

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Remains Weak;  
Job Cuts Accelerate and Average Wages Decline*

### Overview

Activity in the service sector weakened in January, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues contracted at services-providing firms, though not as sharply as in December. Retail sales flattened overall, despite a steep drop in big-ticket sales. Shopper traffic diminished, and retailers tightened inventories further this month. Employment cuts picked up across the service sector while average wages declined.

Looking ahead six months, retailers expected sales to increase, while contacts at services firms had a gloomy outlook.

Price growth edged up at service sector businesses this month. Going forward, survey respondents expected quicker price growth during the next six months.

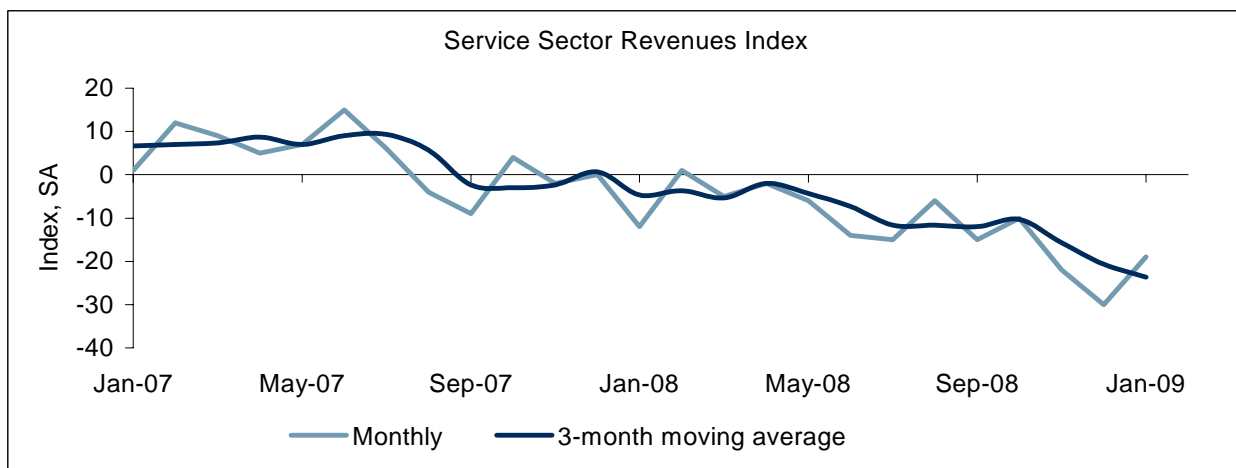
### Overall Service Sector Conditions

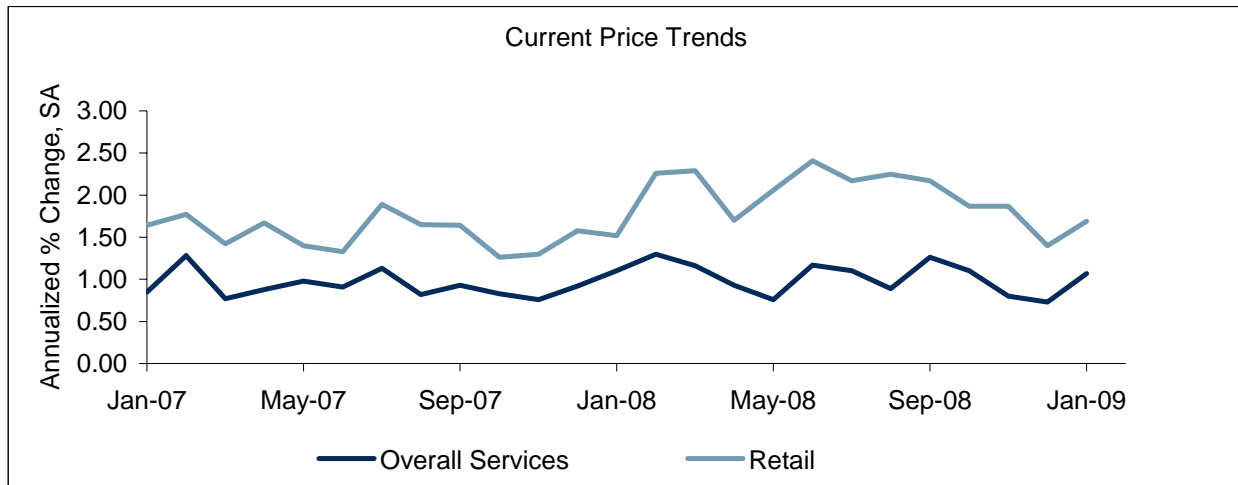
Indicators in the broad service sector continued to show weakness in January. Revenues contracted,

