

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Rebounded in March with Strengthening Employment and Wages

Overview

Activity in the service sector improved in March following February's weakness, according to the latest survey by the Federal Reserve Bank of Richmond. Growth in revenues, employment, and wages strengthened across the board, with particular intensity in the retail subsector. Retail sales rose sharply compared to a month ago, along with gains in big-ticket sales and heavier shopper traffic. Retail inventories increased dramatically. At other services firms, revenues grew modestly. Survey respondents anticipated good business prospects during the six months ahead.

Employment growth accelerated in the service sector this month, notably at retail establishments. In addition, wages increased more rapidly, bolstered by strength at non-retail services firms.

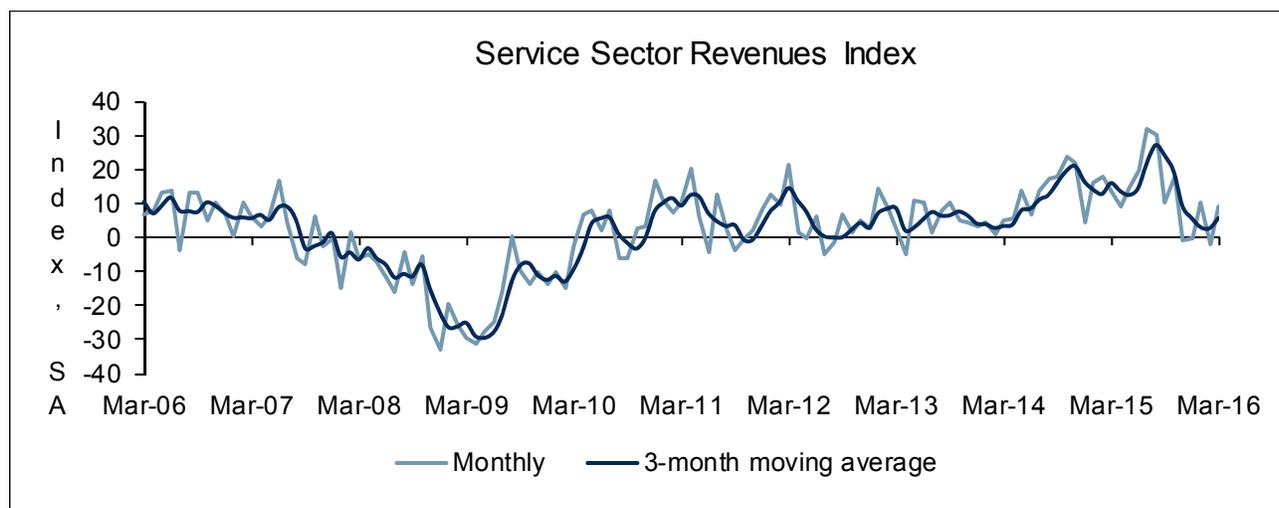
Service sector prices rose at a somewhat slower pace in the broad service sector, with both retail and other services businesses indicating a more modest rate of increase.

