

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Revenues Accelerate; Wages Expand at Retail and Non-Retail Businesses

Overview

Service sector revenues moved moderately higher in June, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues accelerated at non-retail services firms and big-ticket sales posted solid gains at retail establishments. However, overall retail sales remained anemic and inventories rose as shopper traffic declined. Retailers downgraded their outlook for the rest of 2012, while non-retail services providers remained upbeat.

In service sector labor markets, hiring softened overall, weighed down by weakness in retail hiring. Average wage growth strengthened.

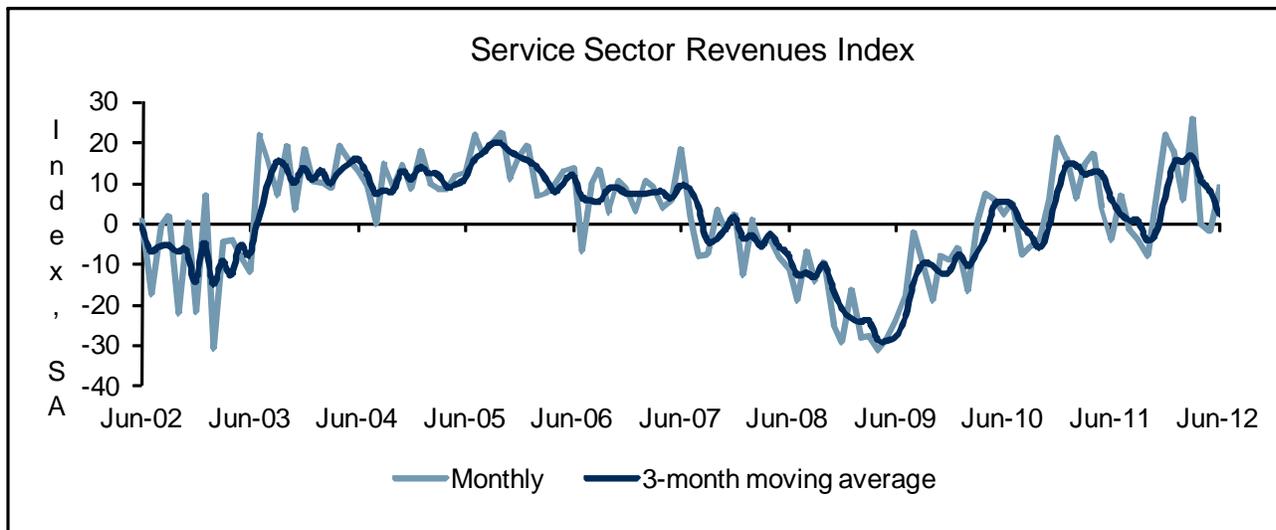
The overall rate of price change slowed somewhat in June, as acceleration in retail price increases was overshadowed by slower non-retail price growth since May. Survey respondents anticipated that the pace of price change would pick up in the six months ahead.

