

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

### *Service Sector Activity Declines; Retail Sales Fall Sharply*

#### Overview

Service sector activity slumped in October, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales dropped as shopper traffic diminished and big-ticket sales declined. Inventories also fell, although reductions were less pervasive than a month ago. Services firms' revenues also contracted in October. Looking ahead, survey respondents scaled back their expectations for business opportunities in the next six months.

In labor markets, service sector employers increasingly cut jobs this month and average wages contracted. Price growth in the overall service sector flattened. Survey respondents expected future price increases would be mild, but somewhat quicker than they predicted a month ago.

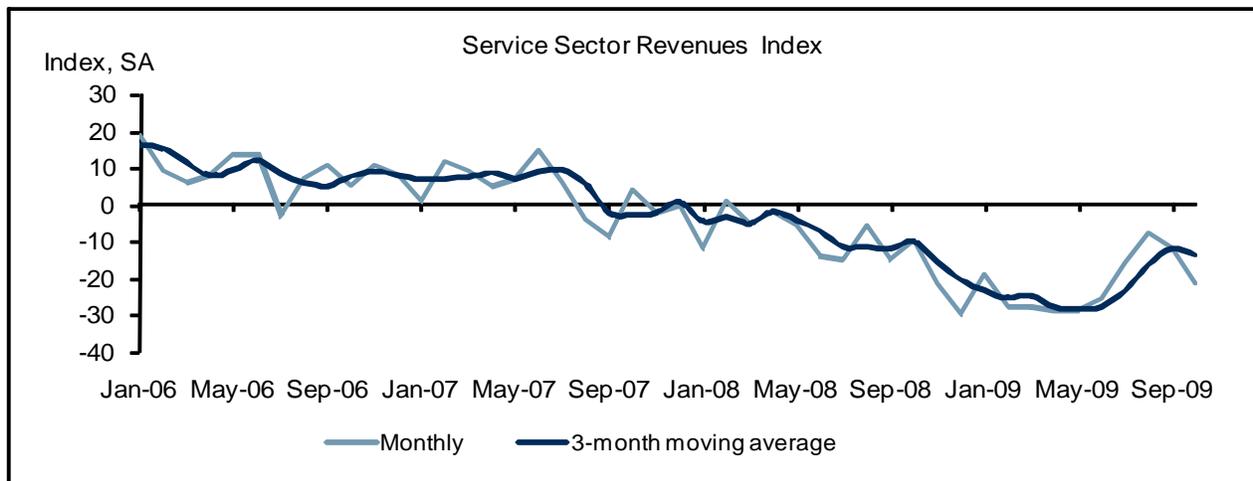
#### Overall Service Sector Conditions

Revenues in the broad service sector dropped in October, pulling the index to -22 from September's

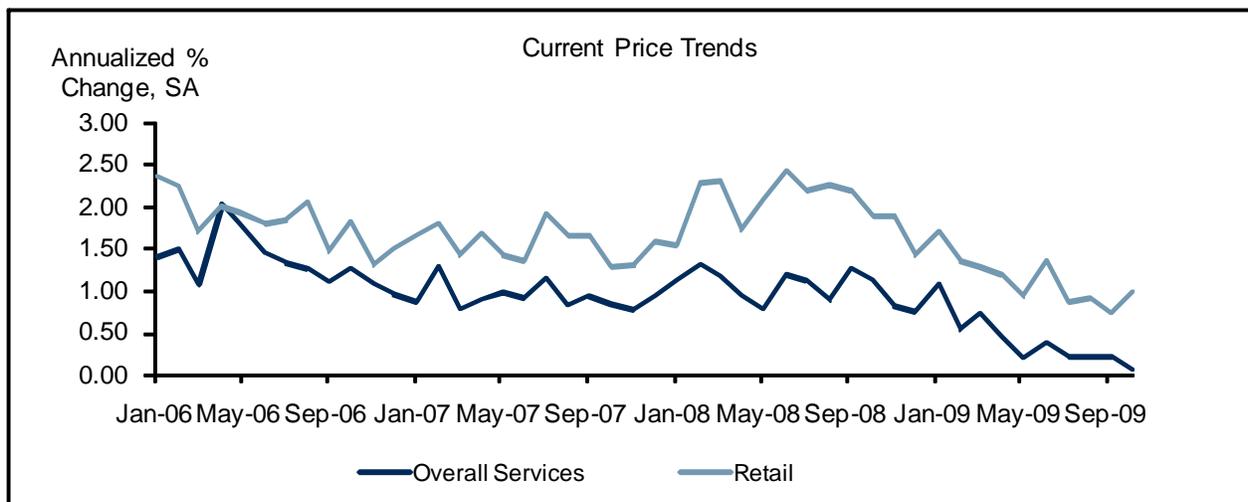
-12. In addition, service sector employment weakened this month, driving that index to -17, 10 points below last month's reading. Average wage growth also faltered, declining to -6 from 4. Going forward, survey respondents' outlook for business deteriorated from that of a month earlier. The index for expected demand for goods and services during the next six months slipped to 3 compared to September's 17.

