

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Edged Up; Employment Softened

Overview

Activity in the broad service sector grew modestly in March, according to the latest survey by the Federal Reserve Bank of Richmond. Retail revenues rose, although big-ticket sales were flat this month. In contrast, shopper traffic was robust. Inventories declined slightly. Non-retail services firms reported generally flat revenues this month. Survey participants were restrained in their outlook for business prospects in the six months ahead.

March employment in the service sector contracted mildly. Wage growth was modest.

Price growth for the overall service sector inched up from last month's pace, with faster growth in non-retail services prices and a pull-back in the pace of retail price growth. Looking ahead six months, survey respondents expected an uptick in overall price growth similar to their outlook of last month.

Overall Service Sector Conditions

Revenues in the broad service sector grew modestly in March, bringing the index to 5 from last month's reading of 0. Employment in the service sector fell, with that index at -4 compared

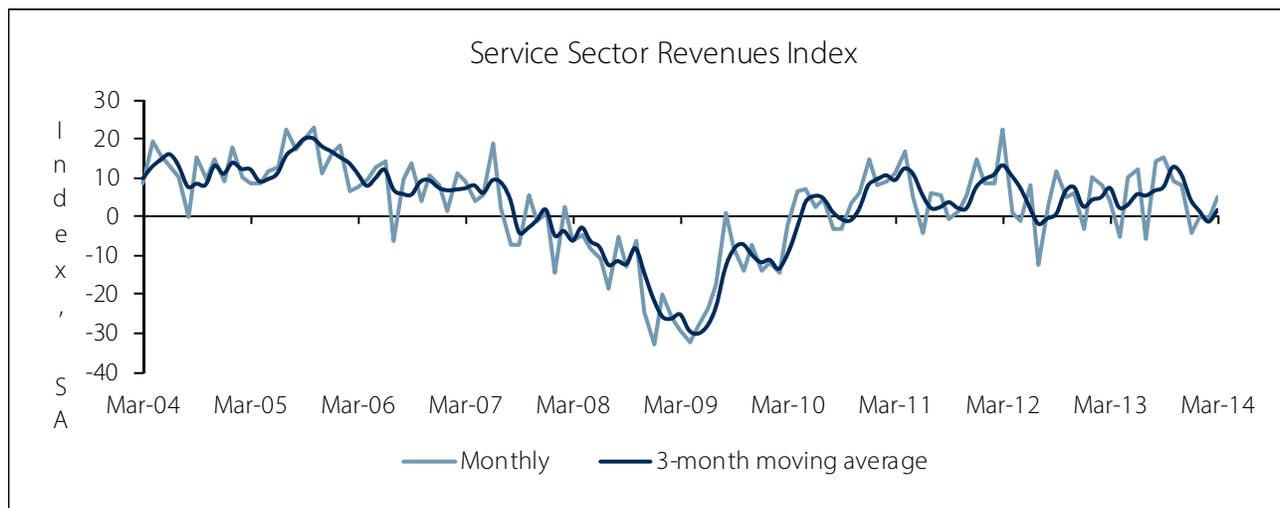
to February's reading of 7. Average wage growth slowed, softening the index to 4 from 7.

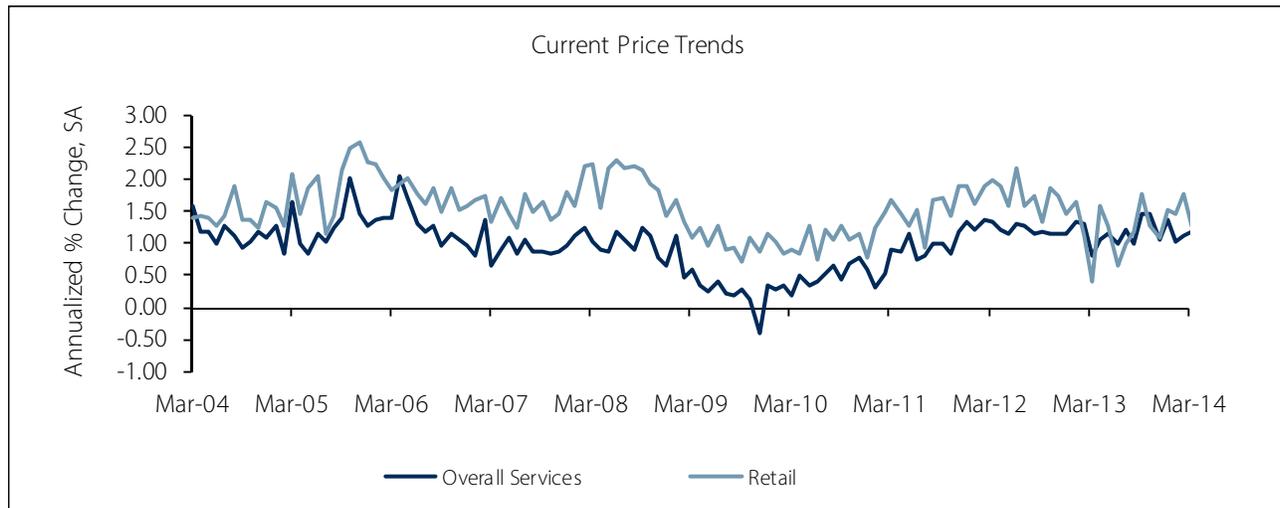
Expectations for business opportunities in the six months ahead were somewhat higher, however, with that index tacking on four points to end at 9.