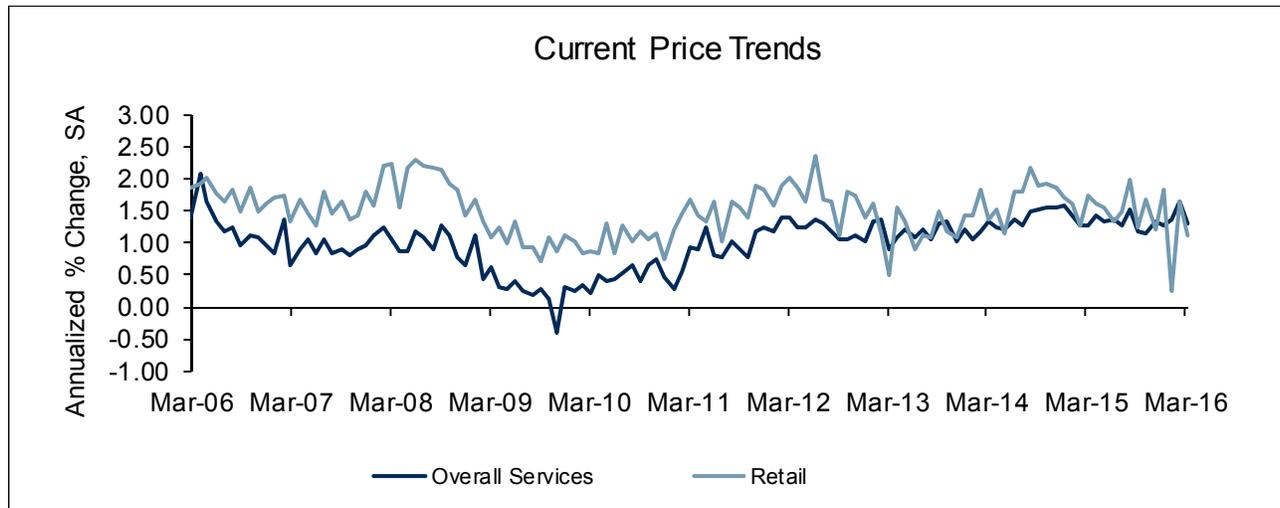
Overall Service Sector Conditions

Service sector revenues gained strength in March, pushing the index up 11 points from a month ago to a reading of 9. Employment also made gains, with the index for the number of employees picking up six points to end the survey period at 15. Additionally, the index for average wages jumped eight points to 16. Survey respondents were hopeful about business conditions in the next six months. The previous month's index for expected demand for goods and services doubled to a reading of 14.

Retail

Retail sales rose sharply this month, driving the index to 36 from February's reading of 18. Big-ticket sales also strengthened, bringing the index to 18 from 11. Shopper traffic was heavier; the indicator added three points to end at 35. Retailers' inventories rose after remaining flat last month. The index climbed to 33 in March. Looking ahead six months, merchants were upbeat about demand for their goods, pushing that index 26 points higher to a reading of 20.





Retail employment increased robustly this month, raising the index to 26 from February’s reading of 13. Average retail wages rose modestly, however. The index edged up to a reading of 4 compared to last month’s index of -1.

Services-Providing Firms

Services providers’ revenues increased mildly in March. The index moved into positive territory, finishing the survey period 11 points above the previous month at a reading of 5. The pace of hiring increased at these services firms, with the index for the number of employees gaining five points to settle at 14. Average wages also strengthened, propelling the gauge up to a reading of 18 compared to February’s index of 9.

Survey respondents were optimistic about demand for their services during the next six months. The expectations index rose five points to a reading of 14 in March.

Prices

Price growth in the service sector slowed in March. Prices in the broad service sector increased at an annualized 1.30 percent rate compared to 1.65 percent a month earlier. In the retail subsector, prices rose at a 1.12 percent annualized rate, well below February’s 1.64 percent pace. At other services firms, prices grew at a 1.33 percent annualized rate, compared to February’s 1.65 percent pace.

Looking ahead, survey respondents expected prices would increase at a slightly faster pace than in the current month. They looked for annualized price growth of 1.67 percent in the overall service sector, nearly matching the previous outlook for 1.70 percent. Retailers anticipated future increases at a 1.42 percent annualized rate, compared to their February outlook for 1.28 percent price growth. At other services firms, the outlook this month was for 1.70 percent annualized price growth; in February, that subsector expected future price growth of 1.77 percent.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Mar-16	Feb-16	Jan-16	
Revenues	9	-2	10	6
Number of Employees	15	9	18	14
Average Wage	16	8	26	17
Expected Demand ²	14	7	14	12
Retail Indicators				
Sales Revenues	36	18	27	27
Number of Employees	26	13	12	17
Average Wage	4	-1	30	11
Inventories	33	0	12	15
Big-ticket Sales	18	11	30	20
Shopper Traffic	35	32	26	31
Expected Product Demand ²	20	-6	16	10
Services Firms Indicators				
Revenues	5	-6	8	3
Number of employees	14	9	19	14
Average wage	18	9	26	18
Expected demand for services ²	14	9	14	12
Current Price Trends³				
Service Sector	1.30	1.65	1.37	
Retail	1.12	1.64	0.26	
Services Firms	1.33	1.65	1.52	
Expected Price Trends^{2,3}				
Expectations				
	Mar-16	Feb-16	Jan-16	
Service Sector	1.67	1.70	1.40	
Retail	1.42	1.28	0.33	
Services Firms	1.70	1.77	1.54	

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 93 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.