

Business Leaders Survey

Covering service firms in New York, northern New Jersey, and southwestern Connecticut

Activity in the region's service sector held steady, according to firms responding to the Federal Reserve Bank of New York's December 2016 *Business Leaders Survey*. The survey's headline business activity index climbed six points to -0.6. The business climate index jumped 20 points to -3.8, signaling that respondents generally continued to view the business climate as worse than normal, though to a small degree compared with recent months. The employment index edged up to 11.2, pointing to a continued increase in employment levels, and the wages index moved down three points to 24.3, its lowest level in more than a year, suggesting that wages rose at a slower pace. The prices paid index held steady at 34.7, signaling that input prices continued to advance at a moderate pace, while the prices received index dipped below zero, suggesting a small decline in selling prices. Indexes

assessing the six-month outlook increased significantly, and indicated that firms were much more optimistic about future business conditions than they had been in quite some time.

Business Activity Steadies

Business activity in the region's service sector steadied in December. After four consecutive months of solidly negative readings, the survey's headline business activity index rose six points to -0.6, suggesting that activity was essentially unchanged this month. Twenty-seven percent of respondents reported that conditions improved over the month, the same share that said conditions worsened. The business climate index shot up 20 points to -3.8; while the negative reading indicated that, on balance, firms continued to view the business climate as worse than normal, it marked the index's highest level of 2016.

Employment Gains

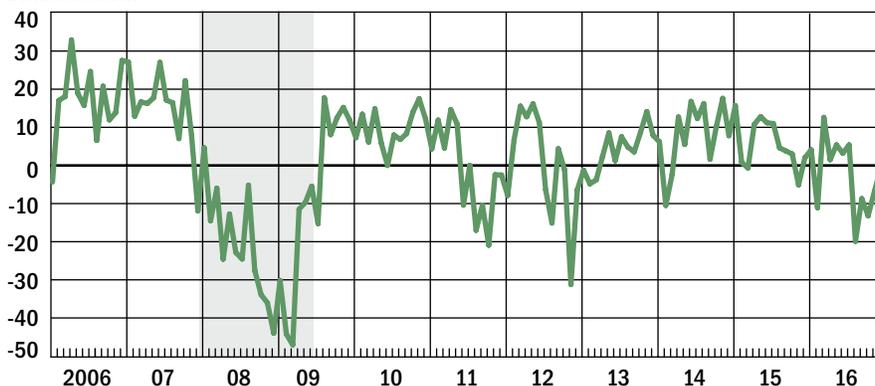
The employment index edged up three points to 11.2, indicating that employment continued to expand modestly. Signaling a slowdown in wage increases, the wages index moved down for a second consecutive month, falling three points to 24.3, its lowest level of 2016. The prices paid index was little changed at 34.7, indicating that input prices continued to increase at the same pace as last month, while the prices received index fell to -2.3, pointing to a small decline in selling prices. Although the latter index was only slightly below zero, it marked the first time a drop in selling prices had been reported in more than four years. The capital spending index fell three points but remained positive at 7.5.

Firms Very Optimistic about Future Conditions

Indexes assessing the six-month outlook were significantly higher in December, and suggested that firms were quite optimistic about future conditions. The index for future business activity climbed 18 points to 41.2, and the index for future business climate shot up 27 points to 31.1. The index for expected employment advanced eight points to 25.4, and the index for future capital spending rose ten points to 28.7. ■

Business Activity

Diffusion index

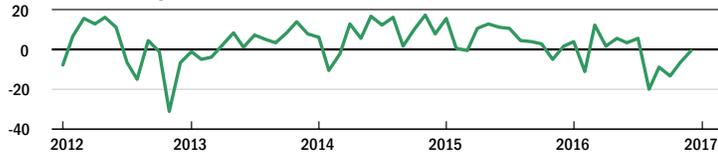


Note: The shaded area indicates a period designated a recession by the National Bureau of Economic Research.

