

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Remained Weak in August; Exception – Average Wages Grew Steadily

Overview

Activity in the service sector was lackluster in August, according to the latest survey by the Federal Reserve Bank of Richmond. Big-ticket sales slumped and anemic shopper traffic contributed to weak retail sales. Inventories rose slightly and merchants looked for little change in the six months ahead. Revenues sagged at non-retail services firms, although those businesses anticipated a mild uptick by the early part of 2013.

In service sector labor markets, retailers left their number of employees unchanged and services providers made additions to their payrolls. Collectively, wage increases were more widespread this month.

Price change in the overall service sector slowed in August; looking ahead six months, survey respondents expected acceleration. When compared to the outlook of a month ago, however, those expectations were for a somewhat slower pace.

Overall Service Sector Conditions

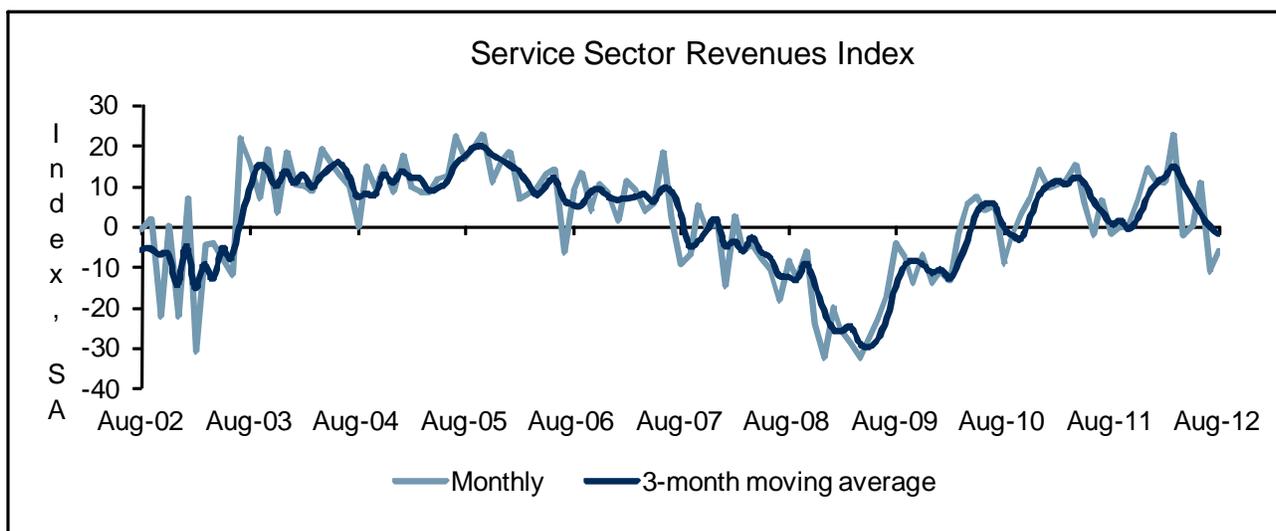
Revenues in the broad service sector declined this month, but by less than in July. The index settled

