

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Growth Gained Momentum; Average Wages Rose Robustly

Overview

Activity in the service sector strengthened moderately during June, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales increased briskly as shopper traffic picked up. However, big-ticket sales remained soft. Merchants' inventories rose slightly. Revenues accelerated at non-retail services firms. Looking ahead six months, survey respondents were optimistic about business prospects.

Employment in the service sector slowed overall this month, as a sharp decline in retail employment outweighed modestly stronger hiring at non-retail firms. Average wage growth intensified across the board.

Price increases in the broad service sector slowed slightly compared to May's pace. Survey respondents anticipated faster price growth in the next six months.

Overall Service Sector Conditions

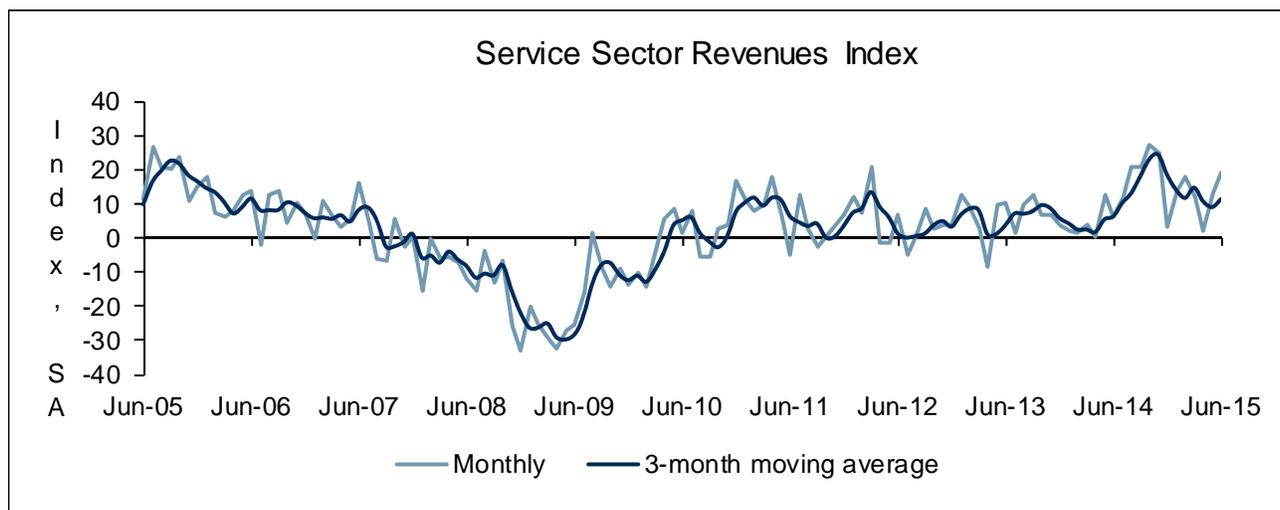
Service sector growth gained momentum in June, following the previous month's improvement. The revenues indicator climbed six points to finish at

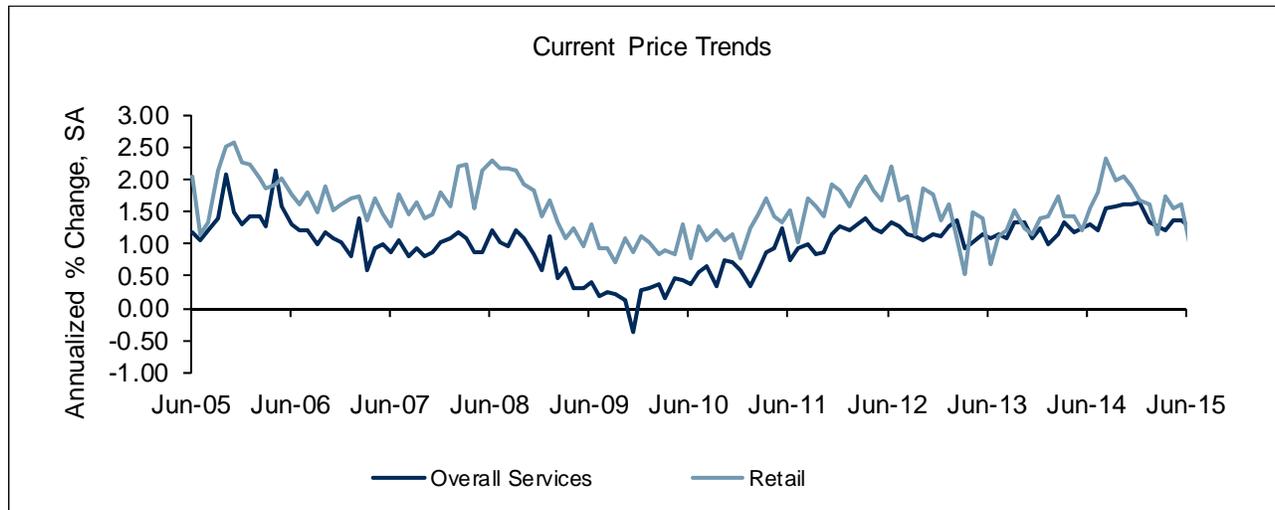
19 this month. Hiring in the service sector moderated three points to an index of 8, softened by a sharp drop in retail employment. Average wages rose rapidly in the broad service sector, with that index adding nine points to end the survey period at 20. Survey takers continued to build a more upbeat outlook for business conditions, with this month's expectations index at 24, slightly above the three-month average of 21.

