

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Strengthens; Outlook Optimistic

Overview

Activity in the service sector strengthened in March, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales accelerated and revenues at non-retail services firms also rose sharply. Retail shopper traffic surged and big-ticket sales expanded, while merchants' inventories flattened. Looking ahead six months, survey respondents were decidedly optimistic about demand for their goods and services.

On the labor front, retail hiring and average wages slowed, while employment and average wages at non-retail firms picked up.

Price growth in the broad service sector edged up in March, and survey participants generally expected further acceleration during the next six months.

Overall Service Sector Conditions

Revenues in the overall service sector bounced up in March, pushing the index to 26, following the February reading of 6. Hiring in the sector

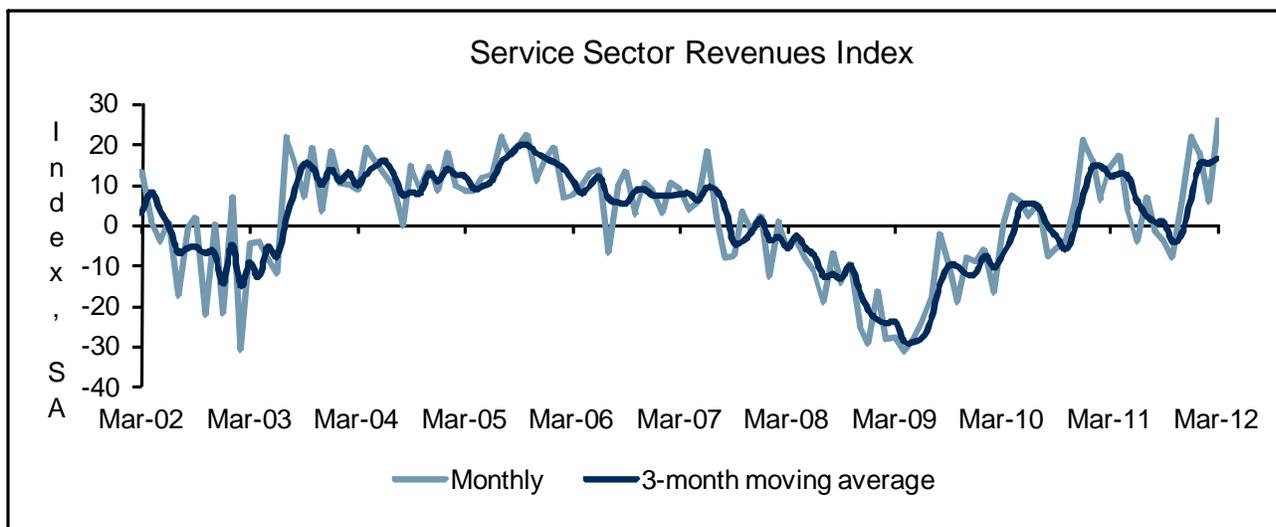
remained strong, with the index for the number of employees shaving just one point from last month's reading to end the survey period at 15. Average wage growth ticked up two points, to an index of 18. Survey respondents were upbeat about potential sales in the next six months; the expectations index added fifteen points, to finish at 40.

