

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Revenues Remained Soft; Employment Gains Spread

Overview

Activity in the service sector increased modestly in November, with softer revenue gains, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues rose at fewer services firms and retail sales weakened. Big-ticket sales increased for more merchants this month compared to last, while shopper traffic remained in decline. In addition, retail inventories were down overall. Despite the lackluster start to holiday sales, most retailers were optimistic about sales for the six months ahead.

Employment in the service sector improved in November, with increases in hiring and wages occurring more broadly this month than last.

Average prices received in the service sector stabilized, nearly matching October's pace of increase. Looking ahead, survey participants expected price growth in the overall service sector to accelerate slightly during the next six months.

Overall Service Sector Conditions

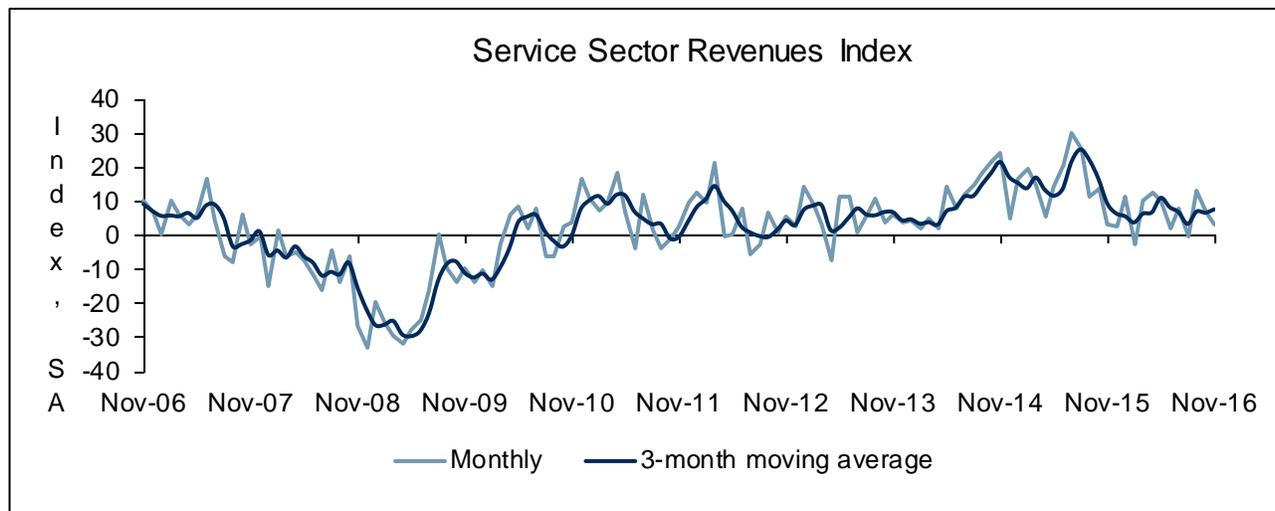
Service sector respondents generally reported weakening of revenue growth in November, pulling

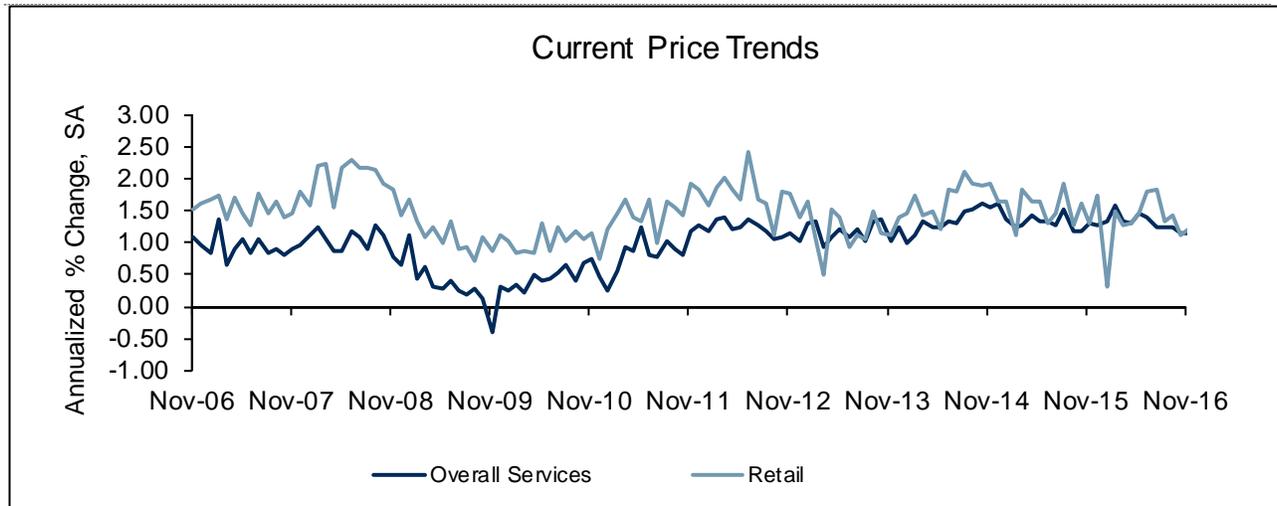
the index to 3 from last month's reading of 7. Hiring was more widespread this month, bringing the gauge up seven points to 13. Average wage increases continued, although the spread of gains moderated from a month earlier. The index lost seven points, settling at 12. Overall, survey participants remained upbeat about business conditions for the six months ahead. The index for expected demand for goods and services slipped just one point from a month earlier, finishing the survey period at 22.

