

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

*Retail Contraction Moderates;
Activity at Service-Providing Firms Recedes Further*

Overview

Service sector activity contracted in March, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales fell, though by somewhat less than in February, while revenues at service-providing firms contracted a bit further. Big-ticket sales sagged again March, although less deeply than a month ago. Weakness in shopper traffic also subsided. Retailers reduced inventories in March, nearly equaling last month's decrease. Looking ahead six months, survey respondents were less pessimistic this month than in February about expected demand for goods and services.

In service sector labor markets, the number of employees shrank, although retail cuts were less pervasive than a month ago. Average retail wages declined by less in March than in February, but average wages fell more broadly at service-providing firms.

Price growth inched up across the overall service sector in March. For the six months ahead, survey

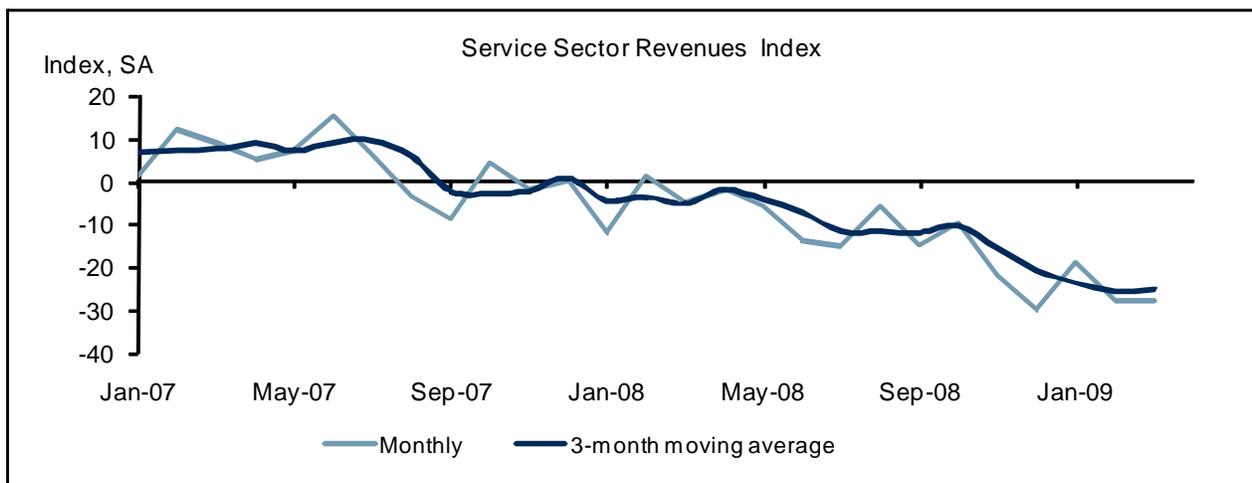
respondents looked for price growth to strengthen at services firms and to soften at retail establishments, compared to their predictions in February.

