

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Slowed; Non-Retail Hiring Strengthened, Retail Activity Contracted*

### Overview

Service sector activity slowed in March, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales contracted, pulled down by an abrupt decline in shopper traffic and big-ticket sales. In addition, retailers drew down inventories. Non-retail revenues grew modestly.

Employment edged up in the overall service sector, as a sharp drop in retail hiring was eclipsed by an uptick in hiring among the remainder of service sector firms. Wage growth slowed, however.

The pace of price increases in the broad service sector also slowed. Survey participants expected slower price growth in the six months ahead compared to last month's outlook.

### Overall Service Sector Conditions

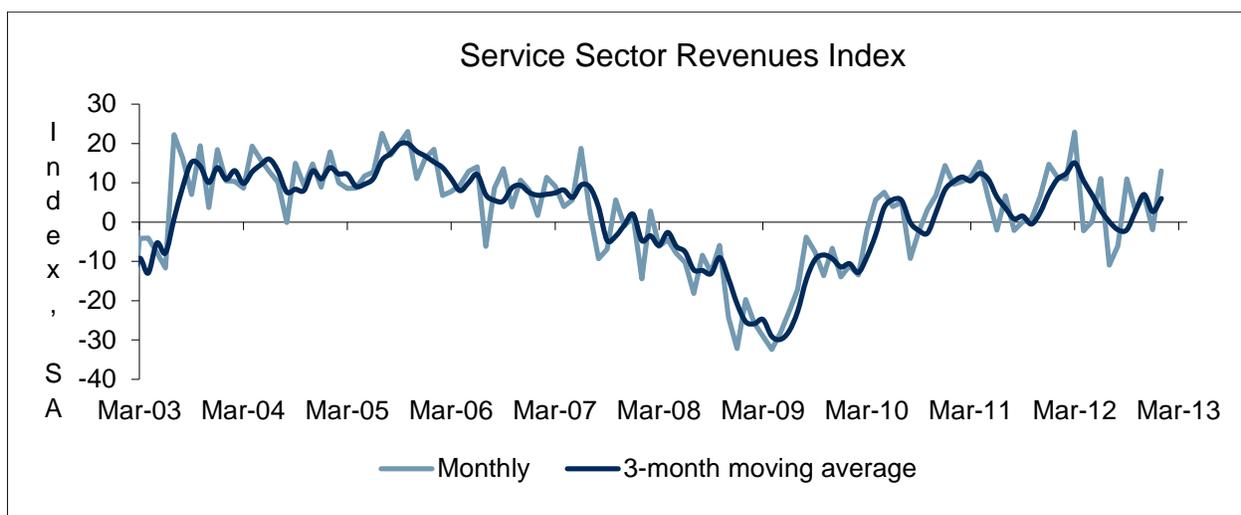
Service sector revenues grew more slowly in March, with the index softening to 4 from February's 11. Hiring in the overall service sector continued to inch up however, pushing the index for the number of employees three points higher to a reading of 6. Average wage growth moderated,

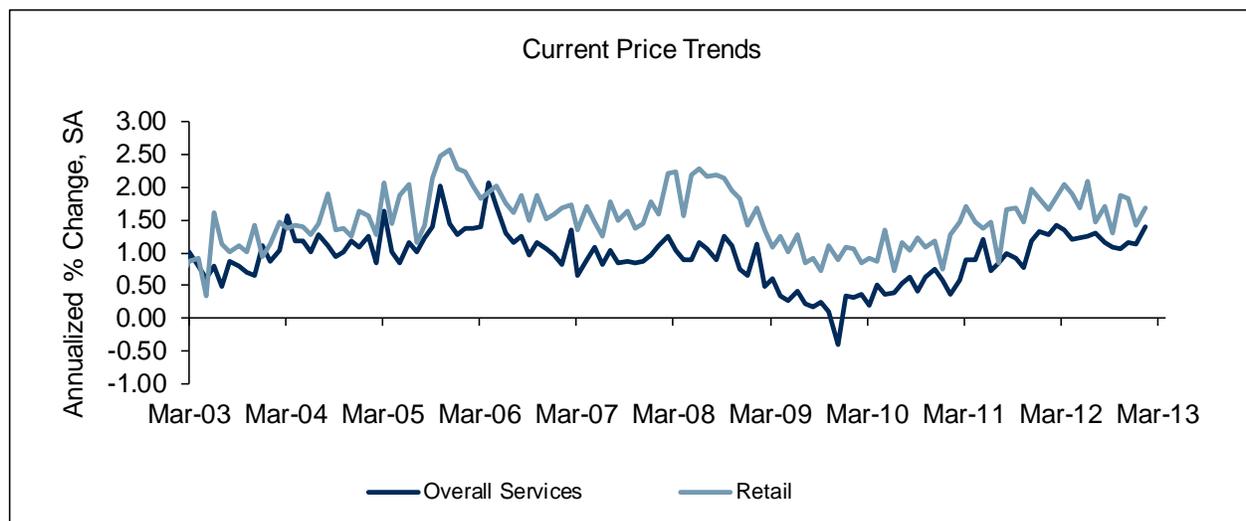
weakening the broad wage index by nine points to 5. Looking ahead six months, survey respondents were somewhat less confident about their business prospects. The expectations index lost five points compared to February's reading to settle at 11.

