

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Strengthened; Revenues and Employment Rose Solidly

Overview

Fifth District service sector activity accelerated this month, according to the August survey by the Federal Reserve Bank of Richmond. Retail sales accelerated briskly, fueled by a sharp increase in big-ticket sales and shopper traffic. Retail inventories also rose. Additionally, revenues picked up at non-retail services firms. Survey participants expected solid demand for goods and services in the six months ahead.

Service sector employment grew more rapidly compared to a month ago, while average wage growth slowed.

Annualized price growth in the broad service sector advanced at a faster pace in August, and survey participants expected further acceleration in the next six months.

Overall Service Sector Conditions

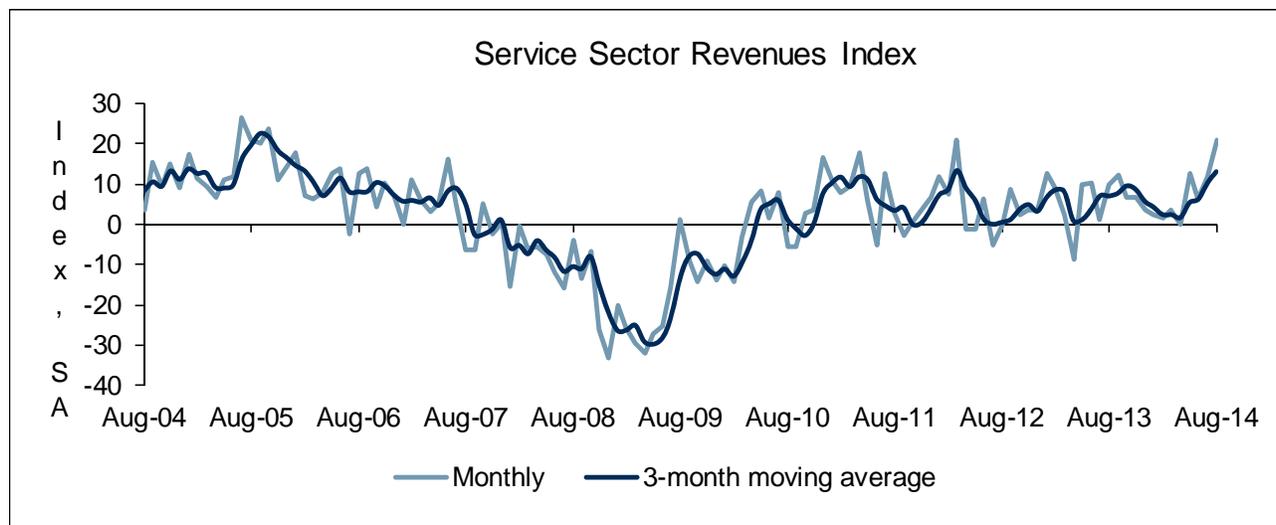
Revenues rose in the service sector in August, with the index climbing to 21 from last month's reading of 12. In addition, the pace of hiring picked

