

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

### *Retail Retreat Slows; Revenues Fall at Services Firms*

#### Overview

Service sector activity remained soft in September, according to the latest survey by the Federal Reserve Bank of Richmond. The ongoing decline in retail sales slowed this month, and shopper traffic was down only slightly compared to a month earlier. In contrast, revenues dropped sharply at services firms. However, survey respondents remained optimistic about demand for their products and services over the next six months.

Among the components of service sector activity, employment weakness was somewhat less pervasive in September, and average wage growth picked up. Price growth in the service sector was mild, as retail price growth slowed and price change at services firms was nearly flat. For the six months ahead, survey respondents anticipated service sector price growth would edge up slightly.

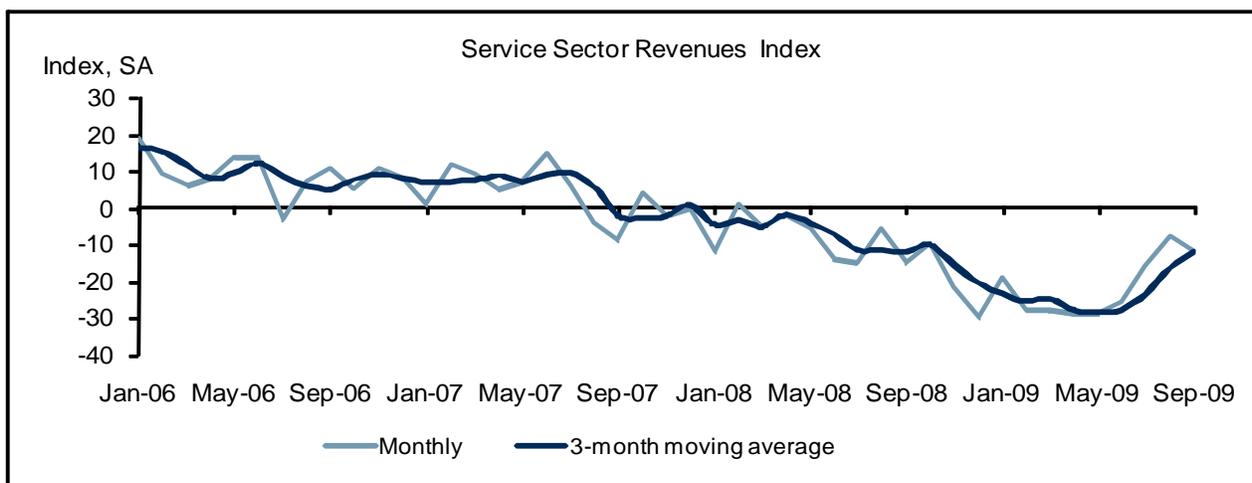
#### Overall Service Sector Conditions

Revenues in the service sector weakened overall compared to a month ago, bringing the index four

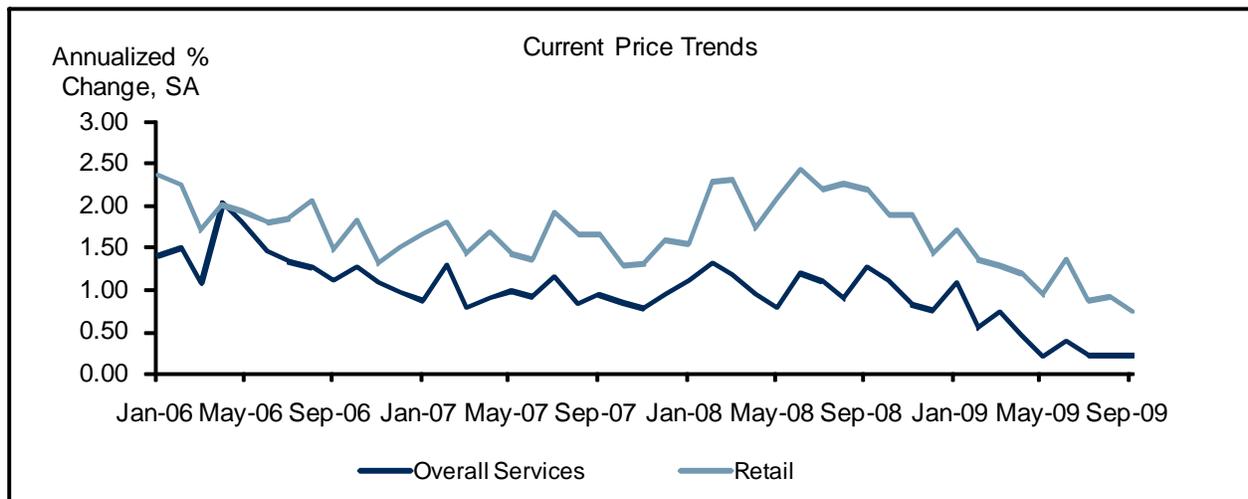
points lower in September to -12. Although retail and services businesses continued to cut employees, the decline was less widespread than in August. That index strengthened to -7 from -24. Average wages grew, pushing the index up 13 points to 4, putting the index in positive territory for the first time since December 2008. Survey respondents maintained their positive outlook regarding potential sales during the next six months. The index for expected demand remained at 17 for a second month.

