

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Revenue Growth Slowed; Employment and Wage Increases Continued to Broaden Moderately

Overview

Service sector activity moderated in August, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales dropped sharply, accompanied by weakness in big-ticket sales and diminished shopper traffic. At other services firms, revenues were little changed. Despite softer activity this month, survey respondents were upbeat about demand for their goods and services in the six months ahead.

The number of employees increased on pace with of last month and the proliferation of average wage increases outpaced July.

Prices in the broad service sector rose modestly, weighed down by a slowdown in the pace of retail price growth. Surveyed executives looked for somewhat faster price increases during the next six months.

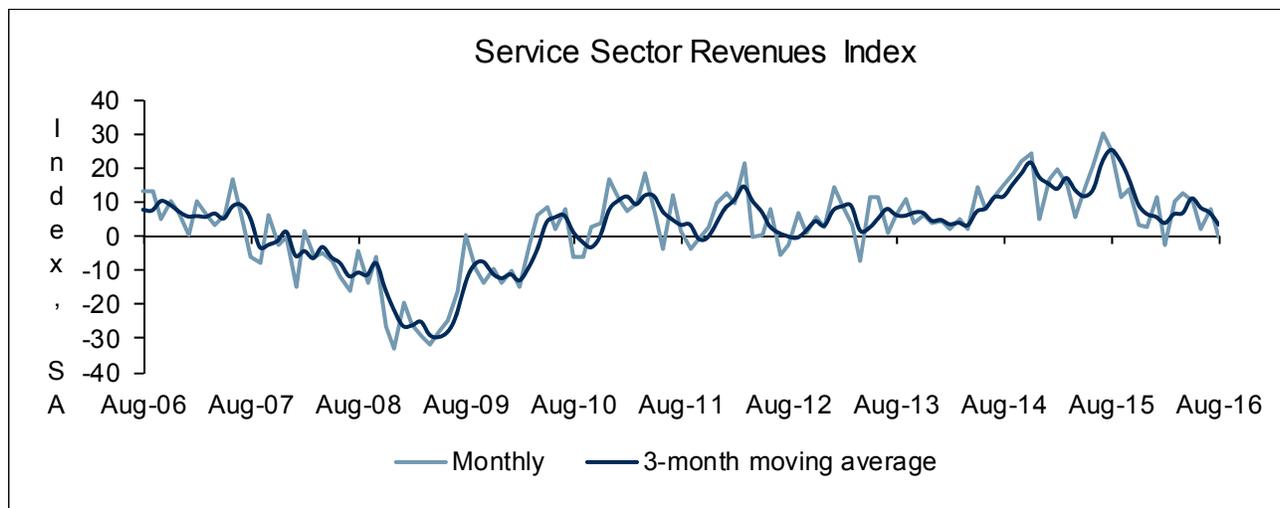
Overall Service Sector Conditions

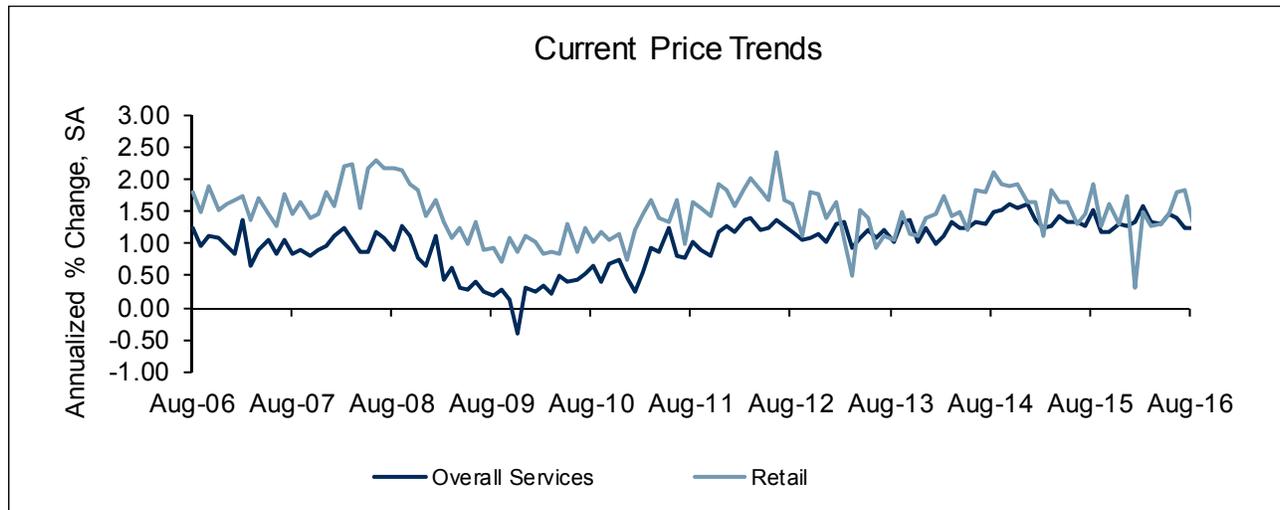
Revenues in the broad service sector were overall

