

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Was Modest Overall with Strength in Retail; Expectations Were Optimistic

Overview

According to the latest survey by the Federal Reserve Bank of Richmond, service sector activity continued to be modest overall, except in the retail sub-sector where activity was strong. Revenues were generally unchanged at most services firms, while retail sales gains were widely reported. Increases in big-ticket sales were prevalent, along with rising shopper traffic. Retail inventories were little changed. Looking to the six months ahead, survey participants, particularly retailers, expected good business prospects.

Service sector employment growth spread moderately, while wage increases were reported more broadly than a month ago.

Prices received in the service sector rose at a slightly faster pace than in November, especially at retail establishments. Survey participants anticipated more rapid price growth during the next six months.

Overall Service Sector Conditions

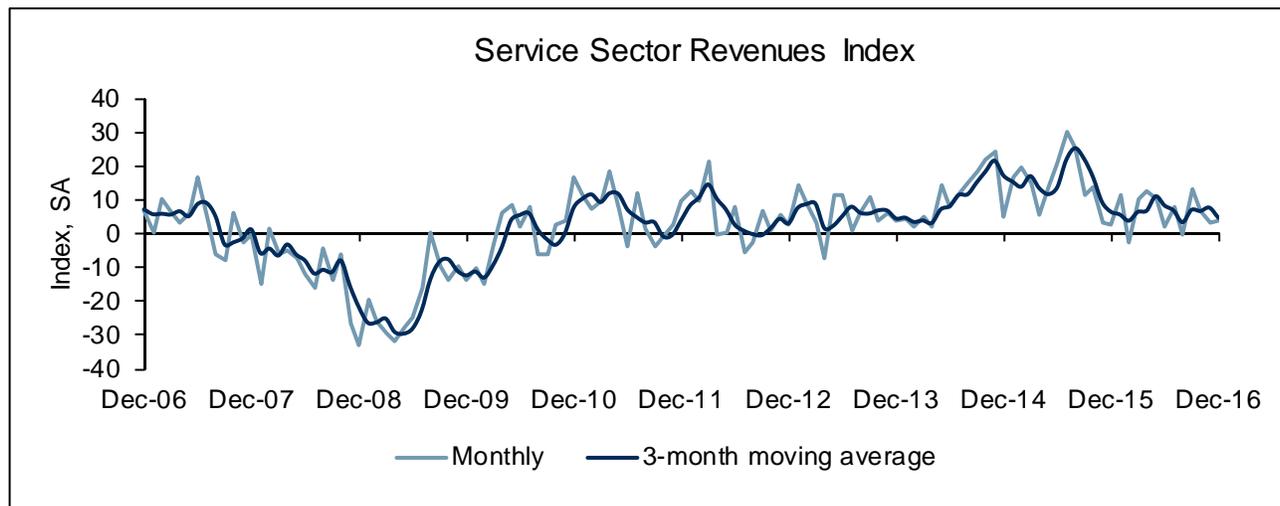
Revenue increases were modest in the overall service sector, with the index settling at 4 in December compared to a reading of 3 a month earlier. Hiring increases were moderate, with the

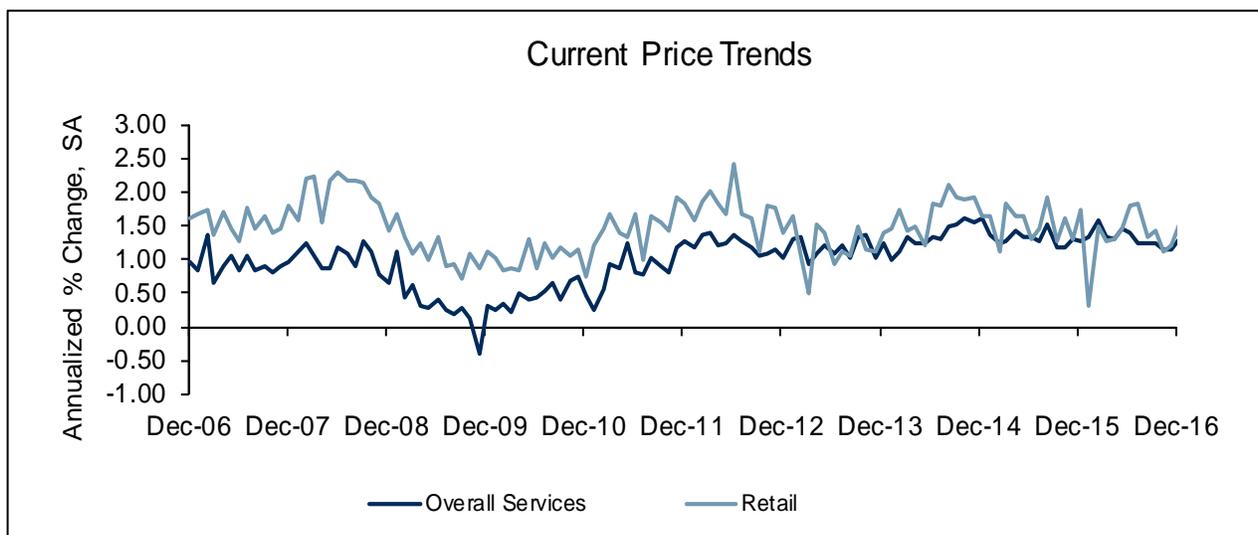
indicator dropping one point from the November reading to finish the survey period at 12. In contrast, wage growth was widespread, pushing the index to 24 from 12. Survey respondents were increasingly upbeat about demand for their goods and services in the six months ahead; the expectations index gained 14 points to end at a reading of 36.

