

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

*Service Sector Activity Declines in February;
Weak Business Outlook Persists*

Overview

Service sector activity declined in February, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales fell, led by a sharp drop in big-ticket sales. In addition, shopper traffic remained in a slump. Retailers continued to tighten their inventories this month. Revenues also contracted at services-providing firms in February. Looking forward, survey respondents expected the lackluster business environment to persist for the next six months.

Labor market conditions also weakened at service sector businesses in February. Retailers and services-providing businesses cut jobs, and average wages contracted across the sector.

Price growth slowed in the broad service sector in February. For the six months ahead, survey respondents anticipated slower price growth than they looked for in January.

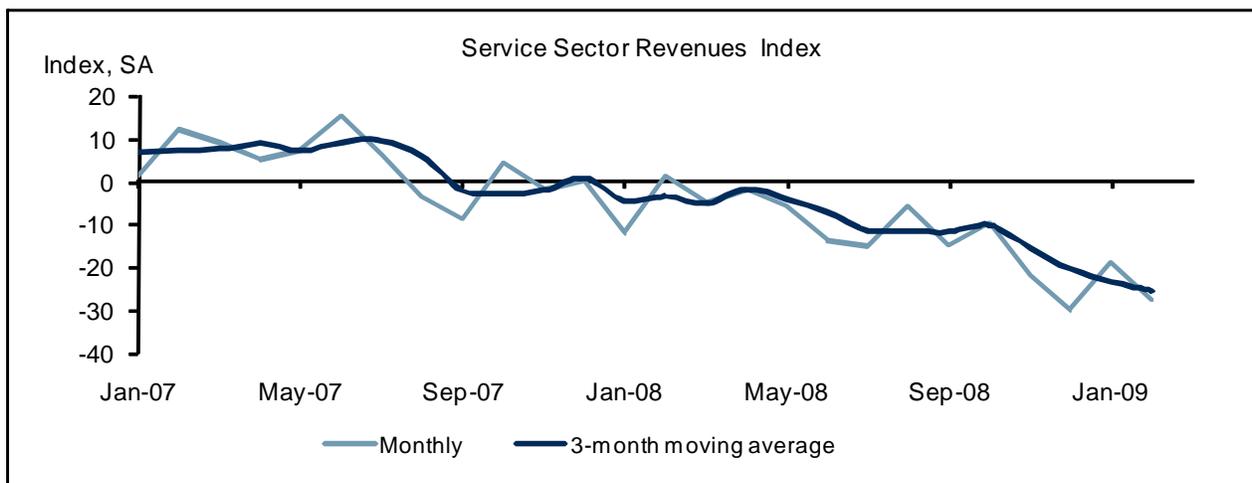
Overall Service Sector Conditions

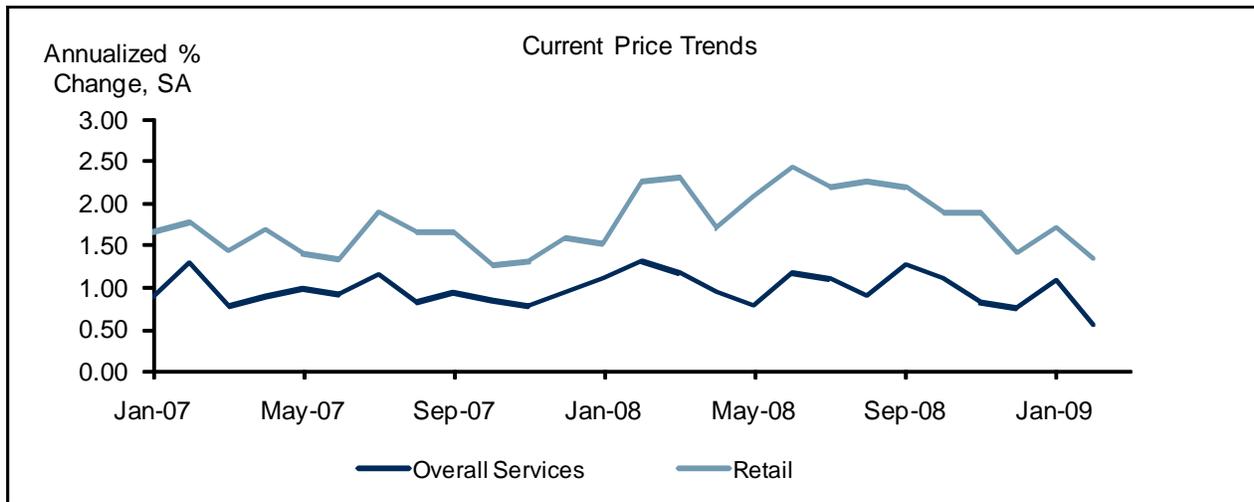
Service sector survey respondents continued to