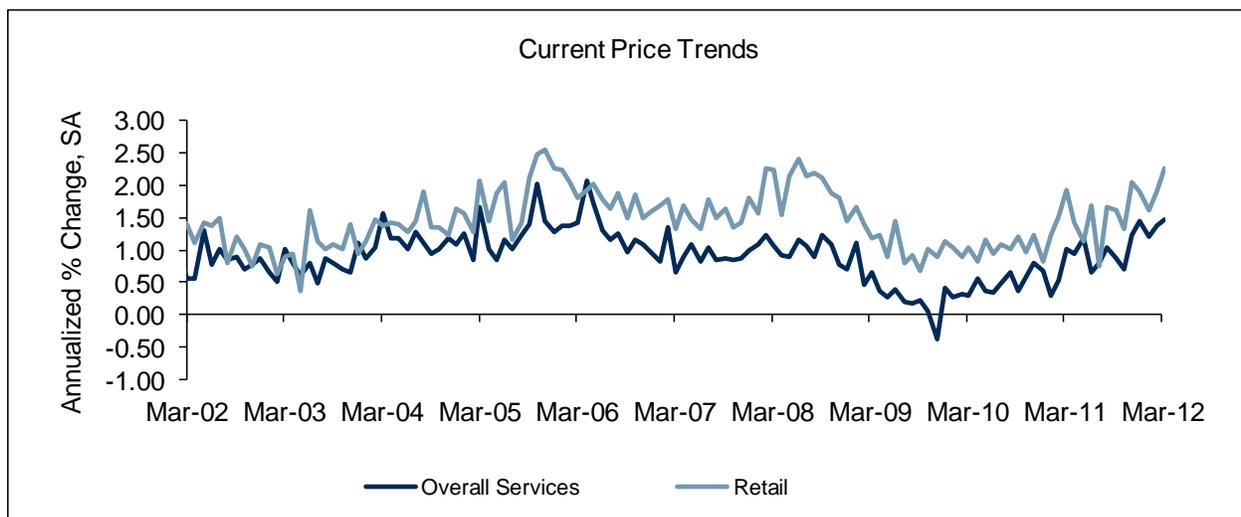
Retail

Retail sales jumped up in March, bringing the index to 33, twenty six points above the February reading. Big-ticket sales gained momentum, with that index rising fourteen points to 7. Shopper traffic also picked up, pushing the index to 23 from last month's reading of 15. Retail inventories were little changed, with that index settling at 2, following February's indicator of 26.

Retail merchants expected the improvement to continue into autumn, driving the outlook index to 13 in March from the previous reading of -5.

Hiring at retail establishments cooled compared to last month, pulling the index to 6 from 22. Average





retail wages continued to advance, although the extent of increases diminished, bringing that indicator to 15 in March from 38.

Services-Providing Firms

Revenues expanded briskly in March at non-retail services firms; the index rose to 26 from the previous reading of 4. Services providers continued to add employees, with that indicator picking up two points this month to finish at 18. Average wages in the sub-sector also advanced broadly, with the index culminating at a reading of 20, twice the posting of a month earlier.

Looking ahead six months, services providers anticipated strong demand—the expectations index spiked to 50 in March from 31 a month ago.

Prices

Prices in the broad service sector grew at a 1.48 percent annualized rate in March, compared to 1.37 percent in February. Among retail businesses, the pace of price growth rose to 2.27 percent following February's 1.89 percent rate. In addition, non-retail services firms' prices increased at a somewhat quicker rate of 1.31 percent compared to February's 1.25 percent annualized rise.

For the six months ahead, service sector respondents anticipated prices would increase at

an annual 2.01 percent pace. A month ago, they had looked for a 1.88 percent rate. Retail merchants expected prices would advance at a 2.39 percent clip in the six months ahead, while non-retail services providers predicted a 1.95 percent pace. In February, they anticipated future prices would rise by 1.91 percent and 1.87 percent.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Mar-12	Feb-12	Jan-12	
Revenues	26	6	18	17
Number of Employees	15	16	8	13
Average Wage	18	16	5	13
Expected Demand ²	40	25	17	27
Retail Indicators				
Sales Revenues	33	7	23	21
Number of Employees	6	22	-7	7
Average Wage	15	38	-20	11
Inventories	2	26	24	17
Big-ticket Sales	7	-7	-52	-17
Shopper Traffic	23	15	-9	10
Expected Product Demand ²	13	-5	-9	0
Services Firms Indicators				
Revenues	26	4	17	16
Number of employees	18	16	10	15
Average wage	20	10	9	13
Expected demand for services ²	50	31	18	33
Current Price Trends³				
Service Sector	1.48	1.37	1.20	
Retail	2.27	1.89	1.62	
Services Firms	1.31	1.25	1.09	
Expected Price Trends^{2,3}				
	Expectations			
	Mar-12	Feb-12	Jan-12	
Service Sector	2.01	1.88	1.66	
Retail	2.39	1.91	1.67	
Services Firms	1.95	1.87	1.69	

Technical Notes:

- ¹ Each index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. All data are seasonally adjusted. Results are based on responses from 128 of 347 firms surveyed
- ² Expectations refer to the time period six months out from the survey period.
- ³ Price changes are expressed as percent change, annualized.
- ⁴ All firms surveyed are located within the Fifth Federal Reserve District, which includes the District of Columbia, Maryland, North Carolina, South Carolina, Virginia, and most of West Virginia.