

The pace of regional nonmanufacturing activity slowed in January, according to firms responding to this month's *Nonmanufacturing Business Outlook Survey*. The survey's indicators for general activity, new orders, and sales or revenues all decreased but remained positive. Responding firms continue to be optimistic about activity over the next six months.

Nonmanufacturing Activity Slowed

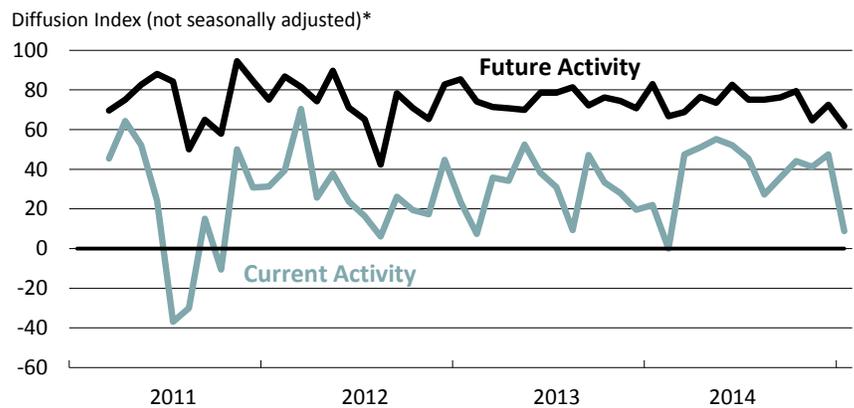
The diffusion index for current activity at the firm level decreased from 47.5 to 8.8 in January, its lowest reading since February 2014 (see Chart). The percentage of respondents reporting increases in activity (44 percent) exceeded the percentage of respondents reporting decreases (35 percent). Responding firms had similar sentiments about activity in the region. About 41 percent of the respondents indicated increasing activity in the region compared with 32 percent that indicated decreasing activity, and the general activity index also fell to 8.8.

Demand for firms' services, as measured by the new orders and sales/revenues indexes, decreased but remained positive this month. The new orders index decreased from 25.0 in December to 14.7 in January. The percentage of firms reporting increases in new orders in January (41 percent) was little changed from last month; however, the percentage of firms reporting decreases rose from 18 percent last month to almost 27 percent this month. The sales/revenues index experienced a sharper drop, falling 24 points to 8.8, its lowest reading since February 2014, as fewer firms reported increases this month compared with last month.

Hiring Continued but Hours Fell

Survey results suggest mixed labor market conditions this month, on balance. The full-time employment index decreased 5 points, to 17.6. More than 29 percent of the respondents reported increases to full-time staff levels, down slightly from 33 percent last month. The part-time employment index increased from 15.0 in December to 20.6 in January. The workweek index decreased for the third consecutive month, to -5.9, and registered its lowest reading since January 2012.

Current and Future General Activity Indexes for Firms (March 2011 to January 2015)



* Percentage of respondents indicating an increase minus percentage indicating a decrease

Firms Reported Slight Increase in Input Prices

The prices of inputs rose for firms on net in January. The percentage of respondents reporting increases in input prices (21 percent) exceeded the percentage of respondents reporting decreases (6 percent). The prices paid index increased 10 points, to 14.7. The share of firms reporting no change in input prices decreased slightly from last month to 56 percent. Firms reported near steady prices for their own goods and services, as indicated by the prices received index decreasing 2 points to 2.9. Half of the responding firms also reported no change in prices, while the percentage of firms reporting increases (18 percent) edged out the percentage of firms reporting decreases (15 percent).

Capital Expenditures Growth Remained Positive

Firms continued to report increases, on net, in capital expenditures this month, particularly for equipment and software, though both indexes retreated from last month's readings. More than 32 percent of the respondents reported increases in equipment and software spending. The equipment and software expenditures index decreased 7 points, to 20.6, but remains near its average reading for 2014. The index for expenditures on physical plant remained positive but fell 7 points, to 2.9.

Future Indicators Remain High

Optimism about future activity over the next six months both at individual firms and in the region remained widespread despite



decreases in both index readings. None of the respondents expect activity six months from now to decrease either at their own firms or in the region. Nearly 62 percent of the respondents expect activity to increase at their firms; however, the firm-level future general activity index decreased 11 points, to 61.8 (see Chart). The future activity index for the region also decreased but remained high, at 82.4.

Firms Benefited from Lower Energy Prices

In this month's special question, respondents were asked about the effect of lower oil prices on their businesses (see Special Question). On net, lower oil prices have had a positive effect for local nonmanufacturing firms. Nearly 55 percent of the respondents reported a positive impact, compared with 9 percent of the respondents who reported a negative impact. More than 21 percent of the firms reported no impact because of the lower prices.

Summary

The January *Nonmanufacturing Business Outlook Survey* results suggest slower expansion in the region among nonmanufacturing firms. Index readings for general activity at both the company

and regional levels, new orders, and sales/revenues remained positive but decreased from December readings. Firms remained optimistic about future growth. ■

Special Question (January 2015)

Overall, what impacts have falling energy prices had on your business? (Choose only one.)

	Percentage	Total
Strongly positive	12.1	54.5
Modestly positive	9.1	
Slightly positive	33.3	
No impact	21.2	
Slightly negative	3.0	9.1
Modestly negative	6.1	
Strongly negative	0.0	
Unsure	15.2	

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The February *Nonmanufacturing Business Outlook Survey* will be released on February 24, 2015, at 10:00 a.m. ET.

NONMANUFACTURING BUSINESS OUTLOOK SURVEY January 2015	January vs. December					Six Months from Now vs. January				
	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index	<i>Previous Diffusion Index</i>	Increase	No Change	Decrease	Diffusion Index
What is your assessment of general business activity for the region?	32.5	41.2	20.6	32.4	8.8	90.0	82.4	5.9	0.0	82.4
What is your assessment of general business activity for your firm?	47.5	44.1	20.6	35.3	8.8	72.5	61.8	17.6	0.0	61.8
Company Business Indicators										
New Orders	25.0	41.2	14.7	26.5	14.7					
Sales or Revenues	32.5	38.2	29.4	29.4	8.8					
Unfilled Orders	10.0	5.9	35.3	5.9	0.0					
Inventories	-2.5	5.9	17.6	8.8	-2.9					
Prices Paid	5.0	20.6	55.9	5.9	14.7					
Prices Received	5.0	17.6	50.0	14.7	2.9					
Number of Employees – Full-Time Permanent	22.5	29.4	58.8	11.8	17.6					
Number of Employees – Part-Time, Temporary, and Contract	15.0	29.4	61.8	8.8	20.6					
Average Employee Workweek	15.0	23.5	47.1	29.4	-5.9					
Wage and Benefit Costs	45.0	41.2	58.8	0.0	41.2					
Capital Expenditures – Physical Plant	10.0	8.8	61.8	5.9	2.9					
Capital Expenditures – Equipment & Software	27.5	32.4	44.1	11.8	20.6					

NOTES:

- (1) Items may not add up to 100 percent because of omission by respondents.
- (2) Data are not seasonally adjusted.
- (3) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.
- (4) Survey results reflect data received through January 15, 2015.