

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Revenues Strengthened; Employment Increased at a Slower Pace*

### Overview

Service sector activity expanded at a moderate pace in February, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues strengthened overall, with slightly slower retail sales, even as big-ticket sales improved and shopper traffic picked up. Retail inventories grew about on pace with a month ago. Looking ahead to the next six months, survey participants expected increased demand for their goods and services.

Employment in the sector slowed. Retail employment rose modestly while hiring at non-retail establishments was nearly flat. Average wages increased solidly, albeit more slowly than in January.

Prices rose at a slower pace in February. Survey participants expected prices would increase more rapidly during the next six months.

### Overall Service Sector Conditions

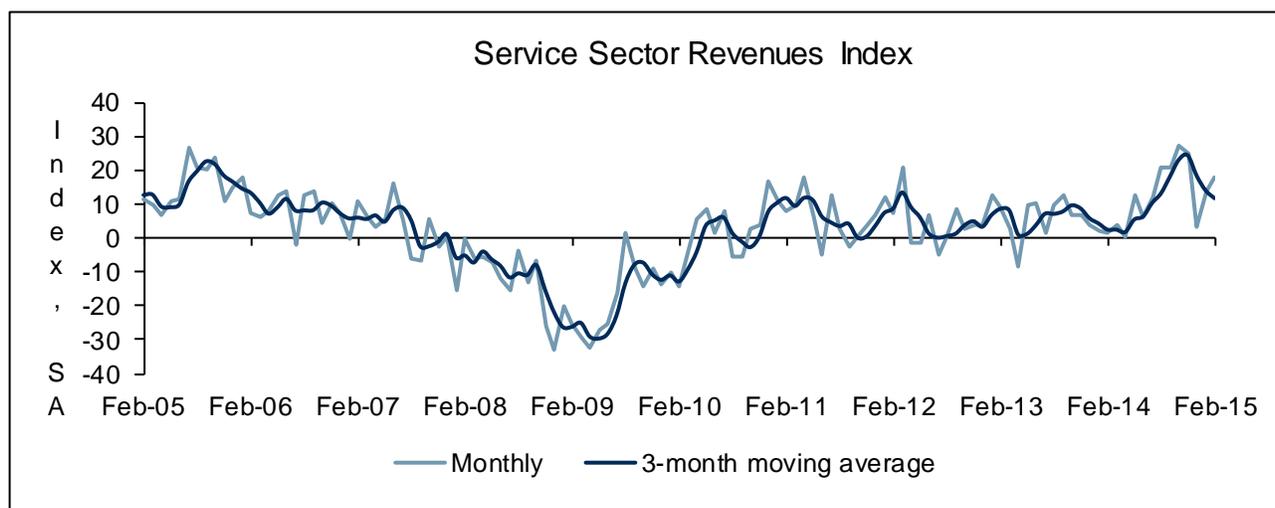
Revenues accelerated in the broad service sector compared to a month ago, pushing the index to 18 from last month's reading of 14. Hiring weakened,

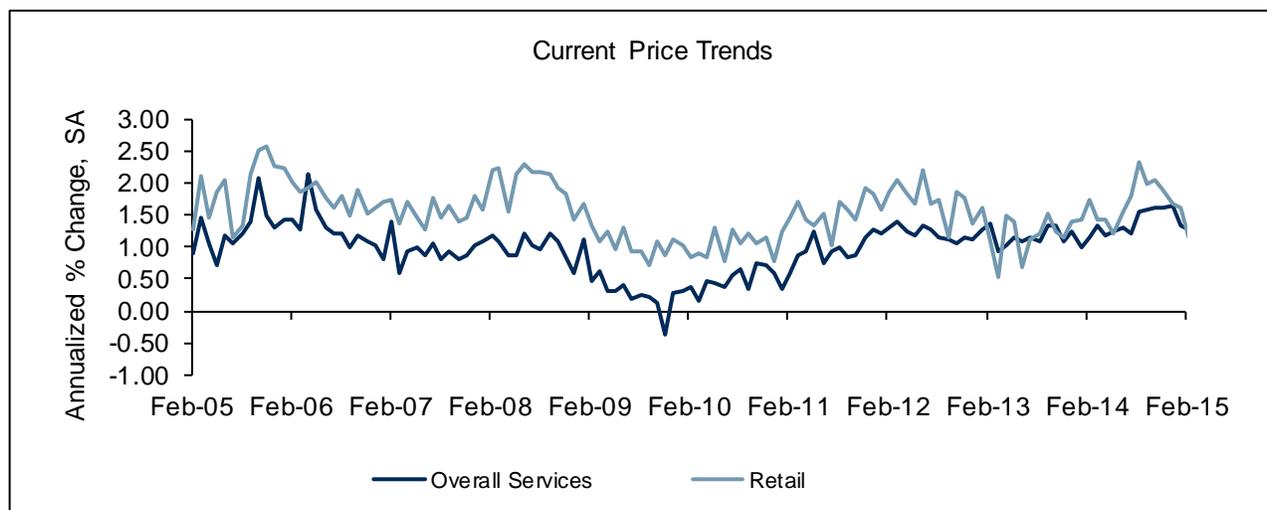
with the index for the number of employees dropping 10 points to 4 in February. Average wage growth slowed slightly from a month ago, with the indicator trimming four points to settle at 20. Survey respondents were upbeat about business prospects in the months ahead. The index for expected demand for goods and services moved up to 21 from 17.

