

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Intensified in July; Retail Strengthened*

### Overview

Growth in the service sector accelerated in July, according to the latest survey by the Federal Reserve Bank of Richmond.\* Non-retail services providers' revenues increased sharply compared to a month earlier, and retail sales also grew robustly. Big-ticket sales strengthened, and shopper traffic rose briskly. Retail inventories grew at a faster pace. Survey participants anticipated stronger demand for goods and services during the next six months.

Service sector employment rose modestly this month, with growth in retail hiring. At non-retail services firms, the number of employees grew at a slower pace than a month earlier. Average wage growth accelerated.

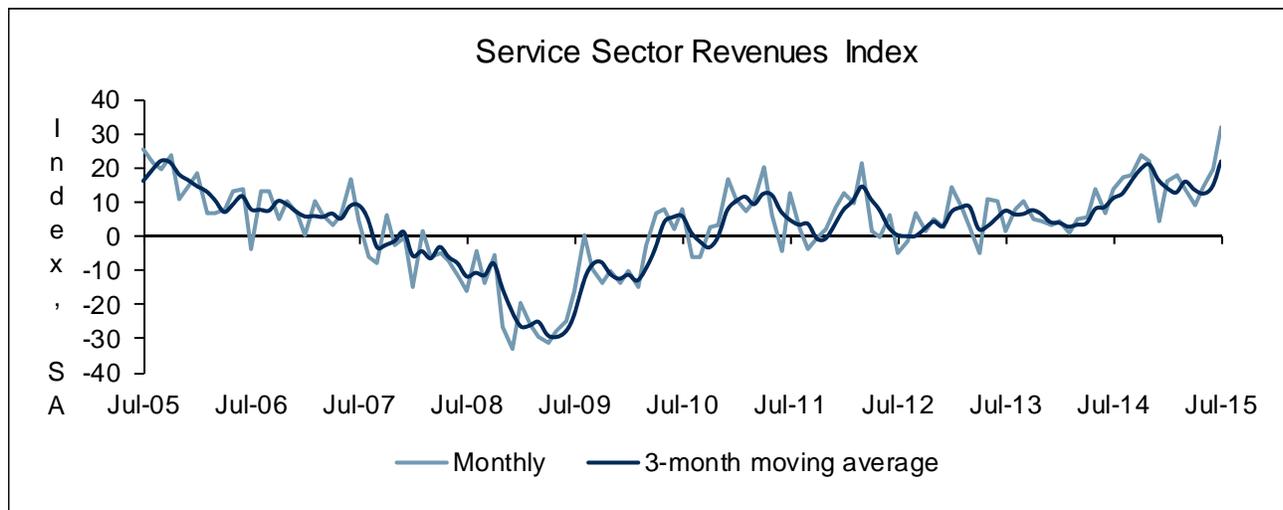
Prices in the broad service sector rose at a slightly slower pace in July compared to the previous month. Survey respondents anticipated prices would increase more rapidly in the next six months, although their expectations were for slower growth than their June outlook.

