

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Stable Growth in Service Sector; Retail Activity Strengthened and Outlook Remained Optimistic

Overview

The service sector grew at a moderate pace in September, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues rose at retail businesses, assisted by strength in big-ticket sales. In contrast, shopper traffic remained weak. Inventories were unchanged from a month ago. On the non-retail side, revenue growth remained solid for a second month. Survey participants had an upbeat outlook for business during the next six months.

Service sector employment improved in September, as retailers began hiring on a small scale and non-retail services providers also added modestly to their payrolls.

Prices grew more quickly in September, with retail prices leading the way. Survey participants anticipated continued acceleration during the next six months.

Overall Service Sector Conditions

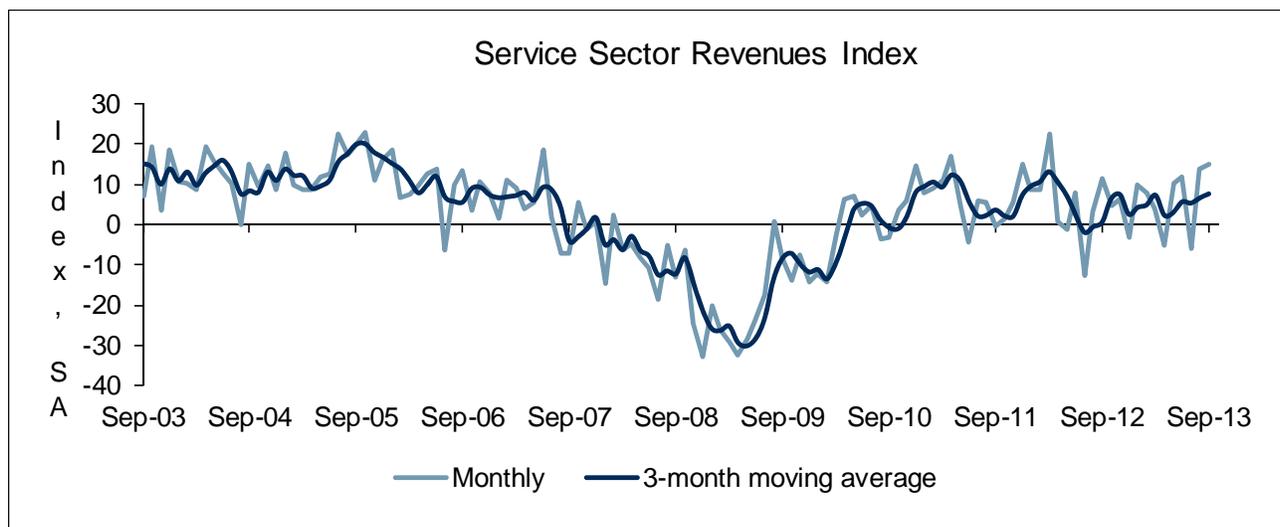
Measured service sector expansion continued in September, moving the overall revenues index to 15 from August's reading of 14. Additionally, the

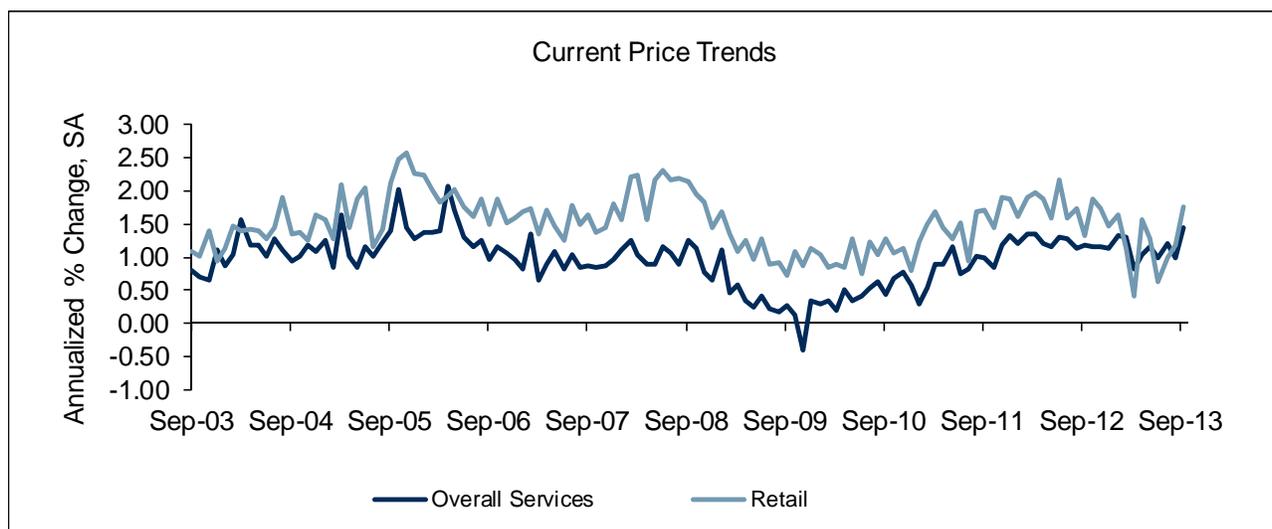
index for the number of employees rose six points to end the survey period at 7. Average wages in the service sector also added six points, bringing that index to a robust reading of 19 this month. Looking ahead, survey respondents expected business opportunities to remain on the rise. The expectations index settled at a reading of 16, three points lower than last month.