Current Indicators

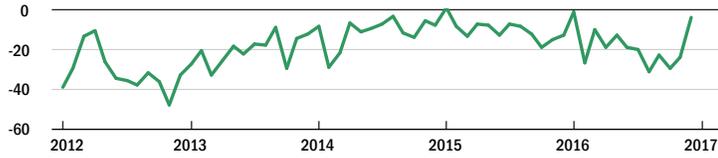
Change from Preceding Month

Business Activity



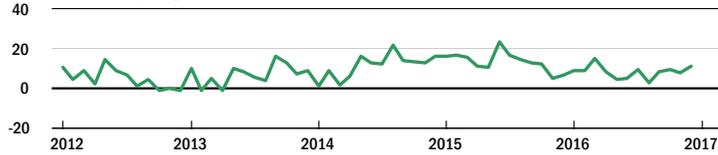
	Percent Reporting		Index
	Higher	Lower	
Nov	23.5	30.2	-6.8
Dec	26.5	27.1	-0.6
Change			6.2

Business Climate



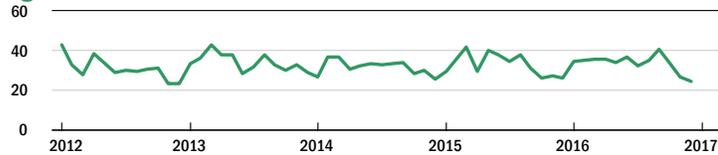
	Percent Reporting		Index
	Favorable	Unfavorable	
Nov	13.5	37.4	-23.9
Dec	24.0	27.9	-3.8
Change			20.1

Number of Employees



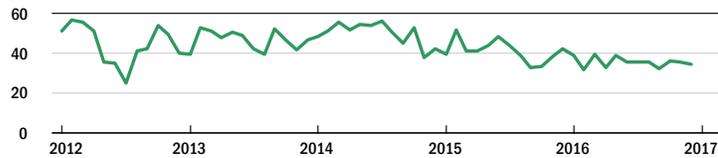
	Percent Reporting		Index
	Higher	Lower	
Nov	30.9	22.8	8.0
Dec	25.8	14.6	11.2
Change			3.2

Wages



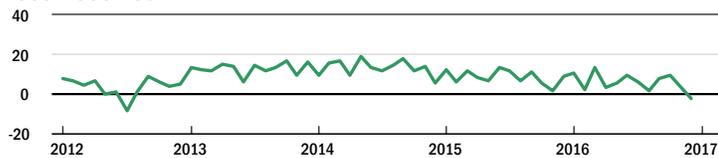
	Percent Reporting		Index
	Higher	Lower	
Nov	29.4	2.5	26.9
Dec	28.2	4.0	24.3
Change			-2.6

Prices Paid



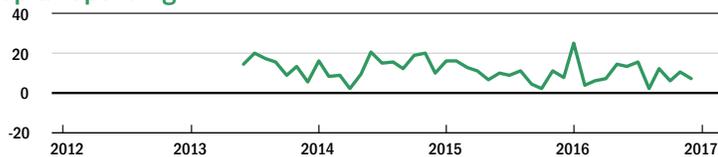
	Percent Reporting		Index
	Higher	Lower	
Nov	38.9	3.1	35.8
Dec	38.1	3.4	34.7
Change			-1.1

Prices Received



	Percent Reporting		Index
	Higher	Lower	
Nov	15.7	11.9	3.8
Dec	10.9	13.2	-2.3
Change			-6.1

Capital Spending



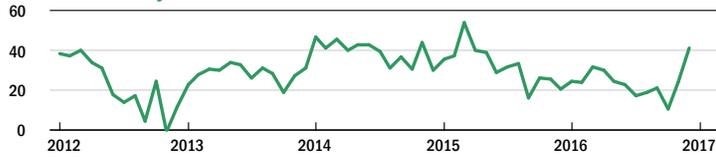
	Percent Reporting		Index
	Higher	Lower	
Nov	28.1	17.5	10.6
Dec	25.3	17.8	7.5
Change			-3.1

Note: Data are not seasonally adjusted.

