

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Improved; Non-Retail Revenues and Retail Sales Rose; Optimistic Outlook

Overview

Activity in the Fifth District service sector improved in July, according to the latest survey by the Federal Reserve Bank of Richmond.* Retail sales jumped up and shopper traffic rose. Big-ticket sales flattened, however. Retail inventories built up more quickly than a month ago. At non-retail services firms, revenues also grew at a faster pace than in June. Looking ahead six months, survey participants were more upbeat about business prospects than they have been in the last two years.

Employment in the service sector rose moderately while average wages increased quickly, pushed by strength in wage growth at non-retail services providers.

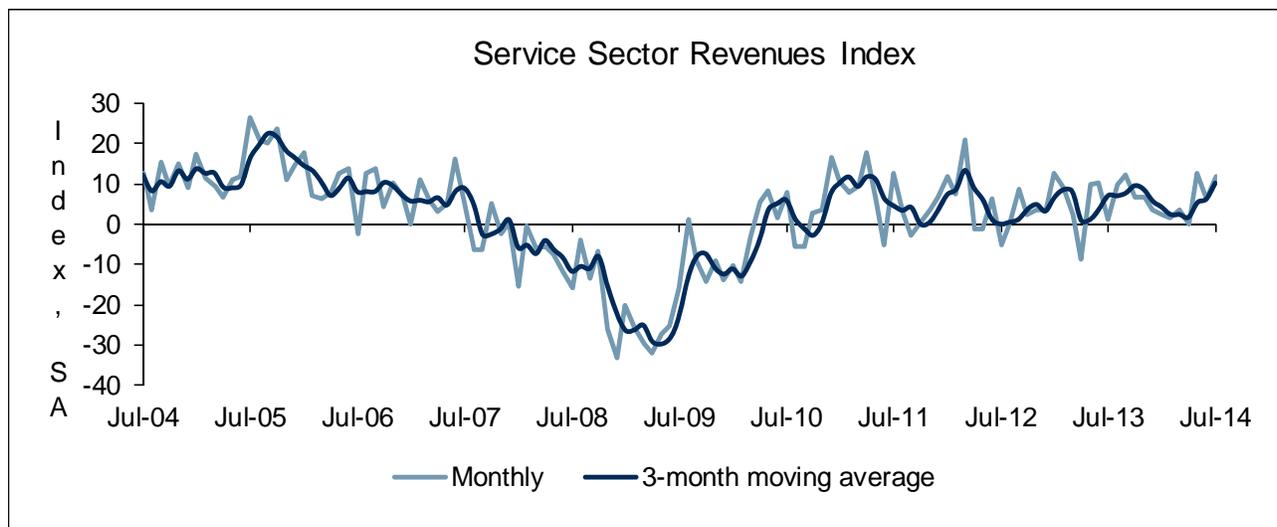
Prices in the overall service sector rose at a somewhat slower annualized rate than a month ago. Within subsectors, retail price increases accelerated, while non-retail price changes moderated. Survey participants expected price growth to intensify during the next six months.

