

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Grew Moderately; Retail Strengthened; Non-Retail Revenues Slowed

Overview

Activity in the Service Sector grew moderately, according to the latest survey by the Federal Reserve Bank of Richmond. Retail activity improved in February, as big-ticket sales escalated sharply and shopper traffic rose. However, inventories also grew more quickly than a month ago. Non-retail revenues advanced more slowly than in January.

In service sector labor markets, hiring was light while wage increases were more widespread across both retail and non-retail businesses.

The pace of price growth in the broad service sector nearly matched that of a month earlier, as slower growth in retail prices largely overshadowed a pick-up in non-retail prices. Survey participants expected a moderate rise in the rate of price growth during the next six months.

Overall Service Sector Conditions

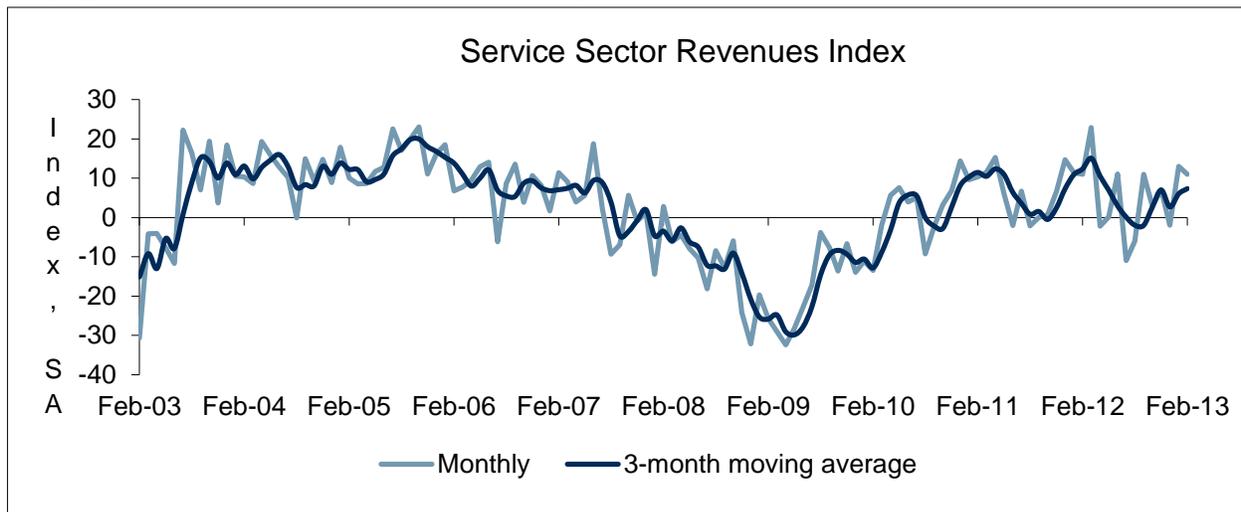
Service sector revenues remained solid in February, with the index shaving two points from January's reading to settle at 11. Hiring inched up, pushing the index to 3 from 0, as cuts in the retail sub-sector waned. Average wages rose broadly, bringing that index to 14 from last month's reading