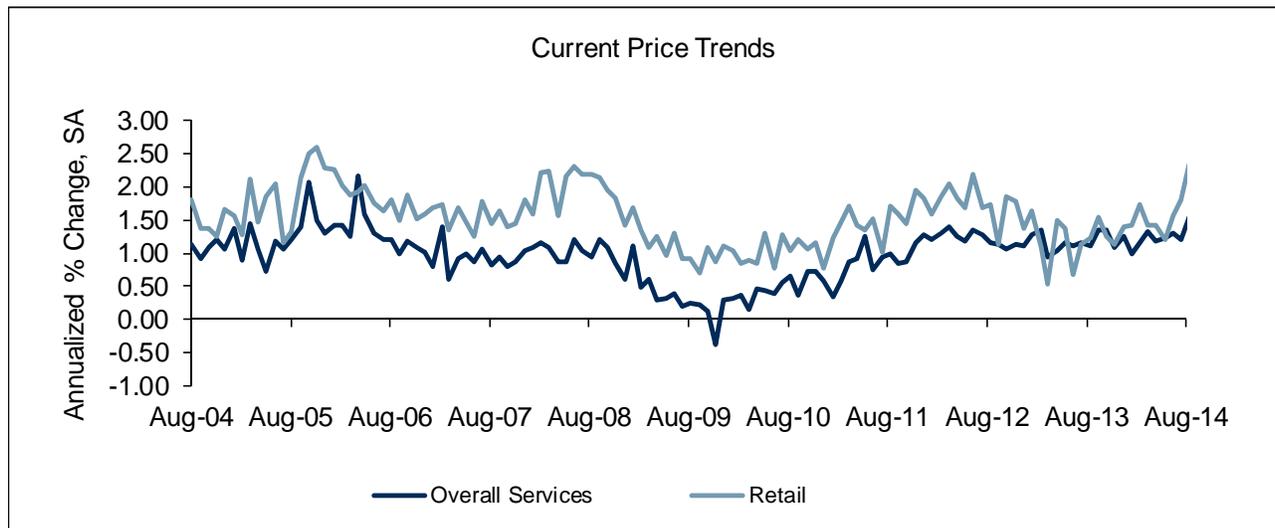
up, pushing the index to 17 from 9. However, wage increases slowed this month, softening that index by eight points to a reading of 12. Survey respondents continued to have a positive outlook for future business prospects. The expectations index added three points to finish at 27 in August.

Retail

Retail sales surged in August, driving the index to 37 from 15. Big-ticket sales made a comeback, with the index rising to 28 from July's flat reading of 0, and the shopper traffic index gained 13 points to finish the survey period at 48. Retail inventories increased, with that index ending at 23, compared to the previous reading of 16. Retailers looked for strong sales in the months ahead. The index for expected demand moved up to 36 from 21.

Retail payrolls also grew at a solid pace in August; the index for the number of employees rose 12 points to 21. Average retail wages grew only slightly faster than a month earlier, with the index edging up two points to 8.





Services-Providing Firms

Revenues expanded more rapidly at non-retail services firms in August. The index gained six points to end at 18. Services producing businesses increased hiring this month, moving the employment gauge to 16 from July’s reading of 9. As at retail establishments, wage growth slowed. The index for average wages softened to 13 from 22. Services providers remained upbeat about business conditions during the next six months, with that indicator picking up a point this month to finish at 25.

Prices

Prices in the service sector rose at an annualized 1.54 percent rate in August, compared to 1.20 percent a month earlier. Separately, retail prices rose at a 2.32 percent annualized pace, above the 1.81 percent growth rate in July. At non-retail services firms, annualized price growth quickened to a 1.43 percent rate following a 1.11 percent pace a month ago.

Looking ahead six months, expectations were for a 2.00 percent annualized rate of price growth in the broad service sector, with a 2.29 percent rate of increase in retail prices and 1.96 percent growth in other services firms’ prices. In July, survey participants looked for prices to increase at a 1.86

percent pace overall. Retailers expected annualized price increases at a 2.33 percent rate in July, while non-retail services firms expected a 1.79 percent rate of growth in prices.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Aug-14	Jul-14	Jun-14	
Revenues	21	12	6	13
Number of Employees	17	9	8	11
Average Wage	12	20	14	15
Expected Demand ²	27	24	10	20
Retail Indicators				
Sales Revenues	37	15	-3	16
Number of Employees	21	9	5	12
Average Wage	8	6	7	7
Inventories	23	16	1	13
Big-ticket Sales	28	0	5	11
Shopper Traffic	48	35	11	31
Expected Product Demand ²	36	21	1	19
Services Firms Indicators				
Revenues	18	12	8	12
Number of employees	16	9	9	11
Average wage	13	22	15	17
Expected demand for services ²	25	24	11	20
Current Price Trends³				
Service Sector	1.54	1.20	1.29	
Retail	2.32	1.81	1.57	
Services Firms	1.43	1.11	1.25	
Expected Price Trends^{2,3}				
Expectations				
	Aug-14	Jul-14	Jun-14	
Service Sector	2.00	1.86	1.58	
Retail	2.29	2.33	2.13	
Services Firms	1.96	1.79	1.50	

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 123 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.