

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Declines; Employment Cuts Spread in Retail

Overview

Service sector activity declined in June, according to the latest survey by the Federal Reserve Bank of Richmond. Weakness continued at both retail establishments and services firms. Retail sales fell this month, along with a sharp drop in big-ticket sales. In addition, shopper traffic decreased. Retailers' inventory reductions were less prevalent this month, however. Revenues also contracted at services firms in June. Survey respondents' expectations for the remainder of 2009 were mixed. Retailers held a relatively neutral outlook for product demand through the end of the year while respondents at services firms were upbeat about expected demand for their services.

The number of employees in the service sector declined this month. Average wages shrank at services firms, while average retail wages ticked up.

Price growth was contained during June in the overall service sector. Separately, retail price growth edged up slightly while price growth at services firms was nearly flat. Compared to the

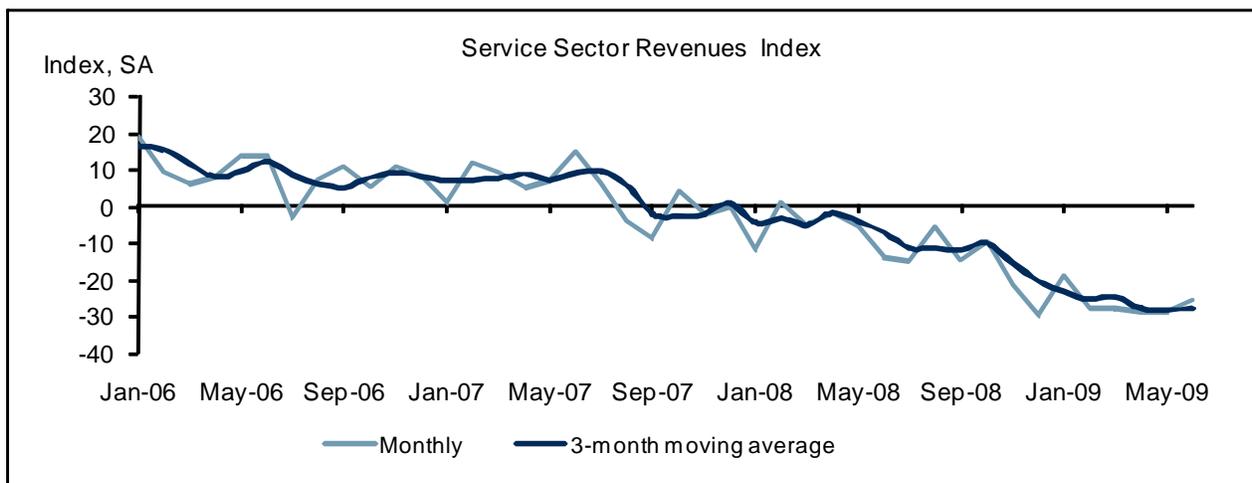
current month's pace, survey respondents expected somewhat quicker price growth during the six months ahead.

Overall Service Sector Conditions

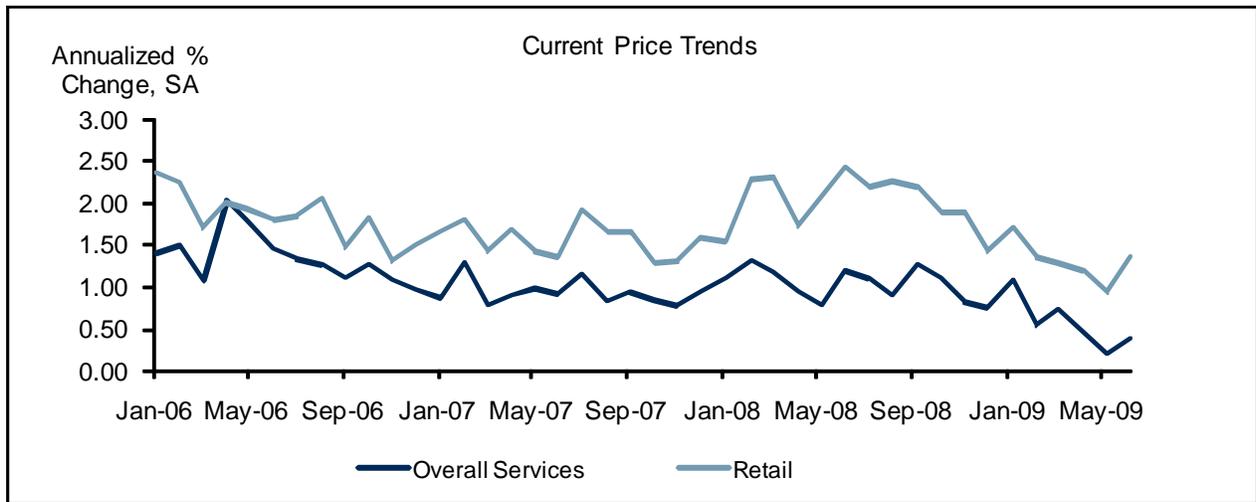
Revenues in the service sector fell in June, with the overall index settling at -26; in May the reading was -29. Businesses continued to cut employees — at -20, the index for the number of employees nearly matched May's reading of -21. Average wages contracted in June, holding that index at -7. Looking ahead six months, retailers were generally neutral in their expectations for product demand, while survey respondents at services firms were optimistic about demand for their services. The overall expectations index added seven points, to finish the survey period at 13.

