

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Overall Service Sector Activity Increased Moderately; Revenues Expanded, Price Growth Slowed

Overview

Activity in the service sector strengthened in January, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues at retail and non-retail services businesses expanded at a faster pace than a month ago. Shopper traffic increased and big ticket sales bounced back from last month's sharp fall. Retail inventories rose. Compared to the current month, survey participants expected modest improvement in demand for goods and services during the first half of 2015.

Service sector labor markets also strengthened this month. At retail establishments, the number of employees and average wages rose more quickly in January. Hiring at non-retail services firms advanced at a modest pace, while wage growth remained strong.

Price growth in the broad service sector slowed, particularly at non-retail services firms. Expectations for price changes during the next six months were below December's outlook.

Overall Service Sector Conditions

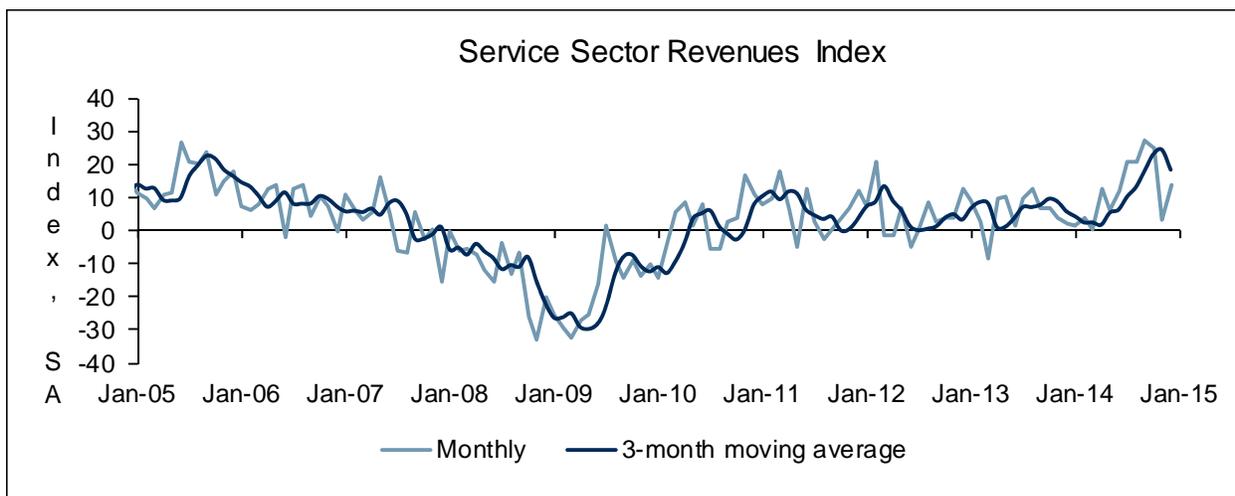
Service sector revenue growth expanded in January, pushing the index up 11 points from last

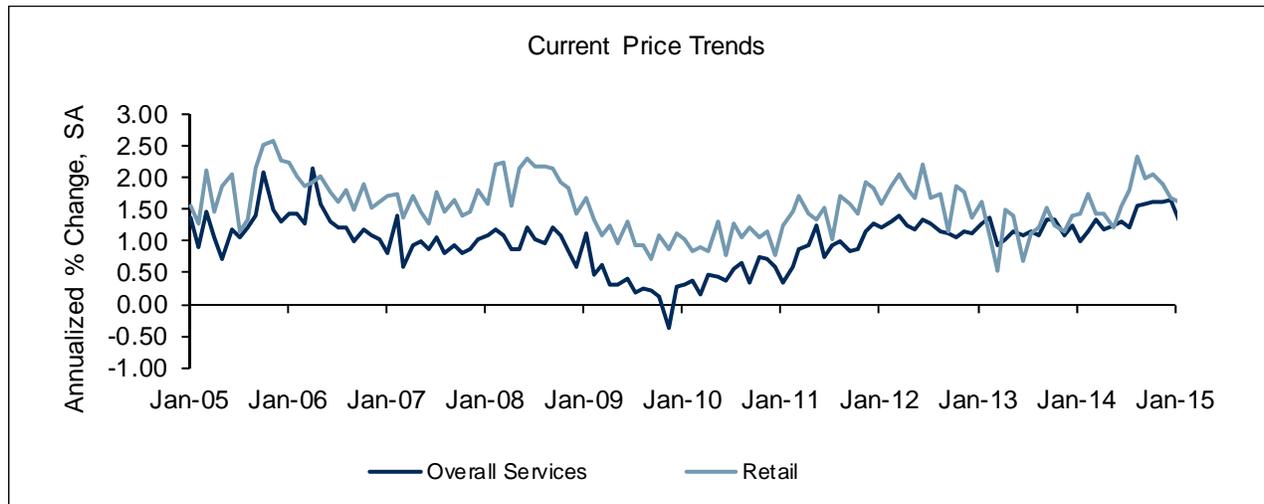
month's reading to 14. Hiring and average wages in the broad service sector increased at nearly the same pace as a month ago. The index for the number of employees shed two points to settle at 14 and the average wage index gained two points to finish the survey period at 24. Expectations for the first half of this year were for modest growth in demand for goods and services. The gauge for expected demand rose four points to 17.

