

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Improved as Non-Retail Firms Made Gains; Hiring Remained Soft

Overview

Activity in the broad service sector strengthened in August, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues rebounded at non-retail services firms, outweighing continued softness at retail establishments. Retail sales declined, though by less than a month ago. Big-ticket sales weakened and shopper traffic diminished. Retailers' inventories declined, though more slowly than in July. Expectations for customer demand in the six months ahead improved in the overall service sector.

Employment in the sector remained anemic. The number of employees at retail business fell, while hiring at non-retail services providers grew only slightly. Average wage growth strengthened.

Service sector price growth slowed somewhat in August. For the six months ahead, survey participants expected slower price increases than they anticipated in July.

Overall Service Sector Conditions

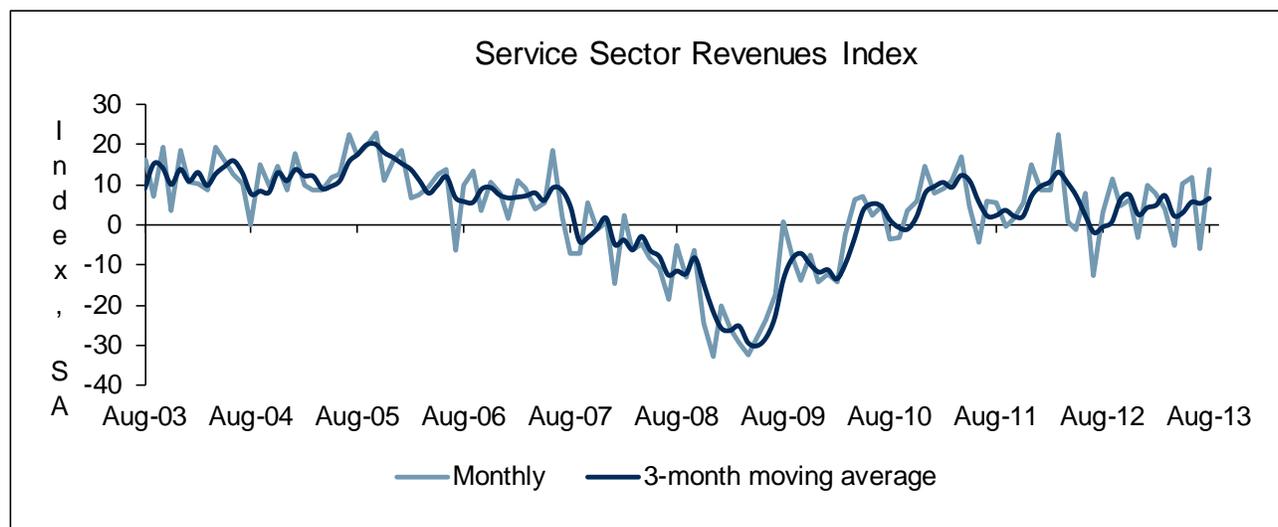
Revenues in the overall service sector rose in August, pushing the index to 14 from July's reading