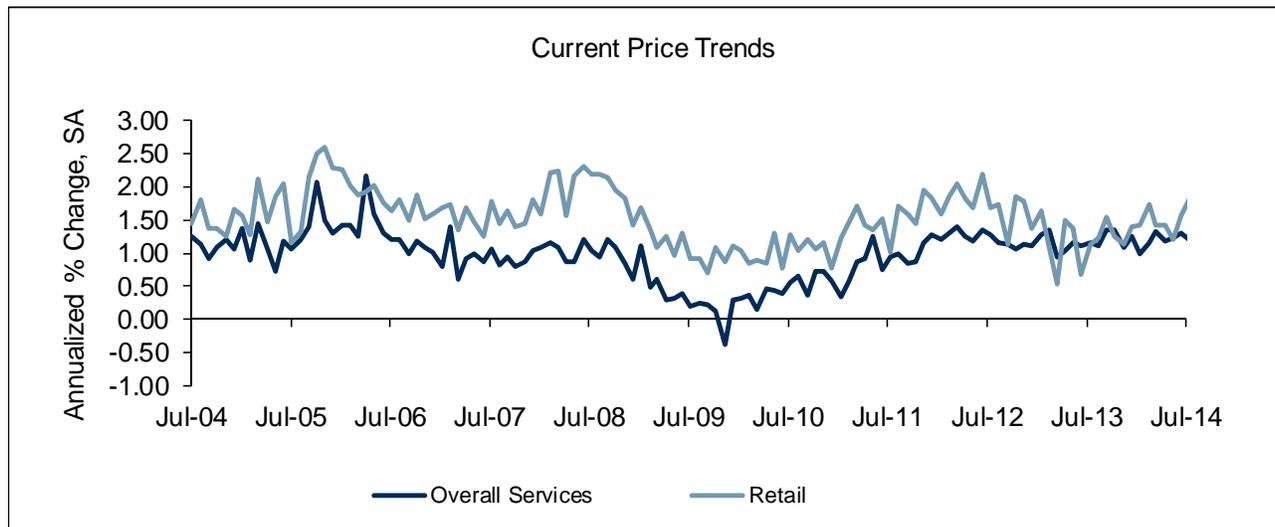
Overall Service Sector Conditions

Service sector revenues strengthened across the board in July. The previous month's index doubled, reaching a reading of 12. Hiring grew nearly on pace with last month; that gauge edged up a point to 9. Average wages rose robustly, with the index climbing to 20 from 14. Going forward, survey-takers expected stronger business conditions. The indicator for expected demand for goods and services added 14 points to end at 24.

Retail

Retailers saw an improvement in business activity in July. Sales expanded, driving the index up 18 points to a reading of 15. Big-ticket sales flattened, with the index settling five points lower at 0. In contrast, shopper traffic rose sharply. The indicator added 24 points, finishing at 35. Retailers' inventories grew more quickly, pushing the index to 16 from the previous reading of 1. Merchants anticipated strong sales in the six months ahead; the expectations index gained 20 points, ending the survey period at 21.





Retail employment grew moderately in July; the index rose to 9 from the June reading of 5. Average retail wage growth remained tepid this month, with that index slipping one point to a reading of 6.

Services-Providing Firms

The non-retail subsector also strengthened in July, with the revenues index moving four points above the reading of a month ago to 12. Hiring growth remained on pace with last month, holding that gauge at a reading of 9. Average wages rose briskly, with the index climbing to 22 from 15 this month. Further, services providers looked for good business prospects during the next six months, fortifying the expectations index by 13 points to end at a reading of 24.

Prices

Service sector price growth slowed in July, rising at an annualized 1.20 percent rate, following June's 1.29 percent growth. Within subsectors, retail prices rose more rapidly than a month ago, moving ahead at a 1.81 percent annualized pace, compared with June's 1.57 percent rate. Other services firms' annualized price growth slowed to a 1.11 percent rate from June's 1.25 percent pace.

Survey participants expected prices to rise at a 1.86 percent annualized rate in the six months ahead, compared to June's outlook for 1.58

percent growth. Retail merchants looked for annualized price increases of 2.33 percent, compared to their June expectation for a 2.13 percent rate of rise. Other services providers anticipated annualized price growth of 1.79 percent in the coming months; in June, they looked for prices to increase at a 1.50 percent pace.

**Seasonal adjustment factors have been recalculated to better reflect current economic trends, and methodological changes have been made to the way the overall service sector indexes are calculated. The overall indexes are now a weighted average of the seasonally adjusted retail and non-retail indexes. In this report, comparisons to last month's indexes are made to the revised June indexes. New factors will be calculated annually.*

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Business Activity Indexes^{1,4,5}				
Service Sector Indicators	Current Conditions			3-Month
	Jul-14	Jun-14	May-14	Average
Revenues	12	6	12	10
Number of Employees	9	8	7	8
Average Wage	20	14	13	16
Expected Demand ²	24	10	13	15
Retail Indicators				
Sales Revenues	15	-3	49	20
Number of Employees	9	5	12	8
Average Wage	6	7	16	10
Inventories	16	1	37	18
Big-ticket Sales	0	5	21	9
Shopper Traffic	35	11	22	23
Expected Product Demand ²	21	1	16	13
Services Firms Indicators				
Revenues	12	8	6	8
Number of employees	9	9	6	8
Average wage	22	15	13	17
Expected demand for services ²	24	11	12	16
Current Price Trends³				
Service Sector	1.20	1.29	1.24	
Retail	1.81	1.57	1.20	
Services Firms	1.11	1.25	1.26	
Expected Price Trends^{2,3}				
Expectations				
	Jul-14	Jun-14	May-14	
Service Sector	1.86	1.58	1.54	
Retail	2.33	2.13	1.60	
Services Firms	1.79	1.50	1.53	

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 111 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.

⁵ This table includes recalculation of seasonal adjustment factors to better reflect current economic trends as well as incorporates a methodological change to the calculation of the overall service sector indexes for the history of the survey. The overall indexes are now calculated as a weighted average of the seasonally adjusted retail and non-retail indexes.