

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Moderated in May; Retail Hiring Weakened and Average Wage Growth Slowed*

### Overview

Activity in the service sector increased at a slower pace in May compared to a month earlier, according to the latest Richmond Fed survey. Revenue growth softened overall, as retail sales flattened and big-ticket sales weakened. Shopper traffic increased moderately after ballooning in April. Retail inventories rose sharply this month. At other services firms, revenues continued to rise on pace with a month ago. Survey respondents were optimistic in their outlook for business during the next six months, although less sanguine than a month earlier.

Employment in the service sector remained strong, bolstered by a pickup in hiring at non-retail firms. The spread of average wage increases slowed in May, particularly at retail establishments.

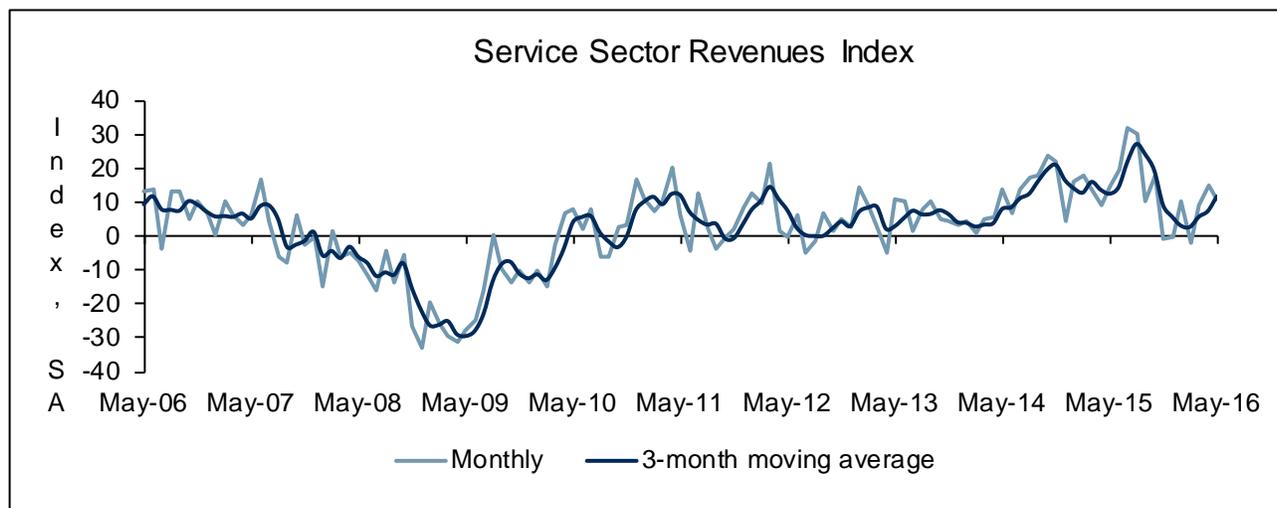
Service sector price growth edged up this month, with most of the push centered in non-retail prices. Surveyed executives expected prices to rise more rapidly in the six months ahead.

