

The pace of growth for regional nonmanufacturing activity rose in December, according to the firms responding to this month's *Nonmanufacturing Business Outlook Survey*. The index for current firm-level activity rose notably. The indexes for new orders, sales, and employment also increased, but by lesser amounts. Survey respondents continued to report moderate price increases. The respondents were decidedly more optimistic for the first half of 2017 in this survey than they were in the previous survey; the indexes for future general activity at the firm level and in the region both rose sharply.

### Current Activity Indicators Improved

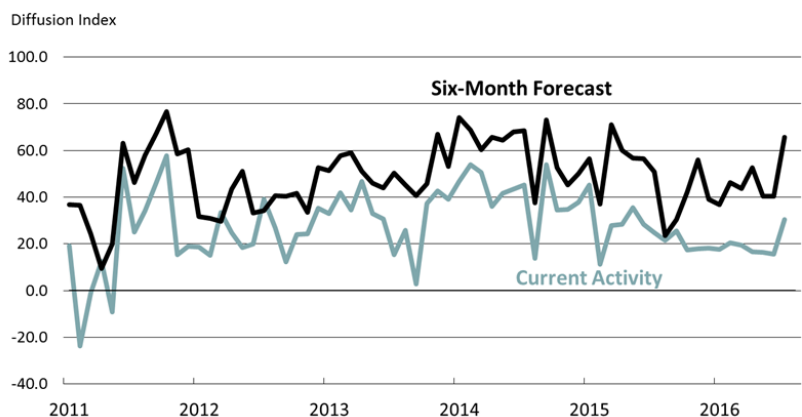
The index for current activity at the firm level increased from 15.6 in November to 30.4 in December (see Chart 1). More than 47 percent of the firms reported increases in activity this month, compared with 41 percent last month. In addition, the share of firms that reported a decrease in activity fell from 25 percent in November to 17 percent in December. This index now stands above its historical average of 28.2 after holding below this average for 12 consecutive months.

The sales/revenues index increased 6 points, to 23.5. More than 42 percent of the firms indicated higher sales/revenues in December. Furthermore, the share of firms that reported a decrease in sales/revenues fell from 22 percent to 19 percent. The new orders index also increased, rising 9 points to 21.6. In addition, firms indicated stronger perceptions of current regional economic activity. The regional activity index rose 10 points, to 20.9, but remains below its historical average of 22.7.

### Employment Expanded

The employment indicators showed improvement this month, but most of the respondents reported no change in employment. The diffusion index for full-time employment rose 5 points, to 19.7, and the diffusion index for part-time employment rose 8 points, to 17.0 (see Chart 2). The share of firms that reported an increase in full-time employment was 25 percent, and the share reporting a decrease was 5 percent. The shares that reported increases and decreases in part-time employment were similar to the shares for full-time employment, at 24 and 7 percent, respectively. Both the

**Chart 1. Current and Future General Activity Indexes for Firms**  
March 2011 to December 2016



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.

full-time and part-time employment indexes are above their historical averages of 14.2 and 14.4, respectively. The workweek index rose 5 points, to 23.6, and the wages and benefits index rose 7 points, to 33.0.

### Firms Reported Deceleration in Own Price Increases

The price indexes suggest a deceleration in price increases for the respondents' own goods and services and relatively steady conditions for input price inflation. The index for prices received fell 10 points, to 8.0, in December. More than 70 percent of the firms reported no change in prices received, however. The prices paid index held relatively steady at 16.9. Nearly 17 percent of the firms reported an increase in input prices this month, while 71 percent reported no change.

Released December 20, 2016, at 8:30 a.m. ET.

The next *Nonmanufacturing Business Outlook Survey* will be released on January 24, 2017, at 8:30 a.m. ET.

The survey's annual historical revisions, which incorporate new seasonal adjustment factors, will be released on Tuesday, January 17, 2017.



### More Firms Increased Capital Spending

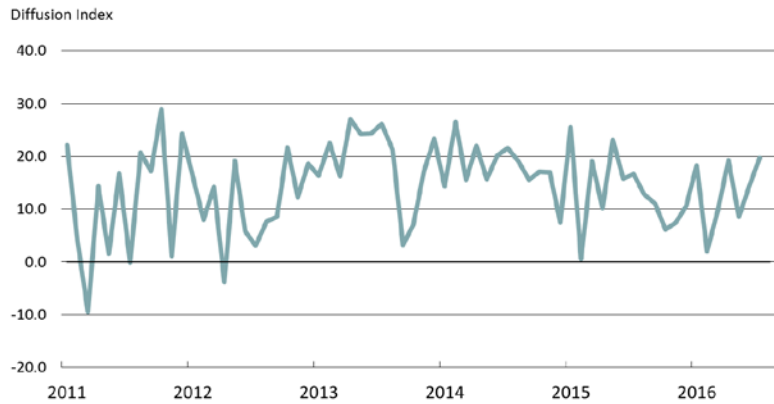
The index for equipment and software spending rose 9 points, to 26.7. The share of firms reporting increased spending on equipment and software was 31 percent, up from 25 percent last month, while the share reporting decreased spending fell from 7 percent to 4 percent. The index for physical plant spending also rose 9 points, to 21.0. The share of firms reporting increased spending on physical plant expenditures rose to 25 percent, and the share reporting decreased spending fell to 4 percent.

### High Level of Optimism for Future Activity

Respondents to the survey this month were more optimistic about future activity compared with last month. The firm-level future activity index rose from 40.4 in November to 65.8 in December (see Chart 1). Nearly 72 percent of the respondents expect activity to increase at their firms, while only 6 percent expect activity to decrease. The regional future activity index almost doubled, rising from 34.2 in November to 67.3 in December. Almost 71 percent of the firms expect activity to increase in the region, and only 3 percent expect activity to decrease. Both future activity indexes are significantly above their historical averages (49.3 at the firm level and 43.3 for the region).

**Chart 2. Full-time Employment Index**

March 2011 to December 2016



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

Results from December's *Nonmanufacturing Business Outlook Survey* suggest a pickup in growth among nonmanufacturing firms in the region. The indexes for general activity, new orders, and sales/revenues rose notably. Indicator readings for employment also improved. The index for prices received fell, however. Firms are highly optimistic about growth over the next six months. ■

NONMANUFACTURING BUSINESS OUTLOOK SURVEY December 2016	December vs. November					Six Months from Now vs. December				
	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?	10.6	33.6	43.0	12.6	20.9	34.2	70.7	15.2	3.4	67.3
What is your assessment of general business activity for your firm?	15.6	47.4	31.6	17.0	30.4	40.4	71.9	14.1	6.1	65.8
Company Business Indicators										
New Orders	12.6	41.0	21.3	19.4	21.6	<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 December 15, 2016.				
Sales or Revenues	17.2	42.4	29.3	18.8	23.5					
Unfilled Orders	3.2	10.6	25.9	7.2	3.3					
Inventories	5.6	13.9	20.6	2.0	11.9					
Prices Paid	16.5	16.9	71.4	0.0	16.9					
Prices Received	17.9	13.1	70.2	5.2	8.0					
Number of Employees – Full-time Permanent	14.3	24.5	60.7	4.8	19.7					
Number of Employees – Part-time, Temporary, and Contract	9.4	24.2	61.0	7.2	17.0					
Average Employee Workweek	18.3	29.9	51.7	6.3	23.6					
Wage and Benefit Costs	25.7	34.5	55.8	1.6	33.0					
Capital Expenditures – Physical Plant	11.9	25.1	47.3	4.1	21.0					
Capital Expenditures – Equipment & Software	18.1	30.8	51.5	4.2	26.7					