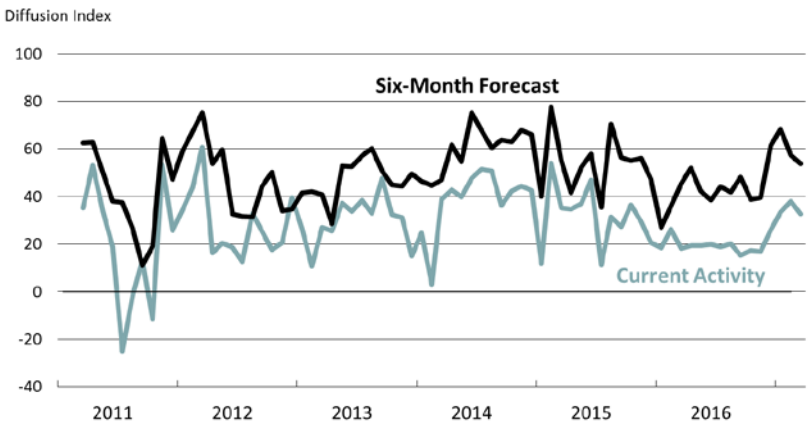
PHILADELPHIAFED

NBOS NONMANUFACTURING BUSINESS OUTLOOK SURVEY

March 2017

The March *Nonmanufacturing Business Outlook Survey* indicated that business activity continued to expand in the region. The survey's indicators for firm-level general activity, new orders, and sales/revenues fell from last month's readings but remained positive. The indexes for employment improved, with respondents reporting overall increases in both full-time and part-time employees. Firms reported increases in input prices and decreases in prices for their own goods and services. Expectations for growth over the next six months remained high; however, optimism at the firm level has moderated over the past two months.

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

Indicators for Current Activity Fall, but Growth Remains Positive

Firms continued to report growth in overall business activity, but many of the survey's current indicators fell this month. The diffusion index for general activity at the firm level edged down, from 38.0 in February to 32.5 in March (see Chart 1). Nearly 49 percent of the firms reported an increase in activity at their firms, while 16 percent reported a decrease. This index remained above its historical average of 28.4. Firms reported a strengthening in their perception of current regional economic activity, and the diffusion index for regional activity rose 6 points to 35.4. The sales/revenues index decreased for the second consecutive month, to 20.3, as the share of firms reporting an increase fell from 45 percent in February to 36 percent in March. The new orders index also decreased, from 25.3 last month to 22.6 this month. Thirty-six percent of the respondents reported increases in new orders, compared with the 13 percent who reported decreases.

Full-time and Part-time Employment Expands

The full-time employment index increased 5 points to 17.2, rising above its historical average of 14.3 (see Chart 2). Nearly 25 percent of the firms reported an increase in full-time employment, and 7 percent reported a decrease. The part-time employment index also rose 5 points, to 10.2. More than 20 percent of the firms reported an increase in part-time employment, and 10 percent reported a decrease. The average workweek index rose 6 points to 18.9, while the wages and benefits index fell 4 points to 22.3.

Input Prices Rise Slightly

Firms reported overall increases in input prices and decreases in the prices for their own goods and services. The prices paid index rose 3 points to 18.0 but remains below its historical average of 20.1. A larger share of firms reported increases in input prices (20 percent) than decreases (2 percent), but most firms reported no change (72 percent). Similarly, 76 percent of the firms reported no change in prices received for their own goods or services. Nonetheless, the prices received index decreased 3 points to -4.7, as 9 percent of the firms reported decreases in prices received compared with the 4 percent that reported increases.

Capital Expenditures Weaken

Indicators for spending on equipment and software and physical plant decreased for the second consecutive month but remained positive. The index for equipment and software spending fell 9 points to 19.9. Although the share of firms reporting increases in spending on equipment and software (25 percent) exceeded the share reporting decreases (5 percent), nearly 57 percent of the

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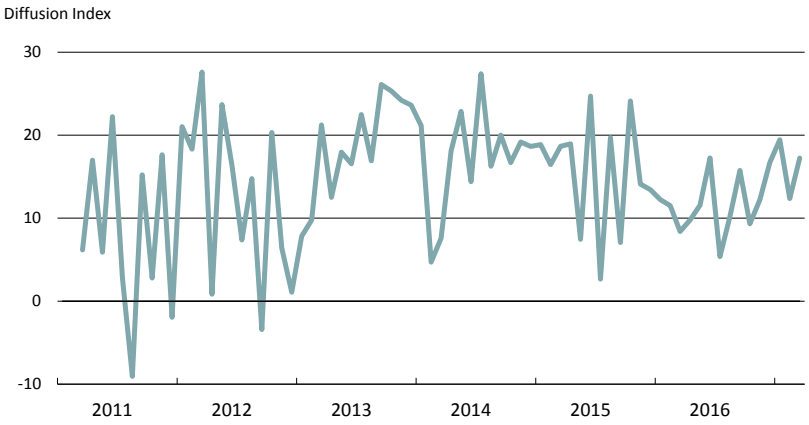
firms reported no change, up from 41 percent in February. The index for physical plant spending decreased 4 points to 21.4.

Expectations for Future Growth Remain Optimistic

The respondents to this month's survey remained optimistic about future activity over the next six months. Although the diffusion index for future activity at the firm level decreased 4 points to 53.8, it remains above its historical average of 49.5 (see Chart 1). Nearly 61 percent of the respondents expect increases in activity at their firms over the next six months, while 7 percent expect decreases. The diffusion index for future activity at the regional level rose 4 points to 52.6. Nearly 57 percent of the respondents expect increases in activity in the region, and only 4 percent expect decreases.

Chart 2. Full-time Employment Index
March 2011 to March 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.

Summary

Respondents to the *Nonmanufacturing Business Outlook Survey* reported that business expansion continued in March. Although the indicators for general current activity at the firm level, new orders, and sales/revenues decreased from last month's readings, they remain positive, suggesting overall growth. Firms reported overall increases in full-time and part-time employment. Expectations for growth over the next six months remained optimistic.

NONMANUFACTURING BUSINESS OUTLOOK SURVEY March 2017	**March vs. February**					**Six Months from Now vs. March**				
	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?	*29.3*	45.7	41.5	10.3	**35.4**	*48.4*	56.7	34.9	4.1	**52.6**
What is your assessment of general business activity for your firm?	*38.0*	48.9	32.1	16.4	**32.5**	*57.5*	60.9	30.4	7.1	**53.8**
Company Business Indicators										
New Orders	*25.3*	36.0	24.0	13.4	**22.6**					
Sales or Revenues	*32.5*	36.4	36.1	16.1	**20.3**					
Unfilled Orders	*-0.4*	11.8	16.6	8.8	**3.0**					
Inventories	*5.7*	6.9	21.4	2.3	**4.6**					
Prices Paid	*15.3*	19.7	72.1	1.7	**18.0**					
Prices Received	*-1.3*	4.1	76.0	8.8	**-4.7**					
Number of Employees – Full-time Permanent	*12.4*	24.7	66.4	7.4	**17.2**					
Number of Employees – Part-time, Temporary, and Contract	*5.6*	20.3	63.5	10.1	**10.2**					
Average Employee Workweek	*12.6*	24.6	64.8	5.7	**18.9**					
Wage and Benefit Costs	*26.7*	27.4	62.5	5.1	**22.3**					
Capital Expenditures – Physical Plant	*25.2*	25.4	44.2	3.9	**21.4**					
Capital Expenditures – Equipment & Software	*28.4*	25.3	56.5	5.4	**19.9**					

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 March 16, 2017.