

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Strengthening Continued in September; Pace of Employment Slowed Slightly*

### Overview

Fifth District service sector activity expanded in September, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales were robust, with heavy shopper traffic and moderate big-ticket sales. Retail inventories increased at a faster pace than a month ago. Non-retail services firms' revenues grew moderately. Survey respondents had moderate expectations for business prospects for the six months ahead.

Employment in the broad service sector increased at a slightly slower pace this month, while average wages rose moderately.

Annualized price growth in September was little changed from a month earlier for the overall service sector. Survey participants anticipated prices would rise at a slightly faster rate over the next six months.

### Overall Service Sector Conditions

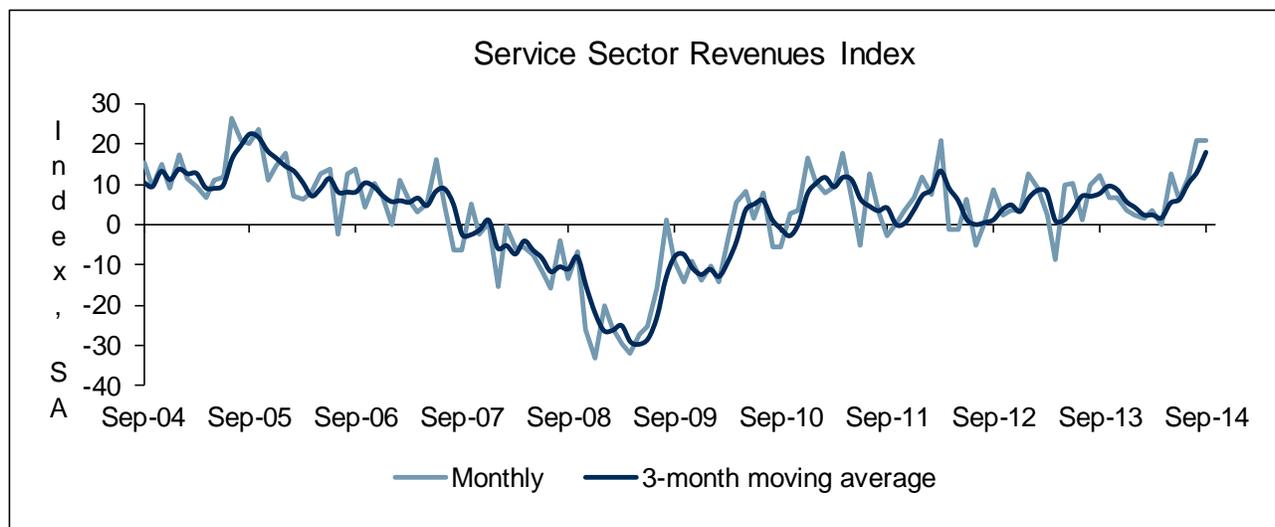
Service sector revenues continued to grow at a healthy pace in September, keeping the index at 21 for a second month. Employment advanced at

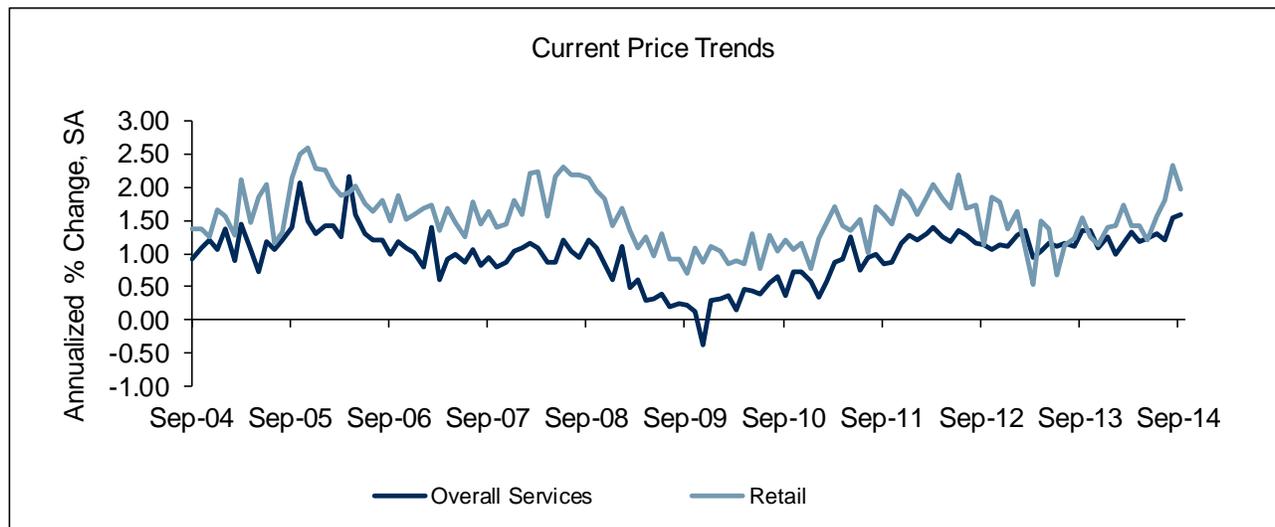
a slightly slower pace than a month ago, cooling the index by four points to 13. Average wages rose, with the index tacking on a point to end the survey period at a reading of 13. Survey participants were confident about business conditions for the coming six months, albeit somewhat less upbeat than a month ago. The index for expected demand settled five points lower in September, at a reading of 22.