Retail

Retail sales rose sharply in December for many merchants, driving the indicator 39 points above the November reading to an index of 30. Big-ticket sales jumped and shopper traffic improved. The big-ticket gauge climbed to 35 this month from 13, and the index for shopper traffic rose 38 points to a reading of 29. Inventories barely inched up, nudging the index to a reading of 2, whereas a month ago the index was at -10. Retailers had a buoyant outlook for the next six months. The index for expected demand leapt to 72 from the November reading of 43.

Hiring in the retail sub-sector contracted this month, pulling the index for the number of employees to a reading of -6 from November's index of 10. However, average wage increases were widely reported among retailers. The index picked up 33 points to finish at a reading of 49.





Services-Providing Firms

Revenue gains were infrequent at services-providing firms in December. The index slipped to -1 following the November reading of 5. Hiring continued to rise, with the indicator ending the survey period two points higher than last month at a reading of 16. In addition, average wage increases were more prevalent, bringing that index up seven points this month to a reading of 19. Services providers were optimistic about demand in the coming months. The expectations index rose 11 points in December, finishing at 30.

Prices

Prices received in the broad service sector climbed at an annualized rate of 1.31 percent this month, compared to November's 1.14 percent rate of rise. Within sub-sectors, retail prices rose at a 1.51 percent clip, an increase from last month's 1.22 percent pace. Among services providers, prices also rose more rapidly than a month ago, increasing at a 1.27 percent annualized rate, up from a 1.12 percent pace.

Survey respondents anticipated faster price growth over the next six months. They looked for an annualized rise of 1.73 percent, whereas a month ago they expected a 1.60 percent rate of increase. Retailers anticipated a 1.98 percent pace, coming in below their November outlook for 2.08 percent price growth. At other services firms, executives expected

prices would rise at a 1.69 percent annualized rate, while in November, they had looked for future price growth of 1.52 percent.

Contact

Aileen Watson

Associate Regional Economist
 Research Dept. /Regional Economics
 Federal Reserve Bank of Richmond

Richmond Office

Ph: 804.697.7995

aileen.watson@rich.frb.org

www.richmondfed.org

Business Activity Indexes^{1,4}				
Overall Service Sector Indicators	Current Conditions			3-Month Average
	Dec-16	Nov-16	Oct-16	
Revenues	4	3	7	5
Number of Employees	12	13	6	11
Average Wage	24	12	19	19
Expected Demand ²	36	22	23	27
Retail Indicators				
Sales Revenues	30	-9	1	7
Number of Employees	-6	10	-13	-3
Average Wage	49	16	34	33
Inventories	2	-10	-19	-9
Big-ticket Sales	35	13	-10	13
Shopper Traffic	29	-9	-8	4
Expected Demand for Goods ²	72	43	13	43
Services Firms Indicators				
Revenues	-1	5	9	4
Number of Employees	16	14	9	13
Average Wage	19	12	17	16
Expected Demand for Services ²	30	19	25	24
Current Price Trends³				
Service Sector	1.31	1.14	1.15	
Retail	1.51	1.22	1.11	
Services Firms	1.27	1.12	1.15	
Expected Price Trends^{2,3}				
Expectations				
	Dec-16	Nov-16	Oct-16	
Service Sector	1.73	1.60	1.68	
Retail	1.98	2.08	1.35	
Services Firms	1.69	1.52	1.73	

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 116 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.