

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Softened; Retail Sales Retreated, Non-Retail Revenues Remained Flat

Overview

Service sector activity softened in December, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales pulled back from last month's solid growth, and shopper traffic dwindled. Big-ticket sales remained strong, although below a month ago. Retail inventories edged up mildly. At non-retail services firms, revenues were little changed. Looking ahead to the first half of next year, survey participants expected minimal change in demand for goods and services.

Employment in the broad service sector was virtually unchanged in December, while average wage growth lost momentum.

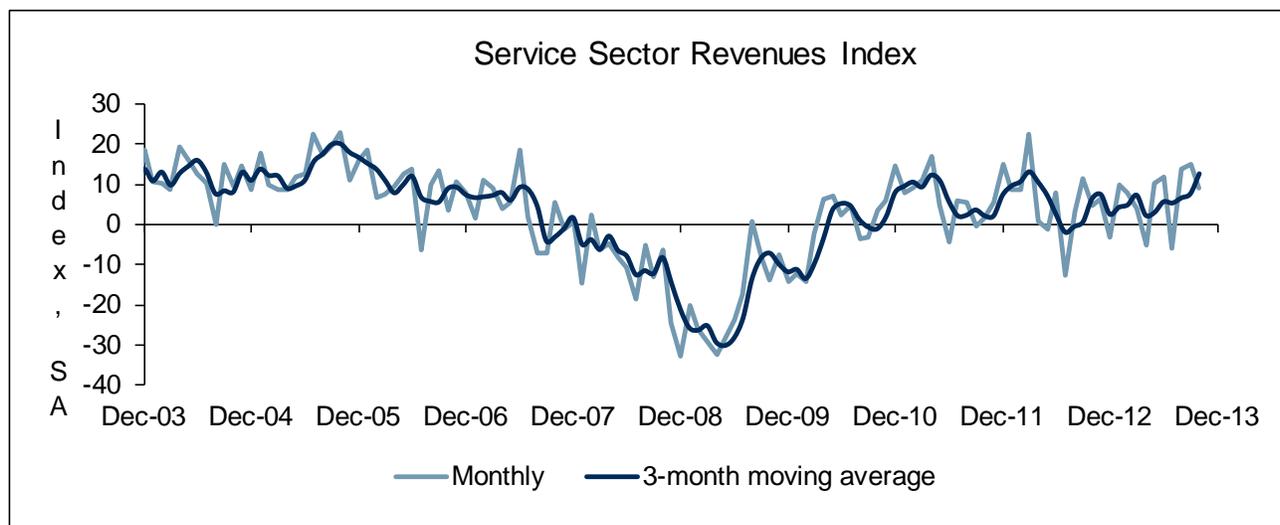
Prices rose at a moderate pace in the overall service sector, with retail prices growing more quickly than prices at other services firms. Compared to the current month, retailers expected accelerated price growth during the next six months; non-retail services providers anticipated prices would continue to advance about on pace with this month's growth.

