

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Weakened; Revenues and Hiring Declined

Overview

Activity in the service sector weakened in April, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales dropped and revenues declined at non-retail services firms. Big-ticket sales at retail establishments fell and shopper traffic decreased, although the retreat in those gauges was less severe than a month ago. Retail inventories edged up.

Service sector employment also dropped this month, with reductions at retail establishments and services providing firms. Although the number of employees fell, average wages in the sector grew somewhat faster.

The rate of price growth rose moderately across the service sector; survey participants expected the pace of price change over the next six months to edge up slightly from the current month's averages.

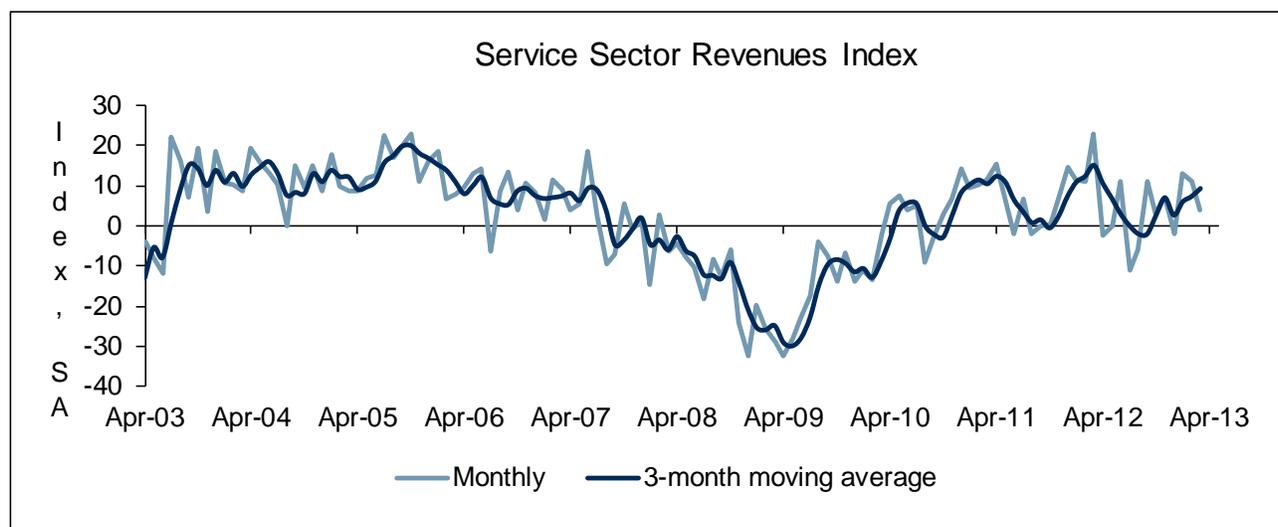
Overall Service Sector Conditions

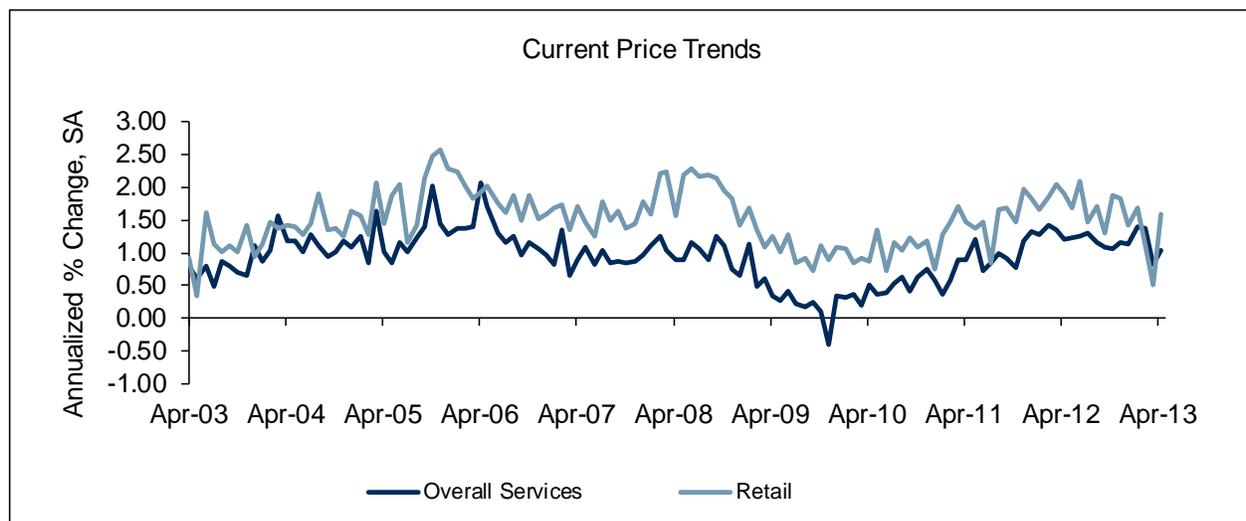
Service sector revenues fell in April, pulling the index to -9 from last month's reading of 4. The