Forward-Looking Indicators

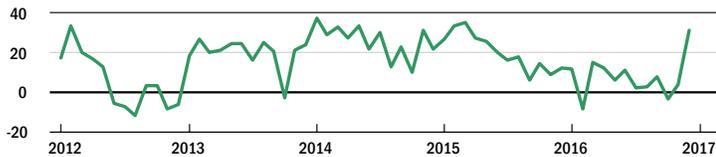
Expectations Six Months Ahead

Business Activity



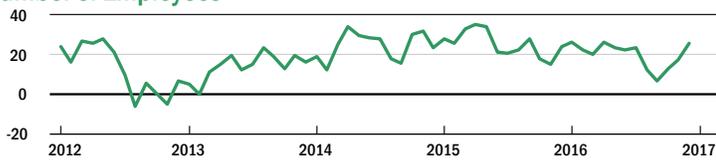
	Percent Reporting		Index
	Higher	Lower	
Nov	41.6	18.0	23.6
Dec	54.2	13.0	41.2
Change			17.6

Business Climate



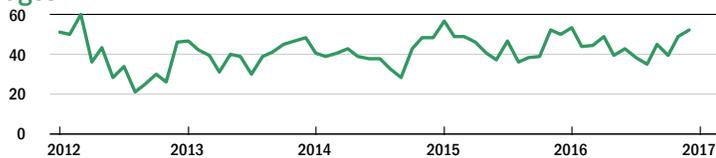
	Percent Reporting		Index
	Favorable	Unfavorable	
Nov	25.3	21.6	3.7
Dec	45.8	14.7	31.1
Change			27.4

Number of Employees



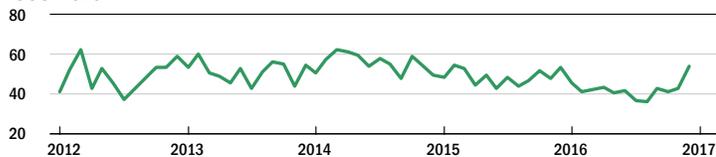
	Percent Reporting		Index
	Higher	Lower	
Nov	34.4	17.2	17.2
Dec	40.5	15.0	25.4
Change			8.2

Wages



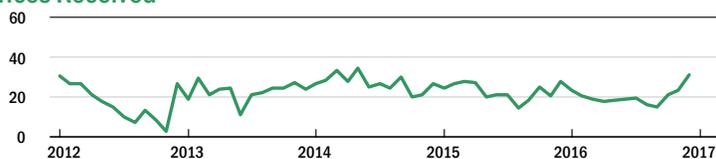
	Percent Reporting		Index
	Higher	Lower	
Nov	51.6	2.5	49.1
Dec	55.7	3.4	52.3
Change			3.2

Prices Paid



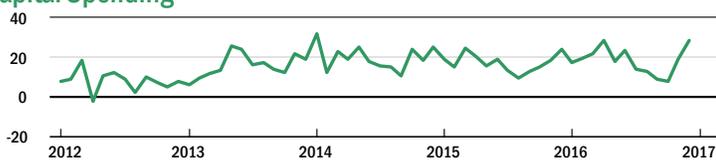
	Percent Reporting		Index
	Higher	Lower	
Nov	45.6	2.5	43.0
Dec	54.3	0.6	53.8
Change			10.8

Prices Received



	Percent Reporting		Index
	Higher	Lower	
Nov	32.1	9.0	23.1
Dec	38.8	7.6	31.2
Change			8.1

Capital Spending



	Percent Reporting		Index
	Higher	Lower	
Nov	32.7	13.5	19.2
Dec	42.1	13.5	28.7
Change			9.5

Note: Data are not seasonally adjusted.