Retail

Retail sales weakened this month, dragging the index to -9 from October's reading of 1. The volatile indicator for big-ticket sales jumped 23 points to a reading of 13. Shopper traffic dropped in November, trimming a point from the previous index to end at a reading of -9. Inventory decline was somewhat less prevalent than in October, with that indicator moving to -10 from a reading of -19.

Merchants were increasingly upbeat about future sales, however. The expectations index gained 30 points to finish at a reading of 43.





Retail hiring strengthened in November, driving the index up 23 points to a reading of 10. Average wage growth was less ubiquitous this month. The index softened to 16 from October's reading of 34.

were also little changed. The outlook was for prices to increase at a 1.52 percent annualized rate compared to the previously anticipated 1.73 percent rate of growth.

Services-Providing Firms

Revenue gains were less common at services firms in November. The indicator shed four points in November, settling at a reading of 5. Hiring was more widespread, with that index gaining five points to finish at 14. In contrast, average wage increases were less common, bringing the index to 12 from the previous reading of 17. Services providers' outlook for the months ahead also moderated, softening the expectations index six points to a reading of 19.

Prices

Prices in the overall service sector rose at an annualized rate of 1.14 percent in November, nearly matching October's price growth of 1.15 percent. Within sub-sectors, retail price increases rose slightly faster than a month ago, reaching a 1.22 percent annualized rate, compared to October's 1.11 percent pace. Among services providers, prices received increased at a 1.12 percent annualized rate, a pace just below October's 1.15 percent.

Survey respondents looked for more rapid price growth in the next six months, anticipating an overall annualized rise of 1.60 percent, down from their outlook of a month earlier, when they expected a 1.68 percent pace. Retailers expected price increases to accelerate to a 2.08 percent pace, compared to last month's outlook for 1.35 percent price growth. At other services firms, expectations

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
	Nov-16	Oct-16	Sep-16	Average
Revenues	3	7	13	8
Number of Employees	13	6	6	9
Average Wage	12	19	33	22
Expected Demand ²	22	23	33	26
Retail Indicators				
Sales Revenues	-9	1	13	2
Number of Employees	10	-13	-2	-1
Average Wage	16	34	34	28
Inventories	-10	-19	-1	-10
Big-ticket Sales	13	-10	-9	-2
Shopper Traffic	-9	-8	11	-2
Expected Demand for Goods ²	43	13	58	38
Services Firms Indicators				
Revenues	5	9	13	9
Number of Employees	14	9	7	10
Average Wage	12	17	33	21
Expected Demand for Services ²	19	25	30	25
Current Price Trends³				
Service Sector	1.14	1.15	1.23	
Retail	1.22	1.11	1.42	
Services Firms	1.12	1.15	1.20	
Expected Price Trends^{2,3}				
Expectations				
	Nov-16	Oct-16	Sep-16	
Service Sector	1.60	1.68	1.68	
Retail	2.08	1.35	1.38	
Services Firms	1.52	1.73	1.72	

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 107 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.