

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Improved; Retail and Non-Retail Revenues Strengthened*

### Overview

Activity in the service sector strengthened, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales grew modestly, bolstered by an uptick in big-ticket sales, despite moderating shopper traffic. Retail inventories dropped sharply from a month ago. In addition, revenues grew robustly at non-retail services firms. Survey respondents were upbeat about sales of goods and services through the second half of this year.

Hiring in the service sector edged up mildly across the board. Average wages grew at a healthy pace at non-retail establishments and flattened at retail businesses following last month's sharp rise.

Prices rose more slowly in June and survey participants expected slower overall price growth in the six months ahead.

### Overall Service Sector Conditions

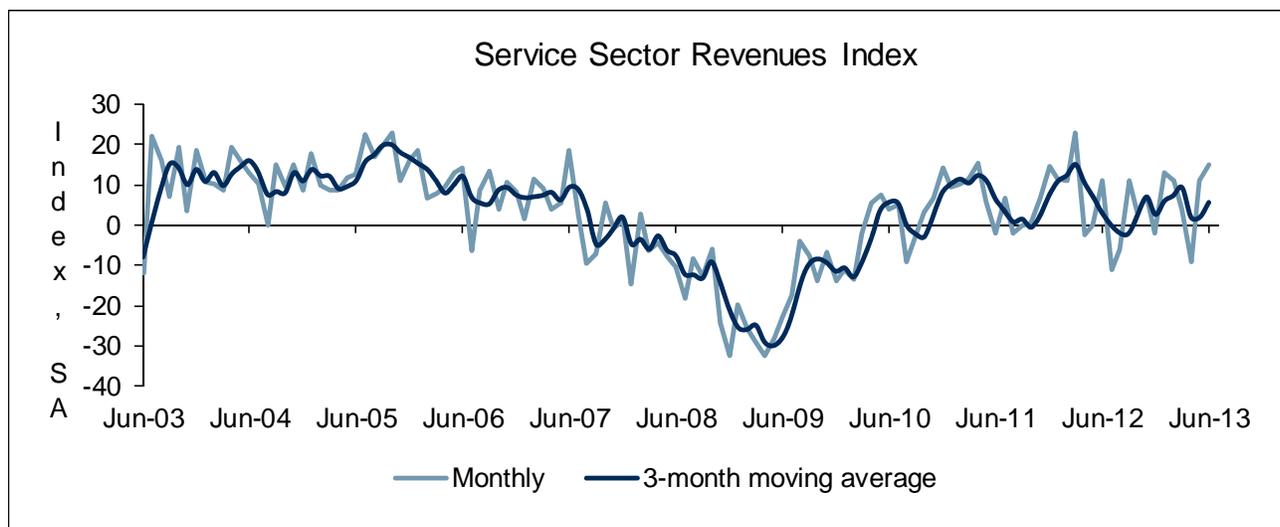
Revenues strengthened in the service sector this month, pushing the index up four points to 15. Employment growth was tepid, with that index

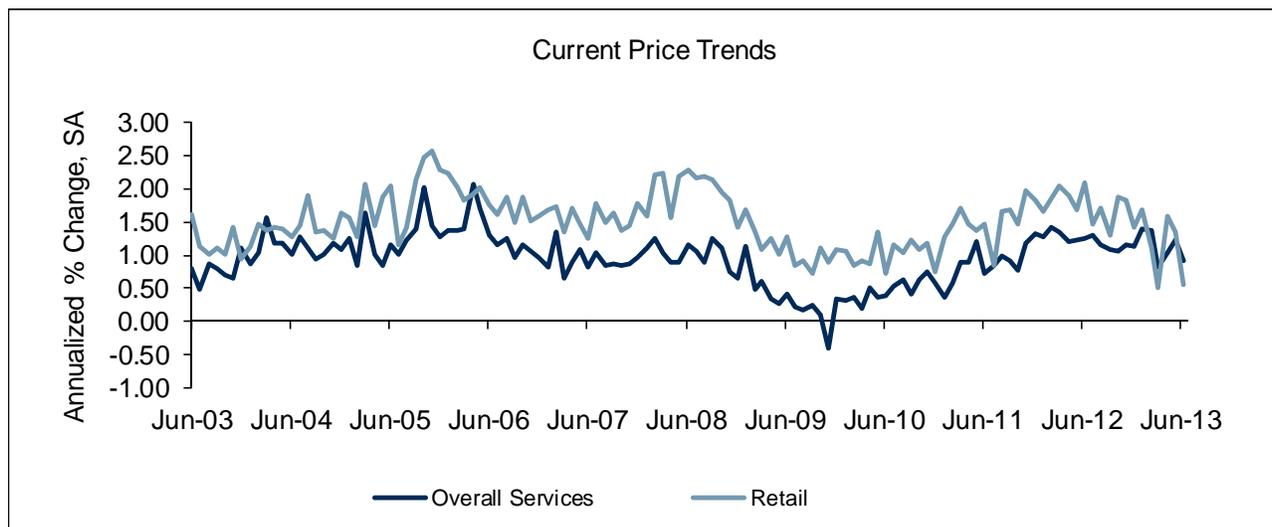
ending the survey period at 3, up from last month's reading of -5. Average wage growth remained solid despite slowing; the index cooled to 11 from 18. Survey respondents expected more vigorous demand during the six months ahead, with that index picking up seven points to end the survey period at 24.

