

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

*Service Sector Revenues Fall;
Job Cuts Continue*

Overview

Revenues in the service sector fell steeply in December, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales dropped as big ticket sales continued to slide and shopper traffic declined. Retailers continued to shrink their inventories during December. Revenues also contracted sharply at services-providing firms. In the broad service sector, payroll reductions were nearly on par with a month ago.

Looking ahead six months, survey respondents were mixed in their predictions about future sales. Retailers were mildly optimistic that demand for their products would pick up. Contacts at services firms were more guarded in their outlook.

Price growth moderated overall in the sector, as slower price growth at retail establishments overshadowed a slight uptick at services-providing firms. In December, survey respondents anticipated slower price growth during the next six months, compared to their expectations a month

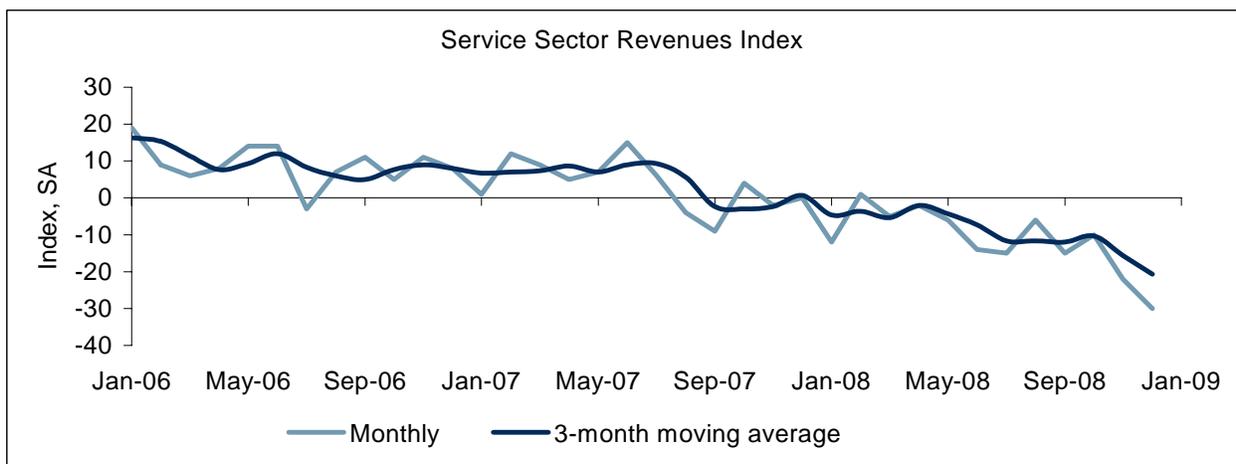
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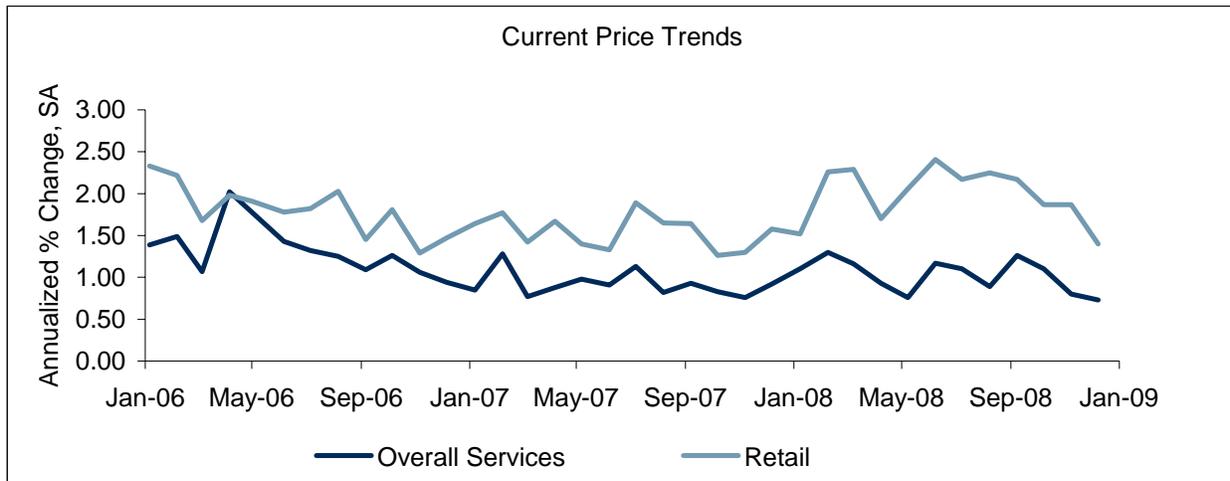
Overall Service Sector Conditions

