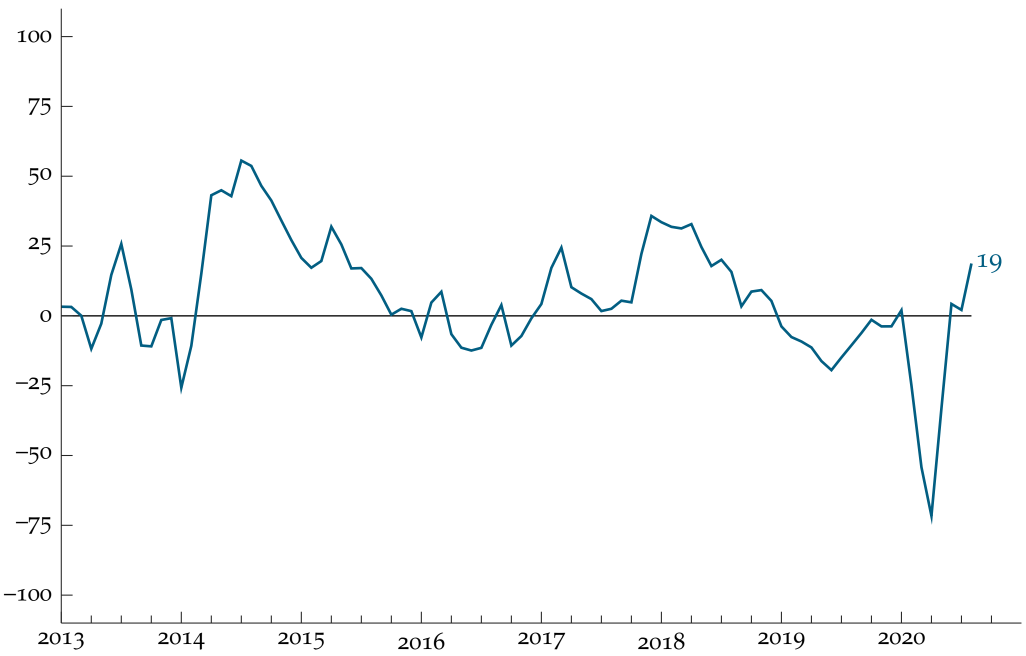
Chicago Fed Survey of Business Conditions (CFSBC)

September 2020

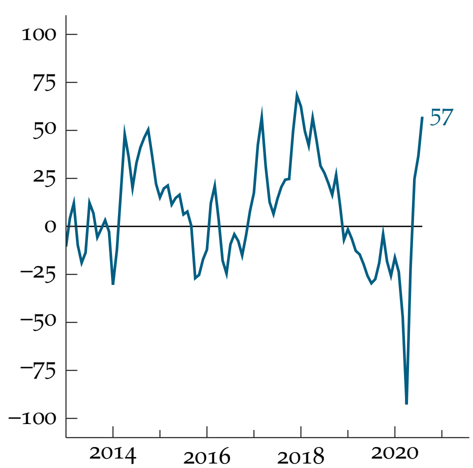
The *Chicago Fed Survey of Business Conditions* (CFSBC) Activity Index moved up to +19 in August from +2 in July, suggesting that economic growth was above trend. The CFSBC Manufacturing Activity Index rose to +57 in August from +37 in July, and the CFSBC Nonmanufacturing Activity Index increased to –3 in August from –16 in the previous month.

- Respondents' outlooks for the U.S. economy for the next 12 months deteriorated slightly, but remained optimistic on balance. Forty-eight percent of respondents expected an increase in economic activity over the next three months, and 43 percent expected activity to return to its pre-pandemic level by the end of 2021.
- The pace of current hiring increased slightly, as did respondents' expectations for the pace of hiring over the next 12 months. Both hiring indexes remained negative.
- Respondents' expectations for the pace of capital spending over the next 12 months increased, and the capital spending expectations index remained positive.
- The labor cost pressures index increased, but the nonlabor cost pressures index decreased. Both cost pressures indexes remained negative.

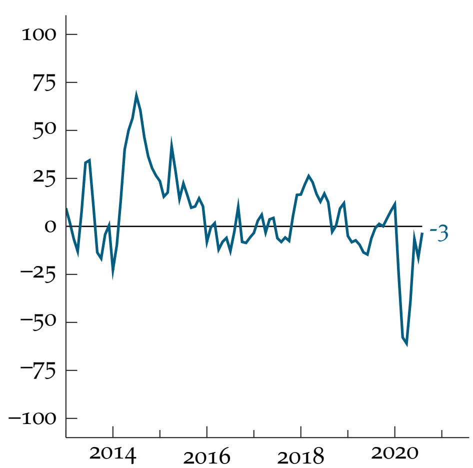
Activity Indexes: Overall and by Sector



Manufacturing



Nonmanufacturing



What is the *Survey of Business Conditions*?
Business contacts in the Seventh Federal Reserve District are asked to rate various aspects of business conditions along a seven-point scale ranging from "substantially increased" to "substantially decreased." A series of diffusion indexes summarizing the distribution of responses is then calculated.

How are the indexes constructed?
Respondents' answers on the seven-point scale are assigned a numeric value ranging from +3 to –3. Each diffusion index is calculated as the difference between the number of respondents with answers above their respective average responses and the number of respondents with answers below their respective average responses, divided by the total number of respondents. The index is then multiplied by 100 so that it ranges from +100 to –100 and will be +100 if every respondent provides an above-average answer and –100 if every respondent provides a below- average answer. Respondents with no prior history of responses are excluded from the calculation.

