

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Expansion Continued; Non-Retail Services Firms' Revenues Strengthened; Retail Activity Moderated*

### Overview

Service sector growth strengthened further in October, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues rose briskly at non-retail services firms, more than offsetting slower growth in retail sales. Shopper traffic moderated and slower big-ticket sales continued this month. Retail inventories were nearly unchanged from a month earlier. Non-retail services providers were more upbeat about business conditions for the months ahead; retailers had a more restrained outlook than in September.

Employment and wages in the service sector grew moderately overall, while average retail wages spiked up in October.

Prices in the service sector rose slightly faster this month, and survey respondents anticipated prices would grow more quickly in the six months ahead.

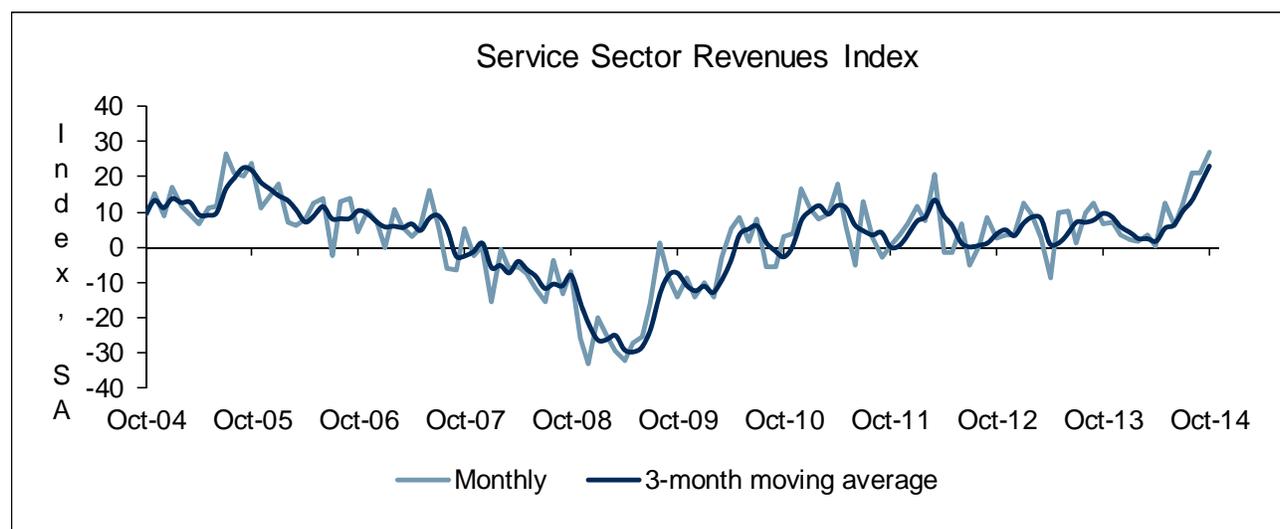
### Overall Service Sector Conditions

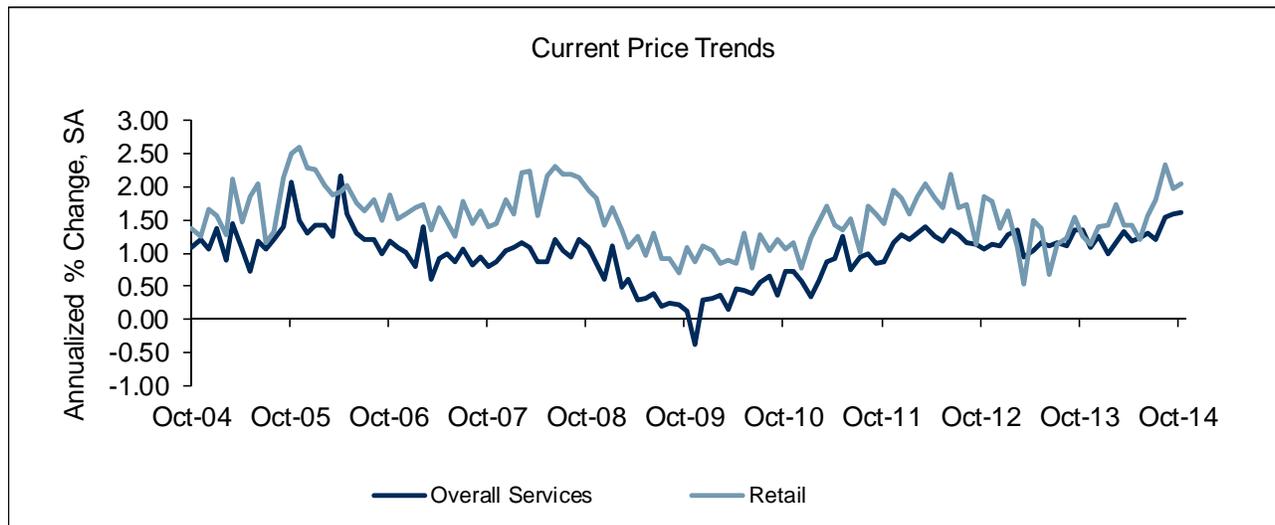
Service sector revenue growth accelerated in October, pushed by a surge at non-retail services

