

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Strengthened; Wage Growth Became More Widespread While Hiring Was Restrained*

### Overview

Activity in the service sector improved in September, according to the latest survey by the Federal Reserve Bank of Richmond. Revenue growth expanded, revenues at services firms gained momentum, and retail sales strengthened. Shopper traffic rose, however big-ticket sales remained soft and inventories were little changed. Looking ahead, survey respondents were upbeat about business prospects for the next six months.

Employment in the service sector moderated in September following two months of steady improvement. In contrast, average wage increases gained momentum this month.

Prices received in the overall service sector grew at a steady pace compared to the previous month. Survey participants expected prices would rise more rapidly in the sector during the six months ahead.

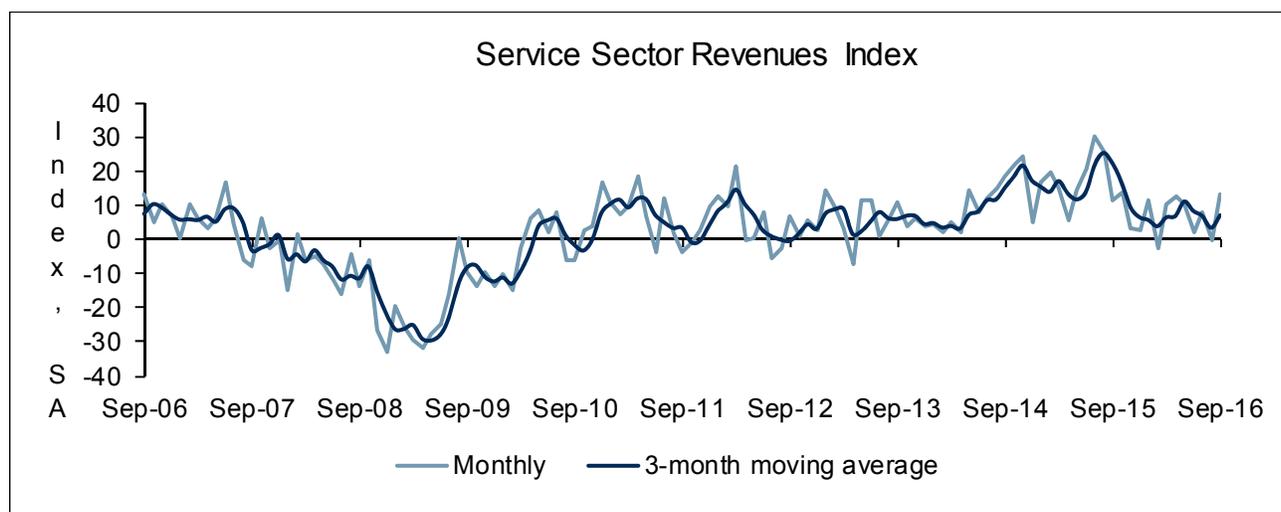
### Overall Service Sector Conditions

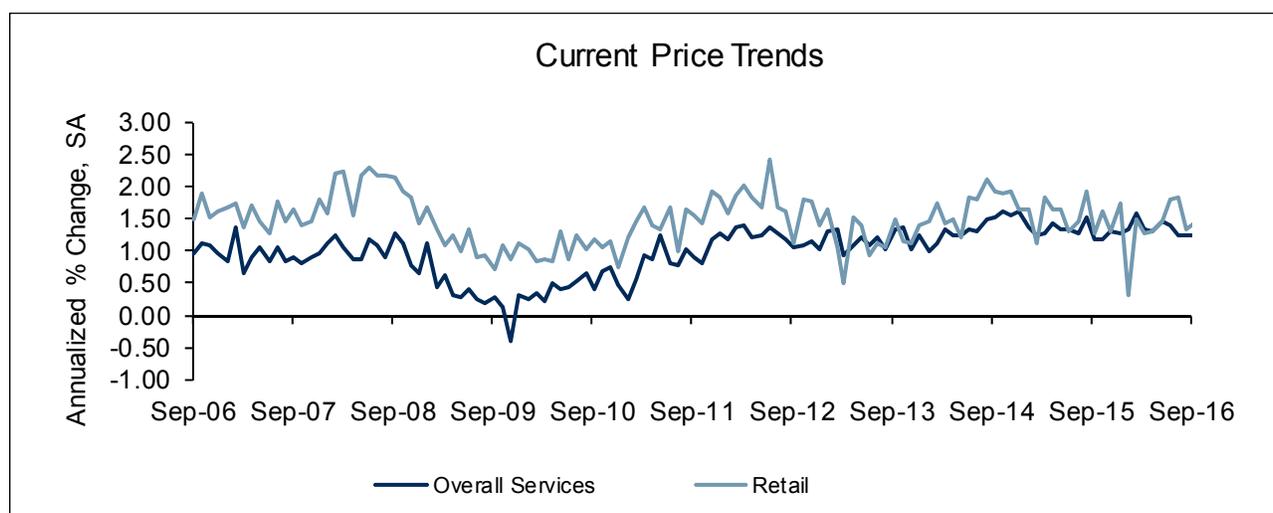
Revenues in the service sector strengthened in September, pushing the index to 13 from last

