

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Mixed; Retail Activity Strengthened; Non-Retail Subsector Little Changed

Overview

Fifth District service sector activity remained flat overall, according to the latest survey by the Federal Reserve Bank of Richmond. Within the sector, retail sales rose sharply even as big-ticket sales fell during January. Shopper traffic increased briskly compared to last month's lackluster activity. Inventories crept up. At non-retail services firms, revenues remained flat for a third month. Survey participants expected somewhat better business prospects during the next six months.

Employment at Fifth District businesses increased mildly at retail establishments while declining at non-retail firms. Average wage growth picked up modestly.

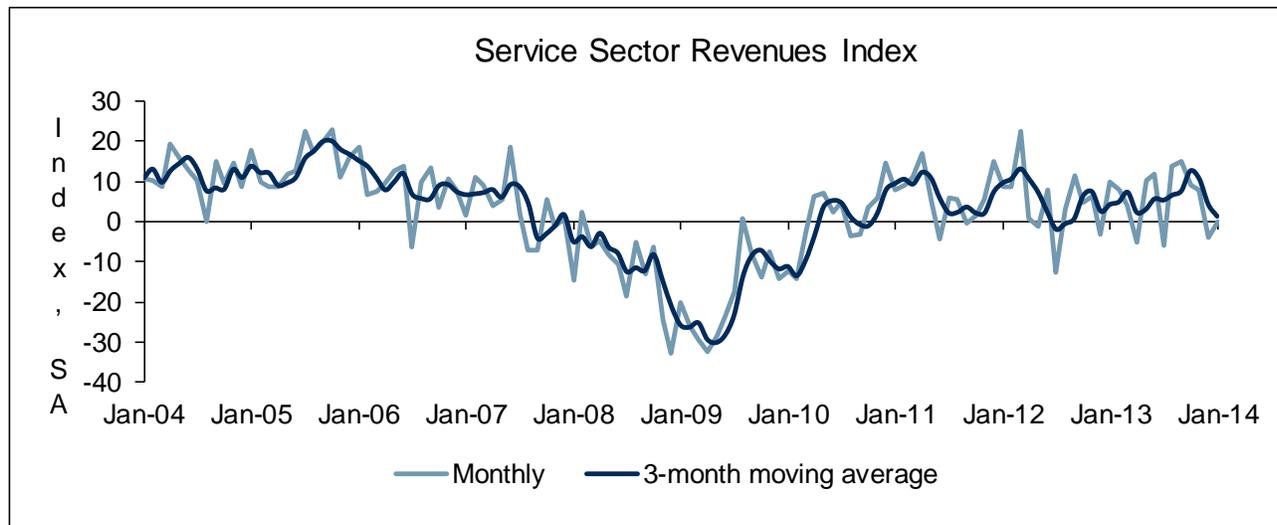
Service sector price growth slowed during January, with the pace of increase in both the retail and non-retail subsectors moderating. While survey participants expected prices to move up somewhat more quickly in the next six months, the outlook was below last month's price growth expectations.

