

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Moderated; Revenues Flattened While Hiring and Average Wages Rose*

### Overview

Fifth District service sector activity moderated in November, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales contracted, pulled down by a sharp drop in big-ticket sales and dwindling shopper traffic. Meanwhile, retail inventories were reduced. Revenues flattened at other services firms. Retailers pared back their outlook for business prospects during the next six months, while other services firms were marginally less confident about business conditions than a month ago.

Employment in the service sector rose more slowly than a month earlier, while average wages increased at a moderate pace.

Prices rose at a slightly faster pace overall, with slower retail price growth offset by a modest pick-up in the rate of price increases at services-providing firms.

### Overall Service Sector Conditions

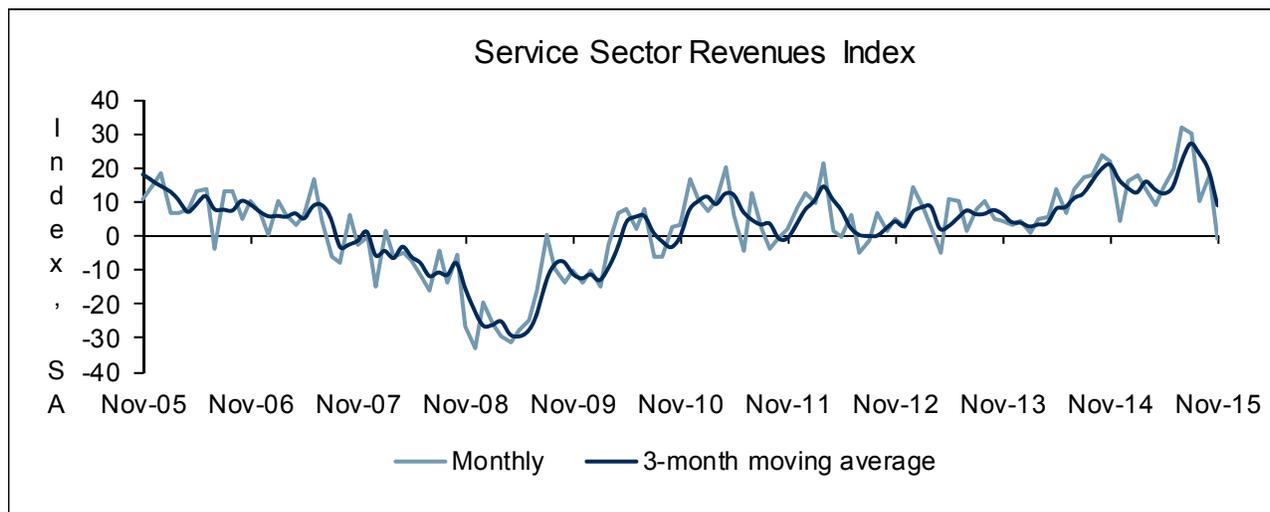
Service sector revenues flattened in November. The index moderated to a reading of -1, compared to 18 in October. Hiring continued to rise this month, but at a slightly slower pace, with the index

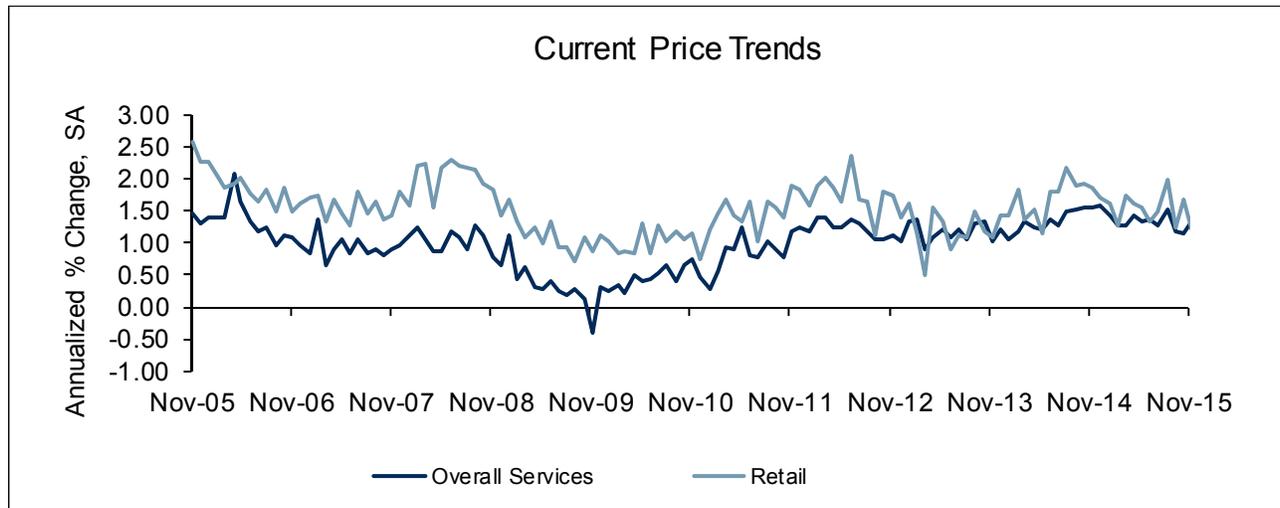
for employment dropping four points to 13. In contrast, average wage increases were more prevalent, pushing that gauge up three points to a reading of 17. Looking ahead six months, survey respondents were optimistic about business conditions, albeit less sanguine than a month earlier. The index settled at 15 compared to the previous reading of 23.