month's flat reading, with both retailers and other services providers indicating increases. Hiring in the overall service sector softened, bringing the index for the number of employees to 6 from the previous reading of 13. Despite the slower pace of hiring, average wage growth was more widespread, with the gauge jumping to 33 from August's reading of 18. Survey respondents were increasingly optimistic about their outlook for business. The expectations index climbed eight points in September to 33.

### Retail

Retail sales bounced back in September, nearly matching the July index after a sharp drop in August. The index jumped 39 points to a reading of 13. Shopper traffic also rose for more retailers, with the index gaining 15 points to finish at 11. In contrast, big-ticket sales continued to flounder, ending the survey period up one point this month, at a reading of -9. Merchants' inventories were little changed, with the index flattening to -1 in September compared to last month's index of 19. Retailers remained buoyant about their business





prospects ahead. The index for expected demand for their goods ticked up one point to 58.

Retail hiring pulled back this month, leaving the index for the number of employees 15 points lower at a reading of -2. Although fewer retailers added employees, average wage growth was more widespread. The indicator for average wages climbed to 34 from the August reading of 28.

**Services-Providing Firms**

Revenue growth prevailed at services-providing firms. The revenues index added nine points to last month’s indicator to end the survey period at 13. While hiring slowed at these firms, average wage increases were increasingly common. The index for the number of employees trimmed six points from the August reading to settle at 7 in September and the average wage indicator gained 16 points to finish at 33. Survey participants anticipated further strengthening during the six months ahead; the expectations index rose eight points to 30.

**Prices**

Overall service sector prices rose at an annualized rate of 1.23 percent in September, matching a month earlier. Separately, retail price growth picked up slightly, at a 1.42 percent annualized rate following August’s 1.35 percent pace. At services firms, prices rose nearly on pace with a month ago, climbing at a 1.20 percent rate in September after rising by 1.22 percent in August.

Survey respondents looked for prices in the broad service sector to rise more quickly in the next six months, at an overall pace of 1.57 percent. In the retail subsector, expectations were for a 1.38 percent annualized rate of increase in the coming months, while services providers looked for prices to rise at a 1.60 annualized pace. In August, survey respondents expected an overall rise of service sector prices at 1.56 percent in the six months ahead. Retailers anticipated their prices would advance at a 1.70 percent rate, while other services firms expected prices would move up at an annualized 1.54 percent rate.

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<b>Business Activity Indexes<sup>1,4</sup></b>				
<b>Overall Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month Average</b>
	<b>Sep-16</b>	<b>Aug-16</b>	<b>Jul-16</b>	
Revenues	13	0	8	7
Number of Employees	6	13	12	11
Average Wage	33	18	16	22
Expected Demand <sup>2</sup>	33	25	32	30
<b>Retail Indicators</b>				
Sales Revenues	13	-26	14	0
Number of Employees	-2	13	8	6
Average Wage	34	28	27	30
Inventories	-1	19	48	22
Big-ticket Sales	-9	-10	9	-3
Shopper Traffic	11	-4	19	9
Expected Demand for Goods <sup>2</sup>	58	57	25	47
<b>Services Firms Indicators</b>				
Revenues	13	4	7	8
Number of Employees	7	13	13	11
Average Wage	33	17	14	21
Expected Demand for Services <sup>2</sup>	30	22	33	28
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.23	1.23	1.40	
Retail	1.42	1.35	1.84	
Services Firms	1.20	1.22	1.12	
<b>Expected Price Trends<sup>2,3</sup></b>				
<b>Expectations</b>				
	<b>Sep-16</b>	<b>Aug-16</b>	<b>Jul-16</b>	
Service Sector	1.57	1.56	1.72	
Retail	1.38	1.70	1.60	
Services Firms	1.60	1.54	1.73	

**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 99 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.