number of employees also shrank, with that index settling sixteen points lower at -10. However average wages continued to rise, pushing the gauge to 11 from the March reading of 5. Looking to the next six months, survey respondents expected demand for goods and services to improve. The expectations index finished the survey period at 11, matching the previous month's reading.

Retail

Retail sales dropped in April, lowering last month's index by five points to a reading of -23. Big-ticket sales and shopper traffic remained in decline for a second month, although the decrease slowed compared to a month ago. The index for big-ticket sales finished at -12, compared to the month-ago reading of -25, while the index for shopper traffic moved to -9 from -25. Retail inventories ticked up this month, with that index reversing direction by twenty-six points, ending at 4. Although the current month's markers indicated weakness, merchants were mildly optimistic about sales in the six months ahead; the index for expected demand





strengthened to a reading of 7 after posting a -36 in March.

Retailers cut employees this month, with that index finishing at -19, a three-point improvement from the March reading. Average retail wages stabilized in April, with the index settling at 1, compared to the March reading of -11.

Services-Providing Firms

Revenues at services providing firms dropped this month, dragging the index to -6 from last month's reading of 7. In addition, firms reduced the number of employees, slicing twenty-three points from the March index to a reading of -12. Average wages at non-retail services firms rose, pushing the index to 12 following last month's 9.

Looking ahead six months, services providers were more circumspect in their outlook for demand. That index softened to a reading of 9 after the March index of 21.

Prices

Prices in the overall service sector rose moderately in April, at an annualized 1.04 percent pace, compared to 0.82 percent growth in March. Retail prices grew at an annualized 1.59 percent rate, after rising at a 0.51 percent pace in March. At services providers, the pace of price increases

picked up to a 0.94 percent annualized rate, following March's 0.89 percent rate.

Survey respondents anticipated prices would rise at a slightly faster pace in the six months ahead compared to the current month. They looked for a 1.32 percent annualized growth rate sector-wide, after expecting a 1.27 percent rate in March. Within sub-sectors, retail merchants expected prices would rise at a 1.77 percent pace in the months ahead, while services providers looked for a 1.26 percent annualized rate. A month ago, they anticipated growth rates of 1.32 percent and 1.27 percent, respectively.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Apr-13	Mar-13	Feb-13	
Revenues	-9	4	11	2
Number of Employees	-10	6	3	0
Average Wage	11	5	14	10
Expected Demand ²	11	11	16	13
Retail Indicators				
Sales Revenues	-23	-18	19	-7
Number of Employees	-19	-22	-4	-15
Average Wage	1	-11	16	2
Inventories	4	-22	27	3
Big-ticket Sales	-12	-25	27	-3
Shopper Traffic	-9	-25	15	-7
Expected Product Demand ²	7	-36	-9	-13
Services Firms Indicators				
Revenues	-6	7	8	3
Number of employees	-12	11	4	1
Average wage	12	9	14	12
Expected demand for services ²	9	21	20	17
Current Price Trends³				
Service Sector	1.04	0.82	1.38	
Retail	1.59	0.51	1.10	
Services Firms	0.94	0.89	1.41	
Expected Price Trends^{2,3}				
	Expectations			
	Apr-13	Mar-13	Feb-13	
Service Sector	1.32	1.27	1.80	
Retail	1.77	1.32	1.52	
Services Firms	1.26	1.27	1.82	

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 107 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.