but by less than a month ago, lifting the index to -19 from -30. Employers in the service sector trimmed payrolls further this month; that index dropped to -24 from last month's -19. In addition, average wages pulled back somewhat. The index slipped to -9 from December's reading of 5. Survey respondents expected weak business conditions to persist during the next six months, bringing the index for future demand seven points lower in January, to -10.

### Retail

Retail sales flattened in January, warming the index to zero from -27. However, big-ticket sales continued to fall, keeping that index deep in negative territory at -51, following -50 last month. Shopper traffic declined, with the index nine points below its month-ago reading of -32. Merchants reined in their inventories in January; the index fell to -26, following December's -19. Retailers' outlook for consumer demand in the six months ahead remained upbeat. The expectations index added a point to finish the month at 6.





Increasingly, retail employers cut their payrolls in January. The index for retail employment sank eight points to -22. Average retail wages contracted as well, pulling that index to -8 from December's 6.

**Services-Providing Firms**

Revenues at services-providing firms fell in January. However, the contraction slowed from a month earlier, with the index adding ten points to end the month at -23. Employment at services firms remained on a downslide; that index dropped to -25 from December's -20. Average wages at services-providing firms edged down, to an index of -9 in January from 4. In the history of this survey, the index was below zero only once previously—in May of 2002. For the six months ahead, respondents at services firms predicted further weakness in their markets. The expectations index fell 11 points to -17.

**Prices**

Price growth in the service sector moved up in January, to an annual rate of 1.07 percent, compared to the annual rate of 0.73 percent in December. At retail establishments, price growth strengthened slightly to 1.69 percent in January, compared to last month's 1.40 percent growth. At services-providing firms, price growth advanced to a 0.84 percent pace following 0.42 percent in December.

Survey respondents expected price growth to continue to pick up in the six months ahead. In the broad service sector, they looked for prices to grow at a 1.76 percent pace compared to last month's outlook for 1.16 percent. Separately, retailers expected future price growth of 1.89 percent, compared to their expectation last month for 1.85 percent growth. Respondents at services firms looked for 1.74 percent growth in prices. In December, they predicted prices would grow at a 0.93 percent pace.

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**Business Activity Indexes<sup>1,4</sup>**

Service Sector Indicators	Current Conditions			3-Mo. Ave
	Jan-09	Dec-08	Nov-08	
Revenues	-19	-30	-22	-24
Number of employees	-24	-19	-17	-20
Average wage	-9	5	6	0
Expected demand <sup>2</sup>	-10	-3	-2	-5
Retail Indicators				
Sales revenues	0	-27	-35	-21
Number of employees	-22	-14	-32	-23
Average wage	-8	6	-10	-4
Inventories	-26	-19	-23	-23
Big-ticket sales	-51	-50	-63	-55
Shopper traffic	-32	-23	-44	-33
Expected product demand <sup>2</sup>	6	5	-14	-1
Services Firms Indicators				
Revenues	-23	-33	-15	-23
Number of employees	-25	-20	-14	-20
Average wage	-9	4	10	2
Expected demand for services <sup>2</sup>	-17	-6	0	-8
Current Price Trends <sup>3</sup>				
Service Sector	1.07	0.73	0.80	
Retail	1.69	1.40	1.87	
Services Firms	0.84	0.42	0.33	
Expected Price Trends <sup>2,3</sup>				
Service Sector	1.76	1.16	1.78	
Retail	1.89	1.85	2.49	
Services Firms	1.74	0.93	1.53	

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 99 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.

