

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Softens; Employment Growth Stable with Moderate Spread of Wage Increases*

### Overview

Service sector activity rose at a moderate pace in October, according to the latest survey by the Federal Reserve Bank of Richmond. Revenue increases were less common at services firms and retail sales were little changed. Retail inventories declined, even as big-ticket sales continued to fall and shopper traffic dropped compared to last month. Survey respondents remained optimistic about future business conditions going into the holiday season, although their outlook was less enthusiastic than a month earlier.

Service sector employment growth was stable in October, with the pace of hiring continuing to rise. Average wage increases predominated, although not as broadly as in September.

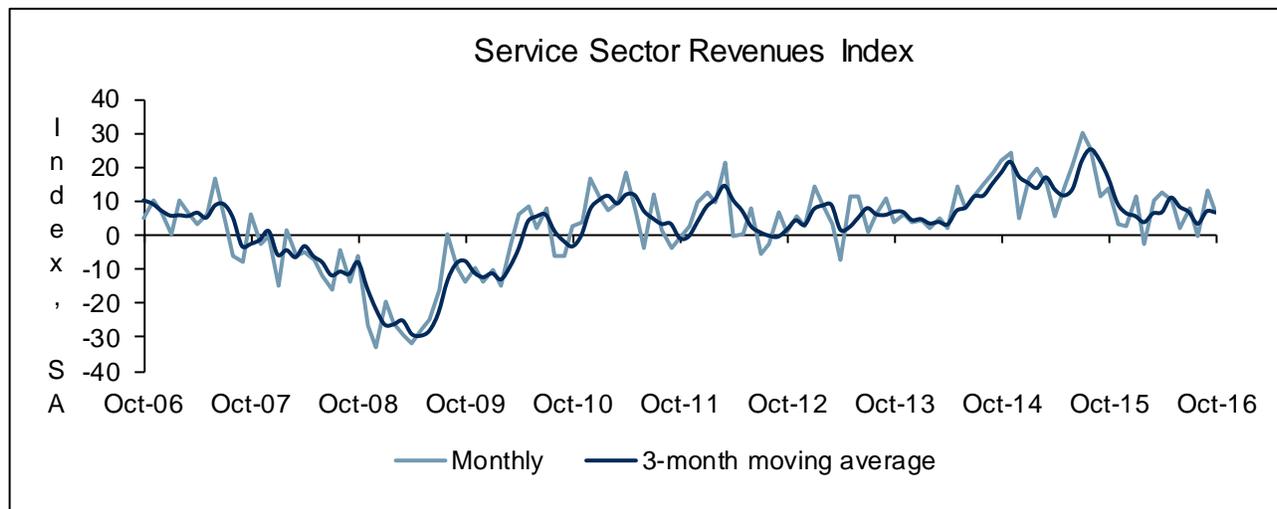
Prices received in the service sector rose at a slower rate than a month ago. Looking ahead six months, executives anticipated faster price growth than in the current month, with expectations nearly matching those of a month ago.

