

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Hiring and Wage Increases Strengthened; Revenue Growth Remained Solid*

### Overview

Service sector activity increased in November, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales grew robustly as big-ticket sales accelerated. Shopper traffic rose, although more slowly than a month earlier. Retail inventories declined slightly. Looking ahead, survey participants expected good business prospects during the next six months.

Employment in the service sector increased rapidly, with particular strength in retail hiring. Average wages rose more quickly overall.

Prices in the broad service sector rose nearly on pace with a month ago. Survey respondents looked for slightly faster increases over the next six months.

### Overall Service Sector Conditions

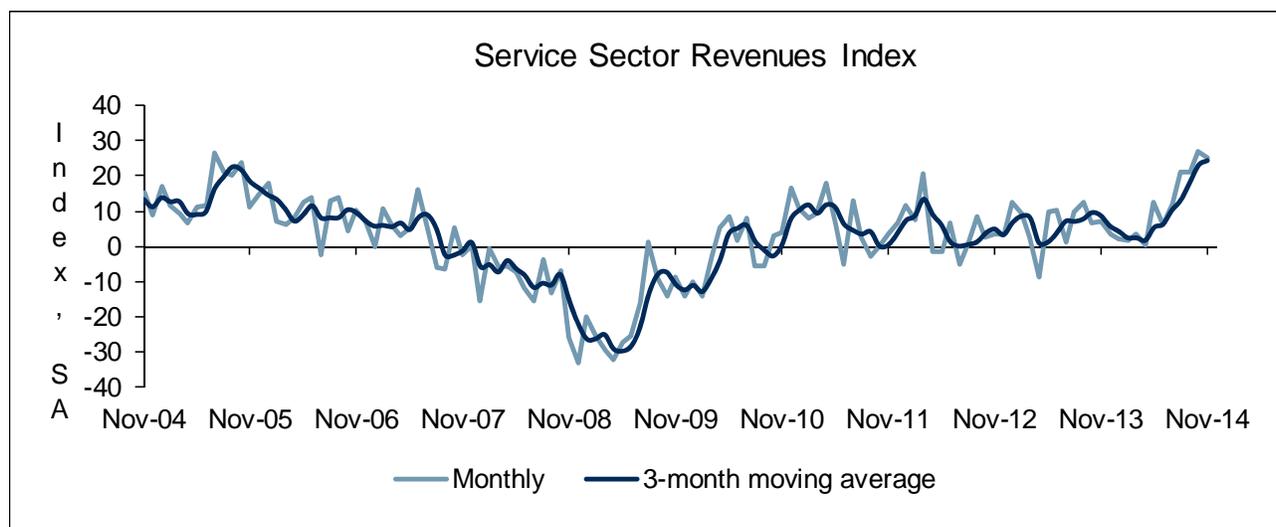
Service sector revenue growth remained solid in November, with the overall revenues index at 25 following the October reading of 27. Employment in the service sector grew robustly, driving the index up 10 points to 24. In addition, average

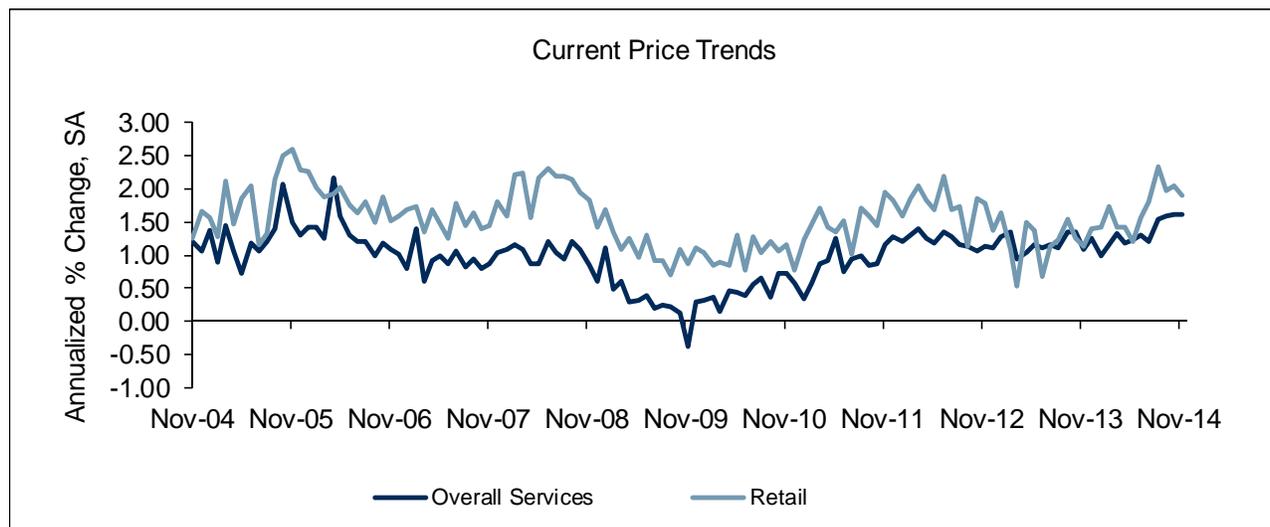
wage increases were more prevalent this month, pushing that indicator up four points to 22. Survey participants were confident about business prospects for the six months ahead. The expectations index ticked up one point to 28 this month.

