. consumers:		
Prices U.S. consumers will pay (for goods and services).	3.0	3.0
* Numbers represent median forecasts.		

NONMANUFACTURING BUSINESS OUTLOOK SURVEY February 2017	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?	37.7	31.3	58.0	2.0	29.3	70.6	54.2	35.8	5.9	48.4
What is your assessment of general business activity for your firm?	33.3	44.1	45.2	6.1	38.0	68.3	63.0	30.9	5.5	57.5
Company Business Indicators										
New Orders	28.9	32.7	38.7	7.4	25.3	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 February 16, 2017.				
Sales or Revenues	43.5	45.2	35.4	12.8	32.5					
Unfilled Orders	8.9	5.8	28.6	6.3	-0.4					
Inventories	10.4	10.2	11.1	4.5	5.7					
Prices Paid	29.5	19.1	63.4	3.8	15.3					
Prices Received	22.1	7.3	68.9	8.5	-1.3					
Number of Employees – Full-time Permanent	19.5	27.0	53.0	14.6	12.4					
Number of Employees – Part-time, Temporary, and Contract	5.3	18.8	62.2	13.2	5.6					
Average Employee Workweek	32.6	21.8	68.9	9.2	12.6					
Wage and Benefit Costs	40.8	30.6	63.2	3.9	26.7					
Capital Expenditures – Physical Plant	38.6	29.1	39.1	3.8	25.2					
Capital Expenditures – Equipment & Software	34.2	36.8	41.3	8.3	28.4					