

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Wage Growth Strengthened; Retail Sales Flattened, Non-Retail Sales Rebounded

Overview

Service sector activity improved overall in May, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales flattened after two months of decline. Although big-ticket sales fell, shopper traffic was heavier this month. Retail inventories dropped. At non-retail services firms, revenues climbed sharply. Looking ahead, both retailers and non-retail services providers were optimistic about business during the next six months.

In service sector labor markets, the number of employees continued to decline at retail establishments. However, hiring was little changed at non-retail services firms. Average wages rose briskly across the sector.

The pace of price increases edged up overall, while moderating at retail firms and rising more quickly at non-retail businesses. Survey participants expected prices in the broad service sector to rise more quickly over the next six months.

Overall Service Sector Conditions

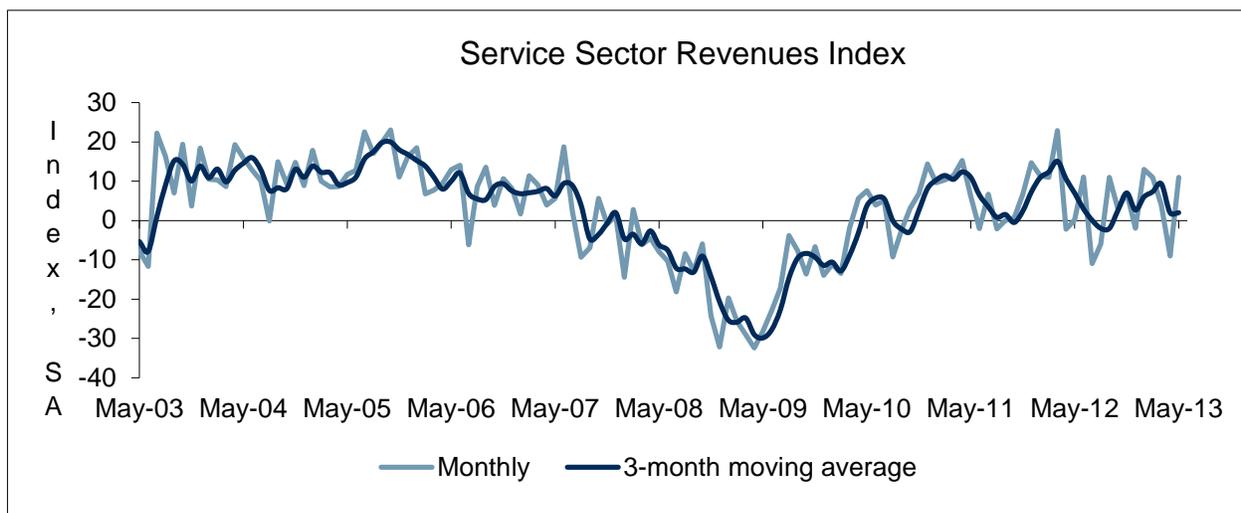
Revenues rose for the overall service sector in May, bringing the gauge up twenty points to 11. However

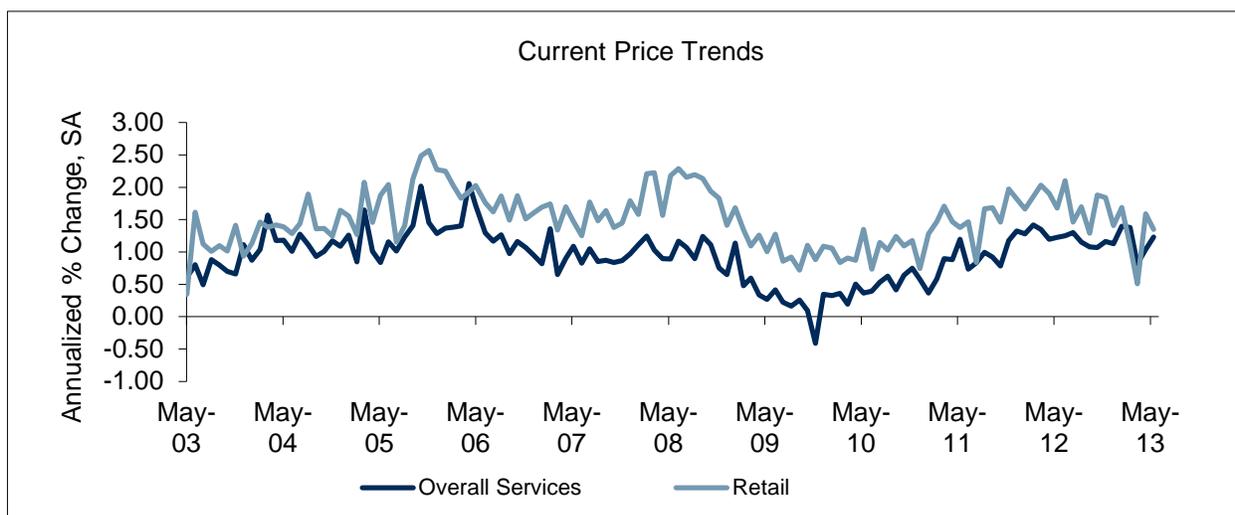
the number of employees continued to drop, with that index at -5 following the April reading of -10. In contrast, average wages rose across the sector, pushing that index to 18 from 11. Survey respondents anticipated increased demand for goods and services in the six months ahead; the expectations index tacked on six points to end the survey period at 17.

