

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Softened in February; Employment and Wage Growth Weakened

Overview

Service sector activity slowed in February, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales increased moderately, as shopper traffic rose sharply. In contrast, revenues decelerated at other services firms. Retail inventories flattened and big-ticket sales softened. Looking to the next six months, survey participants expected mild growth in demand for goods and services.

Service sector employment grew at a slower pace this month compared to January, except at retail establishments where the pace of hiring edged higher. Average wage growth also moderated.

Prices in the broad service sector accelerated in February. Prices at non-retail services firms rose slightly faster than a month earlier, while retail prices climbed rapidly following a previously slow pace in January.

Overall Service Sector Conditions

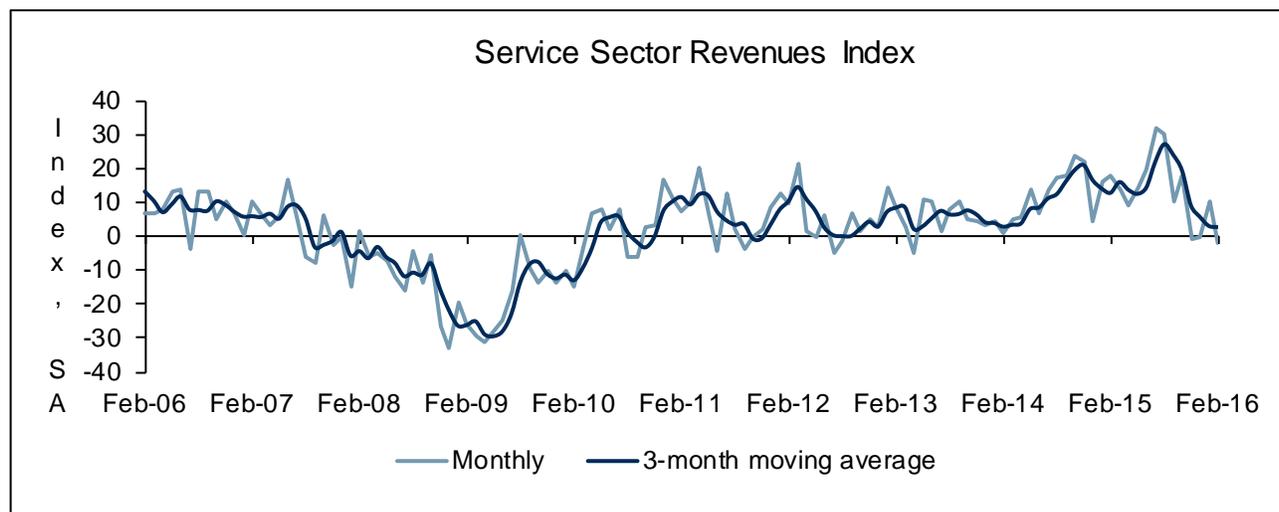
Revenues in the overall service sector fell in February, with the index slipping to -2 from last month's reading of 10. Employment also softened, dragging that indicator to a reading of 9, just half

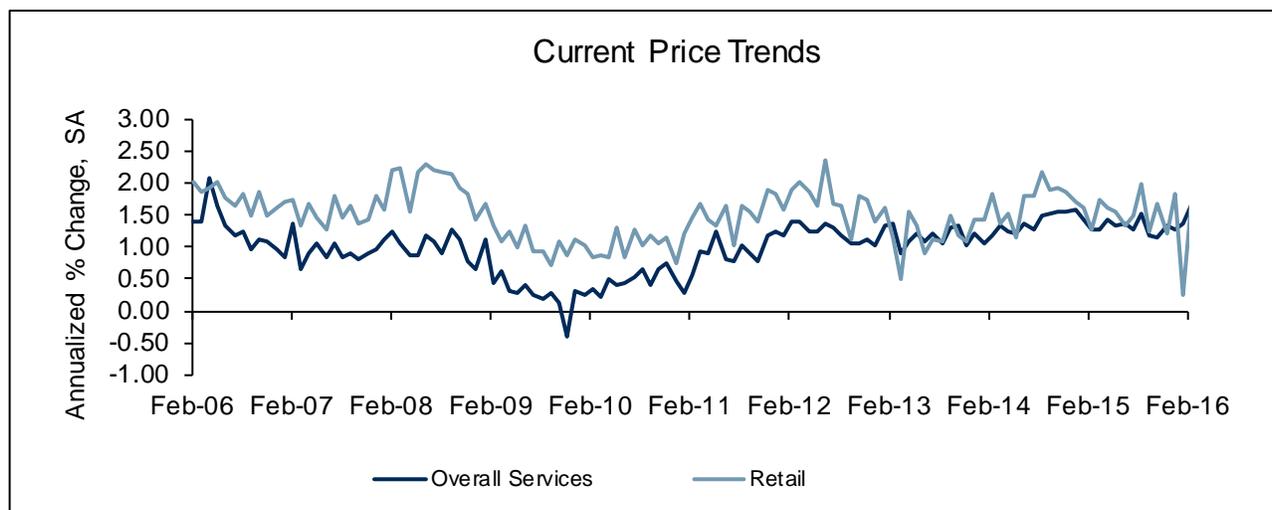
its previous value. Likewise, average wage growth slowed, with the index dropping 18 points this month to a reading of 8. Survey respondents were also less sanguine about their expectations for business in the next six months. The outlook index lost seven points, ending at 7.

