

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Expanded in April; Revenues Improved and Average Wages Surged*

### Overview

Service sector activity expanded in April, according to the latest survey by the Federal Reserve Bank of Richmond. Revenue growth accelerated compared to a month ago and a preponderance of survey participants reported faster growth in average wages. Retail revenues continued to rise at a brisk pace. Big-ticket sales strengthened and shopper traffic swelled. Retailers built up inventories at a faster pace than in March. At other services firms, revenues picked up moderately. Looking ahead six months, survey respondents expected greater business opportunities.

Service sector employment moderated this month, held in check by a leveling off in retail hiring. In contrast, average wage increases proliferated.

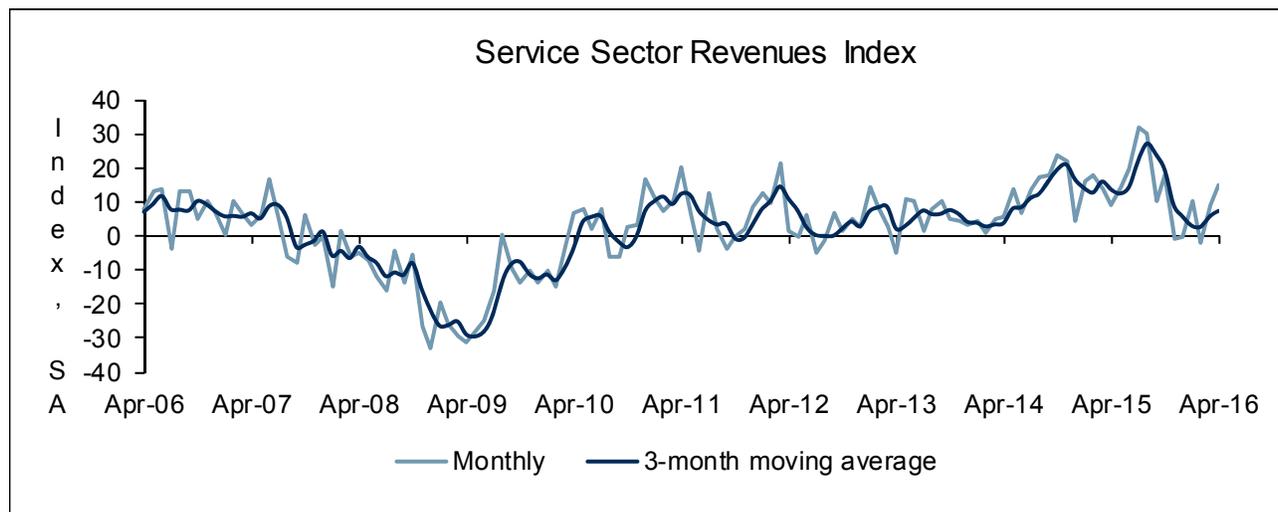
Prices in the broad service sector rose at nearly the same pace in April as a month earlier. For the overall service sector, surveyed executives anticipated a faster pace of price growth during the next six months, although their expectations have softened compared to last month.