Retail

Retail malaise continued in June, with a slump in sales. The retail sales index slipped five points from last month's reading to -18, while the index for big-ticket sales ended the survey period at -51, nearly matching last month's reading. Shopper



Regional Surveys of Business Activity
 Fifth District Survey of Service Sector Activity



traffic thinned out this month, bringing that index to -14, following an index of -13 in May. Reductions to retail inventories tapered off in June, lifting the index eight points to -9. Retail merchants predicted lackluster demand for their products during the remainder of 2009. The expectations index settled at one compared to May's 32.

On the jobs front, employment cuts surged at retail establishments in June, pulling the index to -25 from last month's index of -18. Average retail wages grew mildly for a second month, with that index settling at 3 in June, a point below its May reading.

Services-Providing Firms

Revenues contracted at services firms in June, with the index at -32, just two points above May's reading. The number of employees also fell, although that index gained four points from a month ago, to end at -20. Average wage reductions continued; the index slipped one point from last month's reading, to -10. Survey respondents expected increased demand for their services during the next six months, driving the expectations index 20 points higher, to 18 in June.

Prices

Price growth in the broad service sector notched up slightly in June, to an annual rate of 0.37 percent compared to 0.18 percent in May. Retail price growth inched up to 1.33 percent after May's

rate of 0.92 percent. Prices contracted mildly at services firms, at a rate of -0.09 percent—slightly slower than May's -0.21 percent. For the six months ahead, survey respondents expected prices in the broad service sector to rise at a 1.03 percent rate, compared to last month's outlook for 0.93 percent. Retailers expected price growth of 1.63 percent and respondents at services firms looked for prices to increase at a 0.75 percent pace. A month ago, they looked for price growth of 1.72 percent and 0.51 percent, respectively.

Contact

Aileen Watson

Senior Economic Analyst
 Research Department/Regional Economics
 Federal Reserve Bank of Richmond
 Ph. 804-697-7995 · Fax 804-697-8123
Aileen.Watson@rich.frb.org
www.richmondfed.org

Regional Surveys of Business Activity
 Fifth District Survey of Service Sector Activity

Business Activity Indexes^{1,4}

| Service Sector Indicators | Current Conditions | | | 3-Mo. Ave |
|--|--------------------|--------|--------|-----------|
| | Jun-09 | May-09 | Apr-09 | |
| Revenues | -26 | -29 | -29 | -28 |
| Number of employees | -20 | -21 | -26 | -23 |
| Average wage | -7 | -7 | -6 | -7 |
| Expected demand ² | 13 | 6 | -3 | 5 |
| Retail Indicators | | | | |
| Sales revenues | -18 | -13 | -11 | -14 |
| Number of employees | -25 | -18 | -25 | -23 |
| Average wage | 3 | 4 | -11 | -1 |
| Inventories | -9 | -17 | -28 | -18 |
| Big-ticket sales | -51 | -52 | -60 | -55 |
| Shopper traffic | -14 | -13 | -19 | -15 |
| Expected product demand ² | 1 | 32 | -1 | 11 |
| Services Firms Indicators | | | | |
| Revenues | -32 | -34 | -34 | -33 |
| Number of employees | -20 | -24 | -23 | -22 |
| Average wage | -10 | -9 | -2 | -7 |
| Expected demand for services ² | 18 | -2 | -1 | 5 |
| Current Price Trends³ | | | | |
| Service Sector | 0.37 | 0.18 | 0.43 | |
| Retail | 1.33 | 0.92 | 1.18 | |
| Services Firms | -0.09 | -0.21 | 0.05 | |
| Expected Price Trends^{2,3} | | | | |
| Service Sector | 1.03 | 0.93 | 0.57 | |
| Retail | 1.63 | 1.72 | 1.60 | |
| Services Firms | 0.75 | 0.51 | 0.25 | |

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 103 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.