

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Maintained Momentum in August; Retail Sales Rose Rapidly, Non-Retail Employment Accelerated*

### Overview

Service sector activity continued to grow at a healthy pace in August, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales rose sharply. A surge in shopper traffic contributed to the jump, even as big-ticket sales flattened. Inventories at retail establishments accumulated at a modest rate, nearly on pace with a month ago. At non-retail services firms, revenues increased at a solid pace, albeit slightly below July's growth. Looking ahead, survey participants expected good business conditions during the next six months.

Employment in the service sector increased in August, with the strength concentrated at non-retail services providers. In addition, wages rose briskly across the broad sector.

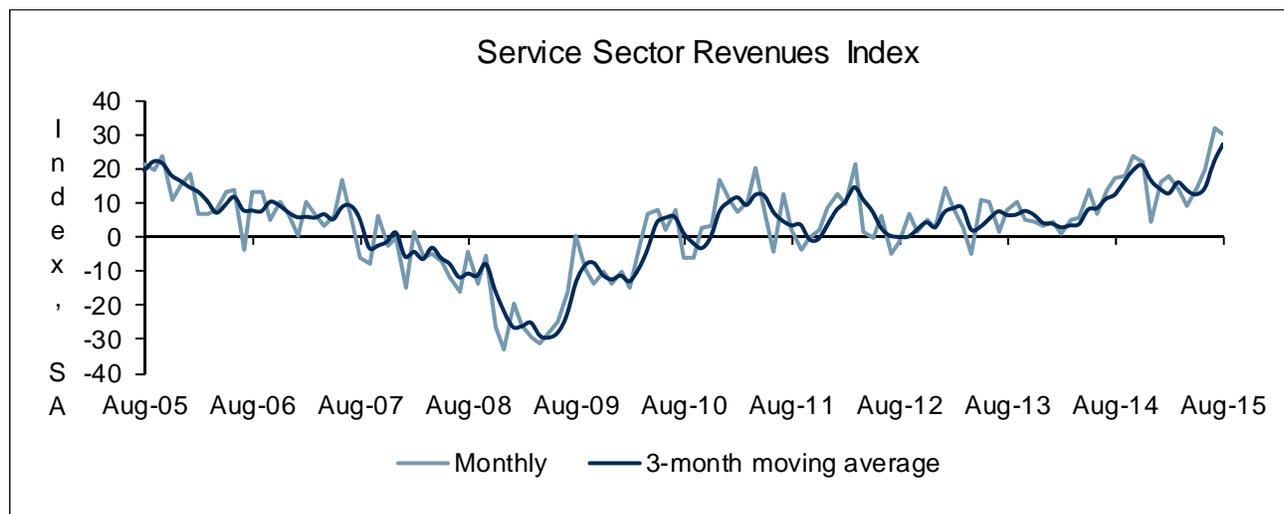
Price growth accelerated, with the pace quickening at both retail and non-retail establishments. In the longer view, survey participants expected prices would rise more rapidly during the next six months and outpace last month's expectations for price growth.