### Retail

Retail sales growth remained robust in September, with the index maintaining last month's reading of 37. Big-ticket sales slowed this month, moving the index to 19 from the previous reading of 28. Shopper traffic was heavy, with the index ending at a solid 43 following last month's reading of 48. Inventories rose more quickly, pushing that gauge to 32 from 23. Retailers were positive, although somewhat less enthusiastic, about demand for their goods during the next six months. The index lost six points from the August reading to finish at 30 this month.

Retail hiring remained strong, with the index





remaining at 21 in September. Average retail wages climbed sharply, with that indicator jumping 12 points this month to a reading of 20.

**Services-Providing Firms**

Revenues at non-retail services firms increased at a moderate pace in September, with the index matching last month’s reading of 18. Employment increased more slowly at services providing firms, compared to a month ago. The index for the number of employees settled four points lower at 12. Average wages in this sub-sector grew nearly on pace with a month ago; the index finished a point lower at 12.

Services providers looked for good business prospects in the six months ahead, although their outlook was slightly less upbeat than in August. The indicator slipped four points to settle at 21 this month.

**Prices**

Prices in the service sector rose at an annualized 1.58 percent rate in September, little changed from August’s 1.54 percent pace. Retail price growth slowed to a 1.98 percent rate compared to a 2.32 percent rise in August. Price change at non-retail services firms edged up mildly to an annualized 1.50 percent rate; price growth in that sub-sector was at a 1.43 percent pace last month.

Expectations for prices in the six months ahead

were for slightly faster increases compared to the current pace of price growth. Survey respondents looked for a 1.89 percent annualized rate of growth in the broad service sector, following last month’s outlook for a 2.00 percent rate of increase. Within the broad service sector, retailers anticipated prices would rise at a 1.96 percent rate and non-retail services providers expected 1.88 percent annualized price growth. Last month, retail merchants looked for future price growth of 2.29 percent, while non-retail services providers anticipated price growth of 1.96 percent during the next six months.

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Business Activity Indexes <sup>1,4</sup>				
Service Sector Indicators	Current Conditions			3-Month Average
	Sep-14	Aug-14	Jul-14	
Revenues	21	21	12	18
Number of Employees	13	17	9	13
Average Wage	13	12	20	15
Expected Demand <sup>2</sup>	22	27	24	24
Retail Indicators				
Sales Revenues	37	37	15	30
Number of Employees	21	21	9	17
Average Wage	20	8	6	12
Inventories	32	23	16	24
Big-ticket Sales	19	28	0	16
Shopper Traffic	43	48	35	42
Expected Product Demand <sup>2</sup>	30	36	21	29
Services Firms Indicators				
Revenues	18	18	12	16
Number of employees	12	16	9	12
Average wage	12	13	22	16
Expected demand for services <sup>2</sup>	21	25	24	23
Current Price Trends <sup>3</sup>				
Service Sector	1.58	1.54	1.20	
Retail	1.98	2.32	1.81	
Services Firms	1.50	1.43	1.11	
Expected Price Trends <sup>2,3</sup>				
	Expectations			
	Sep-14	Aug-14	Jul-14	
Service Sector	1.89	2.00	1.86	
Retail	1.96	2.29	2.33	
Services Firms	1.88	1.96	1.79	

**Technical Notes:**

<sup>1</sup> 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 116 survey participants

<sup>2</sup> Expectations refer to the time period six months out from the survey period.

<sup>3</sup> Price changes are expressed as percent change, annualized.

<sup>4</sup> 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.