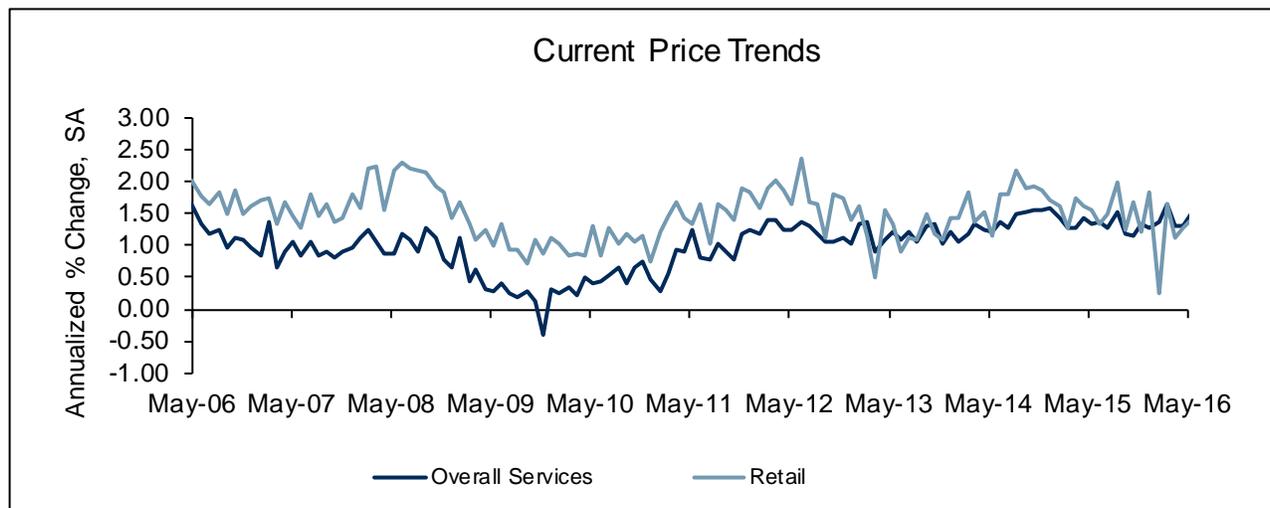
### Overall Service Sector Conditions

Revenues in the broad service sector rose at a slower pace than a month ago, with the index shedding four points to settle at a reading of 11 in May. Although hiring increased, the growth was concentrated in non-retail firms. The overall employment gauge rose to 18 from 13. Average wage increases slowed, however; the index fell 11 points in May, finishing at 17. Survey respondents remained confident about business prospects for the next six months. However, the outlook was softer than last month, pulling the expectations index to 18 from 25.

### Retail

Retail sales flattened in May following four months of solid growth. The index dropped 36 points from April's reading to end the survey period at a reading of 1. Concurrently, the index for big-ticket sales plummeted to -9 from 41. Although shopper traffic continued to expand, the indicator fell 26 points in May to 28. Retail inventory growth broadened, pushing the index to 54 from 43.





Retailers' expectations for customer demand dimmed, with the index sinking 50 points to 4.

Retail employment weakened slightly in May, with the index shaving two points off the month-ago reading to settle at -3. In addition, average wage increases were less prevalent. The gauge slipped to 13 from 32.

**Services-Providing Firms**

Revenue growth at services-providing firms spread on pace with a month earlier, holding the index at 12. These businesses were increasingly hiring in May, driving the index to 21 from April's reading of 14. However, raises in average wages were less common across firms than a month ago, pulling the index down 11 points to 17.

Non-retail firms were confident about demand for their services during the next six months. The index for expected demand slipped just three points in May to finish the survey period at 19.

**Prices**

Service sector prices rose at a 1.49 percent annualized pace in May, slightly faster than the 1.32 percent pace of growth in April. Retail prices increased at a 1.39 percent rate, compared to April's 1.26 percent growth. Other services firms' prices accelerated at a 1.50 percent pace following price growth of 1.32 percent a month earlier.

Surveyed executives anticipated more rapid price growth during the next six months. Their outlook for the broad service sector was for 1.80 percent annualized price growth. In April, expectations were for prices to climb at a 1.46 percent pace. Retailers looked for 1.72 percent growth in prices in the months ahead, slightly slower than the 1.79 percent rate of increase they expected a month ago. At other services firms, expectations were for prices to rise at a 1.81 percent pace over the next six months, whereas last month, services providers anticipated future prices would grow at a 1.41 percent rate.

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## Business Activity Indexes<sup>1,4</sup>

Service Sector Indicators	Current Conditions			3-Month Average
	May-16	Apr-16	Mar-16	
Revenues	11	15	9	12
Number of Employees	18	13	15	15
Average Wage	17	28	16	20
Expected Demand <sup>2</sup>	18	25	14	19
<b>Retail Indicators</b>				
Sales Revenues	1	37	36	25
Number of Employees	-3	-1	26	7
Average Wage	13	32	4	16
Inventories	54	43	33	43
Big-ticket Sales	-9	41	18	17
Shopper Traffic	28	54	35	39
Expected Product Demand <sup>2</sup>	4	54	20	26
<b>Services Firms Indicators</b>				
Revenues	12	12	5	10
Number of employees	21	14	14	16
Average wage	17	28	18	21
Expected demand for services <sup>2</sup>	19	22	14	18
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.49	1.32	1.30	
Retail	1.39	1.26	1.12	
Services Firms	1.50	1.32	1.33	
<b>Expected Price Trends<sup>2,3</sup></b>				
	Expectations			
	May-16	Apr-16	Mar-16	
Service Sector	1.80	1.46	1.67	
Retail	1.72	1.79	1.42	
Services Firms	1.81	1.41	1.70	

**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 95 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.