

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Increased Moderately; Retail Sales Strengthened

Overview

Service sector activity increased moderately in July, according to the latest Richmond Fed survey.* Retail sales strengthened markedly, as shopper traffic improved and big-ticket sales continued to climb on pace with last month. Inventories increased sharply. At other services firms, revenue increases were slightly more widespread than in June. Looking ahead, survey respondents expected stronger demand for their goods and services during the next six months.

In service sector labor markets, hiring rose at a slower pace compared to a month ago. Increasingly, retailers raised average wages, while the expansion of wage growth moderated at non-retail services firms.

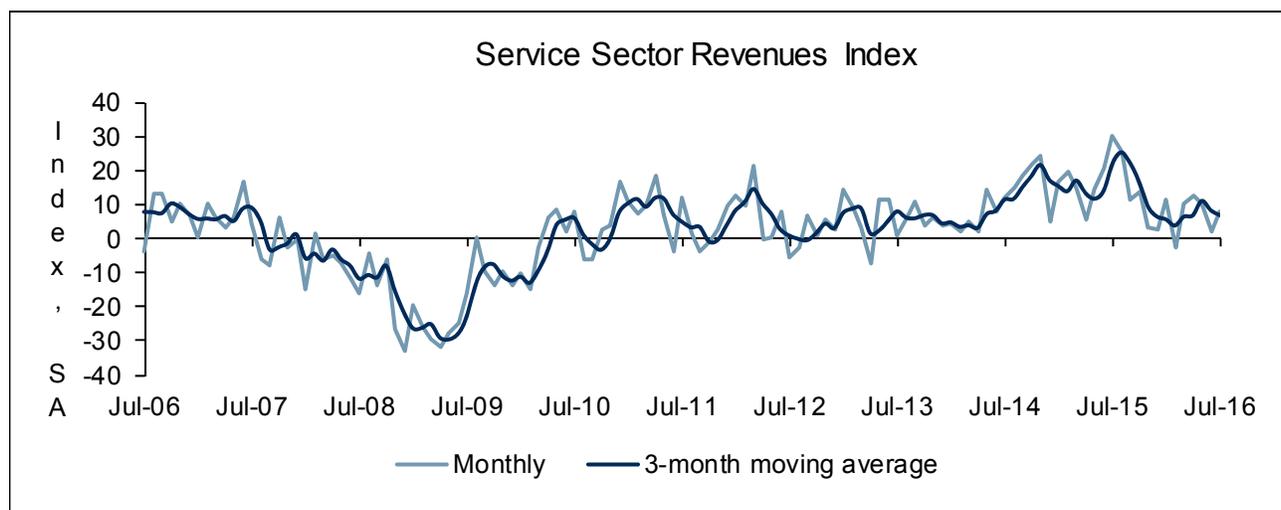
Prices in the broad service sector were held in check by a slower increase at services-producing firms. Retail price growth was slightly above June's pace. Executives at non-retail services firms looked for price increases to pick up during the next six months, while retailers anticipated slower price growth.

