

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Strengthened and Expectations Improved; Retail Activity Intensified

Overview

Service sector activity strengthened in May, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales rose sharply, as shopper traffic increased and big-ticket sales surged. Retail inventories also increased. Non-retail services firms' revenues rose modestly. Survey participants were upbeat about business prospects during the next six months.

Businesses added employees at a somewhat slower pace than a month ago, while wage growth ticked higher. Separately, retail hiring remained strong, albeit below a month earlier, and non-retail services employment edged up mildly.

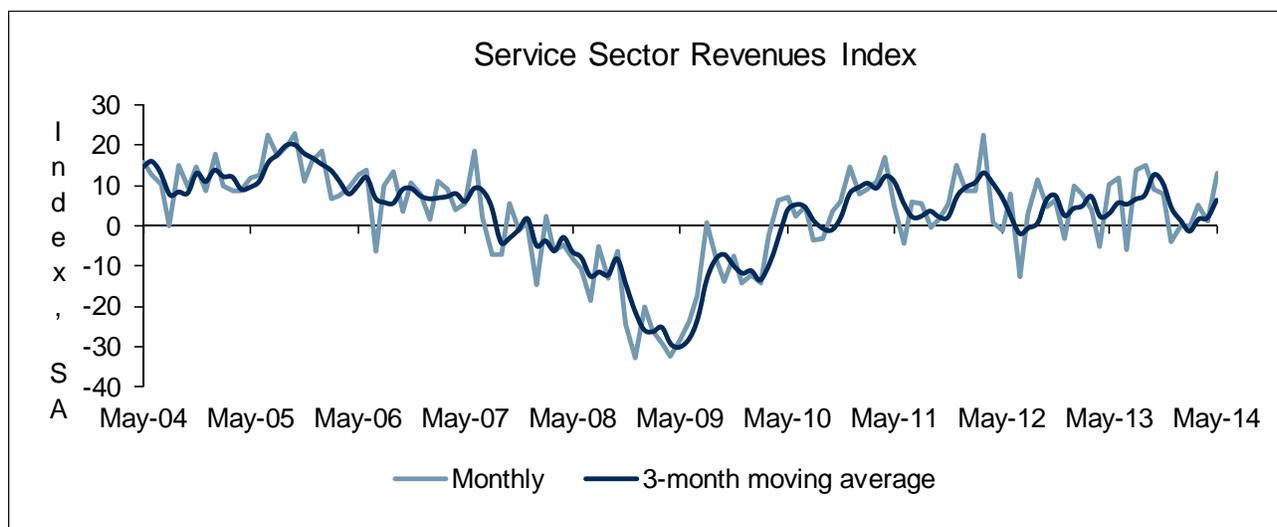
Price increases in the broad service sector were slightly faster in May compared to April. Retail price growth slowed, while non-retail services firms' prices rose at a quicker pace. Looking ahead six months, survey participants' expectations nearly matched their outlook of a month ago.

