

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

### *Service Sector Activity Moderated in September; Employment Softened*

#### Overview

Service sector activity moderated in September, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales increased modestly, bolstered by stronger big-ticket sales. Shopper traffic rose solidly, but at a slower pace than in August. Retail inventories built up more quickly. Non-retail services firms' revenues slowed compared to the previous month. Survey participants were optimistic about demand for their goods and services during the next six months.

Hiring in the service sector faltered in September, according to surveyed firms. Retailers reduced their number of employees and hiring tapered off at other services providers. Growth in average wages slowed from the pace in August.

Prices rose at a modest pace this month. Survey participants expected slightly faster price growth during the six months ahead.

#### Overall Service Sector Conditions

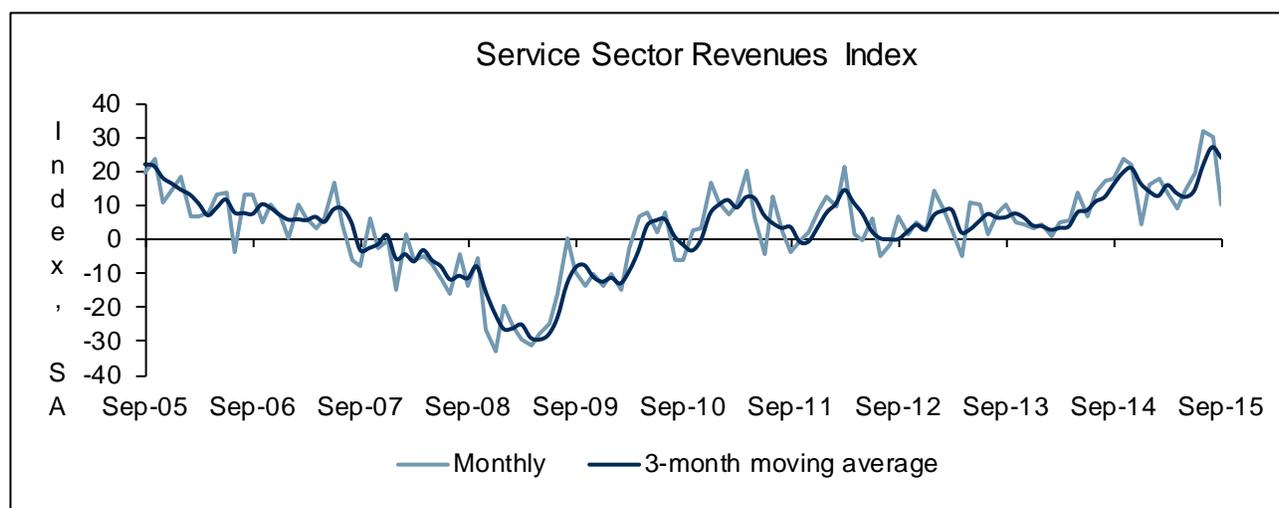
Service sector revenues rose at a restrained pace in September, with the index losing 20 points from last month's reading to settle at 10.

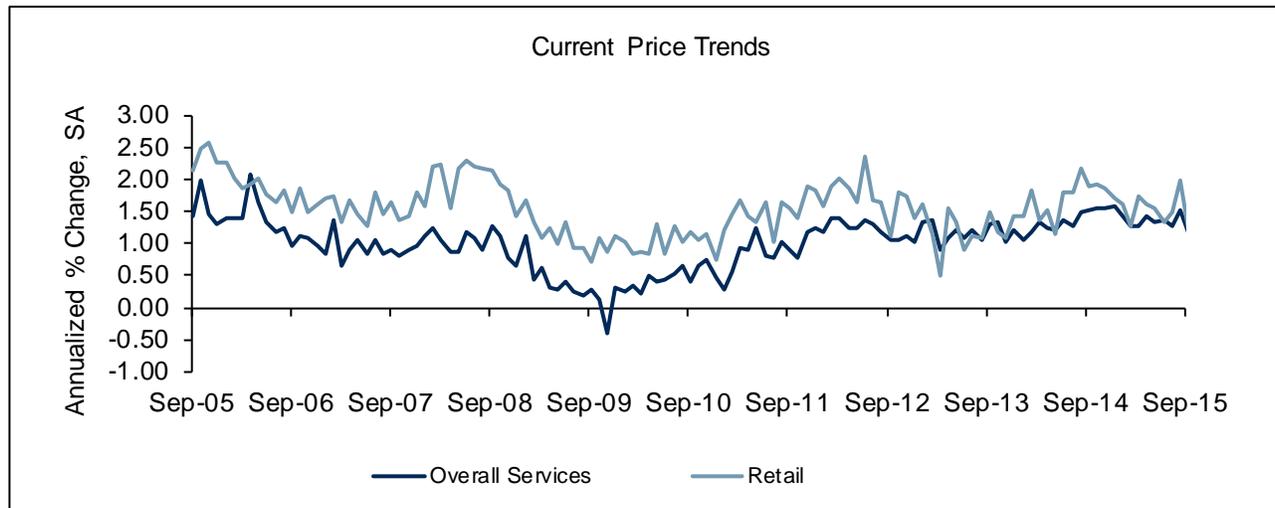
In addition, hiring weakened, with that indicator falling to 5 from 18. Average wage growth slowed slightly; the index finished six points below the August reading at 20. Looking to the next six months, executives were optimistic, although their expectations were more subdued this month. The index for expected demand fell to 24 from 32.

