

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Weakened; Retail Sales and Hiring Declined; Non-Retail Hiring Inched Up

Overview

Activity in the service sector softened in July, according to the latest survey by the Federal Reserve Bank of Richmond*. Retail sales dropped, with weaker big-ticket sales and a steep decline in shopper traffic compared to a month ago. Retail inventories fell more slowly than in June.

Revenues also declined at non-retail services firms. Looking ahead six months, however, expectations for business in the broad service sector were optimistic.

Employment in the overall service sector remained soft, with an uptick in non-retail hiring overshadowing cuts in retail. Average wages grew more slowly in July.

Service sector price growth quickened, and survey participants anticipated a faster rate of increase in prices during the next six months.

Overall Service Sector Conditions

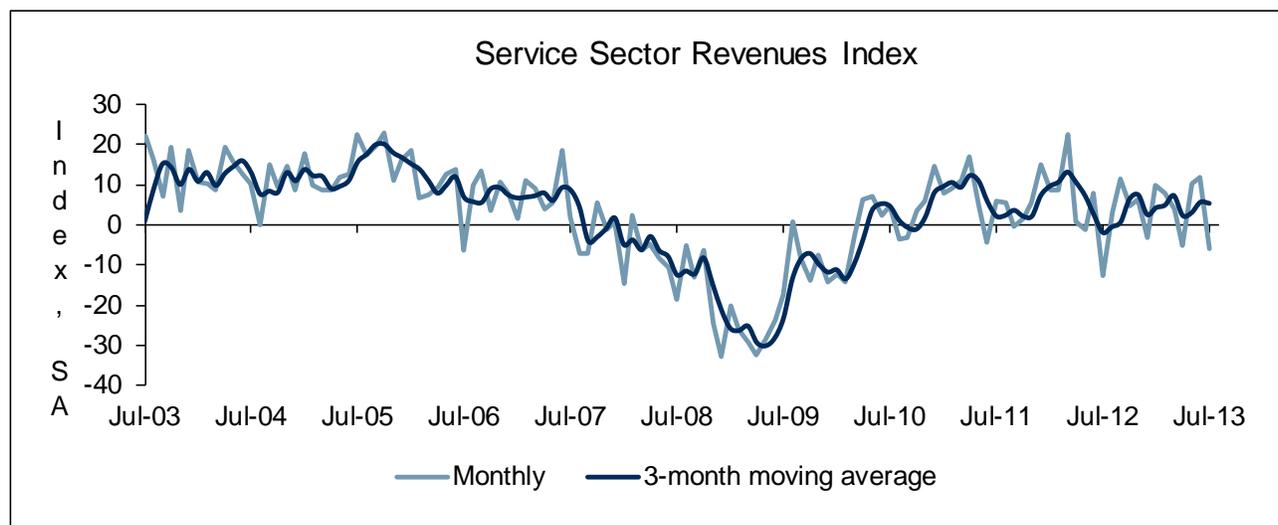
Revenues weakened in the broad service sector this month, pulling the index from 12 down to -6. The number of employees inched up at non-retail firms and declined at retail businesses. The index

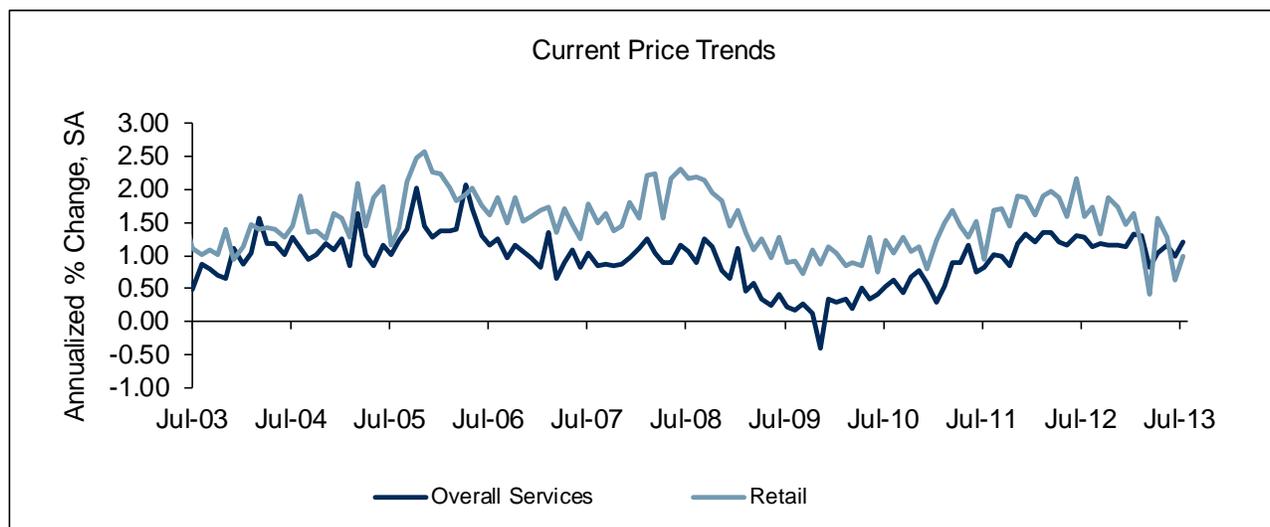
edged up to 2 from June's reading of 1. Average wage growth slowed slightly, bringing that index four points lower, to a reading of 7. Expectations for business prospects during the next six months were more guarded in July, with the index settling at 11, ten points below last month's index.

