

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Optimism Returns as Retail Activity Remains Soft; Revenues Pick up at Services Firms*

### Overview

Service sector activity was mixed in August, according to the latest survey by the Federal Reserve Bank of Richmond. Mild growth in revenues at services-providing firms partly offset a sharp drop in retail sales. Merchants' sales revenues continued to be hampered by falling big-ticket sales; meanwhile, retailers continued to pare back inventories in August. In addition, shopper traffic declined. Despite weak results in August, survey respondents at retail and services establishments were upbeat about improving sales potential for the six months ahead.

On the labor front, employee counts continued to fall in the service sector in August. Average wages declined, while service sector price growth was little changed from a month ago. Survey respondents expected price growth to remain modest over the next six months.

### Overall Service Sector Conditions

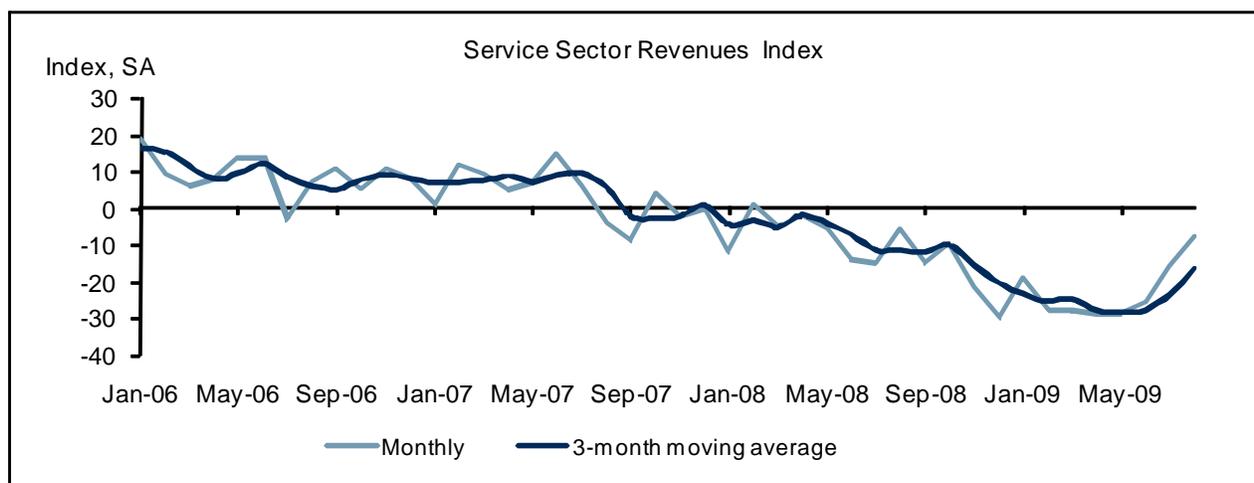
Service sector revenues fell in August, but at -8, the index was improved from July's -16.

Employment reductions accelerated at retail and services firms, pulling the overall index to -24 from -16. Average wages also declined in August; that index slipped one point below July's reading to -9. Survey respondents anticipated stronger sales in the six months ahead, however. The index for expected demand for goods and services climbed six points this month, ending at 17.

