

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Remains Weak; Price Growth Slows

Overview

Activity in the service sector weakened in July, according to the latest survey by the Federal Reserve Bank of Richmond. Survey respondents at service-providing firms indicated that revenues fell, although the decline was less widespread than a month ago. Retailers reported a drop in sales revenues, with big-ticket sales collapsing in July. Shopper traffic also fell sharply this month. In addition, retail establishments reduced inventories, as merchants' outlook for sales in the six months ahead remained subdued. However contacts at services firms were generally optimistic about expected customer demand for their services over the next six months.

In service sector labor markets, employee reductions continued and average wages shrank across the board. Overall service sector price growth slowed in July.

Looking ahead six months, survey respondents anticipated slower price growth overall compared to their expectations of a month ago. Separately, retailers predicted a slight uptick in future price

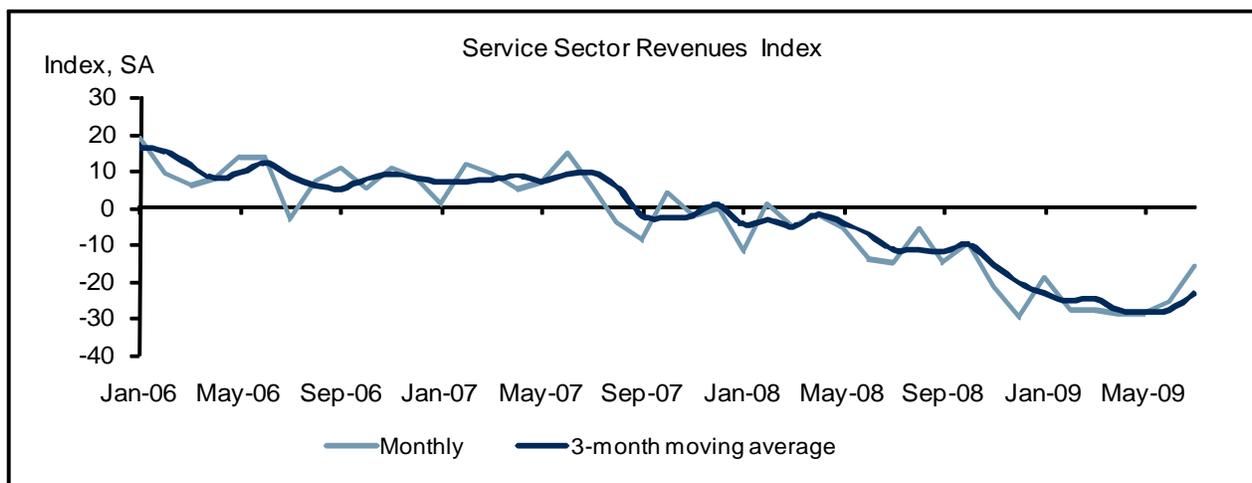
growth versus their outlook in June, while contacts at services firms expected much slower price growth in the next six months.

Overall Service Sector Conditions

Service sector revenues contracted in July, but the ongoing decline softened, raising last month's revenues index by 10 points to -16. Employee counts continued to shrink, but that index also improved, rising four points to -16. Average wages weakened; the index notched down one point in July to -8. Survey respondents remained confident that business would pick up during the next six months; the expectations index settled at 11, only two points below June's reading.