Retail

Retail activity expanded following a lackluster month in December. The index for retail sales rose to a reading of 25 from 10. Inventories increased this month, pushing that index to 18 from the previous reading of -34. Big-ticket sales made a similar comeback; the index climbed 42 points to 18 in January. Additionally, shopper traffic returned, moving the indicator up to 17 from December's flat reading of 0. Retailers were mildly optimistic about demand for their goods in the next six months. The expectations index ended the survey period at 8, up from last month's reading of -9.

Retail merchants hired at a faster pace in January. The index for the number of employees gained six points to finish at 20. Average retail wage increases





were more prevalent, with that indicator rising to 13 from 9.

Services-Providing Firms

Revenues accelerated at non-retail services firms, bringing the index 10 points higher to 12 in January. Growth in the number of employees slowed slightly compared to a month ago, with the index moderating to 13 from 16. Average wage increases were more common at services-providing firms this month. The index added three points to end the survey period at 26. Services providers looked for improved business conditions in the next six months. The indicator for expected demand for services rose four points to 19.

Prices

Price growth slowed in the broad service sector, bringing annualized price growth to 1.35 percent in January. In December, prices rose at a rate of 1.65 percent. Within the service sector, retail prices cooled slightly to an annualized 1.60 percent rate, following the previous pace of 1.69 percent. At non-retail services providing firms, annualized price growth softened to a 1.32 percent rate, compared to December’s 1.65 percent pace.

For the first half of 2015, survey participants expected annualized price growth to be 1.81 percent in the overall service sector. Last month, their outlook was for 1.91 percent growth. Retailers looked for prices to increase at a 1.88 percent pace, slightly above their December outlook for 1.61 percent growth. Non-retail services providers

anticipated 1.80 percent annualized price growth in the next six months. In December, they expected prices would rise at a 1.94 percent pace.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month
	Jan-15	Dec-14	Nov-14	Average
Revenues	14	3	25	14
Number of E mployees	14	16	24	18
Average Wage	24	22	22	23
E xpected Demand ²	17	13	28	19
Retail Indicators				
Sales Revenues	25	10	37	24
Number of E mployees	20	14	28	21
Average Wage	13	9	24	15
Inventories	18	-34	-3	-6
Big-ticket Sales	18	-24	19	4
S hopper Traffic	17	0	16	11
E xpected P roduct Demand ²	8	-9	39	13
Services Firms Indicators				
Revenues	12	2	23	12
Number of employees	13	16	24	18
Average wage	26	23	22	24
E xpected demand for services ²	19	15	26	20
Current Price Trends³				
Service Sector	1.35	1.65	1.62	
Retail	1.60	1.69	1.90	
Services Firms	1.32	1.65	1.57	
Expected Price Trends^{2,3}				
Expectations				
	Jan-15	Dec-14	Nov-14	
Service Sector	1.81	1.91	1.99	
Retail	1.88	1.61	1.99	
Services Firms	1.80	1.94	1.99	

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 126 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 Maryland, North Carolina, South Carolina, Virginia, and most of West Virginia.