firms. The broad index added six points to last month's reading to finish at a reading of 27. Hiring in the service sector remained moderate, with that index adding a point to end at 14. Average wages grew quickly, with much of the strength coming from retail wage growth; the overall gauge climbed to 18 from September's reading of 13. Looking ahead, survey participants expected improved business conditions in the six months ahead. The index rose to 27 from 22.

### Retail

Retail sales slowed in October, with the index drifting down to 21 from the previous month's reading of 37. Big-ticket sales also moderated, with that index softening to 7 from 19. Additionally, shopper traffic dwindled, pulling the index to 24 from 43. Retail inventories were nearly unchanged this month. The September index lost 31 points to settle at 1. Merchants were less sanguine in October about business opportunities in the coming six months. The expectations index fell 19 points to 11.





Retailers also added fewer employees this month. The index for the number of employees declined to 14 from 21. However, increases in average retail wages were prevalent. That indicator rose 12 points to 32.

of increase and non-retail services providers expected 1.80 percent price growth over the next six months. Last month, survey participants in those subsectors expected prices to increase at a rate of 1.96 percent and 1.88 percent, respectively.

**Services-Providing Firms**

Services producing firms' revenues rose sharply in October, driving the index up to 28 from last month's reading of 18. The pace of hiring also picked up, with that index moving to 15 from 12. Average wages increased at non-retail services businesses. The index added four points to end the survey period at 16. Services providers had a brighter outlook for business conditions during the next six months, pushing the expectations index to 30 from September's reading of 21.

**Prices**

Service sector prices increased at an annualized 1.61 percent rate in October, slightly above September's 1.58 percent growth rate. Retail prices rose at an annualized 2.05 percent this month, compared to a 1.98 percent pace in September. At non-retail services firms, prices moved up at an annualized 1.52 percent rate, following last month's 1.50 percent growth.

Service sector survey respondents looked for a 1.82 percent annualized rate of growth in prices over the next six months. A month ago, expectations were for 1.89 percent growth. Separately, retailers looked for a 1.93 percent rate

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<b>Business Activity Indexes<sup>1,4</sup></b>				
<b>Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month</b>
	<b>Oct-14</b>	<b>Sep-14</b>	<b>Aug-14</b>	<b>Average</b>
Revenues	27	21	21	23
Number of Employees	14	13	17	15
Average Wage	18	13	12	14
Expected Demand <sup>2</sup>	27	22	27	25
<b>Retail Indicators</b>				
Sales Revenues	21	37	37	32
Number of Employees	14	21	21	19
Average Wage	32	20	8	20
Inventories	1	32	23	18
Big-ticket Sales	7	19	28	18
Shopper Traffic	24	43	48	38
Expected Product Demand <sup>2</sup>	11	30	36	26
<b>Services Firms Indicators</b>				
Revenues	28	18	18	21
Number of employees	15	12	16	14
Average wage	16	12	13	13
Expected demand for services <sup>2</sup>	30	21	25	25
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.61	1.58	1.54	
Retail	2.05	1.98	2.32	
Services Firms	1.52	1.50	1.43	
<b>Expected Price Trends<sup>2,3</sup></b>				
<b>Expectations</b>				
	<b>Oct-14</b>	<b>Sep-14</b>	<b>Aug-14</b>	
Service Sector	1.82	1.89	2.00	
Retail	1.93	1.96	2.29	
Services Firms	1.80	1.88	1.96	

**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 126 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.