### Retail

Retail sales contracted in November, accompanied by a steep drop in big-ticket sales. The index for sales revenues fell to a reading of -12 from October's index of 20. The indicator for big-ticket sales lost 22 points to settle at -25. In addition, the index for shopper traffic cooled to a nearly flat reading of -3 from the previous index of 36. Retail inventories declined this month. The index dropped 33 points to -18. Expectations for product demand also pulled back, with that indicator dropping to -21 from the month-ago reading of 10.

Retail employment levelled off, bringing the index to -1 from -12. Despite the other softer readings, retail wages continued to increase robustly. The index shed just two points, settling at 35 this month.





**Services-Providing Firms**

Revenues flattened at non-retail services firms in November, depressing the index to 1 from last month's reading of 17. Hiring rose more slowly, with the gauge for the number of employees casting off five points to end the survey period at 15. Average wages continued to grow moderately; the index gained two points to finish at 14.

While services providers continued to view future business conditions positively, their outlook was less confident than a month earlier. The index slipped four points in November to 20.

**Prices**

Prices in the broad service sector edged up in November, as slower growth in retail prices was outweighed by more rapid price growth at other services firms. Overall service sector prices rose at an annualized rate of 1.33 percent this month, compared with 1.14 percent growth in October. In the retail sub-sector, price increases slowed to an annualized 1.21 percent pace, following last month's 1.68 percent rate of growth. At other services firms, the pace of prices accelerated to 1.34 percent, annualized, in November. A month earlier, prices rose at a 1.08 percent rate in that sub-sector.

Looking to the next six months, survey participants expected more rapid price increases in the overall service sector, with the push coming from non-retail services firms. Expectations were for 1.74

percent annualized growth in overall service sector prices, compared to the month-ago outlook for 1.67 percent growth. In retail, expectations were for prices to rise at a 1.20 percent rate, following the October expectation for a 1.80 percent climb in future retail prices. At other services-providing firms, survey respondents anticipated prices would climb at a 1.82 percent rate, whereas last month, expectations were for a 1.66 percent rise in prices.

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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>Nov-15</b>	<b>Oct-15</b>	<b>Sep-15</b>	
Revenues	-1	18	10	9
Number of Employees	13	17	5	12
Average Wage	17	14	20	17
Expected Demand <sup>2</sup>	15	23	24	21
<b>Retail Indicators</b>				
Sales Revenues	-12	20	16	8
Number of Employees	-1	-12	-19	-11
Average Wage	35	37	30	34
Inventories	-18	15	35	11
Big-ticket Sales	-25	-3	20	-2
Shopper Traffic	-3	36	39	24
Expected Product Demand <sup>2</sup>	-21	10	33	7
<b>Services Firms Indicators</b>				
Revenues	1	17	10	9
Number of employees	15	20	8	14
Average wage	14	12	19	15
Expected demand for services <sup>2</sup>	20	24	23	22
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.33	1.14	1.18	
Retail	1.21	1.68	1.25	
Services Firms	1.34	1.08	1.17	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Nov-15</b>	<b>Oct-15</b>	<b>Sep-15</b>	
Service Sector	1.74	1.67	1.65	
Retail	1.20	1.80	2.01	
Services Firms	1.82	1.66	1.60	

**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 93 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.