

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Revenue Growth Slowed Ahead of the Holidays; Average Wages Rose Solidly*

### Overview

Service sector activity slowed going into the December holidays, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales weakened and revenues at non-retail services firms were nearly flat compared to a month earlier. Shopper traffic was unchanged from November, while big-ticket sales slumped. Retail inventories dropped sharply. Survey respondents indicated more subdued expectations for demand for goods and services in the six months ahead.

Service sector employment was mixed this month; the number of employees grew more slowly and average wages rose on pace with a month earlier.

Service sector price growth was little changed overall. The pace slowed slightly at retail establishments and edged up mildly at non-retail services firms. Survey respondents' expectations for price growth were slightly slower than they indicated a month earlier.

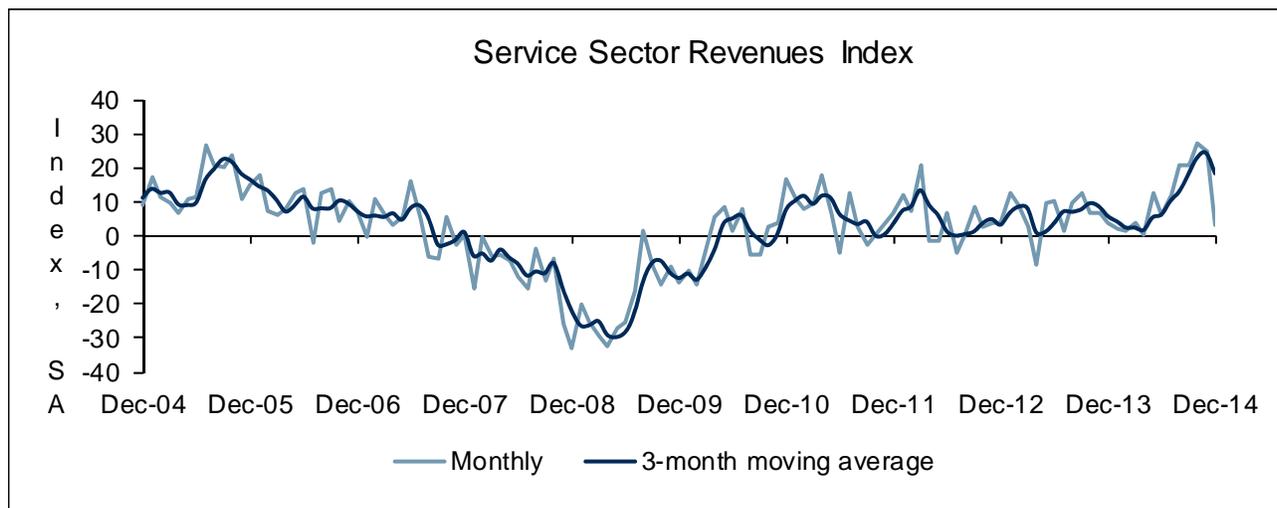
### Overall Service Sector Conditions

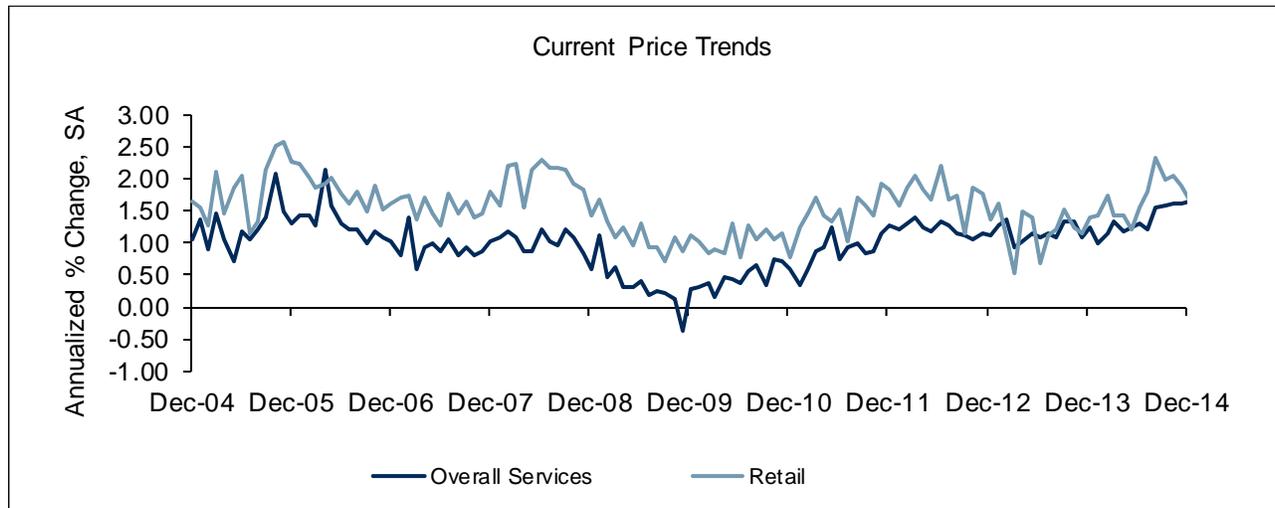
Revenue growth in the broad service sector weakened in December, with slowing at both retail