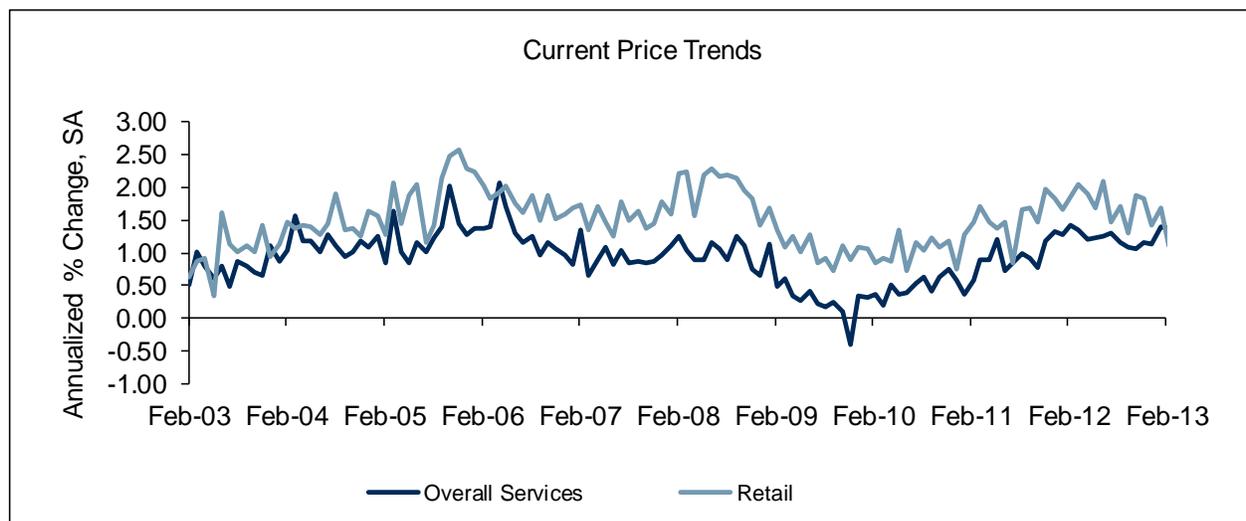
of 7. In addition, the expectations index jumped six points to 16, as more survey respondents looked for better business conditions during the next six months.

Retail

Retail activity strengthened in February, with the sales revenues index gaining twenty-seven points over last month's reading to end at 19. The index for big-ticket sales also moved into positive territory, finishing the survey period at 27, compared to January's reading of -32. Adding to the strength, shopper traffic rebounded, with that index rising to 15 from the previous reading of 4. Retail inventories built up quickly however, pushing the index nine points higher in February, to 27. Merchants remained guarded about future sales; the index for expectations over the next six months slipped three more points, ending at -9.

In retail labor markets, job cuts tapered off, leaving the index for the number of employees at -4, nine points above January's reading. Average wage increases broadened, with that index climbing to 16 from the previous reading of -1.





Services-Providing Firms

Revenues at non-retail services firms advanced more slowly than a month ago. That indicator shed twelve points, settling at 8. The index for the number of employees matched last month's reading of 4, while the reading for average wages gained six points in February, ending at 14.

Looking ahead six months, non-retail services providers anticipated solid prospects. The index for expected demand rose seven points in February, ending the survey period at 20.

Prices

Prices in the broad service sector increased at an annualized 1.38 percent rate, nearly matching January's 1.40 percent pace. In services subsectors, retail prices slowed to a 1.10 percent annualized growth rate, and prices at non-retail services providers increased at a 1.41 percent pace. A month ago, retail prices rose at a 1.69 percent rate and non-retail services prices moved up at a 1.29 percent rate.

For the coming six months, survey respondents expected price growth would pick up the pace to a 1.80 percent annualized rate across the sector; in January, they looked for future annualized price growth at a 1.75 percent pace.

Merchants looked for prices to rise at an

annualized 1.52 percent rate, compared to their previous outlook for 1.56 percent growth. Non-retail services providers anticipated price increases at a 1.82 percent pace over the next six months, compared to their month-ago expectation for 1.76 percent future price growth.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month
	Feb-13	Jan-13	Dec-12	Average
Revenues	11	13	-2	7
Number of Employees	3	0	-12	-3
Average Wage	14	7	5	9
Expected Demand ²	16	10	0	9
Retail Indicators				
Sales Revenues	19	-8	-13	-1
Number of Employees	-4	-13	-21	-12
Average Wage	16	-1	-4	4
Inventories	27	16	6	16
Big-ticket Sales	27	-32	-31	-12
Shopper Traffic	15	4	-18	0
Expected Product Demand ²	-9	-6	-24	-13
Services Firms Indicators				
Revenues	8	20	1	10
Number of employees	4	4	-8	0
Average wage	14	8	7	10
Expected demand for services ²	20	13	8	14
Current Price Trends³				
Service Sector	1.38	1.40	1.13	
Retail	1.10	1.69	1.41	
Services Firms	1.41	1.29	0.99	
Expected Price Trends^{2,3}				
Expectations				
	Feb-13	Jan-13	Dec-12	
Service Sector	1.80	1.75	1.73	
Retail	1.52	1.56	2.20	
Services Firms	1.82	1.76	1.67	

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 114 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.