

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Revenues Improved; Non-Retail Revenues Firmed; Retail Activity Declined

Overview

Service sector activity improved in May, according to the latest survey by the Federal Reserve Bank of Richmond. Non-retail firms' revenues strengthened this month. In addition, those services providers expected solid demand at their businesses during the next six months. In contrast, retail sales dropped in May, as big-ticket sales fell and shopper traffic retreated. Retail merchants looked for continued weak business over the next six months.

Service sector employment rose slightly faster this month. Growth in average wages moderated, as retail wage increases slowed abruptly.

The pace of price growth in the broad service sector remained steady, nearly matching last month's rate. Looking ahead six months, survey participants anticipated modestly faster price growth.

Overall Service Sector Conditions

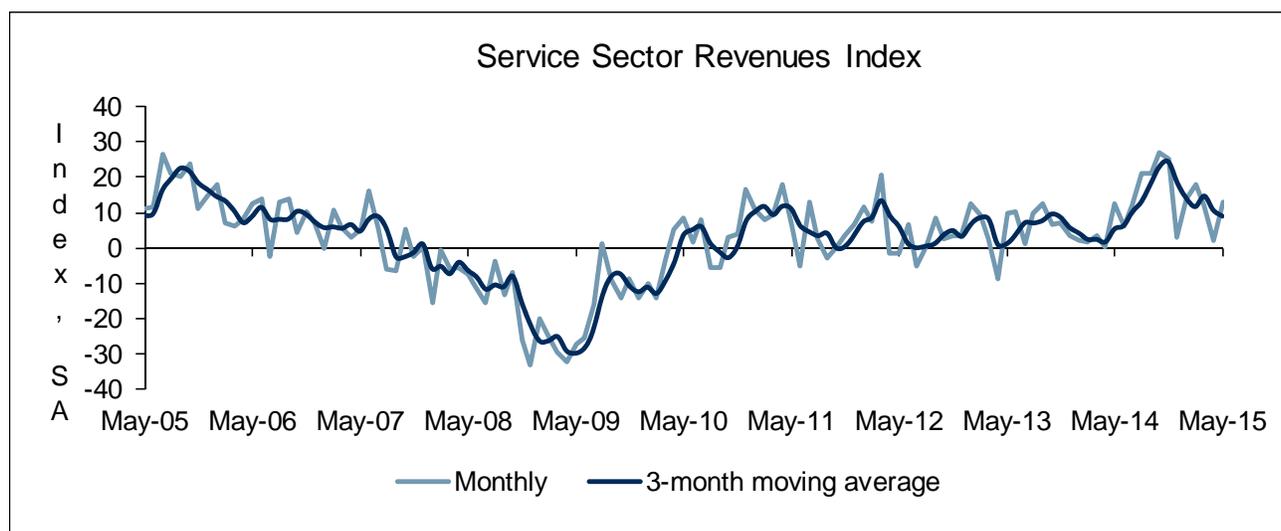
Service sector activity picked up in May, pushed by strength in non-retail services. The overall revenues index rose 11 points to 13. Hiring also

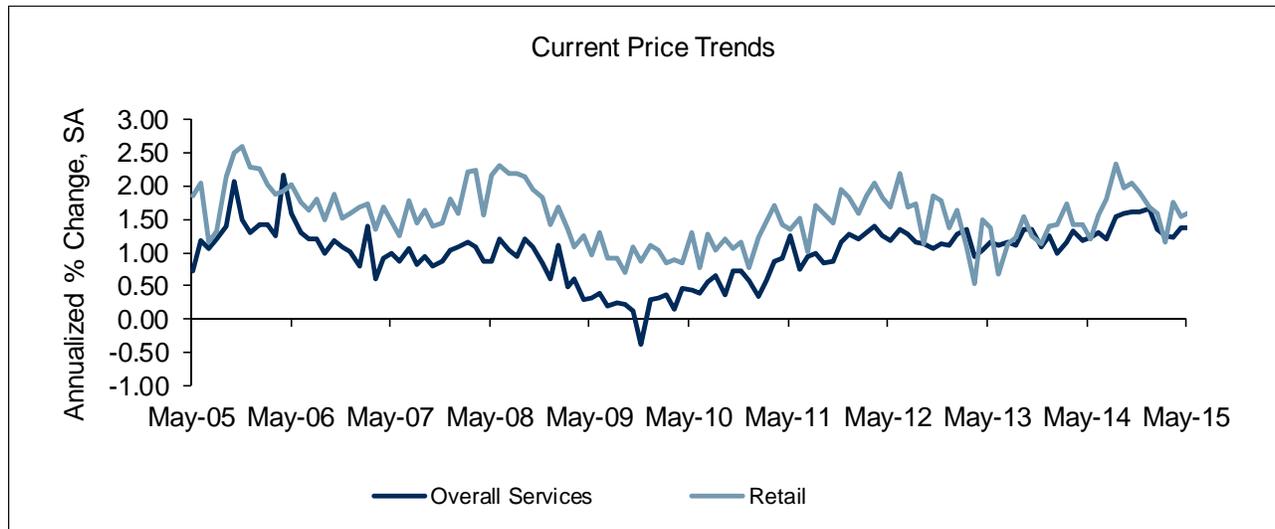
increased more quickly this month, pushing the index up two points to 11. Average wage growth slowed, with that index cooling to 11 from last month's reading of 24. Survey respondents looked for stronger demand for goods and services during the next six months; the expectations index gained two points to finish at 20.