#### Retail

Retail sales fell sharply in October, dragging the index to -23 from last month's reading of -6. Big-ticket sales also dropped; that index sank five points to settle at -37. Inventories decreased, although the reductions were not as widespread as last month—the index finished the survey period at -23 compared to September's -34. Rounding out the weaker picture, shopper traffic trailed off, with that index falling to -26 from -3. Retail merchants remained hopeful about demand for their products during the next months; that index ended at 12, four points below the previous reading.



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In retail labor markets, job cuts picked up again, with the index for the number of employees falling to -22 from -11. However average wages grew more quickly than in September, moving the index seven points higher this month to 10.

**Services-Providing Firms**

Revenue contraction intensified at services firms in October, bringing the index four points lower than last month's reading, to -22. In addition, employers at services firms stepped up the pace of payroll reductions. The index for the number of employees dropped to -16 from -9. Average wages decelerated abruptly from September's flat reading to -12. Compared to a month ago, survey respondents at services firms were far less optimistic about their business prospects for the next six months. The expectations index lost 16 points to end the period at 2.

**Prices**

Price growth was nearly flat in the broad service sector in October, at a 0.04 percent annual rate following last month's 0.21 percent pace. Retail price acceleration rose somewhat, to 0.96 percent compared to September's 0.71 percent. Price change at services-providing firms was negative, dipping to an annualized rate of -0.38 percent after September's -0.05 percent. For the six months

ahead, survey respondents' expectations for price growth edged up to 0.87 percent from last month's 0.72 percent. Separately, retailers looked for prices to advance at a 1.30 percent pace while respondents at services firms expected price growth of 0.74 percent. A month ago, they predicted the pace of price increases would be 1.22 percent and 0.49 percent, respectively.

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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>Oct-09</b>	<b>Sep-09</b>	<b>Aug-09</b>	
Revenues	-22	-12	-8	-14
Number of Employees	-17	-7	-24	-16
Average Wage	-6	4	-9	-4
Expected Demand <sup>2</sup>	3	17	17	13
<b>Retail Indicators</b>				
Sales Revenues	-23	-6	-35	-21
Number of Employees	-22	-11	-37	-23
Average Wage	10	3	-13	0
Inventories	-23	-34	-26	-28
Big-ticket Sales	-37	-32	-51	-40
Shopper Traffic	-26	-3	-37	-22
Expected Product Demand <sup>2</sup>	12	16	19	16
<b>Services Firms Indicators</b>				
Revenues	-22	-18	6	-11
Number of employees	-16	-9	-20	-15
Average wage	-12	1	-7	-6
Expected demand for services <sup>2</sup>	2	18	19	13
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	0.04	0.21	0.20	
Retail	0.96	0.71	0.90	
Services Firms	-0.38	-0.05	-0.12	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Oct-09</b>	<b>Sep-09</b>	<b>Aug-09</b>	
Service Sector	0.87	0.72	0.62	
Retail	1.30	1.22	1.50	
Services Firms	0.74	0.49	0.26	

#### 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 99 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.