### Retail

Retail activity slumped in March. Retail sales contracted sharply, collapsing the index to a reading of -18 following February's 19. Big-ticket sales fell, dragging that index down to -25 from 27. Further, shopper traffic dropped, with the index ending the March survey period at -25 compared to 15 last month. Retailers reined in their inventories, pulling that index to -22; in February, the reading was 27. Retailers' outlook for the next six months deteriorated, bringing that index twenty-seven points below the month-ago reading to end at -36.

Merchants reduced payrolls in March, pulling the index for the number of employees to -22 from the previous reading of -4. The index for average wages also plummeted to a reading of -11 compared to 16 in February.





**Services-Providing Firms**

Revenues at non-retail services firms grew at virtually the same modest pace as a month ago, with the index discarding one point to settle at 7 in March. Services providers increased their hiring this month, pushing the index for the number of employees to 11 from 4. However, average wage increases were less prevalent. The wage index scaled back to 9 from last month’s reading of 14.

Survey participants at services-providing firms continued to expect good business conditions in the six months ahead. The index for expected demand moved up a point to a reading of 21 this month.

**Prices**

Prices in the service sector moved up at a slower rate in March. Broad service sector prices rose at an annualized 0.82 percent rate, compared to February’s 1.38 percent pace. In the retail sub-sector, prices grew at a 0.51 percent annualized rate, while prices at non-retail firms advanced at a 0.89 percent pace. In February, retail prices grew at a 1.10 percent rate and non-retail services prices advanced at a 1.41 percent rate.

Survey respondents expected price growth over the next six months to be slower than their outlook of a month ago. They anticipated 1.27 percent

annualized growth across the sector, compared to last month’s expectation for a 1.80 percent pace.

Separately, retailers expected prices would increase at a 1.32 percent pace and non-retail services firms looked for a 1.27 percent rate of growth in prices. A month ago, their expectations were for 1.52 percent and 1.82 percent, respectively.

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<b>Business Activity Indexes<sup>1,4</sup></b>				
<b>Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month Average</b>
	<b>Mar-13</b>	<b>Feb-13</b>	<b>Jan-13</b>	
Revenues	4	11	13	10
Number of Employees	6	3	0	3
Average Wage	5	14	7	9
Expected Demand <sup>2</sup>	11	16	10	12
<b>Retail Indicators</b>				
Sales Revenues	-18	19	-8	-2
Number of Employees	-22	-4	-13	-13
Average Wage	-11	16	-1	1
Inventories	-22	27	16	7
Big-ticket Sales	-25	27	-32	-10
Shopper Traffic	-25	15	4	-2
Expected Product Demand <sup>2</sup>	-36	-9	-6	-17
<b>Services Firms Indicators</b>				
Revenues	7	8	20	12
Number of employees	11	4	4	6
Average wage	9	14	8	10
Expected demand for services <sup>2</sup>	21	20	13	18
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	0.82	1.38	1.40	
Retail	0.51	1.10	1.69	
Services Firms	0.89	1.41	1.29	
<b>Expected Price Trends<sup>2,3</sup></b>				
<b>Expectations</b>				
	<b>Mar-13</b>	<b>Feb-13</b>	<b>Jan-13</b>	
Service Sector	1.27	1.80	1.75	
Retail	1.32	1.52	1.56	
Services Firms	1.27	1.82	1.76	

**Technical Notes:**

<sup>1</sup> 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 111 survey participants.

<sup>2</sup> Expectations refer to the time period six months out from the survey period.

<sup>3</sup> Price changes are expressed as percent change, annualized.

<sup>4</sup> 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.