Service sector revenues contracted further in December, with the index losing eight points to settle at -30. Employment in the broad service sector declined about on pace with a month ago. That index edged down to -19 from -17. Average wages grew mildly; at 5, the index was one point below November's reading. Survey respondents were generally cautious in their outlook for business prospects in the coming six months. The index for expected demand cut one point from last month's reading, to register -3 in December.

Retail

Retail sales dropped in December, though somewhat less abruptly than in November. The index gained eight points to a reading of -27. Big-ticket sales remained in sharp decline, with the index at -50, compared to November's -63. Shopper traffic improved somewhat from a month ago, with that index strengthening 21 points to -23.





Retailers tightened inventories again; the inventories index settled at -19 compared to last month's -23. Despite this month's weak performance, merchants anticipated stronger demand for their products during the next six months. The index for expected demand rose 19 points to 5.

In retail labor markets, job cuts slowed, bringing the index to -14 in December from -32 in the previous month. Average retail wages grew slightly, pushing that index to 6 from -10.

Services-Providing Firms

Revenues at services-providing firms plummeted in December, dragging the index 18 points below November's reading to -33. Employment at services firms also fell more rapidly—that index slid to -20 from -14 a month earlier. Average wage growth slowed, reducing the index to 4 from last month's 10. Looking to the first half of 2009, survey respondents expected declining demand for their services, whereas in November, they had expected no change. The expectations index dropped to -6 in December.

Prices

Price growth in the service sector slowed in December, to an annual rate of 0.73 percent, compared to the annual rate of 0.80 percent in November. At retail businesses, price growth moderated to 1.40 percent this month, following

November's 1.87 percent pace. Among survey respondents at services-providing firms, price growth ticked up slightly to a 0.42 percent pace in December, from last month's 0.33 percent price growth.

Looking ahead six months, survey respondents expected further slowing in price growth versus their outlook in November. Overall, respondents looked for prices to grow at a 1.16 percent pace. A month ago, they predicted 1.78 percent growth in prices. Separately, retail merchants looked for future price growth of 1.85 percent, compared to their November outlook for 2.49 percent price growth. Contacts at services firms anticipated prices would grow at a 0.93 percent pace, following last month's expected 1.53 percent clip.

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Business Activity Indexes^{1,4}

Service Sector Indicators	Current Conditions			3-Mo. Ave
	Dec-08	Nov-08	Oct-08	
Revenues	-30	-22	-10	-21
Number of employees	-19	-17	-15	-17
Average wage	5	6	6	6
Expected demand ²	-3	-2	2	-1
Retail Indicators				
Sales revenues	-27	-35	-18	-27
Number of employees	-14	-32	-29	-25
Average wage	6	-10	-1	-2
Inventories	-19	-23	-23	-22
Big-ticket sales	-50	-63	-36	-50
Shopper traffic	-23	-44	-32	-33
Expected product demand ²	5	-14	25	5
Services Firms Indicators				
Revenues	-33	-15	-8	-19
Number of employees	-20	-14	-11	-15
Average wage	4	10	8	7
Expected demand for services ²	-6	0	-7	-4
Current Price Trends ³				
Service Sector	0.73	0.80	1.10	
Retail	1.40	1.87	1.87	
Services Firms	0.42	0.33	0.72	
Expected Price Trends ^{2,3}				
Service Sector	1.16	1.78	1.88	
Retail	1.85	2.49	3.09	
Services Firms	0.93	1.53	1.39	

Technical notes:

- 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 111 of 147 firms surveyed
- Expectations refer to the time period six months out from the survey period.
- Price changes are expressed as percent change, annualized.
- 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.