

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Strengthened in January; Strong Wage Growth and Robust Retail Activity

Overview

The service sector strengthened in January, according to the latest survey by the Federal Reserve Bank of Richmond. Retailers started 2016 with a sharp increase in sales, pushed by a spike in big-ticket sales and heavy shopper traffic. Retail inventories rose moderately. Revenues continued to grow at a modest pace at other services firms. Survey participants anticipated moderate growth in demand for goods and services during the winter and spring of 2016.

Employment in the service sector increased at a strong pace for a second consecutive month. Compared to a month earlier, the pace of average wage growth accelerated.

Prices in the broad service sector rose slightly faster in January. In contrast to a month earlier, retail prices slowed abruptly while price growth accelerated at other services firms.

Overall Service Sector Conditions

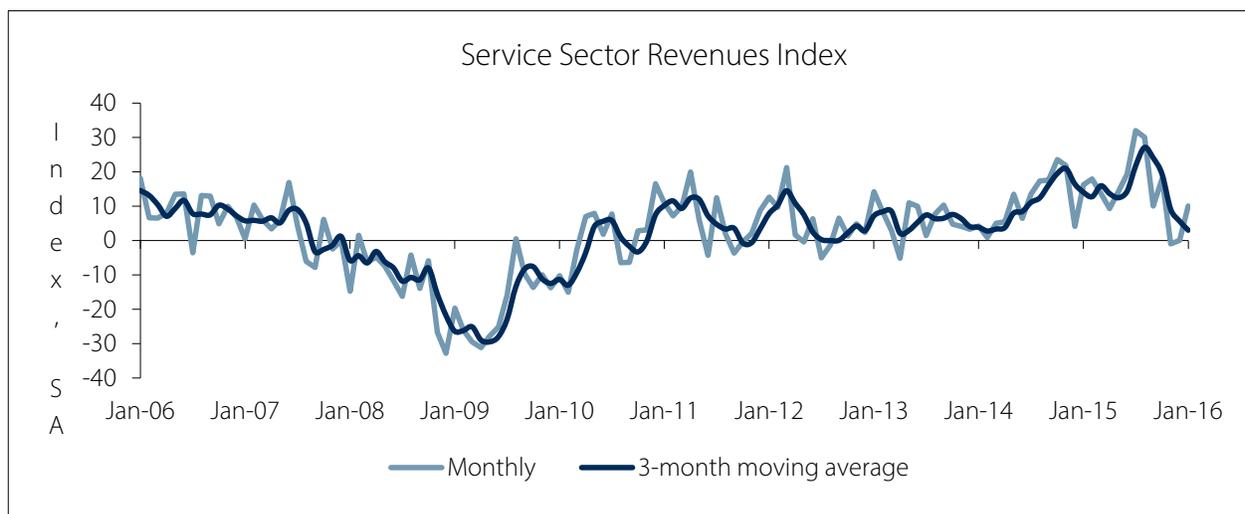
Service sector revenues grew moderately this month after stalling for two months. The index rose to a reading of 10 following December's 0. Employment continued to grow on pace with last

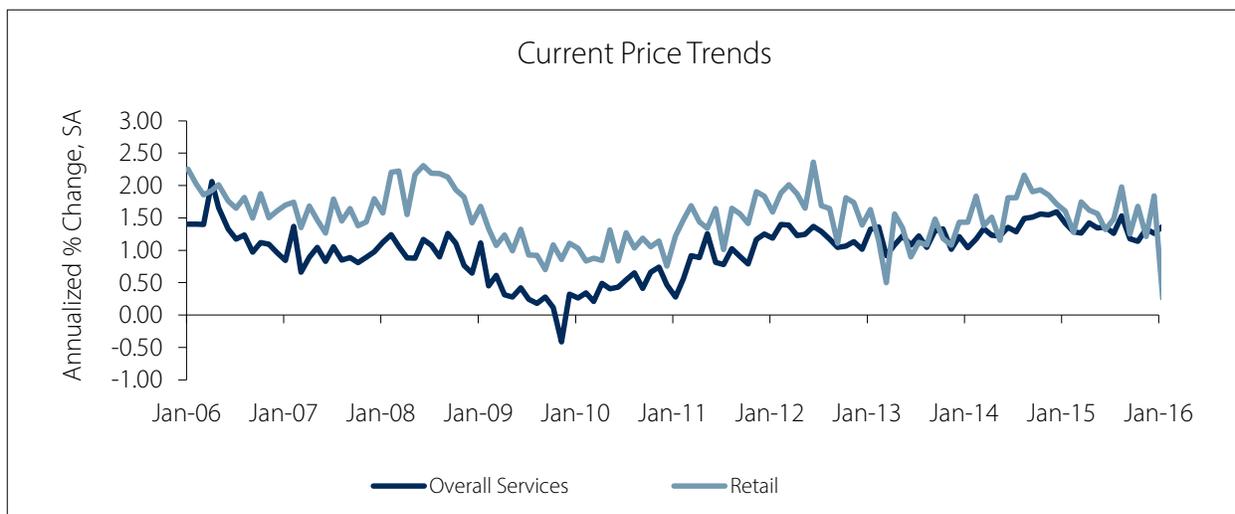
month, holding the gauge at 18 for a second month. Average wage increases were prevalent, moving the index to 26 from last month's reading of 13. Looking to the next six months, survey participants expected moderate growth in demand for goods and services. The indicator declined five points in January to settle at 14.