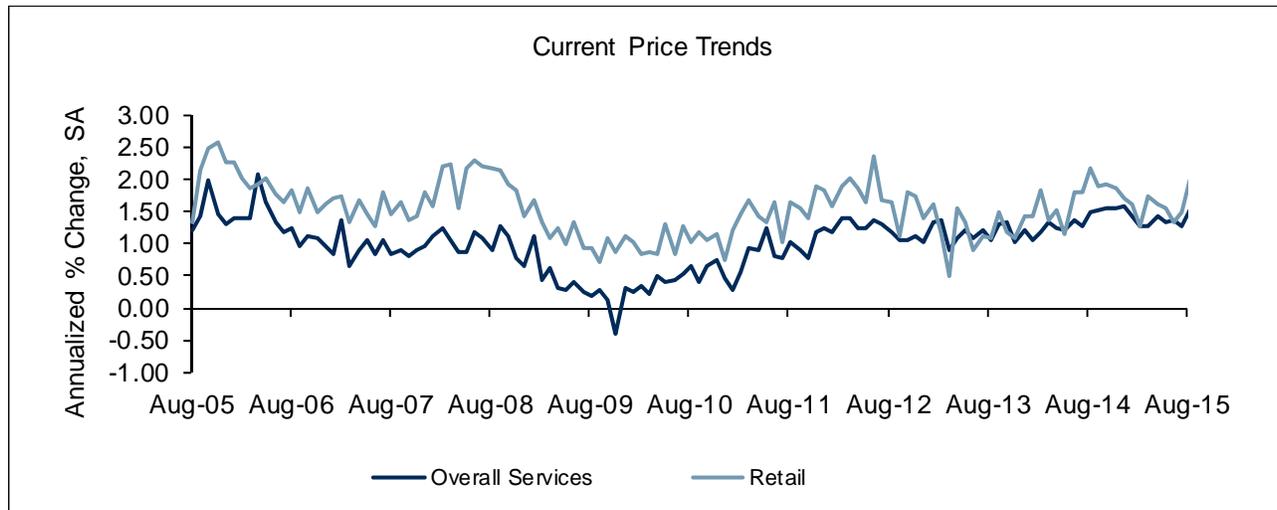
### Overall Service Sector Conditions

Activity in the service sector maintained momentum in August. The revenues indicator trimmed just two points from its month-ago reading to end the survey period at 30. Hiring expanded, pushing the index to 18 from 12. Average wages in the sector increased on pace with a month earlier; that index tacked on a point to finish at 26. Executives were upbeat about the next six months. The expectations index edged up to 32 from July's reading of 30.

### Retail

Retail sales expanded briskly this month. The index spiked to 44 from the previous month's reading of 35. Substantial growth in shopper traffic pushed the gauge up six points to 54. In contrast, big-ticket sales flattened, leaving the index 18 points lower at 1. Retailers' inventories accumulated at about the same pace as in July, with the indicator retreating three points to 12. Merchants were buoyant about the six months ahead, driving the expectations index up 18 points to 45.





Retail employment slowed in August, pulling the index for the number of employees to 5 from July's reading of 10. In contrast, average wage increases outpaced last month's growth, moving the index up 10 points to 30.

**Services-Providing Firms**

Revenues at non-retail services firms advanced at a slightly slower pace in August than in July, with the index dropping four points to settle at 28. The number of employees at those firms rose more rapidly this month, pushing the indicator to a reading of 20 from 12. In addition, average wages continued to grow at a solid pace, holding the index at 26 for a second month.

Services providers also looked for strong customer demand during the next six months. The expectations index remained at the July reading of 31.

**Prices**

Price growth in the service sector accelerated in August, reaching an annualized rate of 1.53 percent compared to July's 1.26 percent rate. Retail prices advanced at an annualized 1.98 percent pace following the previous month's 1.48 percent rate. At non-retail services providing firms, price growth picked up to an annualized 1.49 percent pace, whereas in July, prices increased by 1.23 percent.

Looking ahead to the next six months, survey participants anticipated more rapid price growth,

with service sector prices rising at an annualized 1.85 percent rate. Separately, expectations were for retail prices to climb at a 2.24 percent pace and non-retail prices to increase at a 1.81 percent rate. In July, the outlook of survey participants was for overall service sector price growth at 1.42 percent, annualized. Future retail prices were expected to rise by 1.32 percent and non-retail prices by 1.44 percent.

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<b>Business Activity Indexes<sup>1,4</sup></b>				
<b>Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month Average</b>
	<b>Aug-15</b>	<b>Jul-15</b>	<b>Jun-15</b>	
Revenues	30	32	19	27
Number of Employees	18	12	10	13
Average Wage	26	25	21	24
Expected Demand <sup>2</sup>	32	30	25	29
<b>Retail Indicators</b>				
Sales Revenues	44	35	15	32
Number of Employees	5	10	-19	-1
Average Wage	30	20	27	26
Inventories	12	15	8	12
Big-ticket Sales	1	19	-2	6
Shopper Traffic	54	48	16	39
Expected Product Demand <sup>2</sup>	45	27	11	28
<b>Services Firms Indicators</b>				
Revenues	28	32	19	27
Number of employees	20	12	15	16
Average wage	26	26	19	24
Expected demand for services <sup>2</sup>	31	31	27	30
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.53	1.26	1.36	
Retail	1.98	1.48	1.32	
Services Firms	1.49	1.23	1.36	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Aug-15</b>	<b>Jul-15</b>	<b>Jun-15</b>	
Service Sector	1.85	1.42	1.69	
Retail	2.24	1.32	1.65	
Services Firms	1.81	1.44	1.70	

**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 104 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.