Retail

Retail sales contracted this month, leaving the index at -22, twenty-three points below last month's reading. Sales of big-ticket items declined slightly, while shopper traffic dwindled. The index for big-ticket sales slipped to -5, a point lower than the June reading, while the index for shopper traffic tumbled twenty-two points to -16. Inventories declined more slowly than last month, with that index settling at -12 compared to -22. Retailers were doubtful about sales in the next six months; the expectations index dropped to -29 from June's reading of 11.

Retailers reduced their number of employees this month. The index fell twelve points lower to end at -14. Average retail wages were little changed, however. That index ended the survey period at 1, compared to the June reading of 4.





Services-Providing Firms

Revenues at services-providing firms stalled in July, moving the index to -3 from the previous reading of 16. Even so, hiring edged up slightly at non-retail businesses, with the index adding three points to end the survey period at 4. Average wages grew more slowly than in June, restraining the index to 9 after the previous reading of 13. Services providers remained optimistic, though more cautious than in June. The index for expected customer demand settled at 17, six points below last month’s reading.

Prices

Prices in the overall service sector grew at a somewhat faster pace in July, increasing to an annualized 1.21 percent pace from June’s 0.99 percent rate. Retail prices rose at a 1.00 percent rate, following June’s 0.64 percent growth, and at non-retail firms, prices advanced at a 1.22 percent clip compared to June’s 1.09 percent rate of increase.

Survey respondents anticipated that prices would increase more quickly over the next six months. Expectations for the broad service sector were for annualized price growth of 1.63 percent, an uptick from June’s outlook for 1.48 percent annualized growth in prices. Separately, retailers anticipated 1.91 percent price growth in the months ahead

and non-retail services providers looked for a 1.56 percent pace. A month ago, retail merchants expected future price growth of 1.68 percent, while non-retail firms’ outlook was for a 1.48 percent pace.

Contact

Aileen Watson

Senior Economic Analyst/Supervisor
 Research Dept. /Regional Economics
 Federal Reserve Bank of Richmond
 Richmond Office

Ph: 804.697.7995 • Fax: 804.697.8123
aileen.watson@rich.frb.org
www.richmondfed.org

**Seasonal adjustment factors were recalculated this month and applied to historical data to better reflect current economic trends. In this report, comparisons to last month’s indexes are made to the revised June indexes. New factors will be calculated annually.*

Business Activity Indexes^{1,4,5}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jul-13	Jun-13	May-13	
Revenues	-6	12	10	5
Number of E mployees	2	1	-6	-1
Average Wage	7	11	15	11
Expected Demand ²	11	21	14	15
Retail Indicators				
Sales Revenues	-22	1	-3	-8
Number of E mployees	-14	-2	-13	-10
Average Wage	1	4	27	11
Inventories	-12	-22	-16	-17
Big-ticket Sales	-5	-4	-8	-6
Shopper Traffic	-16	6	8	-1
Expected Product Demand ²	-29	11	22	1
Services Firms Indicators				
Revenues	-3	16	13	9
Number of employees	4	1	-6	0
Average wage	9	13	14	12
Expected demand for services ²	17	23	14	18
Current Price Trends³				
Service Sector	1.21	0.99	1.15	
Retail	1.00	0.64	1.27	
Services Firms	1.22	1.09	1.24	
Expected Price Trends^{2,3}				
	Expectations			
	Jul-13	Jun-13	May-13	
Service Sector	1.63	1.48	1.50	
Retail	1.91	1.68	1.26	
Services Firms	1.56	1.48	1.52	

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 119 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.
- ⁵ This table includes recalibration of seasonally adjusted indexes to better reflect current economic trends.