Retail

Retail sales increased moderately in February, despite weaker big-ticket sales. However, the overall retail revenues index diminished to 18 from the previous reading of 27. The big-ticket indicator shed 19 points to finish at 11, Shopper traffic strengthened, pushing the index up six points in February to a reading of 32. Merchants' inventories were unchanged, with that gauge settling 12 points lower at 0. Retailers anticipated weaker demand for goods during the next six months, pulling the expectations index down to -6 from January's reading of 16.

Retail employment increased at a modest pace this month, with the index tacking on one point to finish the survey period at 13. Wage growth flattened, leaving the indicator at -1, compared to the previous reading of 30.





Services-Providing Firms

Revenues at services-providing firms declined in February, with the index falling to -6 from January’s reading of 8. Hiring grew at a slower pace than a month earlier. The index for the number of employees dropped 10 points this month to 9. In addition, average wage growth tapered off, leaving that gauge 17 points lower at 9.

Survey respondents at services firms trimmed back their expectations for business prospects in the six months ahead; the index moderated to a reading of 9 from January’s 14.

Prices

Price growth in the service sector accelerated in February. Prices in the broad service sector rose at an annualized 1.65 percent rate compared to January’s 1.37 percent pace. In the retail sub-sector, price growth climbed at a 1.64 percent annualized rate following the previous slow pace of 0.26 percent. At other services firms, price growth advanced by 1.65 percent, annualized compared to last month’s 1.52 percent rise.

Survey respondents anticipated more rapid price growth in the next six months than they had anticipated a month ago. Overall, they looked for prices to rise at an annualized 1.70 percent rate, whereas they expected price growth of 1.40 percent in January. Retailers predicted prices would increase at a 1.28 percent annualized pace,

following their previous outlook for 0.33 percent price growth. Survey respondents at other services firms expected a 1.77 percent annualized price rise. In January, they looked for future prices to increase at a 1.54 percent pace.

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Business Activity Indexes^{1,4}

Service Sector Indicators	Current Conditions			3-Month Average
	Feb-16	Jan-16	Dec-15	
Revenues	-2	10	0	3
Number of Employees	9	18	18	15
Average Wage	8	26	13	16
Expected Demand ²	7	14	19	13
Retail Indicators				
Sales Revenues	18	27	-36	3
Number of Employees	13	12	8	11
Average Wage	-1	30	7	12
Inventories	0	12	-1	3
Big-ticket Sales	11	30	-32	3
Shopper Traffic	32	26	-19	13
Expected Product Demand ²	-6	16	-3	2
Services Firms Indicators				
Revenues	-6	8	7	3
Number of employees	9	19	20	16
Average wage	9	26	14	16
Expected demand for services ²	9	14	23	15
Current Price Trends ³				
Service Sector	1.65	1.37	1.26	
Retail	1.64	0.26	1.84	
Services Firms	1.65	1.52	1.15	
Expected Price Trends ^{2,3}				
Expectations				
	Feb-16	Jan-16	Dec-15	
Service Sector	1.70	1.40	1.82	
Retail	1.28	0.33	2.64	
Services Firms	1.77	1.54	1.66	

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 96 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.