paint a gloomy picture of business in February. Revenues contracted, dragging the overall revenues index lower, to -28 from last month's -19. In addition, service sector employers cut jobs—the employment indicator settled at -26, just below January's -24. Average wage contraction moderated to an index of -6 following -9 a month earlier. Survey respondents predicted weak business conditions would continue for the next six months; the index for expectations settled at -10, matching January's reading.

Retail

Retail sales contracted in February, as big-ticket sales dropped sharply and shopper traffic declined. The index for sales revenues fell to -32 from January's zero, and the indicator for big-ticket sales shed 17 points, to settle at -68. The shopper traffic index drifted down to -35 this month from January's -32. Retailers reduced inventories, with that index slipping to -29 in February from -26 a month ago. Retail merchants were somewhat pessimistic in their outlook for sales in the six





months ahead. The expectations index receded to -8 this month, 14 points below January's reading.

On the employment front, retailers made further reductions in jobs, bringing the employment index to -34 in February. Last month, the index registered -22. In addition, average wages declined; that index shaved eight points, to finish at -16.

Services-Providing Firms

Revenues fell at services-providing firms in February, pulling the index to -27, four points lower than a month earlier. In addition, survey respondents at services firms continued to reduce their number of employees. At -23, the employment index was little changed from January's -25. However, average wage contraction leveled off somewhat at services-providing firms, with the index gaining seven points to settle at -2. Respondents expected weak business conditions to continue through the end of the summer—the expectations index edged up four points to -13.

Prices

Price growth in the service sector decelerated in February, to an annual rate of 0.53 percent, compared to the annual rate of 1.07 percent in January. Retailers' price growth slowed to 1.33 percent compared to 1.69 percent a month ago. At services-providing firms, price growth flattened

to 0.11 percent following January's 0.84 percent growth.

Looking ahead six months, survey respondents predicted annualized price growth of 0.75 percent, after expecting 1.76 percent growth last month. Retailers anticipated future price growth of 1.78 percent, slightly below their expectations last month for 1.89 percent growth. Respondents at services firms expected 0.16 percent price growth, compared to their outlook in January for a 1.74 percent increase.

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Business Activity Indexes^{1,4}

Service Sector Indicators	Current Conditions			3-Mo. Ave
	Feb-09	Jan-09	Dec-08	
Revenues	-28	-19	-30	-25
Number of employees	-26	-24	-19	-23
Average wage	-6	-9	5	-4
Expected demand ²	-10	-10	-3	-8
Retail Indicators				
Sales revenues	-32	0	-27	-20
Number of employees	-34	-22	-14	-23
Average wage	-16	-8	6	-6
Inventories	-29	-26	-19	-24
Big-ticket sales	-68	-51	-50	-56
Shopper traffic	-35	-32	-23	-30
Expected product demand ²	-8	6	5	1
Services Firms Indicators				
Revenues	-27	-23	-33	-27
Number of employees	-23	-25	-20	-23
Average wage	-2	-9	4	-2
Expected demand for services ²	-13	-17	-6	-12
Current Price Trends³				
Service Sector	0.53	1.07	0.73	
Retail	1.33	1.69	1.40	
Services Firms	0.11	0.84	0.42	
Expected Price Trends^{2,3}				
Service Sector	0.75	1.76	1.16	
Retail	1.78	1.89	1.85	
Services Firms	0.16	1.74	0.93	

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 107 of 133 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.