

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Business Conditions Improved in October with Gains in Employment

Overview

Activity at Fifth District service sector firms strengthened in October, according to the latest survey by the Federal Reserve Bank of Richmond. Compared with a month earlier, retail sales grew more quickly and shopper traffic continued to rise at a solid pace. Big-ticket sales weakened, however. Retail inventory accumulation moderated. Revenues increased more quickly at non-retail services firms. Despite stronger sales this month, retailers were more guarded in their outlook for sales in the next six months. Non-retail providers remained upbeat about prospects in the months ahead.

In October, service sector employment spiked at non-retail firms while weakening at retail establishments. Average wages in the broad service sector rose more slowly this month.

Prices increased at a modest pace this month, nearly matching September's rate of rise. Looking ahead, survey participants anticipated prices will climb slightly faster during the next six months.

Overall Service Sector Conditions

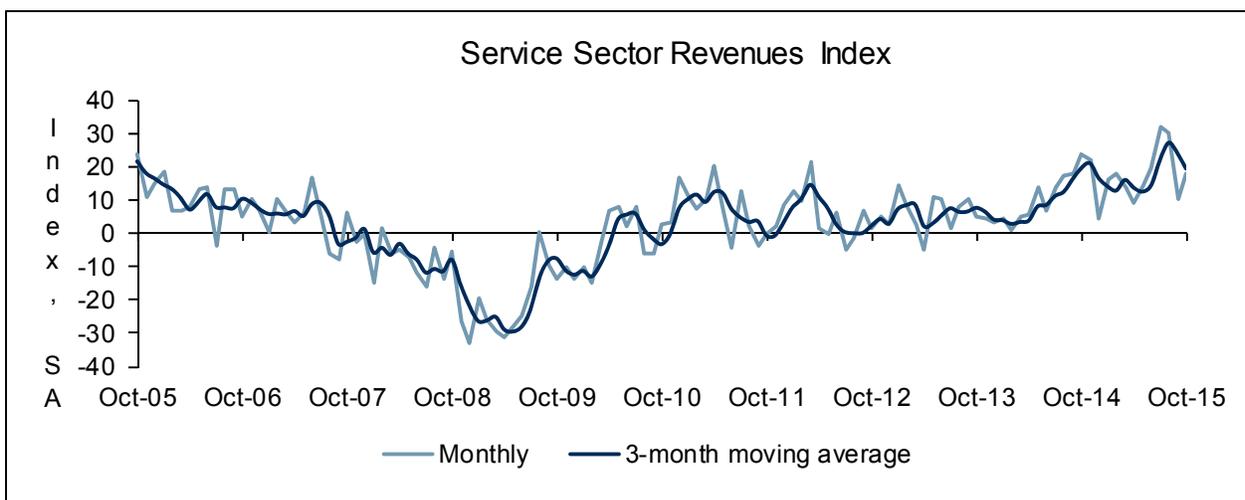
Revenues grew more quickly in the broad service sector in October than in the prior month, pushing

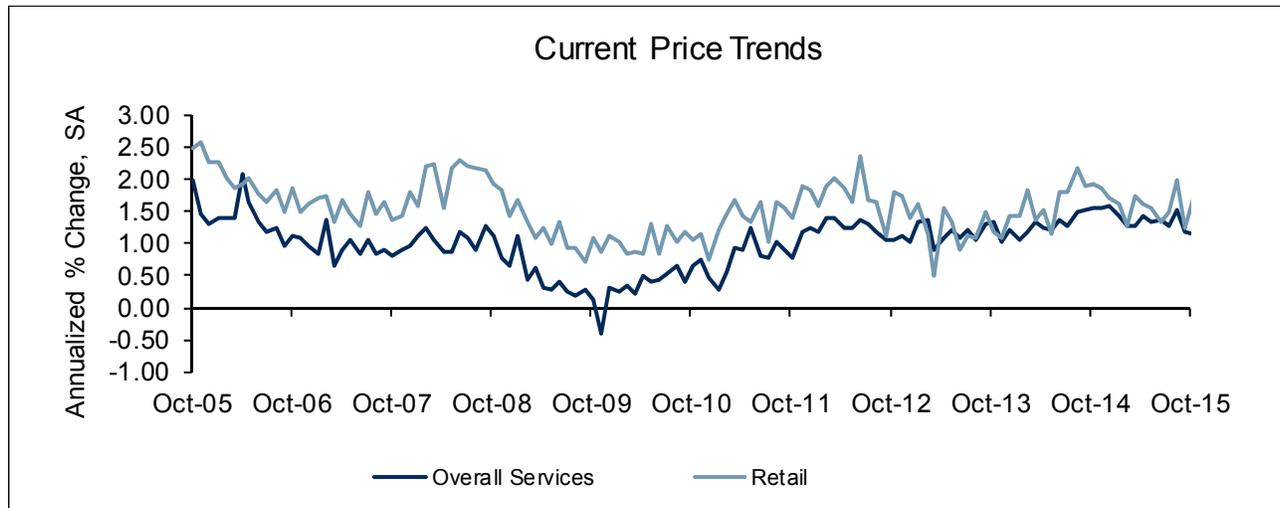
the index up eight points to 18. Employment in the sector advanced at a modest pace, with non-retail hiring driving the index to a reading of 17 from last month's 5. Average wage growth tapered off, however, with that indicator dropping six points to a reading of 14. Overall, survey participants remained optimistic about expected demand for goods and services.

