

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Revenues Mixed: Retail Sales Contracted, Other Services Revenues Edged Up*

### Overview

Service sector activity remained subdued in December, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales contracted for a second consecutive month and shopper traffic dropped. Big-ticket sales fell sharply. Retail inventories were little changed. Revenues rose at a slightly faster pace at other services firms, however. Compared to last month, retailers were mostly neutral about their expectations for sales in the first half of 2016. Non-retail services providers remained upbeat about potential sales during the next six months.

Service sector employment strengthened further in December, with more hiring than a month earlier and continued increases in average wages.

Prices moderated slightly across the service sector, with slower increases in prices at services firms and accelerated price growth at retail establishments.

### Overall Service Sector Conditions

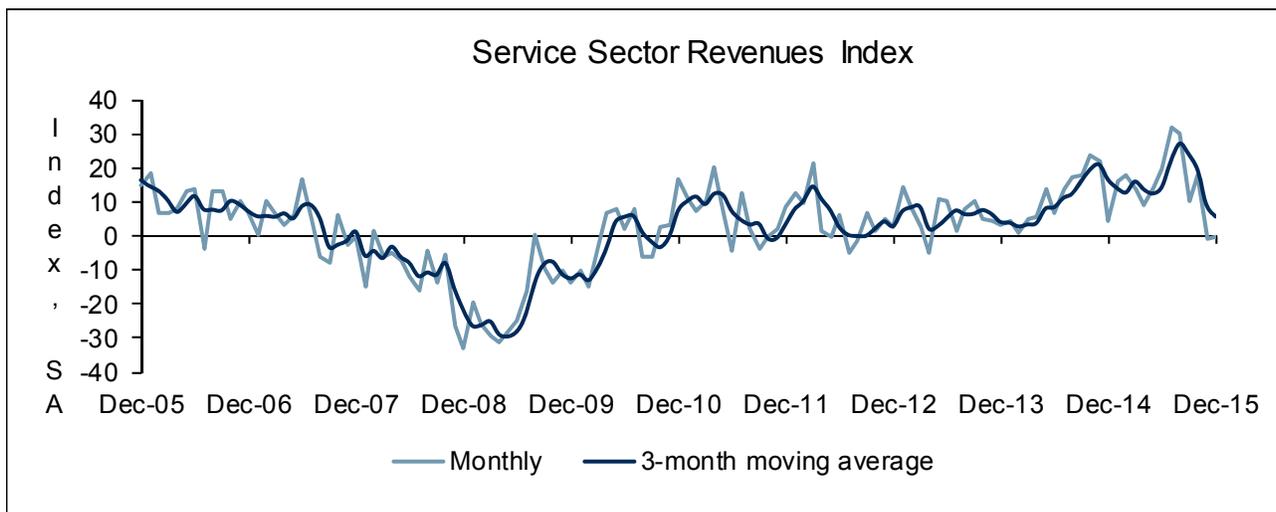
Revenues in the broad service sector were flat this month, with the index finishing at 0 compared to last month's reading of -1. Businesses added

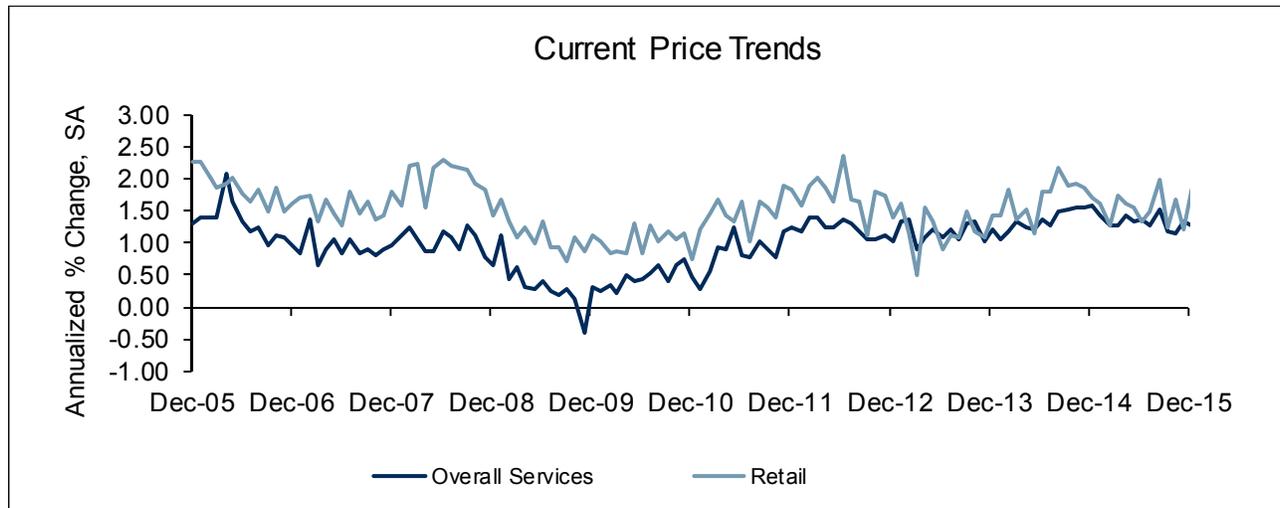
employees at a faster pace than in November, pushing the indicator for the number of employees up five points to 18. Average wage growth moderated slightly, shaving four points from last month's index to settle at 13. Survey respondents were generally optimistic about the first half of 2016, with the index for expected demand rising to 19 from November's reading of 15.