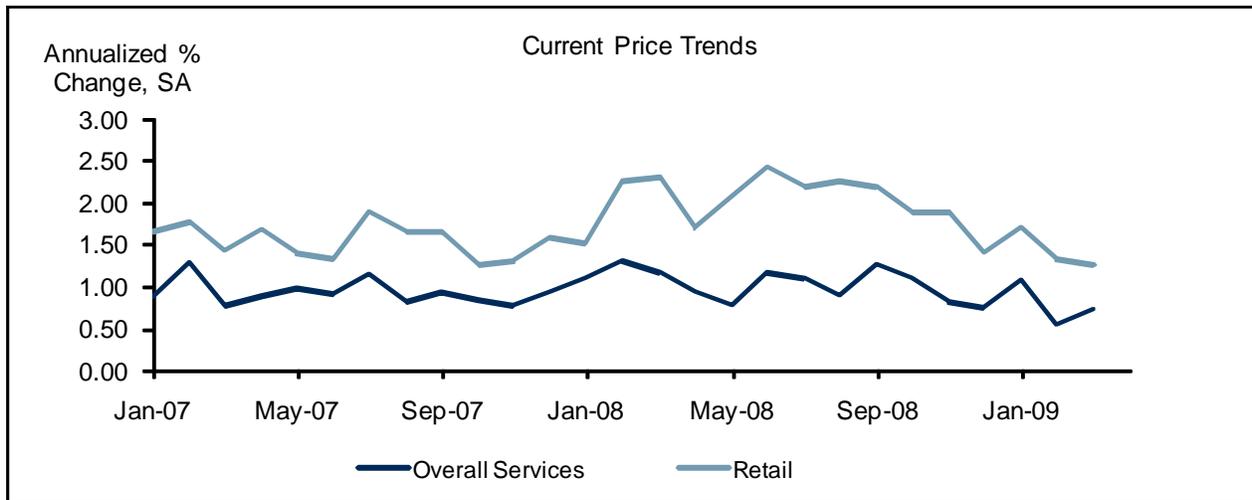
Overall Service Sector Conditions

Conditions in the broad service sector remained weak in March. Revenues contracted, keeping the index at -28, while employment reductions picked up with that index settling five points lower, at -31 this month. Average wages fell, with that index matching February's -6. However, survey respondents were less bleak about demand for their goods and services in the months ahead—the expectations index rose five points in March to -5.

Retail

Retail sales continued to fall in March, although the decline eased somewhat from a month ago, as the collapse in big-ticket sales abated. The index for sales revenues gained six points to finish at -26, and the big-ticket indicator strengthened to -50 in March from -68. Shopper traffic also fell by less,





with that index adding 22 points to end at -13. Retailers continued to cut inventories; at -26, the index nearly matched February's reading of -29. Retailers' expectations for the coming six months were brighter than last month. The expectations index climbed 19 points in March, to 11.

On the labor front, retail employment cuts slowed this month, bringing the index for the number of employees to -24 from -34. Average retail wage growth also slowed its descent, with that index settling at -6 in March compared to February's -16.

Services-Providing Firms

Revenues dropped at services-providing firms in March. The index slipped to -29, just below February's reading of -27. In addition, employment cuts deepened at services firms, dragging that index to -32 in March from -23. Average wages contracted, with that indicator losing six points to end at -8. Despite reporting weaker conditions in the current month, respondents were less grim about their business opportunities for the six months ahead than they were in February. The expectations index rose five points to -8 in March.

Prices

Price growth in the service sector ticked up to an annual rate of 0.72 percent in March, following February's annual rate of 0.53 percent. Separately, retail price growth slowed to 1.26 percent compared to 1.33 percent a month ago.

Price growth at services firms rose to 0.52 percent, compared to 0.11 in February.

Going forward, survey respondents expected annualized price growth of 1.06 percent, compared to their outlook for 0.75 percent a month ago. Retail merchants looked for prices to increase at a 1.47 percent pace; in February, they expected 1.78 percent price growth. Survey respondents at service-providing firms anticipated price growth of 0.95 percent, compared to their expectation in February for 0.16 percent.

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Business Activity Indexes^{1,4}

Service Sector Indicators	Current Conditions			3-Mo. Ave
	Mar-09	Feb-09	Jan-09	
Revenues	-28	-28	-19	-25
Number of employees	-31	-26	-24	-27
Average wage	-6	-6	-9	-7
Expected demand ²	-5	-10	-10	-9
Retail Indicators				
Sales revenues	-26	-32	0	-20
Number of employees	-24	-34	-22	-26
Average wage	-6	-16	-8	-10
Inventories	-26	-29	-26	-27
Big-ticket sales	-50	-68	-51	-57
Shopper traffic	-13	-35	-32	-27
Expected product demand ²	11	-8	6	3
Services Firms Indicators				
Revenues	-29	-27	-23	-26
Number of employees	-32	-23	-25	-27
Average wage	-8	-2	-9	-6
Expected demand for services ²	-8	-13	-17	-12
Current Price Trends³				
Service Sector	0.72	0.53	1.07	
Retail	1.26	1.33	1.69	
Services Firms	0.52	0.11	0.84	
Expected Price Trends^{2,3}				
Service Sector	1.06	0.75	1.76	
Retail	1.47	1.78	1.89	
Services Firms	0.95	0.16	1.74	

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 108 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.

