

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Revenue Growth Slowed; Wages in the Sector Rose Robustly and Retail Employment Strengthened

Overview

Service sector activity slowed in March compared to a month earlier, according to the latest survey by the Federal Reserve Bank of Richmond. Revenue growth slowed, even as shopper traffic increased at nearly the same pace as the previous month. Big-ticket sales plummeted. After two months of solid growth, inventories flattened in March. Revenues slowed at non-retail establishments. However, survey respondents remained optimistic in their outlook on business conditions for the next six months.

Service sector employment strengthened slightly in March, pushed by solid growth in retail hiring. Average wages in the broad service sector accelerated robustly.

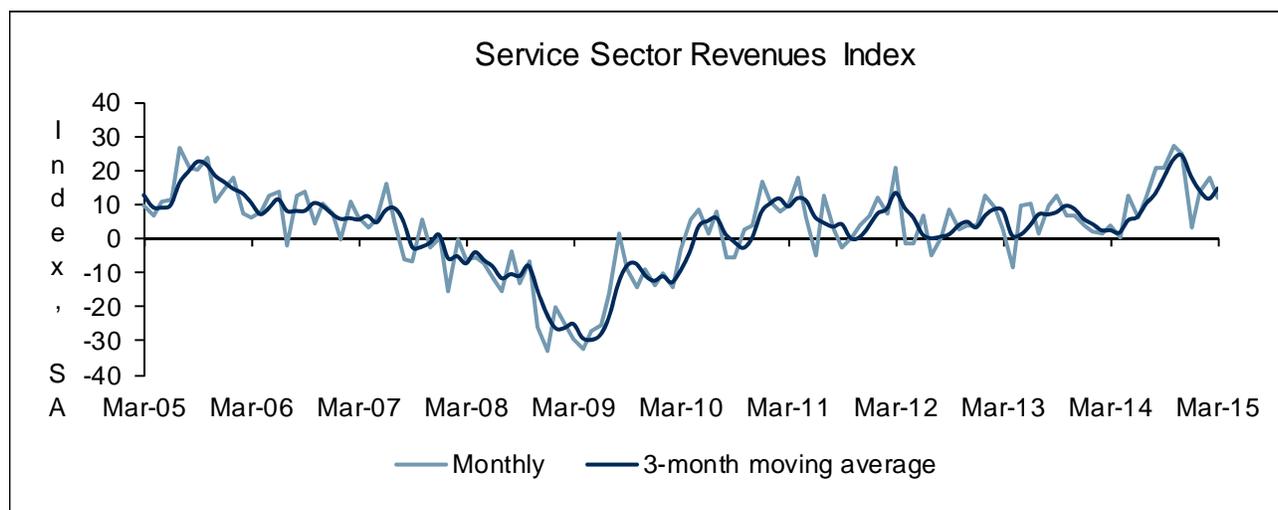
Overall price increases moderated slightly from February's pace, held in check by slower non-retail price growth. Looking ahead six months, survey participants anticipated a modest pick-up in the pace of price growth.