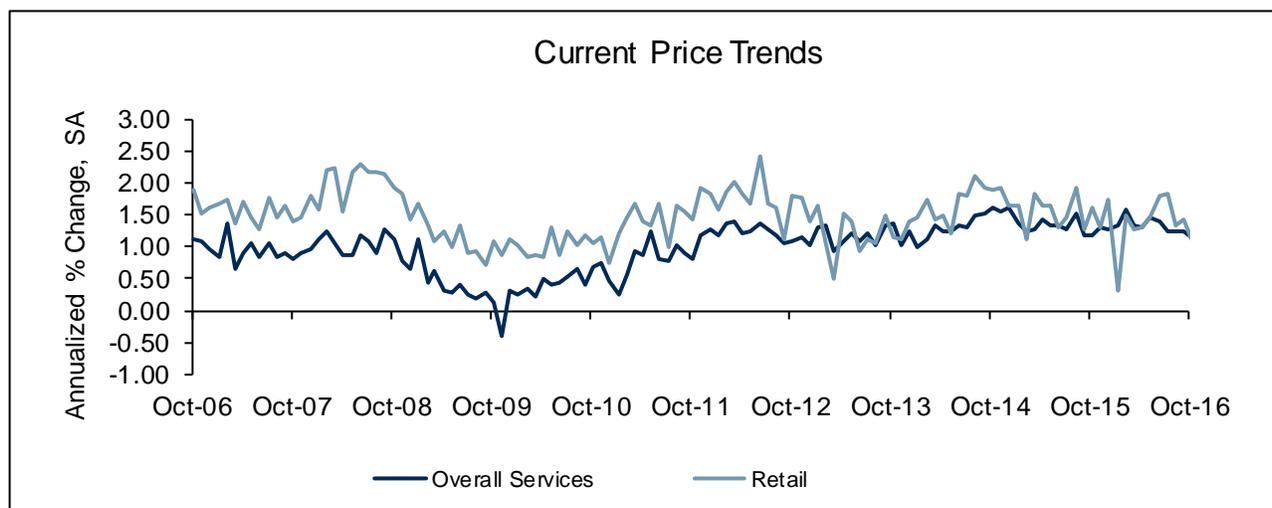
### Overall Service Sector Conditions

Service sector revenues rose at fewer establishments in October compared to a month earlier, weakening the revenues index six points to 7. Hiring remained steady at services firms, except in retail. The overall index for the number of employees was stable at a reading of 6 for a second month. Average wage growth in the service sector spread at a healthy pace, despite slowing; the index settled at 19 following the September reading of 33. Survey respondents' outlook remained upbeat, although less sanguine than last month, with that indicator losing 10 points to end the survey period at 23.

### Retail

The retail sales index flattened to a reading of 1 in October, with the indicator losing 12 points from a month earlier, as big-ticket sales continued to fall and shopper traffic declined. The gauge for big-ticket sales shaved a point, slipping to -10, while the index for shopper traffic lost 19 points, settling at -8. Inventories dropped, pulling the indicator 18 points lower, to a reading of -19.





Looking ahead, retailers continued to indicate optimism about sales, but their expectations were much less buoyant than a month ago. The index for expected demand weakened to 13 from last month's reading of 58.

Hiring in the retail sub-sector declined sharply, with the index dropping 11 points from the previous reading to -13. However, average retail wage increases spread on pace with a month ago, keeping that indicator at a reading of 34.

**Services-Providing Firms**

At services-providing firms, revenue growth moderated, trimming the month-ago index by four points to 9. Employment edged up, with the index for the number of employees tacking on two points to finish at a reading of 9. Wage increases were less prevalent at services firms in October, diminishing the indicator by about half, to a reading of 17. Looking to the next six months, survey respondents at services firms anticipated strong demand for services, although their expectations were toned down from the previous survey. The index for expected demand lost five points to end at a reading of 25.

**Prices**

Prices in the overall service sector climbed at an annualized rate of 1.15 percent in October, slowing from last month's growth of 1.23 percent. Within sub-sectors, retail price increases moderated to a 1.11 percent annualized rate, compared to September's 1.42 percent pace. Among services providers, prices

received moved up at a 1.15 percent annualized rate, also slowing from a month ago when price growth was at 1.20 percent.

Survey respondents looked for more rapid price growth in the next six months, anticipating an overall annualized rise of 1.68 percent. A month earlier they also expected a 1.68 percent pace. Retailers looked for future prices to grow about on pace with last month's outlook; their expectations were for prices to increase at a 1.35 percent pace, just below last month's outlook for 1.38 price growth. At other services firms, expectations were also little changed. The outlook was for prices to increase at a 1.73 percent annualized rate compared to the previous expectation for 1.72 percent price growth.

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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>Oct-16</b>	<b>Sep-16</b>	<b>Aug-16</b>	
Revenues	7	13	0	7
Number of Employees	6	6	13	9
Average Wage	19	33	18	23
Expected Demand <sup>2</sup>	23	33	25	27
<b>Retail Indicators</b>				
Sales Revenues	1	13	-26	-4
Number of Employees	-13	-2	13	-1
Average Wage	34	34	28	32
Inventories	-19	-1	19	0
Big-ticket Sales	-10	-9	-10	-10
Shopper Traffic	-8	11	-4	0
Expected Demand for Goods <sup>2</sup>	13	58	57	43
<b>Services Firms Indicators</b>				
Revenues	9	13	4	8
Number of Employees	9	7	13	10
Average Wage	17	33	17	22
Expected Demand for Services <sup>2</sup>	25	30	22	26
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.15	1.23	1.23	
Retail	1.11	1.42	1.35	
Services Firms	1.15	1.20	1.22	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Oct-16</b>	<b>Sep-16</b>	<b>Aug-16</b>	
Service Sector	1.68	1.68	1.56	
Retail	1.35	1.38	1.70	
Services Firms	1.73	1.72	1.54	

**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 92 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.