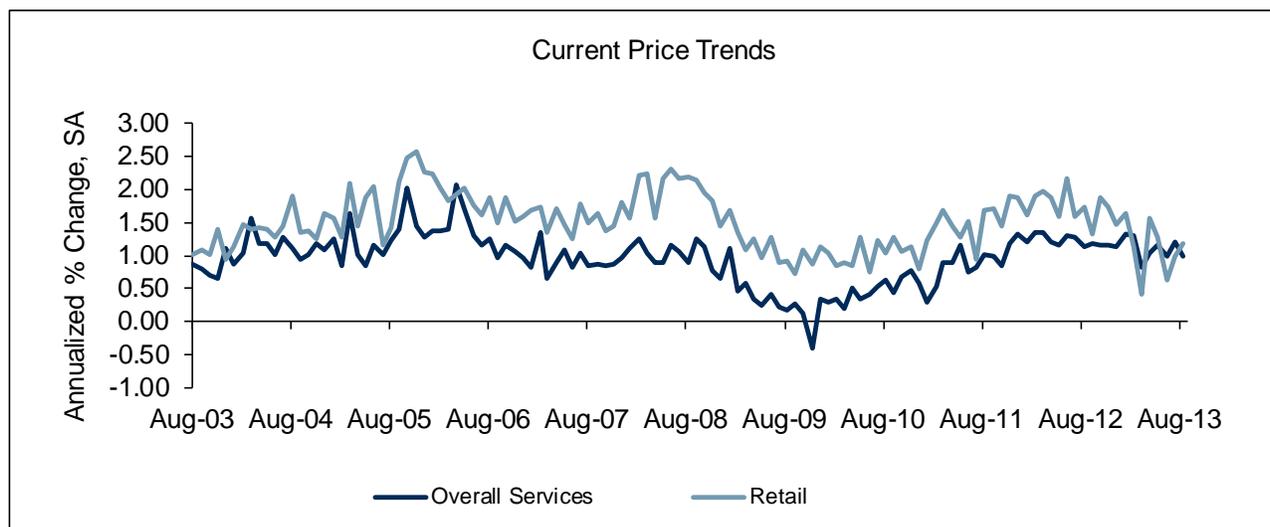
of -6. However, hiring in the sector remained nearly flat, with that index dropping a point to settle at 1. In contrast, average wages picked up to a reading of 13, compared to 7 a month earlier. Survey participants looked for greater customer demand during the next six months; the index tacked on eight points to end the survey period at 19.

Retail

Retail activity generally waned in August. Sales revenues contracted, though by less than a month ago; the index settled at -15, an improvement of seven points over July's reading. Additionally, big-ticket sales weakened, with the index fading to -6 after a posting of -5 in July. Retail inventories dropped by less this month, with that index at -9 compared to -12. Shopper traffic also declined, leaving the index at -17, one point below the month-ago reading. Retail merchants' generally unenthusiastic outlook for demand for their goods in the six months ahead was nonetheless improved from a month ago. The index reversed sixteen points to finish at -13.

Employment declined at retail businesses this month, with the index ending at -10 following the previous





reading of -14. Average retail wages jumped up, however, with that index gaining eleven points to end at a reading of 12.

Services-Providing Firms

Revenues rose sharply at non-retail services firms in August, with the index spiking to 19 from the July reading of -3. Hiring remained tepid, however, with that index shedding a point to settle at 3 this month. Average wages regained strength, drawing the index up to 13 from 9. Moreover, the expectations index rose eight points to a reading of 25.

Prices

Prices in the overall service sector grew at a slower, annualized 1.00 percent rate following July's 1.21 percent rate. Retail prices advanced more quickly in August, increasing at a 1.19 percent rate, compared to last month's 1.00 percent growth. At non-retail service sector firms, prices grew at a 0.97 percent pace after July's annualized 1.22 percent rate.

Looking to the next six months, survey respondents anticipated a 1.46 percent annualized rate of price growth in the overall service sector; in July the outlook was for 1.63 percent. For the retail sub-sector, expectations were for 1.50 percent annualized price growth, following last month's anticipated 1.91 percent pace. At services-providing firms, expectations were for 1.49 percent price

growth, whereas in July, respondents expected a 1.56 percent rate.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Aug-13	Jul-13	Jun-13	
Revenues	14	-6	12	7
Number of Employees	1	2	1	1
Average Wage	13	7	11	10
Expected Demand ²	19	11	21	17
Retail Indicators				
Sales Revenues	-15	-22	1	-12
Number of Employees	-10	-14	-2	-9
Average Wage	12	1	4	6
Inventories	-9	-12	-22	-15
Big-ticket Sales	-6	-5	-4	-5
Shopper Traffic	-17	-16	6	-9
Expected Product Demand ²	-13	-29	11	-10
Services Firms Indicators				
Revenues	19	-3	16	11
Number of employees	3	4	1	3
Average wage	13	9	13	12
Expected demand for services ²	25	17	23	22
Current Price Trends³				
Service Sector	1.00	1.21	0.99	
Retail	1.19	1.00	0.64	
Services Firms	0.97	1.22	1.09	
Expected Price Trends^{2,3}				
	Expectations			
	Aug-13	Jul-13	Jun-13	
Service Sector	1.46	1.63	1.48	
Retail	1.50	1.91	1.68	
Services Firms	1.49	1.56	1.48	

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 118 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.