### Retail

Retail sales remained in a slump going into the holidays, with the index dropping to -36 from last month's reading of -12. Big ticket sales fell in December, pulling the index seven points lower to -32. In addition, shopper traffic declined, reducing the index to -19 from -3. Inventories flattened, moving the index up 17 points from the November reading to end at -1. Merchants expected little change in demand; the index for expected product demand ended at -3, compared to a month earlier, when the index was -21.

Retail hiring edged up this month, with that gauge adding nine points to the month-ago reading to finish at 8. However, the pace of retail wage growth slowed, leaving the index at 7 after November's reading of 35.





**Services-Providing Firms**

The pace of revenue growth picked up at services-providing firms in December, pushing the index to 7 from November’s reading of 1. In addition, hiring increased, with the index jumping five points to 20. Average wages rose on pace with a month ago, keeping that indicator at 14 for a second month.

Services providers looked for strong demand in the six months ahead. The expectations index added three points to last month’s reading to finish the survey period at 23.

**Prices**

Price increases in the broad service sector slowed slightly compared with a month ago. In December, prices rose at an annualized 1.26 percent pace, just below November’s 1.33 rate. Within the sub-sectors, retail price growth accelerated to a 1.84 percent annualized rate compared to 1.21 percent in November. Other services firms’ prices slowed to an annualized 1.15 percent pace after rising at a 1.34 percent rate last month.

Looking to the first half of 2016, survey participants anticipated prices would increase at a faster pace, with overall service sector prices rising at a 1.82 percent annualized rate. A month earlier, they looked for 1.74 percent price growth. Retailers expected continued price acceleration, at an annualized 2.64 percent clip, while a month ago they looked for prices to rise at a 1.20 percent pace. Non-retail services providers expected

prices would rise at an annualized 1.66 percent pace in the coming months, following their previous outlook for 1.82 percent price growth.

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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>Dec-15</b>	<b>Nov-15</b>	<b>Oct-15</b>	
Revenues	0	-1	18	6
Number of Employees	18	13	17	16
Average Wage	13	17	14	15
Expected Demand <sup>2</sup>	19	15	23	19
<b>Retail Indicators</b>				
Sales Revenues	-36	-12	20	-9
Number of Employees	8	-1	-12	-2
Average Wage	7	35	37	27
Inventories	-1	-18	15	-2
Big-ticket Sales	-32	-25	-3	-20
Shopper Traffic	-19	-3	36	5
Expected Product Demand <sup>2</sup>	-3	-21	10	-5
<b>Services Firms Indicators</b>				
Revenues	7	1	17	9
Number of employees	20	15	20	18
Average wage	14	14	12	13
Expected demand for services <sup>2</sup>	23	20	24	22
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.26	1.33	1.14	
Retail	1.84	1.21	1.68	
Services Firms	1.15	1.34	1.08	
<b>Expected Price Trends<sup>2,3</sup></b>				
<b>Expectations</b>				
	<b>Dec-15</b>	<b>Nov-15</b>	<b>Oct-15</b>	
Service Sector	1.82	1.74	1.67	
Retail	2.64	1.20	1.80	
Services Firms	1.66	1.82	1.66	

**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.