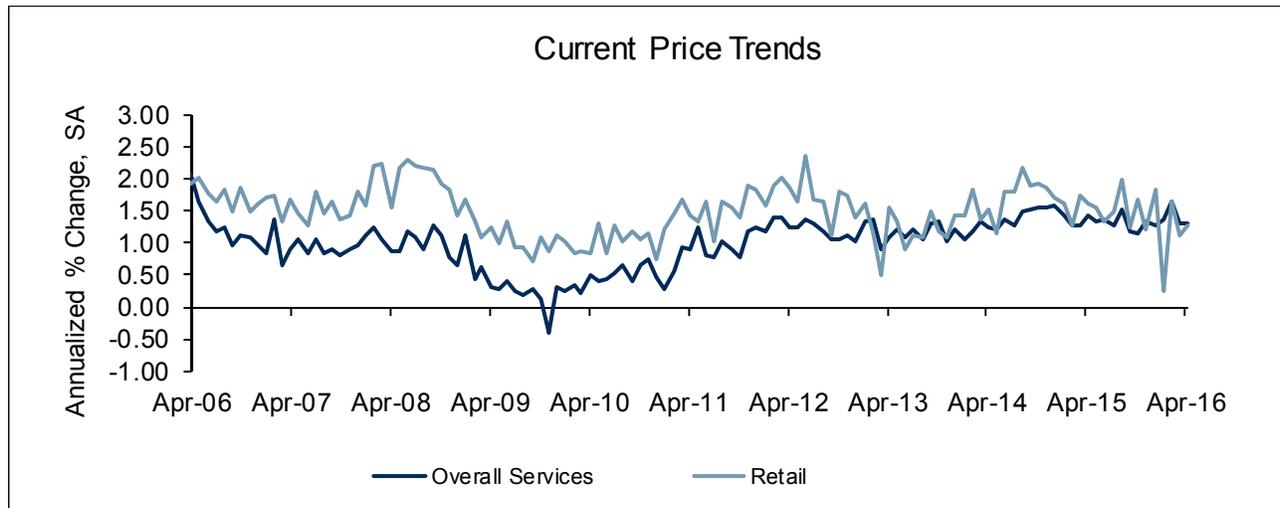
### Overall Service Sector Conditions

Revenues in the overall service sector rose more rapidly this month, pushing the index to 15 from the March reading of 9. The index for the number of employees drifted down two points to 13, as retail hiring flattened and other services firms continued to bring on employees at the same pace as a month earlier. In contrast, average wage increases predominated across both subsectors, driving the index up 12 points to 28 in April. Survey-takers looked for stronger business conditions over the next six months, lifting that indicator to 25 from 14.

### Retail

Retail sales rose briskly for a second month, nudging the index up a point in April to a reading of 37. Big-ticket sales rose sharply, with the gauge gaining 23 points to finish at 41. In addition, shopper traffic increased, spiking the index to 54 from last month's reading of 35. Retail inventories accumulated more rapidly; the index moved up 10 points to 43 this month. Merchants' outlook for business prospects during the six months ahead was far more optimistic than in March, with the expectations indicator climbing to 54 from 20.





Employment in the retail sector leveled off, dropping the index to -1 from the month-ago reading of 26. However retail wage increases surged in April, with the gauge jumping to 32 from 4.

**Services-Providing Firms**

Revenue increases were more widespread at services providing firms, boosting the index to 12 in April from last month’s reading of 5. Services firms added employees at the same moderate rate as a month earlier, keeping that gauge at 14 for a second month. In contrast, average wage increases picked up the pace, with the index moving up 10 points to 28.

Services providers were increasingly upbeat about demand for their services in the six months ahead, pushing the expectations index to 22 from the March reading of 14.

**Prices**

Service sector price growth stabilized at an annualized 1.32 percent rate in April, nearly matching last month’s 1.30 percent rise. Retail prices rose at a 1.26 percent pace, compared to 1.12 percent a month ago. At other services firms, annualized price growth continued about on par with a month ago at 1.32 percent, following the March rate of 1.33 percent.

Survey respondents expected price growth would pick up the pace in the broad service sector over the next six months, to an annualized 1.46 percent

rate of increase. In March, they looked for a 1.67 percent future rate of rise. In the retail subsector, expectations were for prices to accelerate to an annualized 1.79 percent climb in the months ahead, compared to their previous outlook for 1.42 percent growth. However, other services providers anticipated price growth would be slower than in their previous expectation. In April, they looked for a 1.41 percent rate during the next six months, whereas in March, those respondents anticipated future annualized price growth of 1.70 percent.

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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>Apr-16</b>	<b>Mar-16</b>	<b>Feb-16</b>	
Revenues	15	9	-2	8
Number of Employees	13	15	9	12
Average Wage	28	16	8	17
Expected Demand <sup>2</sup>	25	14	7	15
<b>Retail Indicators</b>				
Sales Revenues	37	36	18	31
Number of Employees	-1	26	13	13
Average Wage	32	4	-1	12
Inventories	43	33	0	25
Big-ticket Sales	41	18	11	24
Shopper Traffic	54	35	32	40
Expected Product Demand <sup>2</sup>	54	20	-6	23
<b>Services Firms Indicators</b>				
Revenues	12	5	-6	4
Number of employees	14	14	9	12
Average wage	28	18	9	18
Expected demand for services <sup>2</sup>	22	14	9	15
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.32	1.30	1.65	
Retail	1.26	1.12	1.64	
Services Firms	1.32	1.33	1.65	
<b>Expected Price Trends<sup>2,3</sup></b>				
<b>Expectations</b>				
	<b>Apr-16</b>	<b>Mar-16</b>	<b>Feb-16</b>	
Service Sector	1.46	1.67	1.70	
Retail	1.79	1.42	1.28	
Services Firms	1.41	1.70	1.77	

**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 102 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.