Retail

Retail sales rose sharply in January after a weak reading in December, pushing the index to 27 from -36. The index for big-ticket sales climbed to 30 from last month's reading of -32. In addition, shopper traffic was heavy this month, driving the indicator up to 26 from December's index of -19. Retail inventories increased moderately with the index gaining 13 points this month to finish at 12. Retailers anticipated further strength in sales prospects during the next six months, elevating the gauge for expected product demand to 16 from last month's reading of -3.

Retail employment also improved in January, with the index adding four points to end at 12. Wage increases accelerated briskly, taking the index 23 points above last month's reading to finish at 30.





Services-Providing Firms

Revenues at services-providing firms rose nearly on pace with last month. The index inched up one point to a reading of 8 in January. Hiring strength continued this month, with the index dropping just one point to 19. However average wage increases accelerated, raising the gauge to 26 from December’s 14.

Despite continuing growth, services providers were somewhat less sanguine about business demand for the next six months. The index slipped nine points from the previous reading to settle at 14.

Prices

Service sector price growth picked up in January, with the push coming from non-retail services firms. Prices in the broad service sector rose at an annualized rate of 1.37 percent, with non-retail services prices increasing at a 1.52 percent annualized pace. In contrast, retail price growth slowed to 0.26 percent, annualized. In December, overall prices rose at a 1.26 percent rate, with non-retail subsector prices moving up at a 1.15 percent pace and retail prices climbing at a 1.84 percent rate.

Looking ahead six months, survey participants anticipated slightly faster price increases than they indicated for this month but slower growth than they predicted in their December outlook. For the

overall service sector, expectations were that prices would increase at a 1.40 percent pace, with 0.33 percent annualized growth in retail prices and 1.54 percent growth in non-retail services prices. In December, expectations were for 1.82 percent annualized price growth across the sector and 2.64 percent annualized price growth in the retail sub-sector. Non-retail firms expected prices would increase at an annualized 1.66 percent pace.

Contact

Aileen Watson

Associate Regional Economist
 Research Dept. /Regional Economics
 Federal Reserve Bank of Richmond

Richmond Office

Ph: 804.697.7995 • Fax: 804.697.8123

aileen.watson@rich.frb.org

www.richmondfed.org

Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jan-16	Dec-15	Nov-15	
Revenues	10	0	-1	3
Number of Employees	18	18	13	17
Average Wage	26	13	17	19
Expected Demand ²	14	19	15	16
Retail Indicators				
Sales Revenues	27	-36	-12	-7
Number of Employees	12	8	-1	6
Average Wage	30	7	35	24
Inventories	12	-1	-18	-3
Big-ticket Sales	30	-32	-25	-9
Shopper Traffic	26	-19	-3	2
Expected Product Demand ²	16	-3	-21	-3
Services Firms Indicators				
Revenues	8	7	1	5
Number of employees	19	20	15	18
Average wage	26	14	14	18
Expected demand for services ²	14	23	20	19
Current Price Trends³				
Service Sector	1.37	1.26	1.33	
Retail	0.26	1.84	1.21	
Services Firms	1.52	1.15	1.34	
Expected Price Trends^{2,3}				
Expectations				
	Jan-16	Dec-15	Nov-15	
Service Sector	1.40	1.82	1.74	
Retail	0.33	2.64	1.20	
Services Firms	1.54	1.66	1.82	

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 104 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.