Retail

Retail sales flattened in May, with the index settling at -1 compared to April's reading of -23. Although big-ticket sales remained weak, shopper traffic picked up. The index for big-ticket sales settled at a reading of -10, just two points above last month's mark. However, shopper traffic was heavier in May, pushing the index to 12 from last month's -9. Retail inventories were drawn down, with the index shedding twenty-four points to settle at -20. Retailers had a buoyant outlook for the next six months, driving the index for expected product demand up eighteen points to 25.

Employment in the retail sub-sector continued to decline, although more slowly than in April, with the index at -10. The previous reading was -19.





Average retail wages accelerated after stabilizing a month ago, pushing the index to 26 from 1.

Services-Providing Firms

Services providing firms rebounded this month, with the revenues index rising to a reading of 18 from April's index of -6. Hiring was flat at non-retail services firms, while average wage growth became more prevalent. The index for the number of employees moved to -1 from -12, and the average wage index gained six points to end at 18. Services firms were confident about demand during the next six months, moving the outlook index up eight points in May to 17.

Prices

Prices in the broad service sector rose at an annualized 1.23 percent pace this month, somewhat above the 1.04 percent growth rate in April. Separately, retail price increases slowed to an annualized 1.35 percent rate, compared to 1.59 percent in April. Services providers' prices rose more quickly, at a 1.36 percent annualized rate, following 0.94 percent growth last month.

Looking ahead, survey respondents expected slightly faster price growth compared to the current month's rate. For the sector, they anticipated a 1.53 percent annualized growth rate; in April, that expectation was for a 1.32 percent rate. Within sub-sectors, retailers looked for a 1.21 percent pace of increase in prices over the six months ahead after last month's outlook

for a 1.77 percent growth rate. Services providers expected a 1.55 percent annualized rate for prices, whereas a month ago, they anticipated a price growth rate of 1.26 percent.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	May-13	Apr-13	Mar-13	
Revenues	11	-9	4	2
Number of Employees	-5	-10	6	-3
Average Wage	18	11	5	12
Expected Demand ²	17	11	11	13
Retail Indicators				
Sales Revenues	-1	-23	-18	-14
Number of Employees	-10	-19	-22	-17
Average Wage	26	1	-11	5
Inventories	-20	4	-22	-13
Big-ticket Sales	-10	-12	-25	-16
Shopper Traffic	12	-9	-25	-7
Expected Product Demand ²	25	7	-36	-2
Services Firms Indicators				
Revenues	18	-6	7	6
Number of employees	-1	-12	11	-1
Average wage	18	12	9	13
Expected demand for services ²	17	9	21	16
Current Price Trends³				
Service Sector	1.23	1.04	0.82	
Retail	1.35	1.59	0.51	
Services Firms	1.36	0.94	0.89	
Expected Price Trends^{2,3}				
Expectations				
	May-13	Apr-13	Mar-13	
Service Sector	1.53	1.32	1.27	
Retail	1.21	1.77	1.32	
Services Firms	1.55	1.26	1.27	

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 106 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.