#### Retail

Although retail sales revenues contracted in September, the decline moderated compared to last month. The index rose 29 points to -6. Big-ticket sales improved; that index added 19 points to end the survey period at -32. Declining shopper traffic was less widespread this month, with that index adding 34 points to finish at -3. Retail inventories dropped, bringing the index to -34 in September from last month's -26. Looking ahead six months, retailers remained optimistic about demand for their products. At 16, the expectations



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



index was just three points below August's reading.

Turning to labor markets, retail employment reductions slackened, moving the index to -11 from -37. Average retail wages grew in September, pushing that index 16 points higher, to 3.

**Services-Providing Firms**

Revenues dropped at services firms in September, pulling the index down 24 points from a month ago to settle at -18. However, employment at services-providing firms declined by less than in August—the index for the number of employees registered -9 compared to -20. Average wage growth steadied after falling since December 2008; the index gained eight points in September to end the survey period at 1. Survey respondents at services firms remained upbeat about revenue potential into the early part of 2010, holding the expectations index at 18, compared to 19 in August.

**Prices**

Price growth in the service sector hovered near last month's pace at an annual rate of 0.21 percent. Retail price growth advanced at 0.71 percent in September, somewhat more slowly than in August when retail price growth was 0.90 percent. Price change at services-providing firms was nearly flat at an annualized rate of -0.05

percent, compared to August's -0.12 percent pace. For the six months ahead, survey respondents anticipated that service sector price growth would rise mildly, to an annual rate of 0.72 percent; in August, they looked for prices to increase at a 0.62 percent pace. Retail merchants looked for future price growth of 1.22 percent, compared to their expectations in August for 1.50 percent. At services firms, price expectations were for 0.49 percent growth in the next six months, whereas last month, the outlook was for 0.26 percent price growth.

**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](mailto:Aileen.Watson@rich.frb.org)  
[www.richmondfed.org](http://www.richmondfed.org)

## Regional Surveys of Business Activity

### Fifth District Survey of Service Sector Activity

<b>Business Activity Indexes<sup>1,4</sup></b>				
<b>Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month Average</b>
	<b>Sep-09</b>	<b>Aug-09</b>	<b>Jul-09</b>	
Revenues	-12	-8	-16	-12
Number of Employees	-7	-24	-16	-16
Average Wage	4	-9	-8	-5
Expected Demand <sup>2</sup>	17	17	11	15
<b>Retail Indicators</b>				
Sales Revenues	-6	-35	-15	-18
Number of Employees	-11	-37	-23	-24
Average Wage	3	-13	-7	-6
Inventories	-34	-26	-29	-30
Big-ticket Sales	-32	-51	-67	-50
Shopper Traffic	-3	-37	-32	-24
Expected Product Demand <sup>2</sup>	16	19	3	12
<b>Services Firms Indicators</b>				
Revenues	-18	6	-13	-8
Number of employees	-9	-20	-14	-14
Average wage	1	-7	-7	-4
Expected demand for services <sup>2</sup>	18	19	13	16
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	0.21	0.20	0.21	
Retail	0.71	0.90	0.86	
Services Firms	-0.05	-0.12	-0.04	
<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	0.72	0.62	0.78	
Retail	1.22	1.50	1.72	
Services Firms	0.49	0.26	0.36	

#### 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 94 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.