### Retail

Retail sales moderated in February compared to a month ago. The index shed five points, ending the survey period at a reading of 20. Big-ticket sales strengthened, with that gauge rising three points to 21. Shopper traffic also increased, pulling the index to 26 from 17. Inventories grew nearly on pace with a month earlier, with the index two points lower at 16. Looking ahead, retailers anticipated stronger demand for their goods in the next six months. The expectations index doubled to 16 this month.

Retail employment advanced at a slower pace in February. The index for the number of employees softened to a reading of 14, after reaching 20 a month earlier. Average retail wage increases were





more prevalent this month, pushing that indicator to 23 from 13.

**Services-Providing Firms**

Revenues strengthened at non-retail services firms in February. The revenues index climbed six points to a reading of 18. Employment weakened, with that indicator dropping to 2 from 13. Average wage increases were less prolific; the index fell to 19 from January’s reading of 26.

Looking ahead, services providers were optimistic about business opportunities. The index for expected demand gained three points to finish the survey period at 22.

**Prices**

Service sector price increases slowed in February to an annualized growth rate of 1.26 percent. A month ago, prices rose at a 1.35 percent pace. Within the service sector, retail prices advanced at a 1.15 percent rate, a slower pace than January’s 1.60 percent growth. At non-retail services firms, prices rose at a 1.27 percent annualized pace, compared to January’s 1.32 percent rise.

For the six months ahead, survey participants expected service sector prices would rise at an annualized 1.89 percent rate, whereas a month ago, the outlook was for future price growth of 1.81 percent. Retailers expected prices to increase at a slower, 1.21 percent pace compared to their month-ago expectation for 1.88 percent price change in the months ahead. On the non-retail

side of the service sector, expectations were for 1.96 percent annualized price growth during the next six months. In January, the outlook was for a 1.80 percent rate of increase.

**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>Feb-15</b>	<b>Jan-15</b>	<b>Dec-14</b>	
Revenues	18	14	3	12
Number of Employees	4	14	16	11
Average Wage	20	24	22	22
Expected Demand <sup>2</sup>	21	17	13	17
<b>Retail Indicators</b>				
Sales Revenues	20	25	10	18
Number of Employees	14	20	14	16
Average Wage	23	13	9	15
Inventories	16	18	-34	0
Big-ticket Sales	21	18	-24	5
Shopper Traffic	26	17	0	14
Expected Product Demand <sup>2</sup>	16	8	-9	5
<b>Services Firms Indicators</b>				
Revenues	18	12	2	10
Number of employees	2	13	16	10
Average wage	19	26	23	23
Expected demand for services <sup>2</sup>	22	19	15	19
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.26	1.35	1.65	
Retail	1.15	1.60	1.69	
Services Firms	1.27	1.32	1.65	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Feb-15</b>	<b>Jan-15</b>	<b>Dec-14</b>	
Service Sector	1.89	1.81	1.91	
Retail	1.21	1.88	1.61	
Services Firms	1.96	1.80	1.94	

**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.