

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

*Service Sector Activity Contracts;
Revenues Fall; Jobs Are Cut Across the Sector*

Overview

Activity in the service sector generally contracted in November, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales fell sharply as big-ticket sales shrank and shopper traffic declined. Retailers pared back inventories on pace with a month ago. At services-providing firms, revenues also sagged. In addition, employers across the service sector trimmed jobs. Average wage growth in the sector was little changed from a month ago, as mild wage growth at services firms softened a pull-back in retail wages.

Survey respondents were more subdued in November in their outlook for sales in the six months ahead.

Price growth moderated in the broad service sector in November. Separately, retail price growth continued on pace with a month ago, while services firms' prices decelerated. Looking ahead six months, respondents expected service sector price growth to moderate slightly, compared to

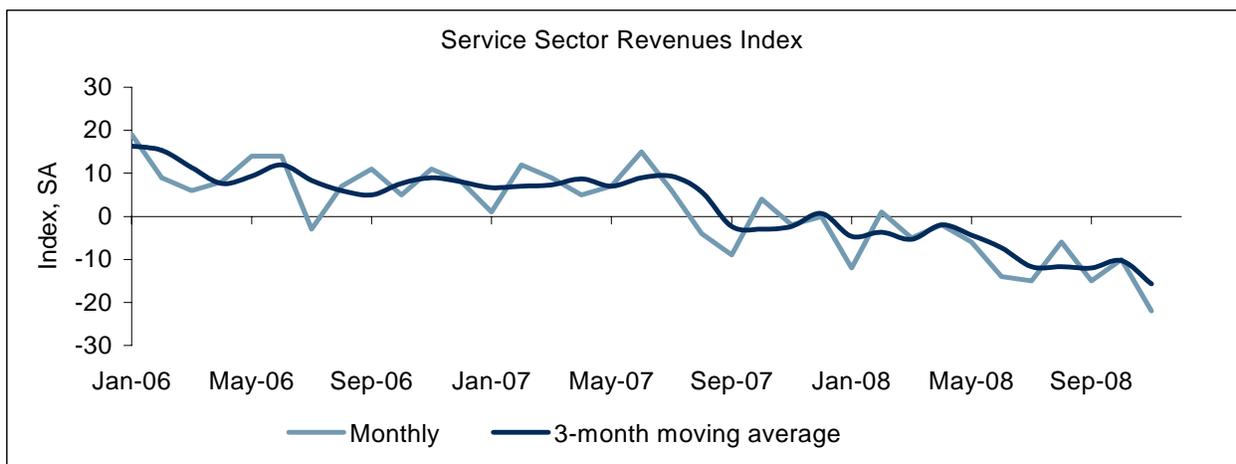
their outlook a month ago.