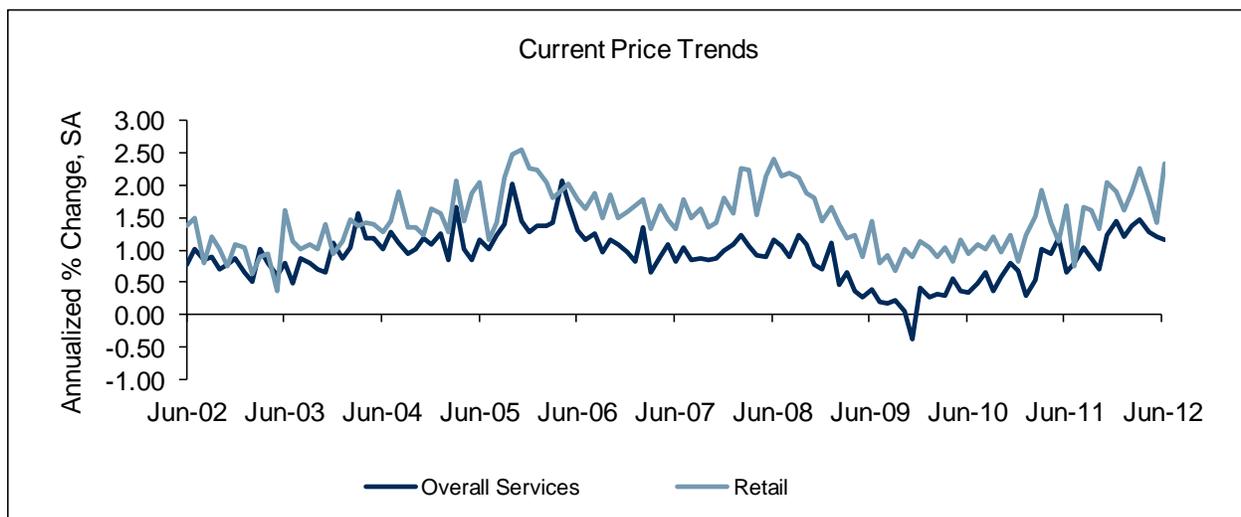
Overall Service Sector Conditions

Revenues in the broad service sector improved in June, pulling the index to 9 from May's -2 reading. Average wages also strengthened, with that index rising to 17 from 14. However the index for the number of employees lost five points, to settle at 5. Survey respondents in the retail subsector continued to anticipate weak sales ahead, while non-retail services providers expected healthy demand for their services. The outlook index for the next six months tacked on two points in June, finishing at 20.

Retail

Stronger big-ticket sales propped up overall retail sales, as shopper traffic declined in June. The index for big-ticket sales turned upward, rising forty-five points from a month ago to a reading of 11, and the index for overall sales revenues improved by twelve points to settle at -3. In contrast, the shopper traffic indicator dropped to -9 from May's flat reading of 0. Accumulation in retail inventories picked up, pushing the index up to 9 from -2.





Looking to the next six months, merchants anticipated slower sales, pulling the index to -8 from May's reading of -3.

In retail labor markets, reductions in hiring dragged the index for the number of employees to -11 after last month's index reading of 2. However, average retail wages gained sharply, with the index jumping to 16 in June from -7.

Services-Providing Firms

Services providers' revenues accelerated this month, pushing the index to 11 following the May reading of 3. The number of employees and average wages climbed a bit more slowly in June, with those indexes finishing the survey period at 10 and 18, respectively. A month earlier, the readings were 13 and 22.

Non-retail services providers looked for strong revenue growth in the six months ahead, holding the expectations index at 26 for a second month.

Prices

Prices in the broad service sector eased to a 1.15 percent annualized rate of change in June, somewhat below May's 1.21 percent pace. In retail, however, the pace of annualized price growth intensified to a 2.33 percent clip from the previous month's 1.42 percent rate. At non-retail services firms, price change slowed to 1.03

percent, compared to May's 1.25 percent rate of change.

For the six months ahead, price expectations in the overall service sector were for a 1.52 percent annualized rate of increase, remaining near the expected rates from the surveys in April and May of 1.58 percent and 1.59 percent. Within the subsectors of retail and non-retail services firms, however, the retail outlook picked up to 2.20 percent, compared to May's anticipated 1.93 percent price change. At services providing firms, expectations were for 1.41 percent after May's outlook for 1.45 percent.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jun-12	May-12	Apr-12	
Revenues	9	-2	0	2
Number of Employees	5	10	0	5
Average Wage	17	14	10	14
Expected Demand ²	20	18	26	22
Retail Indicators				
Sales Revenues	-3	-15	-53	-23
Number of Employees	-11	2	-5	-4
Average Wage	16	-7	-9	0
Inventories	9	-2	-13	-2
Big-ticket Sales	11	-34	-66	-30
Shopper Traffic	-9	0	-51	-20
Expected Product Demand ²	-8	-3	-17	-9
Services Firms Indicators				
Revenues	11	3	16	10
Number of employees	10	13	1	8
Average wage	18	22	14	18
Expected demand for services ²	26	26	37	30
Current Price Trends³				
Service Sector	1.15	1.21	1.28	
Retail	2.33	1.42	1.84	
Services Firms	1.03	1.25	1.10	
Expected Price Trends^{2,3}				
	Expectations			
	Jun-12	May-12	Apr-12	
Service Sector	1.52	1.58	1.59	
Retail	2.20	1.93	2.63	
Services Firms	1.41	1.45	1.35	

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 125 survey participants
- 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.