Retail

Retail sales rebounded from last month's slump. The index returned to the April reading, jumping from -12 to 17 this month. Big-ticket sales remained soft, however, with the gauge at -5 compared to the previous reading of -13. In contrast, shopper traffic rose sharply, pushing the index 36 points higher to 13. Inventories grew in June following May's decline; the index moved up to 8 from -14.

Retailers expected stronger demand for their goods in the next six months. The index for expected demand moved back into positive territory, to a reading of 10 after a previous posting of -13.





Retailers cut their number of employees in June, driving the index down to -27 from the month-ago reading of 8. However, average wages accelerated robustly at retail establishments, pushing the indicator to 28 from 5.

Services-Providing Firms

Revenues at services-providing firms rose at a faster pace in June than a month ago. The index edged up three points to 20. Hiring at non-retail firms remained solid, with that gauge rising to 14 from 12. Average wage growth in the subsector also strengthened, with the index advancing seven points to a reading of 19.

Services providers anticipated that business prospects would brighten further in the next six months. The expectations index tacked on a point to end at 26.

Prices

Price growth in the service sector moderated to an annualized 1.28 percent pace in June, compared to the month-earlier 1.37 percent rate of rise. Retailers' annualized price increases cooled to a 1.04 percent rate from May's 1.62 percent growth. At non-retail services firms, prices rose at an annualized 1.32 percent pace, compared to 1.33 percent growth last month.

Looking ahead to the end of the year, survey respondents anticipated more rapid price increases. Expectations were for 1.61 percent

annualized price growth in the broad service sector, with a 1.57 percent pace of increase in retail prices and 1.61 percent growth in non-retail services firms' prices. In May, the outlook was for 1.77 percent annualized price growth in the overall service sector, and an annualized rise of 1.82 percent in retail prices. Non-retail prices were expected to increase at an annualized 1.77 percent pace.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jun-15	May-15	Apr-15	
Revenues	19	13	2	11
Number of Employees	8	11	9	9
Average Wage	20	11	24	19
Expected Demand ²	24	20	18	21
Retail Indicators				
Sales Revenues	17	-12	17	8
Number of Employees	-27	8	5	-5
Average Wage	28	5	44	26
Inventories	8	-14	-5	-4
Big-ticket Sales	-5	-13	18	0
Shopper Traffic	13	-23	18	3
Expected Product Demand ²	10	-13	23	7
Services Firms Indicators				
Revenues	20	17	-1	12
Number of employees	14	12	9	12
Average wage	19	12	21	17
Expected demand for services ²	26	25	17	23
Current Price Trends³				
Service Sector	1.28	1.37	1.38	
Retail	1.04	1.62	1.54	
Services Firms	1.32	1.33	1.36	
Expected Price Trends^{2,3}				
Expectations				
	Jun-15	May-15	Apr-15	
Service Sector	1.61	1.77	1.69	
Retail	1.57	1.82	1.69	
Services Firms	1.61	1.77	1.69	

Technical Notes:

¹ Each index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. A data are seasonally adjusted. Results are based on responses from 105 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.