

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Improved, Bolstered by Non-Retail Services; Outlook More Optimistic

Overview

Activity in the service sector improved, according to the latest survey by the Federal Reserve Bank of Richmond. The decline in retail activity slowed in January and business expanded at non-retail services establishments. In addition, both retail and non-retail firms had a better business outlook for the next six months than they held last month.

Service sector labor markets were mixed, with retail employment and wages remaining weak, though improved from a month ago, while employment and average wages picked up at services firms.

Price growth in the broad service sector picked up slightly in January, while remaining well-contained. Looking ahead six months, survey respondents expected overall price growth to remain moderate.

Overall Service Sector Conditions

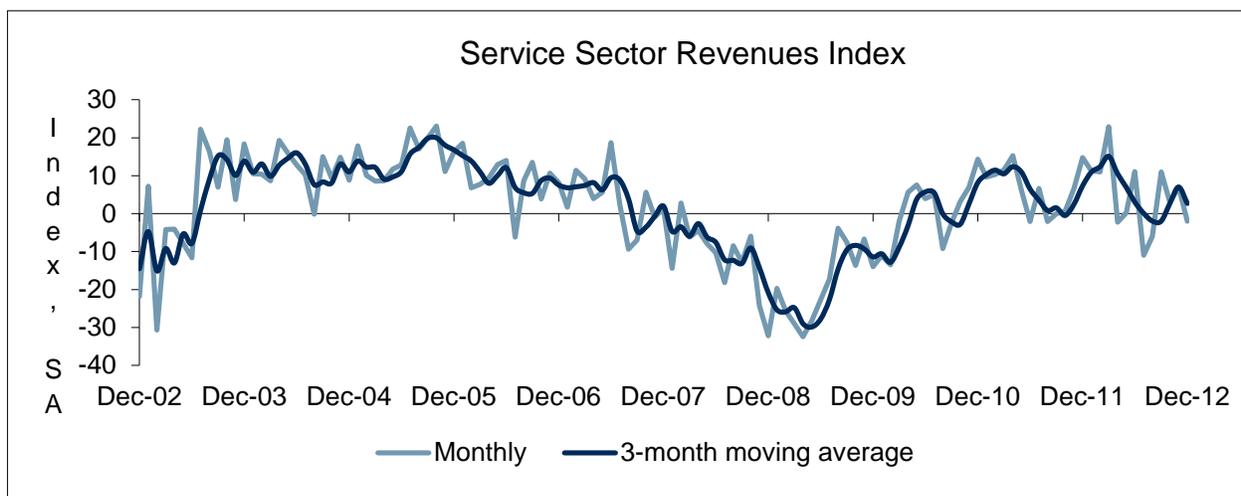
Service sector revenues rebounded in January, pushing the index up fifteen points and into positive territory to a reading of 13. Employment in the broad service sector stabilized, with that index settling at 0 following last month's -12. Also improved was the average wage index, as a mild

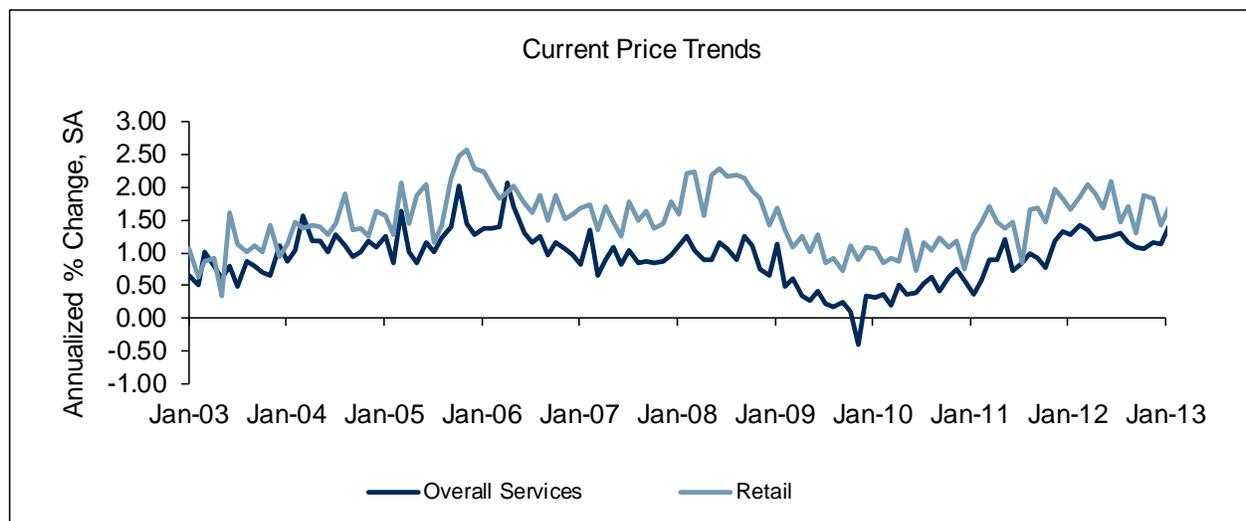
uptick moved that marker to 7 from 5. Looking ahead to the next six months, survey respondents anticipated better business prospects, driving the index up ten points to a reading of 10 in January.