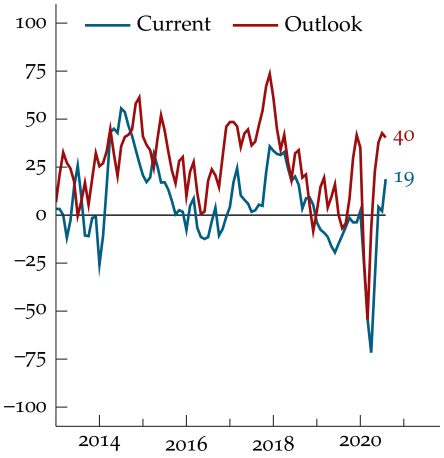
What do the numbers mean?
Respondents' respective average answers to a question can be interpreted as representing their historical trends, or long-run averages. Thus, zero index values indicate that, on balance, activity, hiring, capital spending, and cost pressures are growing at their trend rates or that outlooks are neutral. Positive index values indicate above-average growth (or optimistic outlooks) on balance, and negative values indicate below-average growth (or pessimistic outlooks) on balance.

FEDERAL RESERVE BANK OF CHICAGO

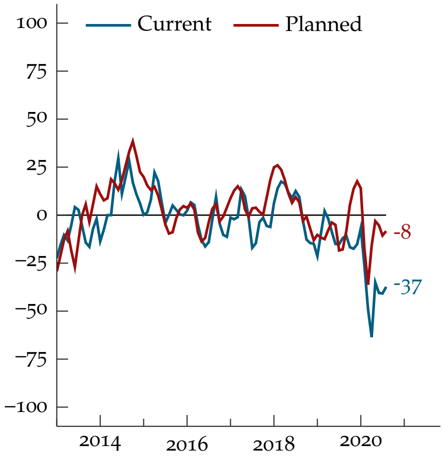
For additional information, contact Thomas Walstrum at thomas.walstrum@chi.frb.org or visit chicagofed.org/cfsbc.

Additional Survey Results

Activity

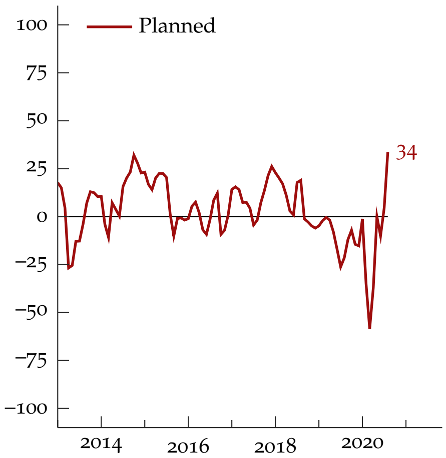


Hiring



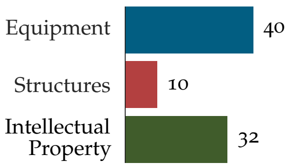
Increased Employment (%)

Capital Spending

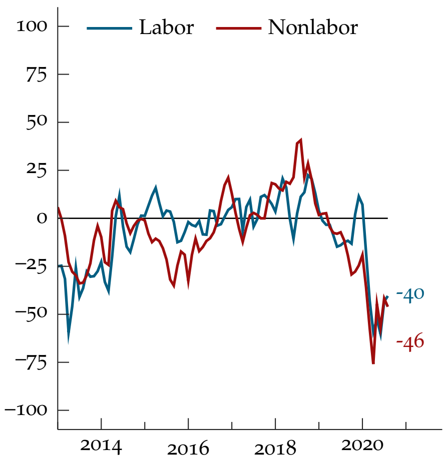


Current Spending for (%)

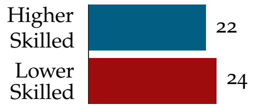
Spending on (%)



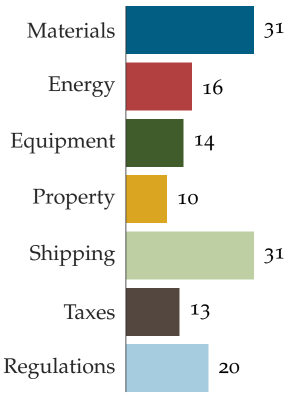
Cost Pressures



Increased Labor Costs (%)



Increased Nonlabor Costs (%)



Notes: Positive readings of the current activity, hiring, and labor and nonlabor cost pressures indexes indicate that more respondents reported above-average growth at their respective firms than below-average growth in current activity, hiring, and labor and nonlabor cost pressures. Positive readings of the planned hiring and capital spending indexes indicate similar outcomes for questions pertaining to expectations for hiring and capital spending in the next 12 months. Positive readings of the outlook index indicate more respondents reported above-average outlooks for the U.S. economy over the next 12 months than below-average ones. The bar charts report the percentage of responses indicating increased employment by skill type; purchases of new capital by purpose and type; and increased unit labor and nonlabor costs by type. The numbers may add up to more than 100 percent because more than one option can be chosen. In late 2019, the underlying survey questions on cost pressures were changed to focus on labor and nonlabor costs instead of wage and nonwage costs. The results based on this change were first reported in the November 27, 2019, release.