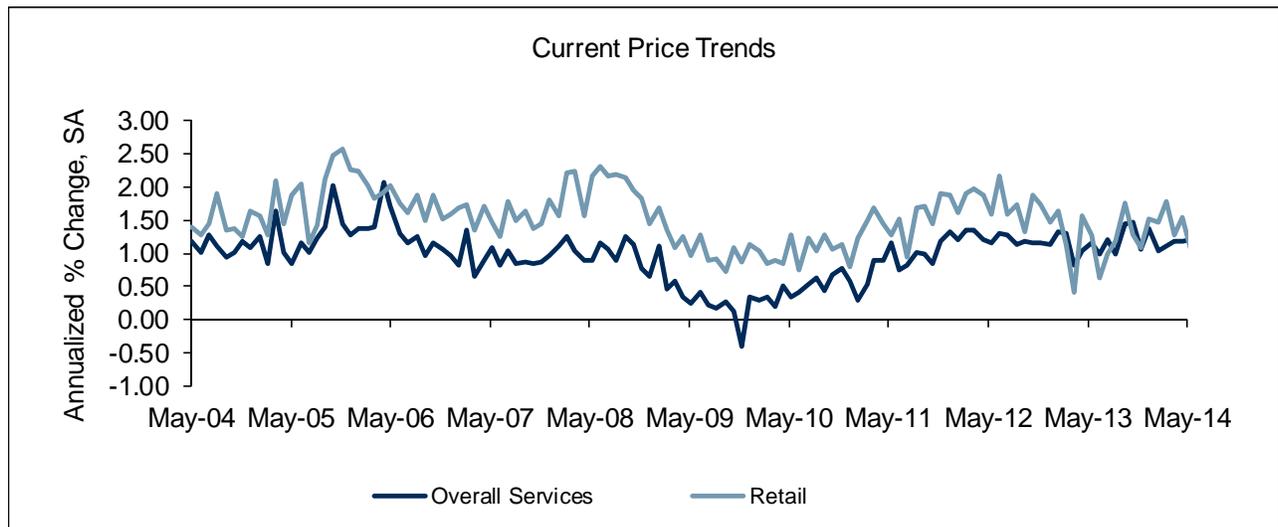
Overall Service Sector Conditions

Service sector revenues bounced up in May from a nearly flat reading a month earlier. The index gained 12 points to finish the survey period at 13. Employment grew, although at a slower pace. The indicator softened to 4 from April's reading of 6. Wage increases predominated, with that index picking up two points to end at 16. Survey participants anticipated improved business conditions during the next six months. The expectations index moved up to 13 in May from 11.

Retail

Retail sales jumped up in May, as big-ticket sales spiked and shopper traffic returned. The index for sales revenues climbed to 53 from last month's reading of -5, while the big-ticket index gained 49 points to finish the survey period at 25. The shopper traffic indicator vaulted to 26 from -28. Retailers' inventories grew, with that index finishing at 35 compared to the April reading of -1. Merchants expected better markets for their products in the next six months. The index for expected demand rose to 20 from 3.





Retail employment increased at a slower pace in May compared to a month ago. The gauge for the number of employees cooled to 10 from last month's reading of 20. Average retail wage growth also moderated, restraining the index to 19 after the April reading of 35.

expected a 1.33 percent annualized rate in in the next six months, matching their previous outlook. Non-retail services providers anticipated 1.47 percent growth in prices in the months ahead, compared with their outlook last month for 1.46 percent growth in prices.

Services-Providing Firms

Revenues at non-retail services firms improved in May, with the index climbing 10 points to 7. Hiring by services providers was tepid; the index inched up two points to 3. In contrast, average wage increases were prevalent. The average wage index moved up six points to 16. Looking ahead six months, services providers anticipated firm demand for their services. The expectations index rose to 13 from 11.

Prices

Prices in the broad service sector rose mildly faster, at an annualized 1.21 percent rate, compared to last month's 1.18 percent pace. At retail establishments, the pace of price growth slowed to 1.08 percent following a rate of 1.53 percent in April. Non-retail services firms' prices grew at a 1.33 percent clip, somewhat above the month-ago rate of 1.12 percent.

Survey participants expected 1.47 percent annualized price growth for the six months ahead, little changed from their outlook in April for 1.44 percent price growth. Separately, retailers

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Business Activity Indexes ^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	May-14	Apr-14	Mar-14	
Revenues	13	1	5	6
Number of Employees	4	6	-4	2
Average Wage	16	14	4	11
Expected Demand ²	13	11	9	11
Retail Indicators				
Sales Revenues	53	-5	10	19
Number of Employees	10	20	-3	9
Average Wage	19	35	3	19
Inventories	35	-1	-9	8
Big-ticket Sales	25	-24	1	1
Shopper Traffic	26	-28	21	6
Expected Product Demand ²	20	3	-2	7
Services Firms Indicators				
Revenues	7	-3	1	2
Number of employees	3	1	-2	1
Average wage	16	10	4	10
Expected demand for services ²	13	11	9	11
Current Price Trends ³				
Service Sector	1.21	1.18	1.19	
Retail	1.08	1.53	1.27	
Services Firms	1.33	1.12	1.23	
Expected Price Trends ^{2,3}				
	Expectations			
	May-14	Apr-14	Mar-14	
Service Sector	1.47	1.44	1.54	
Retail	1.33	1.33	1.23	
Services Firms	1.47	1.46	1.60	

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 117 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.