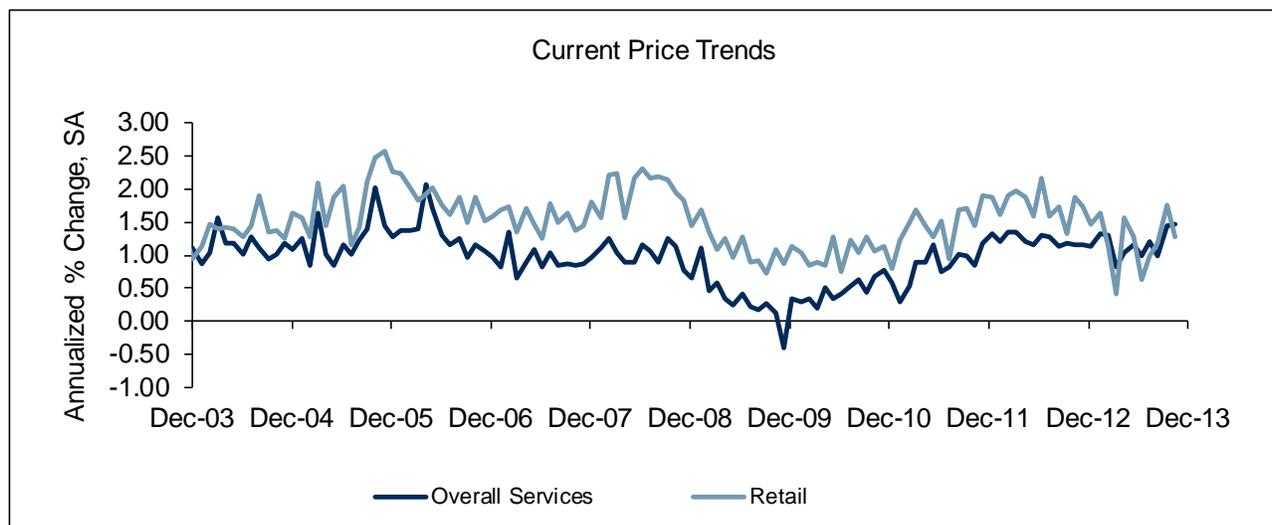
Overall Service Sector Conditions

Service sector revenues softened this month, moving the index down 12 points from the November reading to -4. Employment flattened, with the index at 1 in December. A month ago, that index had reached 20. Average wage growth sputtered, with the index falling to -3 from 8. Survey participants expected more of the same in the next six months. The index for expected demand for goods and services faded to 1 from the previous reading of 13.

Retail

Retail sales fell in December, with the index skidding to -15 from November's 33. At an index of 21, big-ticket sales were solid, although not as robust as a month ago when the indicator stood at 31. Additionally, shopper traffic subsided, with that gauge dropping to -6 from last month's reading of 26. Inventories built up at a much slower pace in December. The index shed 13 points, settling at 7. Retail merchants expected little change over the next six months, keeping the expectations index at 4 for a second month.





The number of employees at retail establishments remained generally constant this month, with the index settling at 1 from November’s 25. Average retail wages also braked, pulling the index to 4 from the previous reading of 29.

Services-Providing Firms

Non-retail services providers’ revenues were little changed in December. The index remained at 1, repeating last month’s reading. Hiring in this subsector slowed, pruning the index to 5 from 18. Further, average wages dipped, pulling that indicator to -2 after posting a reading of 3 in November. Looking ahead, survey participants were less confident about demand for their services during the next six months. The outlook index settled at a modest 5, compared to November’s 17.

Prices

Service sector prices grew moderately faster in December, rising at an annualized 1.37 percent pace, compared to last month’s 1.05 percent rate. At retail establishments, the pace of price growth accelerated to a 1.52 percent annualized rate, following November’s 1.09 percent pace for the subsector. At services providing firms, the rate of price change also stepped up, to an annualized 1.27 percent growth rate. A month ago, that subsector’s prices advanced at a 1.02 percent pace.

Survey participants anticipated price growth of 1.44 percent in the first half of next year, somewhat below their outlook of a month ago and only slightly above the current month’s pace. In November, expectations were for a 1.65 percent rate of increase over six months. Separately, retailers expected annualized price growth of 2.59 percent in the next six months, while non-retail services providers looked for prices to increase at a 1.29 percent annualized rate over that time frame. A month ago, those expectations were 2.42 percent and 1.55 percent, respectively.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month
	Dec-13	Nov-13	Oct-13	Average
Revenues	-4	8	9	4
Number of Employees	1	20	9	10
Average Wage	-3	8	12	6
Expected Demand ²	1	13	4	6
Retail Indicators				
Sales Revenues	-15	33	-5	4
Number of Employees	1	25	4	10
Average Wage	4	29	11	15
Inventories	7	20	0	9
Big-ticket Sales	21	31	-21	10
Shopper Traffic	-6	26	13	11
Expected Product Demand ²	4	4	-5	1
Services Firms Indicators				
Revenues	1	1	10	4
Number of employees	5	18	9	11
Average wage	-2	3	11	4
Expected demand for services ²	5	17	4	9
Current Price Trends³				
Service Sector	1.37	1.05	1.47	
Retail	1.52	1.09	1.28	
Services Firms	1.27	1.02	1.53	
Expected Price Trends^{2,3}				
	Dec-13	Nov-13	Oct-13	
Service Sector	1.44	1.65	1.74	
Retail	2.59	2.42	1.73	
Services Firms	1.29	1.55	1.75	

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 85 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.