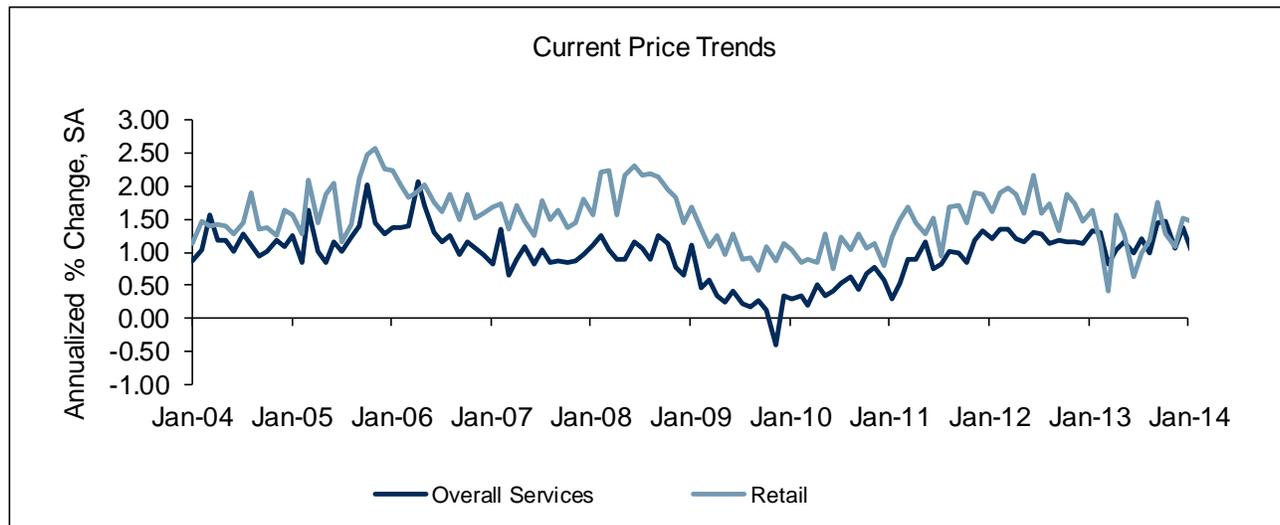
Overall Service Sector Conditions

Revenues flattened in the overall service sector in January, bringing the index to 0 from last month's reading of 4. Employment was little changed from December's reading, with that index slipping to -2 from 1. Average wage growth strengthened, however, moving the index to 8 from last month's reading of -3. Survey participants anticipated a mild improvement over the next six months. The expectations index added five points to the December reading, ending the survey period at 6.

Retail

Retail sales bounced back in January, driving the index up 33 points to 18. The volatile big-ticket gauge dropped to -3 in January from last month's reading of 21. In contrast, shopper traffic jumped to 20 this month, following December's index of -6. Inventories built up slightly faster in January, with that index gaining three points to end at 10. Retailers were more optimistic about future business this month; the expectations index climbed to a reading of 17, compared to 4 a month earlier.





Retail hiring edged up in January, bringing that index to 7, six points above December’s gauge. Average wage growth matched that of a month earlier, holding the index at a reading of 4.

Services-Providing Firms

Revenues at non-retail services firms remained nearly flat; the index remained at a reading of 1 for a third month. Services providers reduced their number of employees, pulling the index to -4 from last month’s reading of 5. Average wage growth picked up, with that index climbing to 8 from the previous reading of -2. Survey participants continued to be cautiously optimistic about demand for their services during the next six months. The index for expectations remained at a reading of 5 for a second month.

Prices

Service sector prices rose more slowly in January, increasing at an annualized 1.03 percent pace, whereas in December price growth was at 1.37 percent. Retail price growth moderated to an annualized 1.47 percent rate of increase, compared to last month’s 1.52 percent rate. At non-retail services firms, prices also rose more slowly, at an annualized 0.87 percent rate after rising at a 1.27 percent pace in the previous month.

Looking ahead six months, survey participants expected prices to grow at a 1.20 percent annualized rate, compared to last month’s expectations for a 1.44 percent rate of rise. In the retail subsector, merchants looked for annualized price growth of 2.18 percent and non-retail services firms expected 1.02 percent annualized growth during the next six months. In December, expectations were for price growth at 2.59 percent and 1.29 percent, respectively.

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

Business Activity Indexes^{1,4}

Service Sector Indicators	Current Conditions			3-Month Average
	Jan-14	Dec-13	Nov-13	
Revenues	0	-4	8	1
Number of Employees	-2	1	20	6
Average Wage	8	-3	8	4
Expected Demand ²	6	1	13	7
Retail Indicators				
Sales Revenues	18	-15	33	12
Number of Employees	7	1	25	11
Average Wage	4	4	29	12
Inventories	10	7	20	12
Big-ticket Sales	-3	21	31	16
Shopper Traffic	20	-6	26	13
Expected Product Demand ²	17	4	4	8
Services Firms Indicators				
Revenues	1	1	1	1
Number of employees	-4	5	18	6
Average wage	8	-2	3	3
Expected demand for services ²	5	5	17	9
Current Price Trends ³				
Service Sector	1.03	1.37	1.05	
Retail	1.47	1.52	1.09	
Services Firms	0.87	1.27	1.02	
Expected Price Trends ^{2,3}				
	Expectations			
	Jan-14	Dec-13	Nov-13	
Service Sector	1.20	1.44	1.65	
Retail	2.18	2.59	2.42	
Services Firms	1.02	1.29	1.55	

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 116 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.