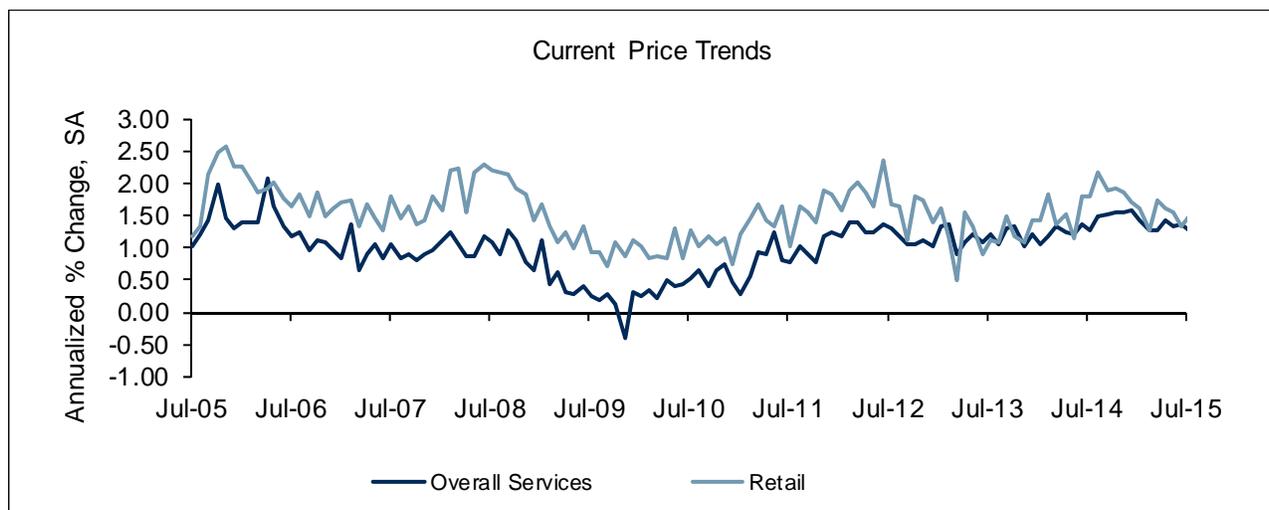
### Overall Service Sector Conditions

Service sector activity expanded in July, with the index for revenues jumping to 32 from the previous reading of 19. In addition, the pace of hiring edged up, with that gauge rising two points to 12. Average wages increased, bringing the index to 25 from 21. Businesses were increasingly optimistic about prospects six months into the future. The expectations index gained five points to finish the survey period at 30.

### Retail

Retail sales expanded appreciably in July, pushing the index to 35 from June's reading of 15. Big-ticket sales gained strength; the index climbed to 19 from -2. Furthermore, shopper traffic grew briskly, bringing that gauge 32 points higher to a reading of 48. Retail inventories built up more quickly, with the index adding seven points to end at a reading of 15. Merchants were confident of solid demand for their goods in the next six months. The expectations index jumped 16 points to 27.





Retail employment strengthened in July, driving the index to a reading of 10 from June's posting of -19. Average wages advanced solidly, albeit more slowly; the index settled seven points lower at 20.

**Services-Providing Firms**

Revenues at non-retail services firms increased sharply in July, pushing the index to 32 from the previous reading of 19. The pace of hiring slowed slightly at those businesses. The index for the number of employees shed three points, finishing at a reading of 12. Average wage increases proliferated, moving the indicator to 26 from 19.

Non-retail services providers anticipated good business conditions in the six months ahead. The expectations index added four points to end the survey period at 31.

**Prices**

Price growth in the service sector slowed in July to an annualized 1.26 percent pace, following June's 1.36 percent rate. Within the sector, retail prices rose more rapidly, climbing at an annualized 1.48 percent clip, compared to the 1.32 percent rate in June. At non-retail services firms, prices grew at an annualized 1.23 percent rate. In June, prices in that subsector rose at a 1.36 percent pace.

Survey participants expected prices would increase more quickly during the next six months, although their outlook was for price growth below

last month's expectations. In the broad service sector, expectations were for 1.42 percent annualized price growth, compared to the June outlook for a 1.69 percent rate of increase. Retailers anticipated prices would rise at a 1.32 percent pace, while non-retail services providers looked for future prices to rise at a 1.44 percent rate. In June, those expectations were for 1.65 percent growth in retail prices and a 1.70 percent rate of rise in non-retail services prices.

*\*Seasonal adjustment factors have been recalculated to better reflect current economic trends. In this report, comparisons to last month's indexes are made to the revised June indexes. New factors will be calculated annually.*

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<b>Business Activity Indexes<sup>1,4,5</sup></b>				
<b>Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month Average</b>
	<b>Jul-15</b>	<b>Jun-15</b>	<b>May-15</b>	
Revenues	32	19	14	22
Number of Employees	12	10	14	12
Average Wage	25	21	13	20
Expected Demand <sup>2</sup>	30	25	22	26
<b>Retail Indicators</b>				
Sales Revenues	35	15	-7	15
Number of Employees	10	-19	7	-1
Average Wage	20	27	2	17
Inventories	15	8	-9	5
Big-ticket Sales	19	-2	-6	3
Shopper Traffic	48	16	-19	15
Expected Product Demand <sup>2</sup>	27	11	-5	11
<b>Services Firms Indicators</b>				
Revenues	32	19	17	23
Number of employees	12	15	14	14
Average wage	26	19	14	20
Expected demand for services <sup>2</sup>	31	27	26	28
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.26	1.36	1.34	
Retail	1.48	1.32	1.56	
Services Firms	1.23	1.36	1.31	
<b>Expected Price Trends<sup>2,3</sup></b>				
<b>Expectations</b>				
	<b>Jul-15</b>	<b>Jun-15</b>	<b>May-15</b>	
Service Sector	1.42	1.69	1.80	
Retail	1.32	1.65	1.85	
Services Firms	1.44	1.70	1.80	

**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 100 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.
- <sup>5</sup> This table includes recalculation of seasonal adjustment factors to better reflect current economic trends. New factors will be calculated annually.