Retail

Retail sales remained soft this month, albeit improved from a month ago. The index added five points, settling at -8. However, big-ticket sales continued to fall, with that index ending the survey period one point below last month's reading at -32. Retail inventories built up somewhat faster than in December, bringing the index up ten points to 16 in January. Shopper traffic returned, pushing the indicator to 4 from -18. Retailers' outlook remained subdued, though less pessimistic than last month. The index gained eighteen points, finishing at -6.

Retail merchants continued to reduce their payrolls. However, the decline slowed compared to a month ago, moving the index to -13, eight points above the previous reading. Average retail wages virtually flattened, with the index at -1 following December's reading of -4.





Services-Providing Firms

Business bounced back at services firms in January, with the index for revenues jumping nineteen points above the previous reading to end at 20. In addition, the number of employees grew, with that gauge rising twelve points to 4. Wage growth nearly matched December’s pace; the indicator tacked on one point in January, finishing at a reading of 8.

Non-retail services providers’ outlook for the six months ahead brightened further this month, pushing the expectations index ahead four points to 13.

Prices

Prices in the overall service sector rose somewhat faster in January, advancing at an annualized 1.40 percent rate, compared to December’s 1.13 percent pace. Within the sector, retail prices climbed by 1.69 percent, annualized, while non-retail services providers’ prices moved up at a 1.29 percent pace. A month ago, those subsector prices rose at a 1.41 percent rate and a 0.99 percent rate, respectively.

Looking ahead six months, survey respondents had nearly the same expectations for price growth in the broad service sector as they held in December. In January, they looked for annualized price growth at a 1.75 percent pace, compared to the previous outlook for 1.73 percent growth.

Separately, retailers looked for prices to increase somewhat more slowly than they had anticipated a month ago. Their outlook was for 1.56 percent price growth, compared to their previous expectation of 2.20 percent growth. Non-retail services providers expected prices would rise at a 1.76 percent rate over the next six months; in December they anticipated future price growth at a 1.67 percent pace.

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| Business Activity Indexes ^{1,4} | | | | |
|---|--------------------|--------|--------|-----------------|
| Service Sector Indicators | Current Conditions | | | 3-Month Average |
| | Jan-13 | Dec-12 | Nov-12 | |
| Revenues | 13 | -2 | 7 | 6 |
| Number of Employees | 0 | -12 | -6 | -6 |
| Average Wage | 7 | 5 | 9 | 7 |
| Expected Demand ² | 10 | 0 | 7 | 6 |
| Retail Indicators | | | | |
| Sales Revenues | -8 | -13 | 14 | -2 |
| Number of Employees | -13 | -21 | -13 | -16 |
| Average Wage | -1 | -4 | 8 | 1 |
| Inventories | 16 | 6 | -1 | 7 |
| Big-ticket Sales | -32 | -31 | -14 | -26 |
| Shopper Traffic | 4 | -18 | 23 | 3 |
| Expected Product Demand ² | -6 | -24 | -3 | -11 |
| Services Firms Indicators | | | | |
| Revenues | 20 | 1 | 4 | 8 |
| Number of employees | 4 | -8 | -6 | -3 |
| Average wage | 8 | 7 | 7 | 8 |
| Expected demand for services ² | 13 | 8 | 9 | 10 |
| Current Price Trends ³ | | | | |
| Service Sector | 1.40 | 1.13 | 1.16 | |
| Retail | 1.69 | 1.41 | 1.84 | |
| Services Firms | 1.29 | 0.99 | 1.01 | |
| Expected Price Trends ^{2,3} | | | | |
| | Expectations | | | |
| | Jan-13 | Dec-12 | Nov-12 | |
| Service Sector | 1.75 | 1.73 | 1.68 | |
| Retail | 1.56 | 2.20 | 2.43 | |
| Services Firms | 1.76 | 1.67 | 1.53 | |

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 116 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.