and non-retail establishments. The index dropped 22 points this month to settle at a reading of 3. The number of employees also grew at a slower pace than a month ago. The index finished at 16 compared to November's index of 24. The index for average wages remained at 22 for a second month, bolstered by strong wage growth at non-retail firms. Looking ahead six months, survey respondents were less optimistic this month. The index slipped 15 points to a reading of 13 in December.

### Retail

Retail sales rose at a slower pace in December, ahead of the holidays. After jumping up in November, the index cooled 27 points to a reading of 10 this month. Big-ticket sales plummeted compared to a month earlier, with that index contracting to a reading of -24 from November's index of 19. Shopper traffic was unchanged, with the index settling at 0, 16 points lower than a month ago. Inventories diminished, dragging that index to -34 from the previous reading of -3. Retailers' expectations for product demand during the next six months fell sharply. The index retracted to -9 from the November reading of 39.





In retail labor markets, merchants added employees more slowly in December, with the index for the number of employees softening to 14 from the previous reading of 28. Average wages in the sector increased at a much slower pace than in November, with that index pulling back 15 points to a reading of 9.

**Services-Providing Firms**

Revenues at non-retail services firms were nearly flat in December. The index lost 21 points from a month earlier, to settle at 2. After a burst of hiring in November, the pace slowed, reducing the index for the number of employees by eight points to a reading of 16. However, average wages in this subsector continued to climb briskly, with the index adding a point to finish the survey period at 23. Non-retail services providers were somewhat less sanguine about their business prospects for the next six months. The expectations index dropped 11 points from a month earlier to end at 15.

**Prices**

Price growth remained stable across the broad service sector, with annualized price growth at 1.65 percent in December, nearly matching November’s 1.62 percent rate of increase. Among retailers, the pace slowed slightly this month, to an annualized 1.69 percent rate, compared to last month’s price growth of 1.90 percent. Prices at non-retail services providing firms grew mildly faster, at an annualized 1.65 percent rate. In November, price growth in the non-retail subsector was at 1.57 percent.

Expectations for price change over the next six months were little changed from a month ago, with an outlook for 1.91 percent annualized price growth, compared to November’s expectation for a 1.99 percent pace. Within the sector, retailers looked for future price growth of 1.61 percent and non-retail services providers expected annualized price increases at a 1.94 percent rate. In November, retail and non-retail businesses anticipated prices would rise at a 1.99 percent pace.

**Contact**

**Aileen Watson**

Senior Economic Analyst/Supervisor  
 Research Dept. /Regional Economics  
 Federal Reserve Bank of Richmond

Richmond Office

Ph: 804.697.7995 • Fax: 804.697.8123

[aileen.watson@rich.frb.org](mailto:aileen.watson@rich.frb.org)

[www.richmondfed.org](http://www.richmondfed.org)

<b>Business Activity Indexes<sup>1,4</sup></b>				
<b>Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month Average</b>
	<b>Dec-14</b>	<b>Nov-14</b>	<b>Oct-14</b>	
Revenues	3	25	27	18
Number of E mployees	16	24	14	18
Average Wage	22	22	18	21
Expected Demand <sup>2</sup>	13	28	27	22
<b>Retail Indicators</b>				
S ales Revenues	10	37	21	23
Number of E mployees	14	28	14	19
Average Wage	9	24	32	22
Inventories	-34	-3	1	-12
B ig-ticket S ales	-24	19	7	1
S hopper Traffic	0	16	24	13
E xpected P roduct Demand <sup>2</sup>	-9	39	11	14
<b>Services Firms Indicators</b>				
Revenues	2	23	28	17
Number of employees	16	24	15	18
Average wage	23	22	16	20
E xpected demand for services <sup>2</sup>	15	26	30	24
<b>Current Price Trends<sup>3</sup></b>				
Service S ector	1.65	1.62	1.61	
Retail	1.69	1.90	2.05	
S ervices Firms	1.65	1.57	1.52	
<b>Expected Price Trends<sup>2,3</sup></b>				
<b>Expectations</b>				
	<b>Dec-14</b>	<b>Nov-14</b>	<b>Oct-14</b>	
Service S ector	1.91	1.99	1.82	
Retail	1.61	1.99	1.93	
S ervices Firms	1.94	1.99	1.80	

**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 114 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.