

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Retail Contraction Slows and Retailers' Outlook Brightens; Activity at Services Firms Continues to Decline

Overview

Service sector activity contracted in May, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues fell at services-providing firms and at retail establishments, with big-ticket sales continuing to lead the retail decline. Shopper traffic was down, though the decrease was somewhat less widespread than in April. Inventory reductions were also less pervasive in May. Looking ahead six months, retailers expected increased demand for their goods, while respondents at services firms maintained a cautious outlook.

Employment cuts in the service sector continued in May. Average retail wages edged up, while services firms' average wages dropped this month.

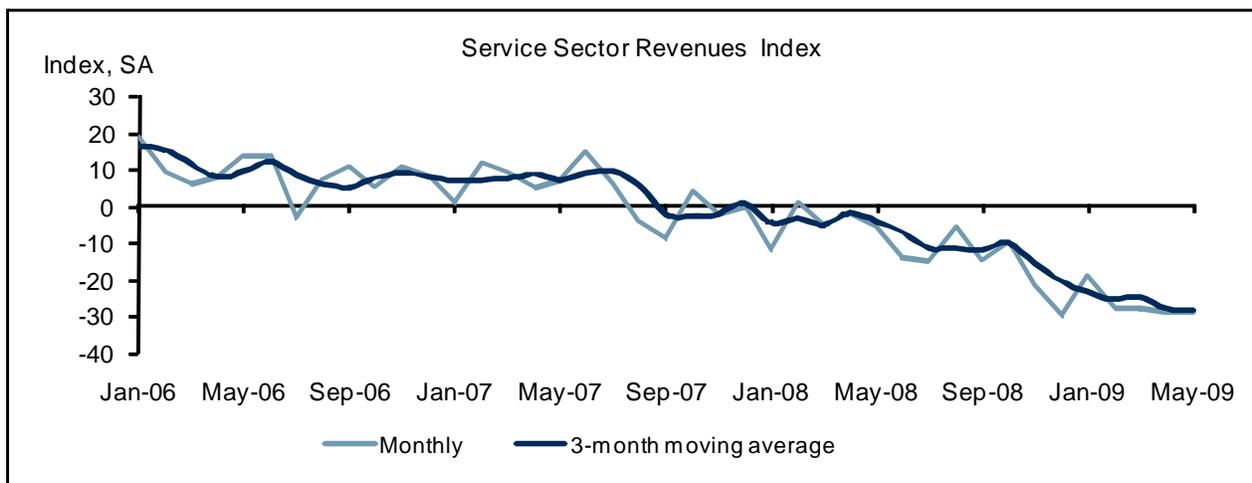
Service sector price growth slowed in May, and included a slight deflation in services providers' prices. For the six months ahead, survey respondents anticipated that prices would grow a bit more quickly than their month-ago future price predictions.