unchanged from a month ago, pulling the index down eight points to 0 in August. Employers added workers nearly on pace with a month ago, with that index rising one point to a reading of 13. Average wage growth strengthened; the indicator picked up two points to finish the survey period at 18. Looking to the six months ahead, overall expectations were optimistic, albeit somewhat less sanguine than in July. The index for expected demand softened seven points to a reading of 25.

Retail

Retail sales fell sharply in August, dragging the index to -26 from the month-ago reading of 14. The index for big-ticket sales lost 19 points, dropping to -10. In addition, shopper traffic faltered, bringing that gauge to -4 from 19. Retail inventory build-up was less prevalent, with the index cooling to 19 compared to last month's reading of 48. Retailers expected to wrap up the year on a stronger note, however. The index for expected demand for goods jumped 32 points to 57 this month.





In retail labor markets, more employers were adding employees in August; the index gained five points to finish at 13. Additionally, average wage increases spread moderately, with that indicator tacking on a point to end at 28.

Services-Providing Firms

Revenues at other services firms tapered off in August. The index slipped three points to a reading of 4. Services providers added employees at a moderate pace, keeping the index at 13 for a second month, while the average wage indicator rose to 17 from 14. Executives’ outlook was positive, though less upbeat than a month earlier. The index lost 11 points to settle at 22.

Prices

The annualized pace of growth in overall service sector prices slowed to 1.23 percent in August, compared to 1.40 percent a month earlier. Retail price growth slowed to an annualized 1.35 percent rate after rising at a 1.84 percent pace in July. At services firms, prices increased at a slightly faster rate than a month ago, climbing at a 1.22 percent annualized rate in August. In July, prices at services firms rose at a 1.12 percent pace.

Survey respondents anticipated more rapid price change in the next six months, with retail prices rising at a 1.70 percent annualized rate and prices at other services firms rising at a 1.54 percent pace. Expectations were for a 1.56 percent annualized rate of rise in the broad service sector. In July, their outlook was for price growth of 1.72 percent in the overall service sector, with retail

prices rising at a 1.60 percent pace and services firms’ prices moving up at a 1.73 percent clip.

Contact

Aileen Watson
 Associate Regional Economist
 Research Dept. /Regional Economics
 Federal Reserve Bank of Richmond
 Richmond Office
 Ph: 804.697.7995 · Fax: 804.697.8123
aileen.watson@rich.frb.org
www.richmondfed.org

Business Activity Indexes^{1,4}				
Overall Service Sector Indicators	Current Conditions			3-Month Average
	Aug-16	Jul-16	Jun-16	
Revenues	0	8	2	3
Number of Employees	13	12	17	14
Average Wage	18	16	24	19
Expected Demand ²	25	32	25	27
Retail Indicators				
Sales Revenues	-26	14	-4	-5
Number of Employees	13	8	28	17
Average Wage	28	27	13	23
Inventories	19	48	6	24
Big-ticket Sales	-10	9	8	2
Shopper Traffic	-4	19	11	9
Expected Demand for Goods ²	57	25	34	39
Services Firms Indicators				
Revenues	4	7	3	4
Number of Employees	13	13	17	14
Average Wage	17	14	25	19
Expected Demand for Services ²	22	33	24	26
Current Price Trends³				
Service Sector	1.23	1.40	1.40	
Retail	1.35	1.84	1.80	
Services Firms	1.22	1.12	1.35	
Expected Price Trends^{2,3}				
Expectations				
	Aug-16	Jul-16	Jun-16	
Service Sector	1.56	1.72	1.50	
Retail	1.70	1.60	1.57	
Services Firms	1.54	1.73	1.49	

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.