

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Revenues Weakened; Employment and Wages Rose

Overview

Service sector activity varied in April, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales declined compared to a month earlier, particularly big-ticket sales, and shopper traffic dropped sharply. Inventories in the retail sector flattened. Revenues also weakened at non-retail services firms. Looking to the next six months, however, survey participants were optimistic about business conditions.

Despite weaker revenues, businesses in the service sector increased hiring and wage increases were more prevalent. Retail employment and wages jumped up compared to March indicators. Although non-retail hiring was virtually flat, wages grew more quickly.

The pace of price growth in the overall service sector was little changed from a month ago. Within the sector, however, the pace of retail price increases picked up, and at other services firms, the rate of price growth slowed slightly compared to the previous month. For the six months ahead, expectations were for slower price increases in the

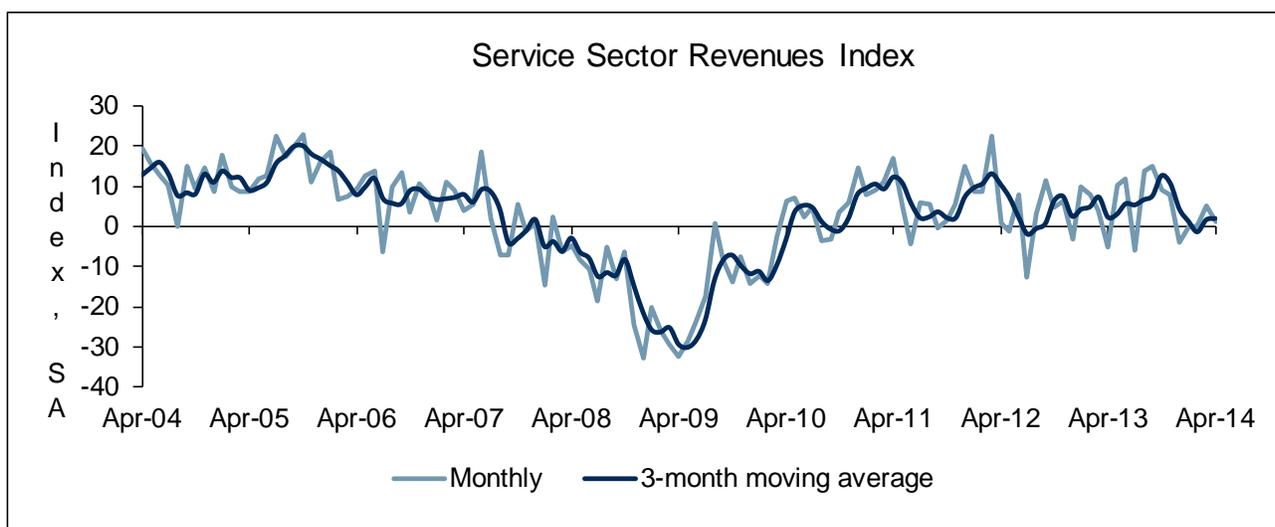
broad service sector than survey participants anticipated in March. Retailers looked for quicker growth than expected a month ago, while other services providers expected slower price growth.