Retail

Retail sales grew at a slightly slower pace in March; the index slipped to 10 from last month's reading of 15. Shopper traffic remained strong, at an index of 21 following the previous index of 24, while big-ticket sales flattened. The index settled at 1, compared to the February reading of -11.

Auto dealers attributed low sales to several winter storms, and they expected an increase with spring weather. Retail inventories were drawn down, although by much less than a month earlier. An executive at a chain grocery commented the weather helped sales, but icy conditions delayed deliveries from suppliers. The index finished the survey period at -9 compared to the month-ago reading of -49. Retail merchants expected a weaker business environment during the next six months than they had expected a month ago. The indicator for expected product demand edged down to -2 from 12.





Employment in the retail sub-sector remained weak, with the index at -3, just five points above last month's reading. Average retail wages grew nearly on pace with a month earlier, with that gauge losing one point to settle at 3.

Services-Providing Firms

Revenues at services-providing firms were virtually flat following last month's modest retreat. The index ended at 1, compared to February's reading of -3, and several survey participants attributed their weak revenue growth to winter storms. An executive at a telecommunications company commented that snow reduced business both for his clients and for his firm. Hiring tapered off, bringing that index to -2 from 10. Average wage growth also softened, with the index moderating to 4 after last month's reading of 9. Compared to a month ago, services providers were slightly more enthusiastic about business prospects in the six months ahead, with the outlook index gaining five points to end at 9.

Prices

Overall service sector prices grew slightly faster in March, rising at an annualized rate of 1.19 percent, compared to February's 1.11 percent rate. Prices at retail establishments advanced at an annualized 1.27 percent rate, slower than the previous month's 1.77 percent rise. At non-retail services firms, prices rose at a 1.23 percent annualized pace following a 0.98 percent rate a month ago.

Looking ahead six months, survey participants anticipated 1.54 percent annualized price growth in the service sector, whereas last month they looked for a 1.50 percent rate of increase. Retailers expected a 1.23 percent annualized growth rate in prices, well below their previous outlook for a 2.27 percent annualized pace. Non-retail services providers expected 1.60 percent price growth, compared to last month's expectation for a 1.39 percent pace.

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Business Activity Indexes ^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Mar-14	Feb-14	Jan-14	
Revenues	5	0	0	2
Number of Employees	-4	7	-2	0
Average Wage	4	7	8	7
Expected Demand ²	9	5	6	7
Retail Indicators				
Sales Revenues	10	15	18	14
Number of Employees	-3	-8	7	-1
Average Wage	3	4	4	4
Inventories	-9	-49	10	-16
Big-ticket Sales	1	-11	-3	-4
Shopper Traffic	21	24	20	22
Expected Product Demand ²	-2	12	17	9
Services Firms Indicators				
Revenues	1	-3	1	0
Number of employees	-2	10	-4	1
Average wage	4	9	8	7
Expected demand for services ²	9	4	5	6
Current Price Trends ³				
Service Sector	1.19	1.11	1.03	
Retail	1.27	1.77	1.47	
Services Firms	1.23	0.98	0.87	
Expected Price Trends ^{2,3}				
	Expectations			
	Mar-14	Feb-14	Jan-14	
Service Sector	1.54	1.50	1.20	
Retail	1.23	2.27	2.18	
Services Firms	1.60	1.39	1.02	

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 103 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.