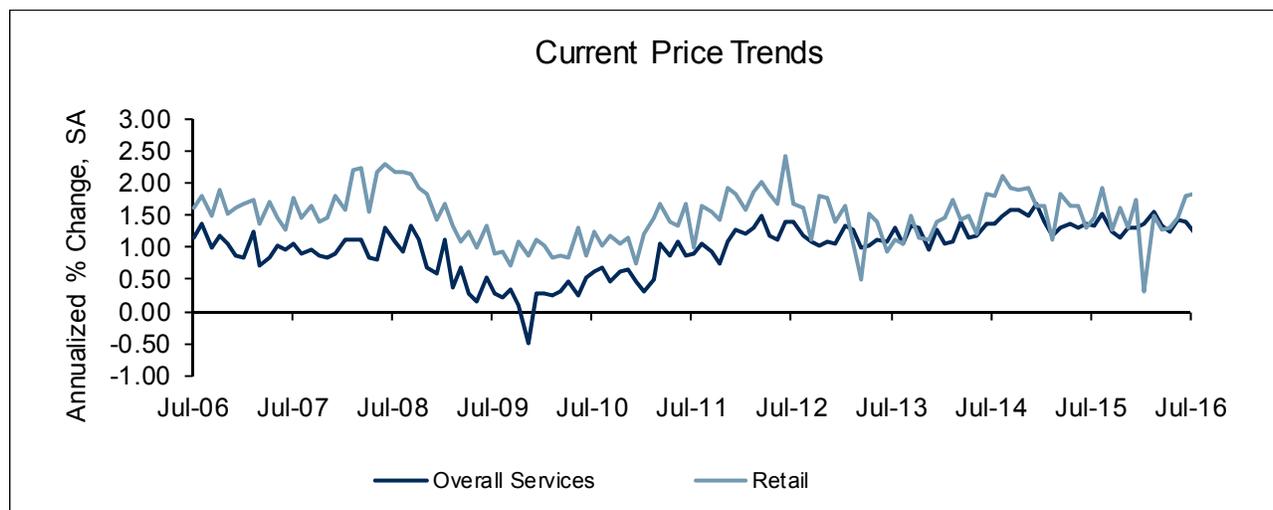
Overall Service Sector Conditions

Revenues rose more widely in the broad service sector, pushing the index six points above the June reading to 8. Hiring slowed amidst complaints of difficulty finding qualified workers, with that indicator settling five points lower at 12. Average wage growth also cooled compared to last month. The index dropped eight points to finish the survey period at 16. Survey-takers were upbeat about prospects for the next six months; the index added seven points in July, reaching a reading of 32.

Retail

Retail sales bounced back in July, pushing the gauge 18 points higher to a reading of 14. In addition, shopper traffic picked up. The index for shopper traffic climbed to 19 from June's index of 11. Big-ticket sales remained on pace with a month earlier; the index gained one point to finish at a reading of 9. Inventories built up rapidly, driving that gauge 42 points higher this month, to a reading of 48. Retailers expected moderately strong demand for their goods during the next six months. The index settled at 25, softening from June's reading of 34.





Retail labor markets also softened compared to a month ago, with the indicator for the number of employees falling 20 points in July to an index of 8. However, average wage increases proliferated, with the gauge gaining 14 points to end the survey period at a reading of 27.

Services-Providing Firms

Revenues at services providing firms strengthened mildly from a month ago, with the index tacking on four points to finish at a reading of 7. Hiring slowed slightly, leaving the index at 13 compared to the June index of 17. Wage increases were also less common, with that index dropping 11 points to 14 in July. Looking ahead, executives at these non-retail firms expected solid demand for their services. The expectations index finished at a reading of 33 following the June index of 24.

Prices

Prices in the overall service sector rose at a slower pace in July than in June, increasing at an annualized 1.23 percent compared to 1.40 percent. Retail prices moved up at a 1.84 percent pace, whereas a month ago, the rate of growth was 1.80 percent. Prices at other services firms climbed more slowly in July, rising at a 1.12 percent pace. In June, prices in that subsector rose at a 1.36 percent annualized rate.

Survey respondents' expectations were for more rapid price growth in the broad service sector during the next six months. They looked for prices to rise at a 1.72 percent annualized rate. Within

the service sector, the outlook was for retail price growth of 1.60 percent and non-retail price growth of 1.73 percent over the six months ahead. In June, survey-takers anticipated overall service sector prices would rise at an annualized 1.46 percent rate, with retail prices climbing at a 1.81 percent pace. A month ago, prices at other services firms were expected to grow at a 1.42 percent rate.

** Seasonal adjustment factors have been recalculated to better reflect current economic trends. Comparisons to prior months' indexes are made to the revised series. New factors will be calculated annually.*

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Business Activity Indexes^{1,4,5}				
Overall Service Sector Indicators	Current Conditions			3-Month Average
	Jul-16	Jun-16	May-16	
Revenues	8	2	10	7
Number of Employees	12	17	17	16
Average Wage	16	24	18	19
Expected Demand ²	32	25	25	27
Retail Indicators				
Sales Revenues	14	-4	8	6
Number of Employees	8	28	-3	11
Average Wage	27	13	16	18
Inventories	48	6	51	35
Big-ticket Sales	9	8	-4	4
Shopper Traffic	19	11	29	20
Expected Demand for Goods ²	25	34	13	24
Services Firms Indicators				
Revenues	7	3	11	7
Number of Employees	13	17	19	16
Average Wage	14	25	19	19
Expected Demand for Services ²	33	24	26	28
Current Price Trends³				
Service Sector	1.23	1.40	1.44	
Retail	1.84	1.80	1.46	
Services Firms	1.12	1.36	1.43	
Expected Price Trends^{2,3}				
	Expectations			
	Jul-16	Jun-16	May-16	
Service Sector	1.72	1.46	1.76	
Retail	1.60	1.81	1.47	
Services Firms	1.73	1.42	1.80	

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 97 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.
- ⁵ This table includes recalculation of seasonal adjustment factors to better reflect current economic trends. Comparisons to prior months are made to the revised data series. New factors will be calculated annually. In addition, the expected demand indexes for prior months have been updated due to a processing error.