Retail

Retail activity slumped in May, with the sales index plummeting 29 points to -12. Big-ticket sales fell and shopper traffic dropped sharply, pulling those indexes to -13 and -23 from the month-ago readings of 18 for both categories. Retail inventories declined further in May. The index lost nine points to end at -14. Retailers had a less propitious outlook for sales in the six months ahead. The index for expected demand fell to -13 from April's reading of 23.

Employment in the retail subsector rose at a modest pace, with the gauge gaining three points to finish the survey period at 8. The average wage index remained positive, although it was much lower than a month ago. That indicator settled at 5, compared to last month's reading of 44.





Services-Providing Firms

Revenues strengthened at non-retail services firms, pushing the index 18 points above last month’s reading to finish at 17 in May. Employment picked up, with that index gaining three points to end at 12. Average wages slowed, however; the indicator settled at 12 following the previous month’s reading of 21.

Non-retail services providers looked for further improvement in the next six months. The index for expected demand climbed eight points this month to a reading of 25.

Prices

Service sector price growth was little changed from a month ago. In May, annualized price growth for the overall service sector was 1.37 percent, compared to April’s 1.38 percent rate of increase. Within the broad service sector, retail prices climbed at an annualized 1.62 percent this month, slightly above the previous month’s 1.54 percent pace. At non-retail services firms, prices rose at an annualized 1.33 percent rate, compared to April’s 1.36 percent pace.

Survey participants expected prices would grow at a faster pace in the six months ahead. The expected rates of increase were moderately faster than April’s outlook. For the broad service sector, 1.77 percent annualized price growth was expected, compared to the month-ago outlook for

1.69 percent. Retailers anticipated their prices would climb by 1.82 percent, annualized, and non-retail services producers looked for 1.77 percent annualized price growth over the next six months. In April, 1.69 percent price growth was expected by both subsectors.

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| Business Activity Indexes^{1,4} | | | | |
|--|---------------------------|---------------|---------------|------------------------|
| Service Sector Indicators | Current Conditions | | | 3-Month Average |
| | May-15 | Apr-15 | Mar-15 | |
| Revenues | 13 | 2 | 12 | 9 |
| Number of Employees | 11 | 9 | 6 | 9 |
| Average Wage | 11 | 24 | 18 | 18 |
| Expected Demand ² | 20 | 18 | 18 | 19 |
| Retail Indicators | | | | |
| Sales Revenues | -12 | 17 | 12 | 6 |
| Number of Employees | 8 | 5 | 16 | 9 |
| Average Wage | 5 | 44 | 18 | 22 |
| Inventories | -14 | -5 | -1 | -7 |
| Big-ticket Sales | -13 | 18 | -19 | -5 |
| Shopper Traffic | -23 | 18 | 23 | 6 |
| Expected Product Demand ² | -13 | 23 | 6 | 6 |
| Services Firms Indicators | | | | |
| Revenues | 17 | -1 | 12 | 9 |
| Number of employees | 12 | 9 | 5 | 9 |
| Average wage | 12 | 21 | 19 | 17 |
| Expected demand for services ² | 25 | 17 | 20 | 21 |
| Current Price Trends³ | | | | |
| Service Sector | 1.37 | 1.38 | 1.22 | |
| Retail | 1.62 | 1.54 | 1.75 | |
| Services Firms | 1.33 | 1.36 | 1.13 | |
| Expected Price Trends^{2,3} | | | | |
| Expectations | | | | |
| | May-15 | Apr-15 | Mar-15 | |
| Service Sector | 1.77 | 1.69 | 1.45 | |
| Retail | 1.82 | 1.69 | 1.69 | |
| Services Firms | 1.77 | 1.69 | 1.42 | |

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 127 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.