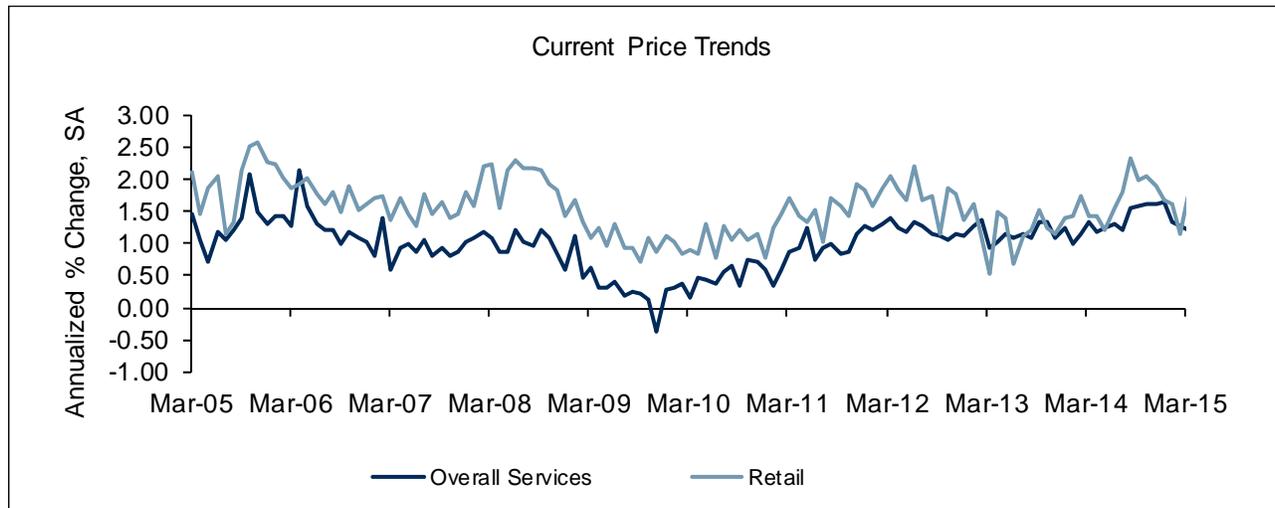
Overall Service Sector Conditions

Service sector revenues rose at a slower pace in March than a month ago. The index settled six points lower at a reading of 12. The pace of hiring in the broad service sector remained tepid, with that index edging up two points to 6. In contrast, average wage increases predominated. The index for average wages finished the survey period at 18, just below the February reading of 20. Survey respondents looked for strong demand for goods and services during the next six months. The expectations index lost three points from the previous reading, ending at 18.

Retail

Retail sales softened in March, pulling the index to 12 from February's reading of 20. Shopper traffic increased briskly, although the index settled three points lower than a month ago at 23. The volatile big-ticket index fell sharply in March, tumbling to a reading of -19 from last month's 21. Retail inventories were nearly flat, with the index at -1 following the February reading of 16. Retail merchants were much less optimistic than a month





ago regarding future sales. The index for expected demand weakened to 6 from 16.

In retail labor markets, hiring picked up, pushing the indicator for the number of employees up two points in March to 16. Average wages rose, although the pace moderated from a month ago. The index settled five points lower at 18.

Services-Providing Firms

Revenues softened at non-retail services firms in March, pulling the index six points below February’s reading to 12. Employment in this sub-sector inched up, with the gauge gaining three points to finish the survey period at 5. Average wages increased on pace with last month, holding the index at February’s reading of 19.

Services providers looked for better business conditions in the six months ahead. The index for expected demand shed two points, settling at 20 in March.

Prices

Price growth in the overall service sector was little changed from a month earlier, with an annualized growth rate of 1.22 percent in March. In February, prices rose at a 1.26 percent pace. Retail prices picked up the pace, rising at a 1.75 percent clip, compared with February’s 1.15 percent annualized rate. Prices at non-retail services firms increased at a 1.13 percent annualized rate, somewhat faster than the previous month’s 1.27 percent rate.

Survey participants anticipated faster growth in prices during the next six months. In the broad service sector, expectations were for 1.45 percent annualized growth over that time frame, with retail prices rising at a 1.69 percent pace and non-retail prices climbing at a 1.42 percent rate. In February, the overall outlook was for 1.89 percent annualized price growth, with retail prices moving up at a 1.21 percent rate and non-retail services prices growing at a 1.96 percent annualized rate.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month
	Mar-15	Feb-15	Jan-15	Average
Revenues	12	18	14	14
Number of E mployees	6	4	14	8
Average Wage	18	20	24	21
Expected Demand ²	18	21	17	19
Retail Indicators				
Sales Revenues	12	20	25	19
Number of E mployees	16	14	20	17
Average Wage	18	23	13	18
Inventories	-1	16	18	11
Big-ticket S ales	-19	21	18	7
S hopper Traffic	23	26	17	22
Expected P roduct Demand ²	6	16	8	10
Services Firms Indicators				
Revenues	12	18	12	14
Number of employees	5	2	13	7
Average wage	19	19	26	21
Expected demand for services ²	20	22	19	20
Current Price Trends³				
Service Sector	1.22	1.26	1.35	
Retail	1.75	1.15	1.60	
Services Firms	1.13	1.27	1.32	
Expected Price Trends^{2,3}				
Expectations				
	Mar-15	Feb-15	Jan-15	
Service Sector	1.45	1.89	1.81	
Retail	1.69	1.21	1.88	
Services Firms	1.42	1.96	1.80	

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 125 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 Columbia, Maryland, North Carolina, South Carolina, Virginia, and most of West Virginia.