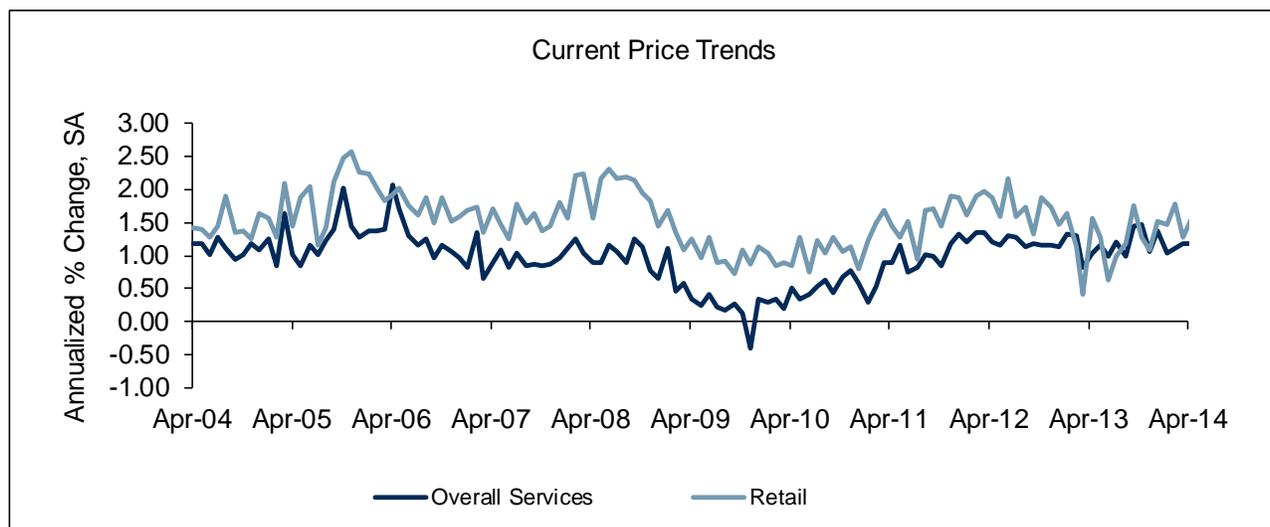
Overall Service Sector Conditions

Service sector revenues stalled, with the index slipping to 1 from last month's reading of 5. Employment increased, however, with the index for the number of employees climbing 10 points to 6. Further, the average wage index added 10 points, to finish the survey period at 14. Survey participants were somewhat more optimistic about future business this month, with the gauge for expected demand edging up two points to 11.

Retail

Retail sales fell in April, as shopper traffic and big-ticket sales plummeted. The index for sales revenues lost 15 points, ending at -5, and the big-ticket gauge dropped 25 points to -24. The indicator for shopper traffic fell to -28 from the March reading of 21. Retail inventories were little changed this month, at an index of -1 compared to last month's index of -9. Merchants were





somewhat more positive about their outlook for business during the next six months than they were in March. The expectations index moved up five points to 3.

Retailers added employees in April, pushing the index for the number of employees to 20 from the March reading of -3. Average retail wages also grew more quickly this month, with that indicator adding 32 points to finish at 35.

Services-Providing Firms

Revenues at services-providing firms declined slightly in April, pulling the index to -3 from the previous reading of 1. Hiring by non-retail services firms flattened, restraining the index at 1, just three points above the March index. Average wages gained momentum, however, with the index rising six points to 10. Services providers' expectations for the six months ahead were for a somewhat improved business environment; the index for expected demand for services rose to 11 from 9.

Prices

Service sector price growth closely tracked last month's pace, at an annualized 1.18 percent; in March, prices rose at a 1.19 percent rate. Within the sector, the pace of price growth varied. At retail businesses, prices increased more quickly than a month earlier, moving up at an annualized

1.53 percent rate, compared to last month's rate of 1.27 percent. At other services providing firms, prices rose at a 1.12 percent annualized pace compared to 1.23 percent in March.

Survey participants expected 1.44 percent annualized price growth during the next six months in the broad service sector. A month ago, they anticipated a 1.54 percent rate. Separately, retail merchants looked for a 1.33 percent annualized rate in the next six months, compared to their previous expectation for a 1.23 percent annualized rate of increase. Non-retail services providers predicted a 1.46 percent rate; in March, they looked for 1.60 percent price growth.

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Business Activity Indexes ^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Apr-14	Mar-14	Feb-14	
Revenues	1	5	0	2
Number of Employees	6	-4	7	3
Average Wage	14	4	7	9
Expected Demand ²	11	9	5	9
Retail Indicators				
Sales Revenues	-5	10	15	7
Number of Employees	20	-3	-8	3
Average Wage	35	3	4	14
Inventories	-1	-9	-49	-20
Big-ticket Sales	-24	1	-11	-11
Shopper Traffic	-28	21	24	6
Expected Product Demand ²	3	-2	12	4
Services Firms Indicators				
Revenues	-3	1	-3	-1
Number of employees	1	-2	10	3
Average wage	10	4	9	8
Expected demand for services ²	11	9	4	8
Current Price Trends ³				
Service Sector	1.18	1.19	1.11	
Retail	1.53	1.27	1.77	
Services Firms	1.12	1.23	0.98	
Expected Price Trends ^{2,3}				
Expectations				
	Apr-14	Mar-14	Feb-14	
Service Sector	1.44	1.54	1.50	
Retail	1.33	1.23	2.27	
Services Firms	1.46	1.60	1.39	

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 119 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.