#### Retail

Retail sales softened compared to a month ago, with the index dropping 28 points to 16. The big-ticket index jumped to 20 this month from a reading of 1 last month, while shopper traffic diminished slightly, bringing that index down 15 points to 39. Inventories grew more rapidly than a month ago, pushing the gauge up 23 points to 35. Retailers' outlook for the next six months was bright despite pulling back from their August expectations. The index for expected demand settled 12 points lower at 33.

Merchants trimmed their payrolls in September. The index for the number of employees dropped to -19 from the previous month's reading of 5. Average wages rose on pace with last month, keeping the index at 30 for a second time.





### Services-Providing Firms

Revenue growth slowed at non-retail services firms. The index shed 18 points to finish at 10 this month. Services firms also slowed hiring, reducing that indicator to 8 from its month-ago reading of 20. Average wages increased moderately at services-providing firms. The index settled seven points lower at 19.

Services providers expected good business conditions in the six months ahead, although their outlook was more restrained than in August. The index dropped to a reading of 23 from 31.

### Prices

Overall service sector price growth moderated to an annualized rate of 1.18 percent in September, compared to growth at 1.53 percent in August. Retail prices rose at an annualized 1.25 percent pace compared to 1.98 percent a month ago. Non-retail services providing firms' prices increased at an annualized 1.17 percent pace, following growth at 1.49 percent in the prior month.

Survey participants' expectations for the next six months were for slightly faster price growth. They looked for overall service sector prices to rise at an annualized 1.65 percent rate. Separately, retailers expected a 2.01 percent rate of increase in prices and executives at other services firms looked for prices to grow at a 1.60 percent rate. Last month's outlook was for overall service sector price growth

at 1.85 percent. Retail price expectations were for 2.24 percent growth over six months, while non-retail services providers anticipated prices would rise at a 1.81 percent rate.

### Contact

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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>Sep-15</b>	<b>Aug-15</b>	<b>Jul-15</b>	
Revenues	10	30	32	24
Number of Employees	5	18	12	12
Average Wage	20	26	25	24
Expected Demand <sup>2</sup>	24	32	30	29
<b>Retail Indicators</b>				
Sales Revenues	16	44	35	32
Number of Employees	-19	5	10	-1
Average Wage	30	30	20	27
Inventories	35	12	15	21
Big-ticket Sales	20	1	19	13
Shopper Traffic	39	54	48	47
Expected Product Demand <sup>2</sup>	33	45	27	35
<b>Services Firms Indicators</b>				
Revenues	10	28	32	23
Number of employees	8	20	12	13
Average wage	19	26	26	24
Expected demand for services <sup>2</sup>	23	31	31	28
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.18	1.53	1.26	
Retail	1.25	1.98	1.48	
Services Firms	1.17	1.49	1.23	
<b>Expected Price Trends<sup>2,3</sup></b>				
<b>Expectations</b>				
	<b>Sep-15</b>	<b>Aug-15</b>	<b>Jul-15</b>	
Service Sector	1.65	1.85	1.42	
Retail	2.01	2.24	1.32	
Services Firms	1.60	1.81	1.44	

**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 90 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.