

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

*Service Sector Activity Remains Weak;
Retailers Optimistic About Early 2009*

Overview

Activity in the service sector remained anemic in October, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales contracted, weighed down by declining big-ticket sales and diminishing shopper traffic. In addition, retailers started the holiday sales season with a reduction in their inventories. Revenues also contracted at District services firms in October, though the decline slowed somewhat from a month ago. In service sector labor markets, the pace of job losses accelerated and average wage growth slowed slightly.

Looking ahead, retailers were upbeat about demand for their products during the six months ahead, while services firms anticipated softer sales.

Compared to a month ago, price growth slowed in October at retail and services businesses. However, survey respondents expected price growth to rise more quickly through the first quarter of 2009.

Overall Service Sector Conditions

Activity in the overall service sector remained weak in October, with the revenues index at -10, following September's index of -15. The pace of job losses accelerated, pulling the index to -15 in October from -9. Average wage growth slowed slightly, with that index settling at 6 compared to its month-ago reading of 8. Looking ahead six months, the index for expected demand in the broad service sector softened to 2 following last month's reading of 15. Separately, however, retailers had a brighter outlook for the months ahead, while contacts at services firms predicted a weaker business environment.

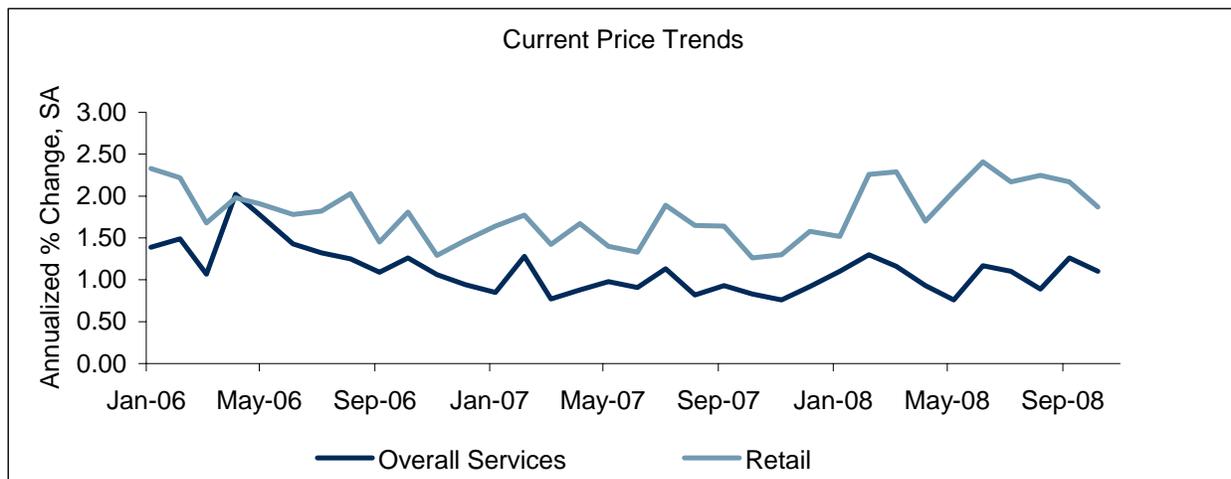
Retail

Retail sales declined in October, though at a slower pace than in September. The index gained 12 points to a reading of -18. The index for big-ticket sales also improved somewhat, with that index adding 7 points to conclude this month's survey period at -36. The index for shopper traffic drifted down two points from a month ago, to -32.



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Retailers reduced inventories in October, with the index shedding 19 points from September's reading to settle at -23. Looking ahead, however, retailers were much more optimistic about product demand in the next six months—the expectations index jumped 11 points to 25 in October.

Job losses accelerated in retail labor markets, pulling the index to -29 from September's -23. Average retail wage growth was nearly flat; the index slipped four points to settle at -1.

Services-Providing Firms

Revenues at services firms declined in October, though more slowly than in September. The index strengthened four points to finish at -8 this month. However, the pace of job reductions quickened, to an index of -11 following September's -3. Average wage growth at services businesses moderated in October; the index trimmed four points to settle at 8. Compared to last month's outlook, contacts at services firms expected a weaker business climate in the six months ahead—the index for expected demand slipped 25 points in October, to a reading of -7.

Prices

Price growth in the broad service sector slowed in October, to an annual rate of 1.10 percent compared to last month's 1.26 percent pace. Separately, retail price growth slowed to 1.87

percent after 2.17 percent in September. Services firms reported 0.72 percent price growth in October, following 0.85 percent last month.

Looking to the first quarter of 2009, respondents expected price growth of 1.88 percent overall—somewhat higher than their expectation of 1.70 percent in September. Retailers anticipated price growth would pick up to 3.09 percent, whereas last month they looked for price growth of 2.68 percent. At services firms, respondents predicted 1.39 percent price growth for the coming six months compared to their outlook in September for 1.26 percent growth in prices.

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Business Activity Indexes ^{1,4}				
Service Sector Indicators	Current Conditions			3-Mo. Ave
	Oct-08	Sep-08	Aug-08	
Revenues	-10	-15	-6	-10
Number of employees	-15	-9	-14	-13
Average wage	6	8	12	9
Expected demand ²	2	15	5	8
Retail Indicators				
Sales revenues	-18	-30	-24	-24
Number of employees	-29	-23	-29	-27
Average wage	-1	3	9	4
Inventories	-23	-4	-19	-15
Big-ticket sales	-36	-43	-35	-38
Shopper traffic	-32	-30	-25	-29
Expected product demand ²	25	14	6	15
Services Firms Indicators				
Revenues	-8	-12	-2	-7
Number of employees	-11	-3	-7	-7
Average wage	8	12	14	11
Expected demand for services ²	-7	18	6	6
Current Price Trends ³				
Service Sector	1.10	1.26	0.89	
Retail	1.87	2.17	2.25	
Services Firms	0.72	0.85	0.24	
Expected Price Trends ^{2,3}				
Service Sector	1.88	1.70	1.75	
Retail	3.09	2.68	2.95	
Services Firms	1.39	1.26	1.19	

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 105 of 147 firms surveyed
- 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.