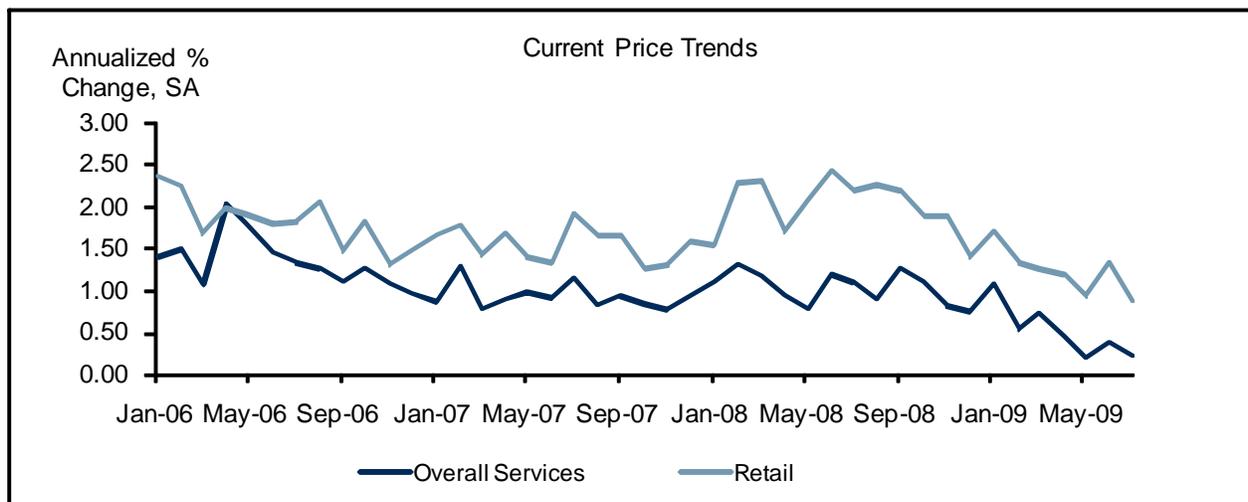
Retail

Retail sales fell in July, although the decline was somewhat less extensive than in June. The retail sales index moved up three points to end at -15 this month. However, the index for big-ticket sales dropped further, losing 16 points to settle at -67. Shopper traffic also fell, with that index dwindling to -32, compared to June's -14. Retailers



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tightened up inventories in July, pulling the index to -29, a decline of 20 points since June's reading. Looking ahead six months, retail contacts were only mildly optimistic about sales prospects—the expectations index tacked on two points to end the survey period at 3.

Turning to retail employment, the number of employees declined, with the index at -23, two points above the June index. Average retail wages dipped into negative territory; the index slipped to -7 following a reading of 3 in June.

Services-Providing Firms

Revenues at services firms remained down, but some strengthening occurred this month. The index gained 19 points, rising to -13. Payroll cuts moderated at services firms, bringing that index to -14 from June's -20. Average wage reductions also slowed; the index added three points to finish the survey period at -7. This month, survey respondents were a bit more circumspect in their outlook for the six months ahead than they were in June. The expectations index shed five points to settle at 13.

Prices

Price growth in the broad service sector slowed to an annual rate of 0.21 percent in July compared to 0.37 percent in the previous month. Retail price

growth moderated to 0.86 percent following June's 1.33 percent pace. Price change at services firms was close to nil, at an annual rate of -0.04. A month earlier, the pace was -0.09 percent. For the six months ahead, survey respondents expected prices in the broad service sector to grow at a 0.78 percent annual rate; in June they looked for 1.03 percent. Separately, retailers expected price growth of 1.72 percent after looking for 1.63 percent in June. At services firms, survey respondents anticipated price growth of 0.36 percent six months out; a month ago they predicted price growth of 0.75 for the six months ahead.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jul-09	Jun-09	May-09	
Revenues	-16	-26	-29	-24
Number of Employees	-16	-20	-21	-19
Average Wage	-8	-7	-7	-7
Expected Demand ²	11	13	6	10
Retail Indicators				
Sales Revenues	-15	-18	-13	-15
Number of Employees	-23	-25	-18	-22
Average Wage	-7	3	4	0
Inventories	-29	-9	-17	-18
Big-ticket Sales	-67	-51	-52	-57
Shopper Traffic	-32	-14	-13	-20
Expected Product Demand ²	3	1	32	12
Services Firms Indicators				
Revenues	-13	-32	-34	-26
Number of employees	-14	-20	-24	-19
Average wage	-7	-10	-9	-9
Expected demand for services ²	13	18	-2	10
Current Price Trends³				
Service Sector	0.21	0.37	0.18	
Retail	0.86	1.33	0.92	
Services Firms	-0.04	-0.09	-0.21	
Expected Price Trends^{2,3}				
	Expectations			
	Jul-09	Jun-09	May-09	
Service Sector	0.78	1.03	0.93	
Retail	1.72	1.63	1.72	
Services Firms	0.36	0.75	0.51	

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 100 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.