Retail

The retail sub-sector made gains in every category in September, with the index for sales revenues reversing direction from a month ago to rise twenty-three points to a reading of 8. Adding to the mend, big-ticket sales posted an eighteen-point rise to an index of 12. Although shopper traffic waned, the retreat was not as great as in August; that index improved by six points to -11. Retail inventories flattened, with the index collecting nine points to end at 0. Looking to the next six months, retailers anticipated improved business conditions. The index for expected demand added sixteen points to finish at 3.

Retail employment also strengthened this month. The index for the number of employees rose to a





reading of 5, compared to last month's -10. Average retail wage increases were more common, bringing the index to 15 from 12.

Services-Providing Firms

Revenues at non-retail firms remained solid in September. The index shed three points, ending the survey period at 16. Services providers increased hiring, pushing the index to 6 from last month's reading of 3. Average wages were also on the rise, bringing that index to 17 in September compared to last month's reading of 13. Services providers were optimistic about business prospects, although somewhat less so than in August. The index moderated eight points to finish at a healthy 17.

Prices

Prices in the overall service sector increased at a faster pace in September. Prices in the broad service sector climbed at an annualized rate of 1.45 percent, compared to August's 1.00 percent rate. Retailers' prices rose at an annualized 1.76 percent clip, following August's 1.19 percent pace. Non-retail services providers' prices also rose more quickly, moving up at a 1.37 percent annualized growth rate. A month ago, non-retail price growth was at 0.97 percent.

For the six months ahead, survey participants projected a 1.69 percent annualized pace of price

growth. Last month, they looked for a 1.46 percent rate of increase. Among retailers, expectations were for 2.23 percent annualized price growth, whereas in August, merchants anticipated a 1.50 percent pace. Non-retail services providers' expectations were for a 1.62 percent climb in prices. A month earlier, a 1.49 percent rate of increase was expected.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month
	Sep-13	Aug-13	Jul-13	Average
Revenues	15	14	-6	8
Number of Employees	7	1	2	3
Average Wage	19	13	7	13
Expected Demand ²	16	19	11	15
Retail Indicators				
Sales Revenues	8	-15	-22	-10
Number of Employees	5	-10	-14	-7
Average Wage	15	12	1	9
Inventories	0	-9	-12	-7
Big-ticket Sales	12	-6	-5	0
Shopper Traffic	-11	-17	-16	-14
Expected Product Demand ²	3	-13	-29	-13
Services Firms Indicators				
Revenues	16	19	-3	11
Number of employees	6	3	4	4
Average wage	17	13	9	13
Expected demand for services ²	17	25	17	20
Current Price Trends³				
Service Sector	1.45	1.00	1.21	
Retail	1.76	1.19	1.00	
Services Firms	1.37	0.97	1.22	
Expected Price Trends^{2,3}				
	Expectations			
	Sep-13	Aug-13	Jul-13	
Service Sector	1.69	1.46	1.63	
Retail	2.23	1.50	1.91	
Services Firms	1.62	1.49	1.56	

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 115 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.