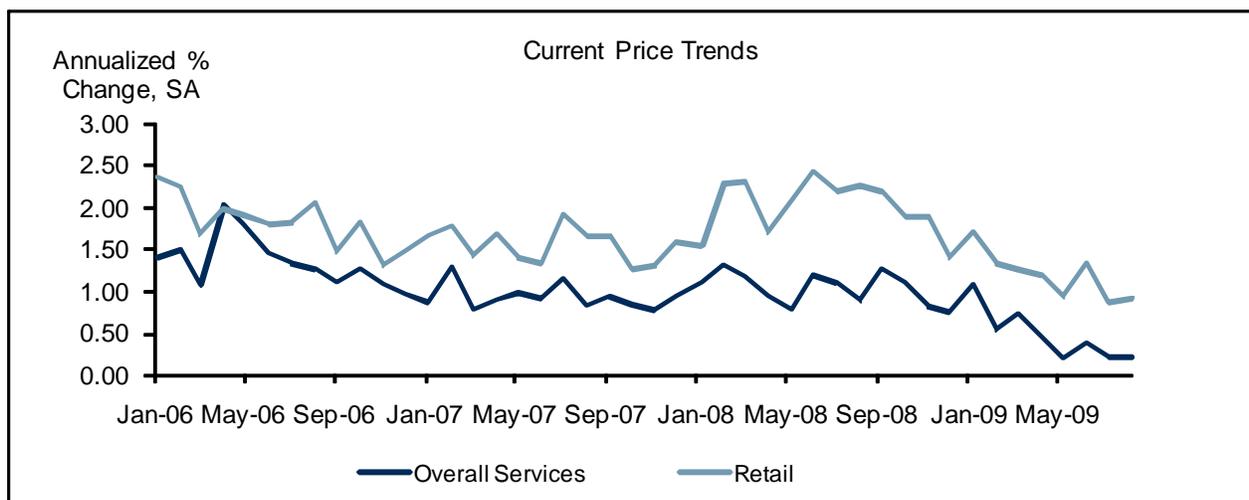
### Retail

Retail sales plummeted in August. The index settled at -35, losing 20 points from its month ago reading. Big-ticket sales dropped, although the decline was somewhat less widespread than in July. That index gained 16 points to finish at -51. In addition, shopper traffic declined—the index ended the survey period at -37, five points below July's reading. Retailers reduced their inventories, with that index finishing at -26 in August versus -29 last month. Although retail activity was weak in August, merchants were upbeat about sales for the six months ahead. The expectations index rose 16 points, to 19.

In the District's retail labor market, employment fell



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sharply this month. The index shed 14 points from July’s reading, ending at -37. Average retail wages also slipped lower; that index lost six points, to finish at -13.

**Services-Providing Firms**

Revenues picked up at services-providing firms in August, with the index turning positive for the first time since May of 2008. The index gained 19 points from its July reading, rising to six. However employers continued to reduce their workforce, pulling that index lower, to -20 from July’s -14. Average wage cuts continued, leaving the index unchanged from a month ago, at -7. Looking ahead six months, survey respondents were more optimistic than they were in July. The index for expected demand for services tacked on six points to end the survey period at 19.

**Prices**

Service sector price growth in August was little changed from a month ago, at an annual rate of 0.20 percent versus July’s 0.21 percent annual pace. At retail businesses, price growth continued to be contained, at a 0.90 percent annual rate, compared to last month’s 0.86 percent. Prices at services firms remained in decline; contacts reported a -0.12 percent pace in August, after July’s -0.04 percent rate. Looking ahead six months, survey respondents expected overall price growth of 0.62 percent, whereas a month

ago, they expected prices to increase at a 0.78 percent annual rate. Retail merchants anticipated future price growth of 1.50 percent, compared to their outlook in July for 1.72 percent. Survey respondents at services firms expected price growth of 0.26 percent, slightly below their month-ago prediction for 0.36 percent future price growth.

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<b>Business Activity Indexes<sup>1,4</sup></b>				
<b>Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month Average</b>
	<b>Aug-09</b>	<b>Jul-09</b>	<b>Jun-09</b>	
Revenues	-8	-16	-26	-17
Number of Employees	-24	-16	-20	-20
Average Wage	-9	-8	-7	-8
Expected Demand <sup>2</sup>	17	11	13	14
<b>Retail Indicators</b>				
Sales Revenues	-35	-15	-18	-23
Number of Employees	-37	-23	-25	-28
Average Wage	-13	-7	3	-6
Inventories	-26	-29	-9	-22
Big-ticket Sales	-51	-67	-51	-57
Shopper Traffic	-37	-32	-14	-28
Expected Product Demand <sup>2</sup>	19	3	1	8
<b>Services Firms Indicators</b>				
Revenues	6	-13	-32	-13
Number of employees	-20	-14	-20	-18
Average wage	-7	-7	-10	-8
Expected demand for services <sup>2</sup>	19	13	18	16
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	0.20	0.21	0.37	
Retail	0.90	0.86	1.33	
Services Firms	-0.12	-0.04	-0.09	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Aug-09</b>	<b>Jul-09</b>	<b>Jun-09</b>	
Service Sector	0.62	0.78	1.03	
Retail	1.50	1.72	1.63	
Services Firms	0.26	0.36	0.75	

**Technical Notes:**

- <sup>1</sup> 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 101 of 133 firms surveyed
- <sup>2</sup> Expectations refer to the time period six months out from the survey period.
- <sup>3</sup> Price changes are expressed as percent change, annualized.
- <sup>4</sup> 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.