

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Expanded More Slowly; Employment Grew Modestly

Overview

Activity in the broad service sector grew modestly in October, according to the latest survey by the Federal Reserve Bank of Richmond. However, retail revenues declined, even as shopper traffic increased. Big-ticket sales also dropped this month while retail inventories remained flat. At non-retail services firms, revenues rose more slowly than a month ago. Survey participants were restrained in their outlook for business prospects in the six months ahead.

October employment in the service sector rose moderately, and wage growth remained solid, though somewhat less robust than a month ago.

Price growth for the overall service sector was little changed from last month's pace. Looking ahead six months, survey respondents expected quicker price growth.

Overall Service Sector Conditions

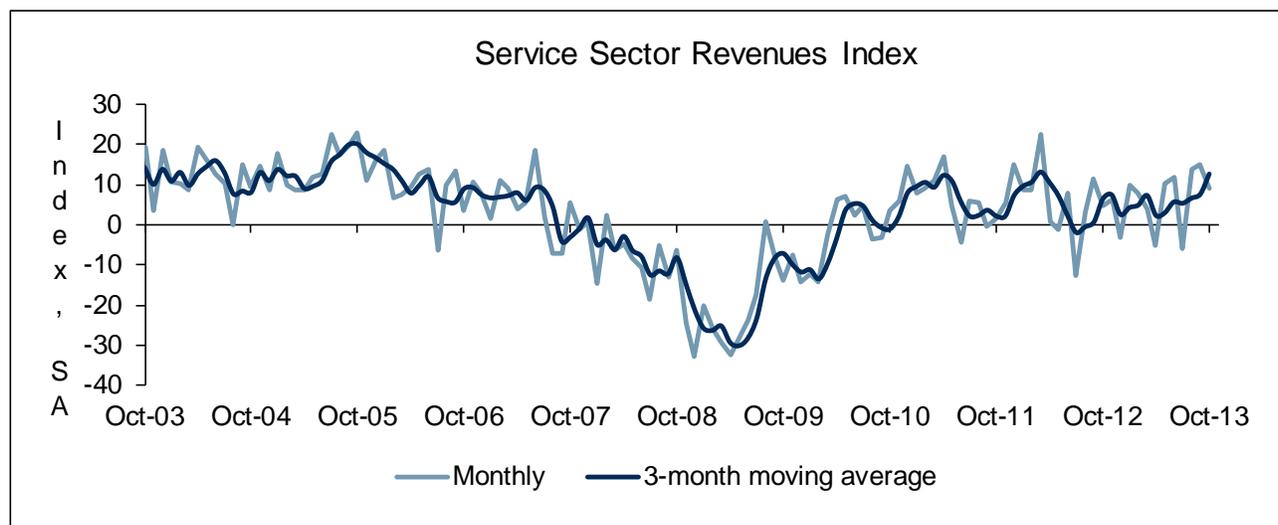
Revenues in the broad service sector slowed to an index of 9 in October, following last month's reading of 15. Employment edged up modestly, with that index rising two points to 9. Average