### Retail

Retail sales jumped in November, with stronger big-ticket sales. The indexes climbed to 37 and 19 from their previous readings of 21 and 7. However, shopper traffic rose at a slower pace, with that index losing eight points to finish the survey period at 16. Inventories declined slightly; the index slipped to -3 from its month-ago reading of 1. Retailers were decidedly more enthusiastic about sales in the next six months. The index for expected demand added 28 points to end at 39.

Retail merchants added employees at a faster pace in November, doubling the previous month's index for the number of employees to a reading of 28. Average retail wages continued to grow at a healthy pace, although at a reading of 24, the index was eight points below the October indicator.





**Services-Providing Firms**

Revenues at services providing firms grew solidly this month, with the index at 23 compared to the prior reading of 28. Non-retail services firms increased the pace of hiring, pushing that index to 24 from 15. Average wage increases were more prevalent, bringing the indicator six points higher to 22. Services providers remained optimistic about business conditions for the six months ahead. The index for expected demand for services settled at 26 from the October reading of 30.

**Prices**

Service sector prices increased at an annualized 1.62 percent pace in November, nearly matching last month's 1.61 percent growth rate. At retail businesses, the pace of price growth slowed slightly, to an annualized 1.90 percent rate. In October, retail prices rose at a 2.05 percent rate. Prices advanced at a 1.57 percent rate at non-retail services firms this month, compared to the previous 1.52 percent growth rate.

In November, survey respondents anticipated an overall 1.99 percent annualized rate of growth in prices across the broad service sector during the next six months. Within the sector, the outlook was for 1.99 percent price growth at both retail and non-retail businesses. In October, overall expectations were for 1.82 percent annualized

price growth. Separately, retailers looked for a 1.93 percent rate of growth in prices in last month, and non-retail services providers anticipated a 1.80 percent growth rate in prices.

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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>Nov-14</b>	<b>Oct-14</b>	<b>Sep-14</b>	<b>Average</b>
Revenues	25	27	21	24
Number of Employees	24	14	13	17
Average Wage	22	18	13	18
Expected Demand <sup>2</sup>	28	27	22	26
<b>Retail Indicators</b>				
Sales Revenues	37	21	37	32
Number of Employees	28	14	21	21
Average Wage	24	32	20	25
Inventories	-3	1	32	10
Big-ticket Sales	19	7	19	15
Shopper Traffic	16	24	43	27
Expected Product Demand <sup>2</sup>	39	11	30	27
<b>Services Firms Indicators</b>				
Revenues	23	28	18	23
Number of employees	24	15	12	17
Average wage	22	16	12	16
Expected demand for services <sup>2</sup>	26	30	21	25
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.62	1.61	1.58	
Retail	1.90	2.05	1.98	
Services Firms	1.57	1.52	1.50	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Nov-14</b>	<b>Oct-14</b>	<b>Sep-14</b>	
Service Sector	1.99	1.82	1.89	
Retail	1.99	1.93	1.96	
Services Firms	1.99	1.80	1.88	

**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 110 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.