

Business activity in the region expanded at a faster pace in January compared with December, according to *Nonmanufacturing Business Outlook Survey* respondents. The index for general activity at the firm level increased along with almost all of the survey's other indicators. While broad improvements were seen in new orders and sales/revenues, the employment indicators were mixed. More firms reported increases in prices this month compared with last month. The indicators reflecting expectations of future activity during the next six months showed a high degree of optimism for growth at firms and in the region.

Current Indicators Signal Faster Growth

Firms reported a general rise in the pace of growth for current activity in the region. The diffusion index for general activity at the firm level rose from a revised reading of 26.1 in December to 33.3 in January (see Chart 1).^{*} Nearly 49 percent of the firms reported an increase in activity at their firm, while only 15 percent reported a decrease. This index is now modestly above its historical average of 28.2. Firms also signaled a strengthening in their perception of overall regional economic activity; the regional activity index rose 18 points, to 37.7. This index now stands 15 points above its historical average of 22.7.

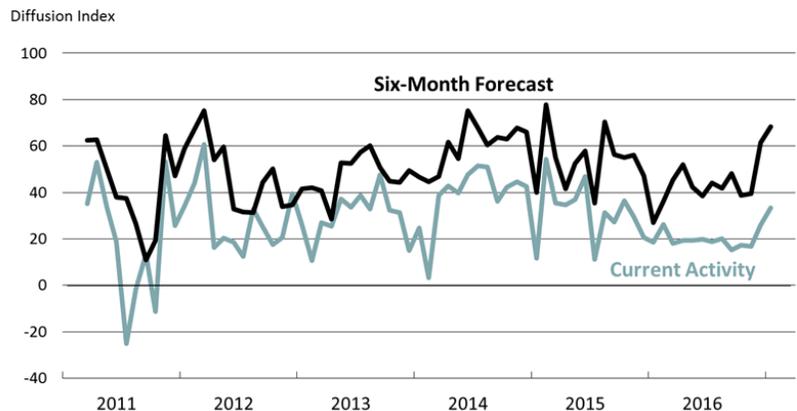
The sales/revenues index increased by 23 points, to 43.5. This month, 53 percent of the firms indicated an increase in sales/revenues, up from 42 percent in December. Meanwhile, the percentage of firms reporting a decrease in sales/revenues fell from 21 percent to 9 percent. In addition, the index for new orders rose 9 points, to 28.9. While there was little change in the share of firms indicating an increase in new orders, the share indicating a decline in new orders fell from 19 percent in December to 11 percent in January.

Slight Rise in Full-time Employment

Despite the broad increases in activity and sales, the full-time employment index rose only 3 points, to 19.5. Nonetheless, this value is above its historical average of 14.2, and the share of firms that reported an increase in full-time employment rose to 29 percent in January. Furthermore, the average workweek index rose 13 points, to 32.6. The part-time employment index

Chart 1. Current and Future General Activity Indexes for Firms

March 2011 to January 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.

fell 10 points, to 5.3. A faster pace of increase was reported for wages and benefits.

Firms Report Increases in Prices

Price pressures for firms' inputs and own products accelerated in January. Almost 30 percent of the firms reported higher prices for inputs, up from 19 percent in December. The prices paid index is now 29.5, which is above its historical average of 20.2. With respect to their own prices, 22 percent of the firms reported higher prices in January, compared with 15 percent in December. The prices received index increased 13 points to 22.1, putting it above its historical average of 12.1.

Capital Expenditures Rise

Indexes for spending on equipment and software and physical plant rose. The index for equipment and software spending

Released on January 24, 2017, at 8:30 a.m. ET.

The next *Nonmanufacturing Business Outlook Survey* will be released on February 21, 2017.

^{*} The survey's annual historical revisions, which incorporate new seasonal adjustment factors, were released on January 17, 2017. See the full set of revised [Historical Data on the Bank's website](#).



increased 9 points, to 34.2. The share of firms reporting increased spending on equipment and software was 36 percent, up from 30 percent last month, while the share reporting a decrease fell slightly to 2 percent. The index for physical plant spending rose 18 points, to 38.6.

Firms Report That Demand Rose in 2016

In this month's special question, firms were asked to assess the underlying demand for their products and/or services over the course of the past year, and a majority reported an increase. Most firms (64 percent) reported an increase in underlying demand, but 49 percent characterized the increase as modest (see Special Question). Nearly 20 percent reported no change, and 16 percent reported a decrease.

Firms Are More Optimistic About Future Growth

The respondents to this month's survey expressed a high degree of optimism about activity over the next six months. The diffusion index for future activity at the firm level rose to 68.3, a 7 point improvement over the revised December reading (see Chart 1). More than 71 percent of the respondents expect an increase in activity at their firms, while 3 percent expect a decrease. The respondents' views about overall growth in the

Special Question (January 2017)		
During the year 2016, how would you characterize the underlying demand for your products and/or services?		
Increased significantly	14.9%	Total increase: 64.2%
Increased modestly	49.3%	
No change	19.4%	Total decrease: 16.4%
Decreased modestly	14.9%	
Decreased significantly	1.5%	

region over the next six months also strengthened: The future regional activity index increased 7 points, to 70.6.

Summary

Results from this month's *Nonmanufacturing Business Outlook Survey* suggest a pickup in the pace of business expansion. The indicators for current general activity at the firm level, new orders, sales/revenue, and full-time employment rose. The prices paid and prices received indicators also rose. The forecasts for activity over the next six months are highly optimistic. ■

NONMANUFACTURING BUSINESS OUTLOOK SURVEY January 2017	January vs. December					Six Months from Now vs. January				
	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?	19.5	49.7	36.3	12.0	37.7	63.3	73.7	16.0	3.1	70.6
What is your assessment of general business activity for your firm?	26.1	48.8	34.1	15.4	33.3	61.6	71.4	25.6	3.1	68.3
Company Business Indicators										
New Orders	20.2	39.5	33.6	10.6	28.9	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 January 19, 2017.				
Sales or Revenues	20.4	52.9	24.6	9.4	43.5					
Unfilled Orders	3.7	16.7	15.1	7.8	8.9					
Inventories	11.2	11.7	22.8	1.3	10.4					
Prices Paid	18.1	29.5	58.8	0.1	29.5					
Prices Received	9.3	22.1	62.9	0.0	22.1					
Number of Employees – Full-time Permanent	16.7	29.0	57.3	9.6	19.5					
Number of Employees – Part-time, Temporary, and Contract	15.5	17.2	69.9	11.9	5.3					
Average Employee Workweek	19.2	32.6	66.5	0.0	32.6					
Wage and Benefit Costs	32.8	42.5	55.0	1.7	40.8					
Capital Expenditures – Physical Plant	20.6	38.6	41.3	0.0	38.6					
Capital Expenditures – Equipment & Software	24.8	36.1	58.0	1.9	34.2					