### Retail

Retail sales strengthened slightly in June, with a four-point gain pushing the index into positive territory at a reading of 3. Big-ticket sales returned this month, with the index rising to 3 from -10. Shopper traffic was lighter in June than a month ago, with the index losing seven points to end at 5. Inventories dropped sharply for a second month; the index slid eight points lower to -28. Merchants' expectations remained positive, though softer, for sales through year-end, drawing the index down fourteen points to 11 in June.

Retail hiring inched up this month, ending the survey period at 2; in May, the reading was -10. Average retail wages leveled off to an index of 1 compared to 26 a month ago.





**Services-Providing Firms**

Revenues at non-retail services firms grew at a hearty pace, with the index settling at 19, a point above last month’s reading. Hiring in the sub-sector increased slightly, bringing the index to 4 from May’s -1. Average wages at services producing firms remained strong, with that index at 15 following the May reading of 18. Looking to the remainder of the year, services providers anticipated additional growth, moving the expectations index up ten points to 27.

**Prices**

Prices in the broad service sector grew at an annualized 0.93 percent pace, slowing from last month’s 1.23 percent rate. Retailers’ prices advanced at an annualized 0.56 percent rate, compared to May’s growth of 1.35 percent. At non-retail firms, the pace slowed to 1.07 percent, annualized, from a 1.36 percent rate in May.

Survey respondents’ outlook for the next six months was for somewhat slower price growth in the broad service sector. Overall, they expected an annualized 1.43 percent rate, whereas in May, their expectation was for 1.53 percent price growth in the next six months. Among retailers, the outlook in June was for a faster rate of increase in prices, at 1.86 percent growth, compared to last

month’s expectation of 1.21 percent future growth. Services providers anticipated prices would slow to a 1.36 percent pace. In May, they looked for price growth of 1.55 percent.

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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</b>
	<b>Jun-13</b>	<b>May-13</b>	<b>Apr-13</b>	<b>Average</b>
Revenues	15	11	-9	6
Number of Employees	3	-5	-10	-4
Average Wage	11	18	11	14
Expected Demand <sup>2</sup>	24	17	11	17
<b>Retail Indicators</b>				
Sales Revenues	3	-1	-23	-7
Number of Employees	2	-10	-19	-9
Average Wage	1	26	1	9
Inventories	-28	-20	4	-15
Big-ticket Sales	3	-10	-12	-6
Shopper Traffic	5	12	-9	3
Expected Product Demand <sup>2</sup>	11	25	7	14
<b>Services Firms Indicators</b>				
Revenues	19	18	-6	10
Number of employees	4	-1	-12	-3
Average wage	15	18	12	15
Expected demand for services <sup>2</sup>	27	17	9	18
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	0.93	1.23	1.04	
Retail	0.56	1.35	1.59	
Services Firms	1.07	1.36	0.94	
<b>Expected Price Trends<sup>2,3</sup></b>				
<b>Expectations</b>				
	<b>Jun-13</b>	<b>May-13</b>	<b>Apr-13</b>	
Service Sector	1.43	1.53	1.32	
Retail	1.86	1.21	1.77	
Services Firms	1.36	1.55	1.26	

**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 101 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.