

Responses to the *Nonmanufacturing Business Outlook Survey* suggest that business activity continued to expand in May. However, all of the diffusion indexes moderated from the prior month, and almost all are now nearer to their historical averages. Most noteworthy, the index of general activity at the firm level registered its lowest reading in six months. The indexes for new orders and full-time employment showed larger declines. The indicators for prices paid and prices received suggest a modest increase in both the costs of inputs and the prices for respondents' own goods and services. Both future activity indexes declined, falling to their lowest readings of the current year; however, respondents remained optimistic about growth over the next six months.

#### Current Indicators Are Near Historical Averages

The diffusion index for current general activity at the firm level fell 9 points to 25.8 (see Chart). This is the lowest reading for this index since November 2016, and the index now stands below its historical average of 28.4. More than 44 percent of the firms reported an increase in activity in May, while 19 percent of the firms reported a decrease. Firms' perceptions of current activity in the region moderated as well. The regional activity index fell nearly 5 points, to 25.6, but remained above its historical average of 23.1.

#### New Orders and Sales/Revenues Indicators Weaken

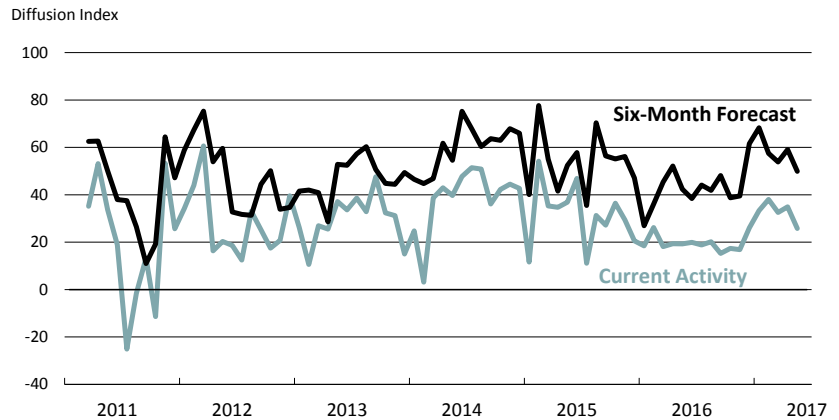
The indicators for new orders and sales/revenues fell. The new orders index dropped 18 points to 15.0. Almost 30 percent of the respondents reported an increase in new orders in May, while 15 percent reported a decrease. The sales/revenues index fell 9 points to 25.5. The percentage of firms that reported an increase in sales fell 10 points from April (50 percent) to May (40 percent).

#### Employment Conditions Moderate

The full-time employment index fell 17 points in May to 9.3, which is below its historical average of 14.2. Although most firms (60 percent) reported no change in full-time employment, the percentage of firms reporting an increase (20 percent) was almost twice the percentage reporting a decrease (11 percent). The part-time employment index fell 4 points to 20.2. The wage and benefit costs indicator fell 9 points to

#### Current and Future General Activity Indexes for Firms

March 2011 to May 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.

30.6. The decline was primarily due to a smaller share of firms reporting increases in wage and benefit costs than in the prior month.

#### Price Pressures Abate

The prices paid index decreased 15 points to 16.6. Almost 22 percent of the respondents reported increases in input prices compared with the 5 percent who reported decreases. The prices received index fell 7 points, to 17.4, in May. Although 51 percent of the firms reported no change in prices received for their own goods and services, the percentage of firms that reported a decrease rose from 2 percent in April to 9 percent in May.

#### Firms' Expectations of U.S. Consumer Inflation Rise

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). The median forecast was for an increase in their own prices of 2.5 percent, unchanged from when the same questions were last asked in February of 2017. Firms forecast an increase in compensation per employee of 3.0

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percent over the next year. When asked about the average rate of inflation for U.S. consumers over the next year, the median response was 3.0 percent, up from 2.0 percent in the previous forecast. The firms also provided a 10-year inflation forecast, and the median remained at 3.0 percent.

### Firms Continue to Expect Growth

The respondents to this month's survey remained optimistic about future activity over the next six months. However, the index readings returned to near their historical averages after being above their averages for five consecutive months. The diffusion index for future activity at the firm level fell 9 points to 49.9 (see Chart). Nonetheless, the share of firms that expect to see an increase in activity at their firms over the next six months was 59 percent, while the share that expect a decline was only 9 percent. The forecasts for growth in the region also dampened, with the future regional activity index falling 4 points to 43.9.

### Summary

Results from this month's *Nonmanufacturing Business Outlook Survey* suggest continued but slower business expansion, as almost every indicator dropped from above its historical average to near its historical average. The respondents remain optimistic about growth over the next six months. ■

Special Questions (May 2017)		
Over the next year (2017:Q2 to 2018:Q2), please list your expected annual percent change with respect to the following:		
	Current Forecast*	Previous Forecast (February 2017)
<b>1. For your firm:</b>		
Prices your firm will receive (for its own goods and services sold).	2.5	2.5
Compensation your firm will pay per employee (for wages and benefits).	3.0	3.0
<b>2. For your employees:</b>		
Prices your employees will pay (for goods and services where they live).	3.0	3.0
<b>3. For U.S. consumers:</b>		
Prices U.S. consumers will pay (for goods and services).	3.0	2.0
<b>For the next 10 years (2017 through 2026), 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).	3.0	3.0
* The numbers represent medians of the individual forecasts (as percent changes). The forecasts are over the next year for questions 1 to 3 and an annual average for the next 10 years for question 4.		

NONMANUFACTURING BUSINESS OUTLOOK SURVEY May 2017	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?	30.1	34.9	49.6	9.4	25.6	47.8	50.3	43.3	6.4	43.9
What is your assessment of general business activity for your firm?	34.9	44.3	34.7	18.5	25.8	59.1	58.7	32.6	8.8	49.9
Company Business Indicators										
New Orders	33.5	29.7	30.9	14.6	15.0	<b>NOTES:</b> (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 May 18, 2017.				
Sales or Revenues	34.7	40.3	38.4	14.7	25.5					
Unfilled Orders	13.7	7.0	24.0	3.3	3.7					
Inventories	7.1	4.7	23.2	6.6	-1.9					
Prices Paid	31.6	21.6	62.0	5.0	16.6					
Prices Received	24.7	26.0	50.7	8.5	17.4					
Number of Employees – Full-Time Permanent	26.4	20.5	60.4	11.2	9.3					
Number of Employees – Part-Time, Temporary, and Contract	24.3	26.4	61.2	6.2	20.2					
Average Employee Workweek	20.0	26.0	59.8	7.4	18.6					
Wage and Benefit Costs	39.3	33.6	56.2	3.0	30.6					
Capital Expenditures – Physical Plant	27.5	26.3	46.7	1.9	24.3					
Capital Expenditures – Equipment & Software	33.5	32.4	49.6	1.6	30.7					