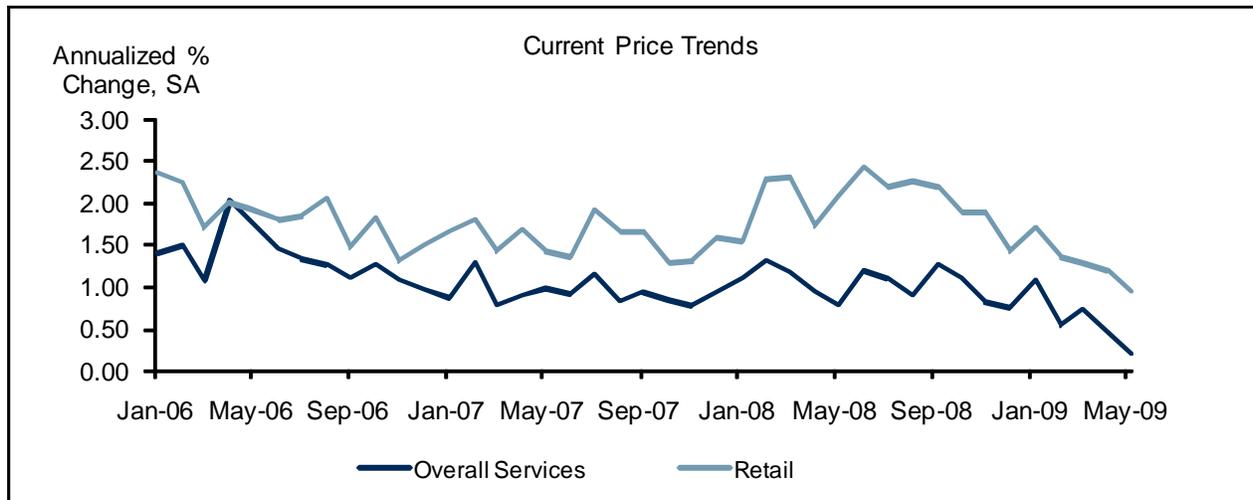
Overall Service Sector Conditions

Revenues in the service sector contracted in May, with the index barely changed in the last four months. At -29, the index matched last month's reading. Service sector businesses continued to shed employees—the index remained in negative territory while gaining five points to settle at -21. Average wages notched down, bringing that index to -7, one point below last month's reading. Survey respondents held a mixed outlook regarding demand for goods and services in the six months ahead. Retailers were optimistic about stronger consumer demand, while respondents at services firms remained relatively neutral. The overall expectations index rose to 6 in May from the month-ago reading of -3.

Retail

The general decline in retail activity slowed somewhat in May. Retail sales contracted further, however, with the index slipping to -13 from April's -11. Big ticket sales were down sharply, although the index picked up eight points from last month's





reading to finish at -52. Shopper traffic continued to decline, but that index added six points in May, ending the survey period at -13. Retail inventories also diminished more slowly, with the index at -17 compared to April's -28. Retailers looked for stronger demand for their products by the end of the year. The expectations index rose to 32, a gain of 33 points.

Retail employment reductions were less pervasive in May; the index for the number of employees finished at -18, seven points above April's reading. In addition, the indicator for average wages reversed direction, climbing 15 points and edging into positive territory this month, at 4.

Services-Providing Firms

Revenues continued to decline at services firms in May, keeping that index at -34 for a second month. On the labor front, falling employment at services-providing businesses remained widespread, with the index shaving another point, to settle at -24 this month. In addition, average wages weakened further; the indicator dropped seven points from last month's reading, to -9. Looking out six months, survey respondents remained somewhat on the fence about demand from their customers. The expectations index edged down a point to -2 in May.

Prices

Price growth in the broad service sector tapped

the brakes in May, slowing to an annual rate of 0.18 percent following April's 0.43 percent annual pace. Separately, retail price growth stepped down to 0.92 percent, compared to last month's 1.18 percent. Prices at services firms deflated at a 0.21 percent pace, whereas a month ago, services providers reported 0.05 percent price growth. For the remainder of this year, survey respondents predicted annualized price growth of 0.93 percent, slightly above April's outlook for 0.57 future price growth. Retail merchants looked for an uptick to 1.72 percent growth over the remainder of the year, compared to their expectation in April for 1.60 percent growth. Respondents at service-providing firms expected prices to increase at a rate of 0.51 percent during the next six months; a month ago, they looked for 0.25 percent future price growth.

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Business Activity Indexes^{1,4}

| Service Sector Indicators | Current Conditions | | | 3-Mo. Ave |
|--|--------------------|--------|--------|--------------|
| | May-09 | Apr-09 | Mar-09 | |
| Revenues | -29 | -29 | -28 | -29 |
| Number of employees | -21 | -26 | -31 | -26 |
| Average wage | -7 | -6 | -6 | -6 |
| Expected demand ² | 6 | -3 | -5 | -1 |
| Retail Indicators | | | | |
| Sales revenues | -13 | -11 | -26 | -17 |
| Number of employees | -18 | -25 | -24 | -22 |
| Average wage | 4 | -11 | -6 | -4 |
| Inventories | -17 | -28 | -26 | -24 |
| Big-ticket sales | -52 | -60 | -50 | -54 |
| Shopper traffic | -13 | -19 | -13 | -15 |
| Expected product demand ² | 32 | -1 | 11 | 14 |
| Services Firms Indicators | | | | |
| Revenues | -34 | -34 | -29 | -32 |
| Number of employees | -24 | -23 | -32 | -26 |
| Average wage | -9 | -2 | -8 | -6 |
| Expected demand for services ² | -2 | -1 | -8 | -4 |
| Current Price Trends³ | | | | |
| Service Sector | 0.18 | 0.43 | 0.72 | |
| Retail | 0.92 | 1.18 | 1.26 | |
| Services Firms | -0.21 | 0.05 | 0.52 | |
| Expected Price Trends^{2,3} | | | | |
| Service Sector | 0.93 | 0.57 | 1.06 | |
| Retail | 1.72 | 1.60 | 1.47 | |
| Services Firms | 0.51 | 0.25 | 0.95 | |

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 103 of 133 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.