Retail

Retail sales rose at a faster pace in October, and shopper traffic increased solidly. The index for sales revenues added four points to last month's reading to finish at 20, while the index for shopper traffic shed only three points, ending at 36. In contrast, big-ticket sales flattened, with that gauge dropping 23 points to a reading of -3. Inventories accumulated more slowly than in September, reducing the index by 20 points to 15. Retail merchants were more cautious in their outlook for business during the next six months; the index for expected demand moved down to 10 from the previous month's reading of 33.

On the employment side, the decline in the number of employees slowed slightly compared to a month ago, with the index moving to -12 from -19. Average retail wage growth remained robust,





boosting the previous month's indicator by seven points to a reading of 37.

Services-Providing Firms

Revenues rose more rapidly at non-retail services firms in October than in the prior month. The index climbed seven points to a reading of 17. Additionally, hiring in the non-retail sub-sector increased sharply, propelling the index to 20 from 8. Average wage growth moderated somewhat, softening the indicator to 12 from September's index of 19.

Services providers maintained their upbeat outlook for business prospects in the six months ahead, with the expectations index gaining a point to finish the survey period at 24.

Prices

Price growth in the overall service sector was modest, with prices rising at an annualized rate of 1.14 percent in October, following September's pace of 1.18 percent. Separately, retail prices increased more rapidly, climbing at an annualized 1.68 percent clip. A month earlier, retail prices rose at a 1.25 percent annualized rate. Prices at non-retail services firms increased at a slightly slower pace this month, edging up at an annualized 1.08 percent pace. In September, non-retail prices rose at a 1.17 percent rate.

Looking ahead six months, survey participants anticipated little change in the pace of price

increases compared to their outlook of a month ago. Expectations were for annualized price growth of 1.67 percent in the broad service sector, and 1.80 percent in the retail subsector. In the non-retail subsector, expectations were for a 1.66 percent annualized rate of rise during the next six months. A month ago, executives' six-month outlook was for 1.65 percent annualized price growth in the overall service sector, with a 2.01 percent rate of increase in retail prices and a 1.60 percent pace of growth in non-retail services firms' prices.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Oct-15	Sep-15	Aug-15	
Revenues	18	10	30	19
Number of Employees	17	5	18	13
Average Wage	14	20	26	20
Expected Demand ²	23	24	32	26
Retail Indicators				
Sales Revenues	20	16	44	27
Number of Employees	-12	-19	5	-9
Average Wage	37	30	30	32
Inventories	15	35	12	21
Big-ticket Sales	-3	20	1	6
Shopper Traffic	36	39	54	43
Expected Product Demand ²	10	33	45	29
Services Firms Indicators				
Revenues	17	10	28	19
Number of employees	20	8	20	16
Average wage	12	19	26	19
Expected demand for services ²	24	23	31	26
Current Price Trends³				
Service Sector	1.14	1.18	1.53	
Retail	1.68	1.25	1.98	
Services Firms	1.08	1.17	1.49	
Expected Price Trends^{2,3}				
	Expectations			
	Oct-15	Sep-15	Aug-15	
Service Sector	1.67	1.65	1.85	
Retail	1.80	2.01	2.24	
Services Firms	1.66	1.60	1.81	

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 103 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.