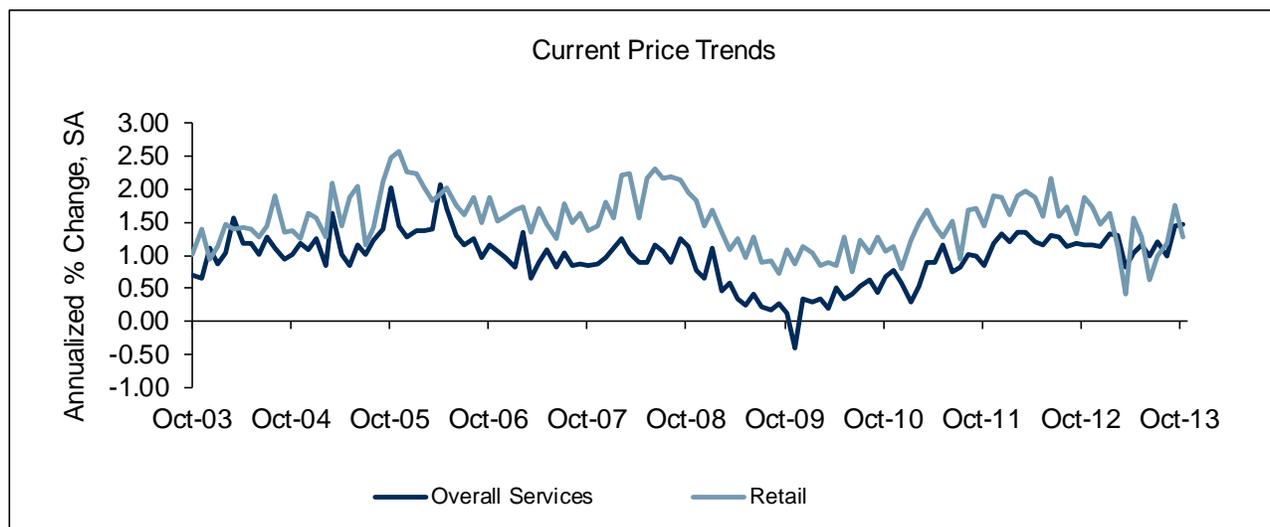
wages increased, albeit more slowly than a month ago, with the index shedding seven points to settle at 12. Compared to a September's outlook, survey participants were less sanguine about future business. The index for expected demand over the next six months cooled to a reading of 4 from September's 16.

Retail

Retail sales dropped in October, despite a pick-up in shopper traffic. The revenues index slipped 13 points to -5. Big-ticket sales dropped, dragging that index to -21 from September's 12. In contrast, shopper traffic rose sharply, pushing the index to 13 from the month-earlier reading of -11. Retail inventories were unchanged, holding the index at last month's reading of 0. Retail merchants retreated from September's mildly optimistic outlook for business. The expectations index drifted down eight points, settling at -5.

Employment in the retail sub-sector continued to grow, with the index at 4, just one point below last month's reading. Average retail wages lost some momentum; the index slowed to a reading of 11 from September's 15.





Services-Providing Firms

Revenues at services-providing firms rose at a more restrained pace than a month ago. The index moderated six points from its September reading, to end the survey period at 10. Hiring picked up slightly at non-retail services firms, bringing the index to 9 from last month's 6. Average wage growth persisted in October, although the index softened somewhat, shedding six points to end at 11. Compared to a month ago, services providers were considerably less enthusiastic about business prospects in the six months ahead, with the outlook index shrinking to 4 from 17.

Prices

Overall service sector prices grew at about the same pace in October as in September, rising at an annualized rate of 1.47 percent, compared to September's 1.45 percent rate. Prices at retail establishments advanced at an annualized 1.28 percent rate, slowing from September's 1.76 percent rise. At non-retail services firms, prices rose at a 1.53 percent annualized pace following a 1.37 percent rate a month ago.

Looking ahead six months, survey participants anticipated 1.74 percent annualized price growth in the service sector, whereas last month they looked for a 1.69 percent rate of increase. Retailers expected a 1.73 percent annualized rise in prices, compared to their September outlook for

2.23 percent price growth. Non-retail services providers expected 1.75 percent price growth, following their outlook last month for a 1.62 percent rate of increase.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month
	Oct-13	Sep-13	Aug-13	Average
Revenues	9	15	14	13
Number of Employees	9	7	1	6
Average Wage	12	19	13	15
Expected Demand ²	4	16	19	13
Retail Indicators				
Sales Revenues	-5	8	-15	-4
Number of Employees	4	5	-10	0
Average Wage	11	15	12	13
Inventories	0	0	-9	-3
Big-ticket Sales	-21	12	-6	-5
Shopper Traffic	13	-11	-17	-5
Expected Product Demand ²	-5	3	-13	-5
Services Firms Indicators				
Revenues	10	16	19	15
Number of employees	9	6	3	6
Average wage	11	17	13	14
Expected demand for services ²	4	17	25	15
Current Price Trends³				
Service Sector	1.47	1.45	1.00	
Retail	1.28	1.76	1.19	
Services Firms	1.53	1.37	0.97	
Expected Price Trends^{2,3}				
	Expectations			
	Oct-13	Sep-13	Aug-13	
Service Sector	1.74	1.69	1.46	
Retail	1.73	2.23	1.50	
Services Firms	1.75	1.62	1.49	

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 141 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.