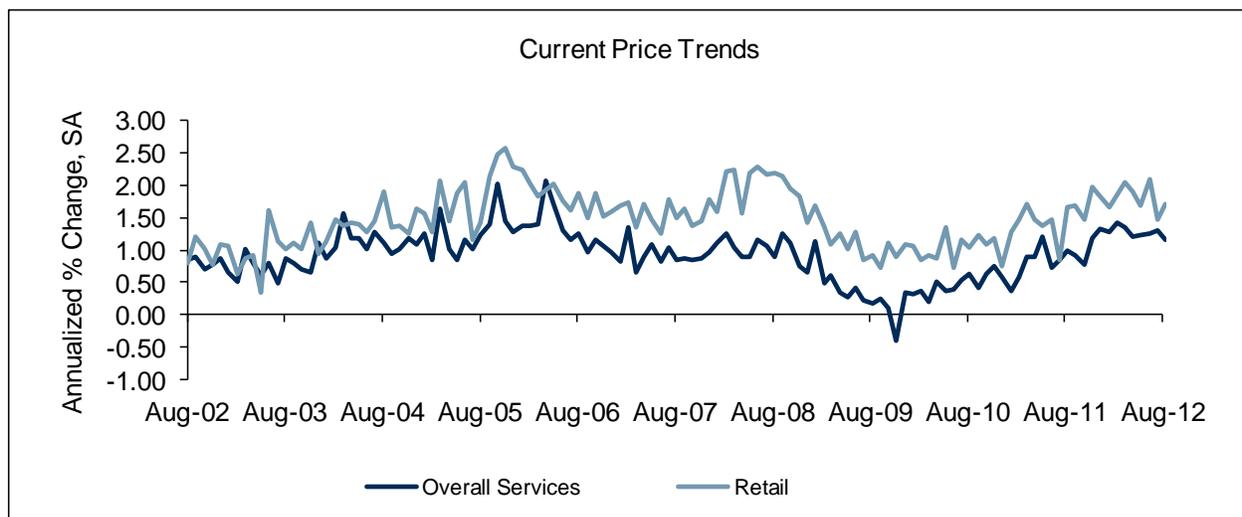
at -6 in August, compared to July's -11. Employment in the sector improved, as retailers halted their cuts and services-providers added employees. The indicator for the number of employees gained seven points to end the survey period at 4. Despite limited hiring, average wage increases broadened, with that index rising to 10, two points above last month's reading. Expectations for the next six months were somewhat more optimistic than in July. The index picked up three points to finish at 7.

Retail

Retail sales expanded slightly in August, to an index reading of just 3. However, the index bested July's indicator by twenty-one points. Big-ticket sales fell sharply, dragging that index to -16 from 21. In addition, shopper traffic remained light in August, with the index finishing at -1 compared to last month's -6. Retail inventories accumulated, pushing that index up eleven points to 5.

Looking ahead to the start of next year, retailers were generally neutral about sales prospects, bringing the index for expectations to 1 from July's reading of -3.





In retail labor markets, hiring was flat, settling that marker at 0 after July's index of -15. Average retail wages gained on pace with a month ago, holding the index at 4 for a second month.

Services-Providing Firms

According to non-retail services providers, revenues fell in August; however the decline was less severe than in July. The index finished the survey period at -6 compared to -11. The number of employees at services firms expanded this month, with that index adding seven points to settle at 5. Coincident with hiring gains, average non-retail wages in the service sector rose in line with a month earlier, keeping the index at 11.

Services providers anticipated somewhat greater demand in the next six months, moving that gauge to 8 from July's reading of 4.

Prices

Overall service sector prices advanced at an annualized 1.15 percent pace in August compared to July's 1.30 percent rate. Retail price change accelerated to 1.70 percent, annualized, this month, whereas the July rate of increase was 1.46 percent. At non-retail services firms, price change slowed in August, to an annualized 1.02 percent rate. In July, non-retail prices rose at a 1.23 percent pace.

Survey respondents anticipated faster price increases in the broad service sector in the six

months ahead. They looked for prices to rise at a 1.54 percent pace. Separately, expectations were for price change of 1.18 percent at retail establishments and 1.66 percent at non-retail services firms. A month ago, overall expectations were for price expansion at a 1.71 percent annualized rate. The retail and non-retail price change outlook in July was for 1.61 percent and 1.72 percent, respectively.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Aug-12	Jul-12	Jun-12	
Revenues	-6	-11	11	-2
Number of E employees	4	-3	6	2
Average Wage	10	8	16	11
Expected Demand ²	7	4	18	9
Retail Indicators				
Sales Revenues	3	-18	3	-4
Number of E employees	0	-15	-5	-7
Average Wage	4	4	13	7
Inventories	5	-6	7	2
Big-ticket Sales	-16	21	9	5
Shopper Traffic	-1	-6	-4	-4
Expected Product Demand ²	1	-3	-3	-2
Services Firms Indicators				
Revenues	-6	-11	14	-1
Number of employees	5	-2	10	4
Average wage	11	11	19	14
Expected demand for services ²	8	4	23	11
Current Price Trends³				
Service Sector	1.15	1.30	1.25	
Retail	1.70	1.46	2.10	
Services Firms	1.02	1.23	1.18	
Expected Price Trends^{2,3}				
	Expectations			
	Aug-12	Jul-12	Jun-12	
Service Sector	1.54	1.71	1.55	
Retail	1.18	1.61	2.24	
Services Firms	1.66	1.72	1.44	

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 126 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.