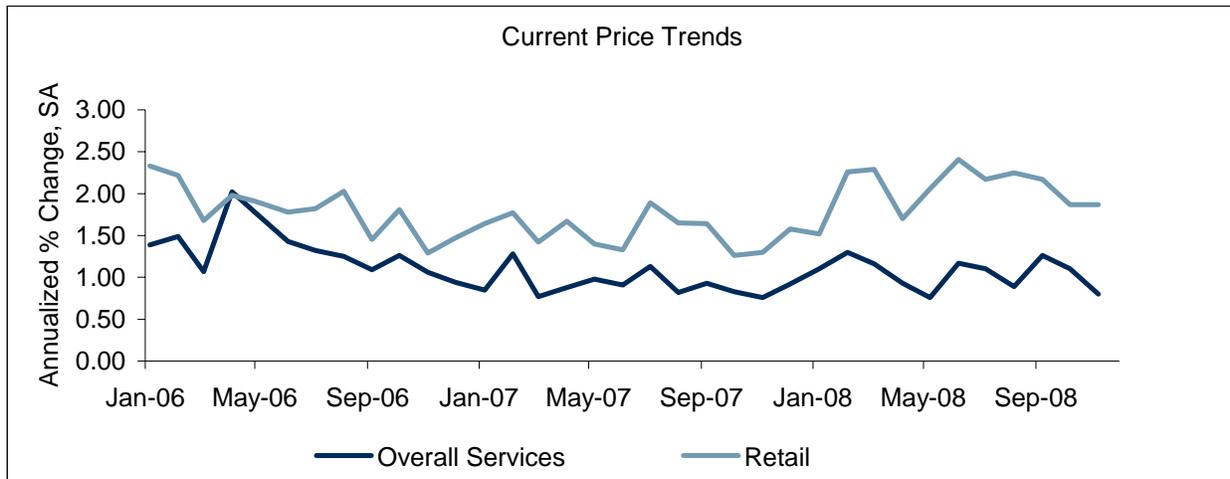
Overall Service Sector Conditions

Revenues in the overall service sector slipped deeper into negative territory in November, with the index dropping to -22 from -10. Job cuts broadened across the sector, pulling the index for employment to -17 from -15. Meanwhile, the index for average wage growth remained at 6, matching October's reading. Retailers held a bleaker outlook for sales in the six months ahead, while respondents at services firms expected no change. The overall expectations index settled at -2 this month compared to last month's 2.

Retail

Retail sales contracted sharply in November, pulling the index to -35 from -18. Falling big-ticket sales contributed to the slump, with that index sliding 27 points to -63. In addition, shopper traffic waned, driving the index to -44 from last month's reading of -32. Merchants reduced their inventories on pace with October, leaving the index





at -23 for a second month. Retailers' outlook for sales during the six months ahead turned pessimistic; the index reversed direction in November, dropping 39 points to -14.

Turning to labor markets, retailers trimmed payrolls further in November, with the index losing three points to settle at -32. In addition, average retail wages contracted—the index fell to -10 from October's -1.

Services-Providing Firms

Revenues at services firms also contracted in November. The index dropped 7 points to a reading of -15. Services-providing firms shed jobs at a slightly quicker rate; the index edged lower, to -14 from October's -11. In contrast, the index for average wage growth gained two points to a reading of 10. Compared to a month ago, survey respondents at services firms upgraded their outlook for business prospects in the six months ahead, pushing the index up seven points to 0 in November.

Prices

Price growth in the broad service sector decelerated to an annual rate of 0.80 percent in November, compared to last month's 1.10 percent annual rate. Separately, retail price growth matched October's 1.87 percent pace. At services firms, price growth slowed to 0.33 percent, following last month's 0.72 percent growth.

Looking to the six months ahead, survey respondents anticipated overall price growth of 1.78 percent compared to their month-ago expectation for 1.88 percent growth. Retailers looked for somewhat slower price increases, anticipating price growth would moderate to 2.49 percent from October's expectation of 3.09 percent. Respondents at services firms predicted slightly quicker price growth of 1.53 percent in the six months ahead compared to their outlook last month for 1.39 percent.

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Business Activity Indexes^{1,4}

Service Sector Indicators	Current Conditions			3-Mo. Ave
	Nov-08	Oct-08	Sep-08	
Revenues	-22	-10	-15	-16
Number of employees	-17	-15	-9	-14
Average wage	6	6	8	7
Expected demand ²	-2	2	15	5
Retail Indicators				
Sales revenues	-35	-18	-30	-28
Number of employees	-32	-29	-23	-28
Average wage	-10	-1	3	-2
Inventories	-23	-23	-4	-17
Big-ticket sales	-63	-36	-43	-48
Shopper traffic	-44	-32	-30	-35
Expected product demand ²	-14	25	14	8
Services Firms Indicators				
Revenues	-15	-8	-12	-12
Number of employees	-14	-11	-3	-9
Average wage	10	8	12	10
Expected demand for services ²	0	-7	18	4
Current Price Trends³				
Service Sector	0.80	1.10	1.26	
Retail	1.87	1.87	2.17	
Services Firms	0.33	0.72	0.85	
Expected Price Trends^{2,3}				
Service Sector	1.78	1.88	1.70	
Retail	2.49	3.09	2.68	
Services Firms	1.53	1.39	1.26	

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 102 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.