

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Contraction Slows; Retail Sales Stabilize

Overview

Activity in the service sector contracted more slowly in November, according to the latest survey by the Federal Reserve Bank of Richmond. The fall in retail sales halted and shopper traffic declined only slightly. In addition, the contraction in big-ticket sales slowed, owing in part to an uptick in sales of new and used automobiles. Inventory reductions nearly matched last month's. Revenues at services firms contracted; however, the decline was not as widespread as in October. Looking ahead six months, survey respondents were much more optimistic about business prospects than they were last month.

Turning to service sector labor markets, job cuts diminished at retail establishments, while the number of employees edged up at services firms. Average wage growth flattened. Price change in the overall service sector turned mildly negative, damped by continuing modest price deflation at services firms. Merchants anticipated an uptick in retail price growth during the next six months,

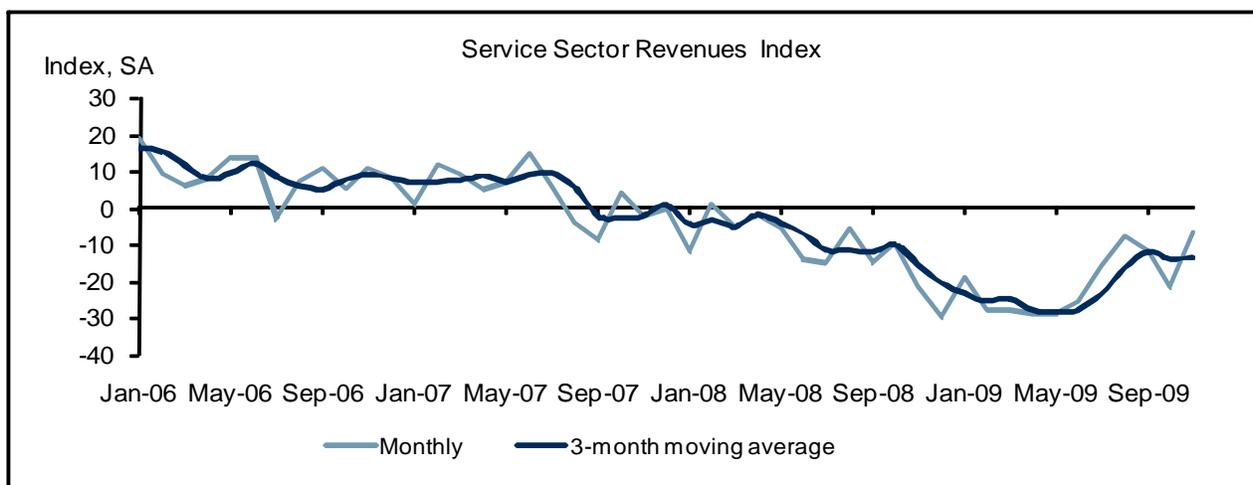
while survey respondents at services firms looked for little price change.

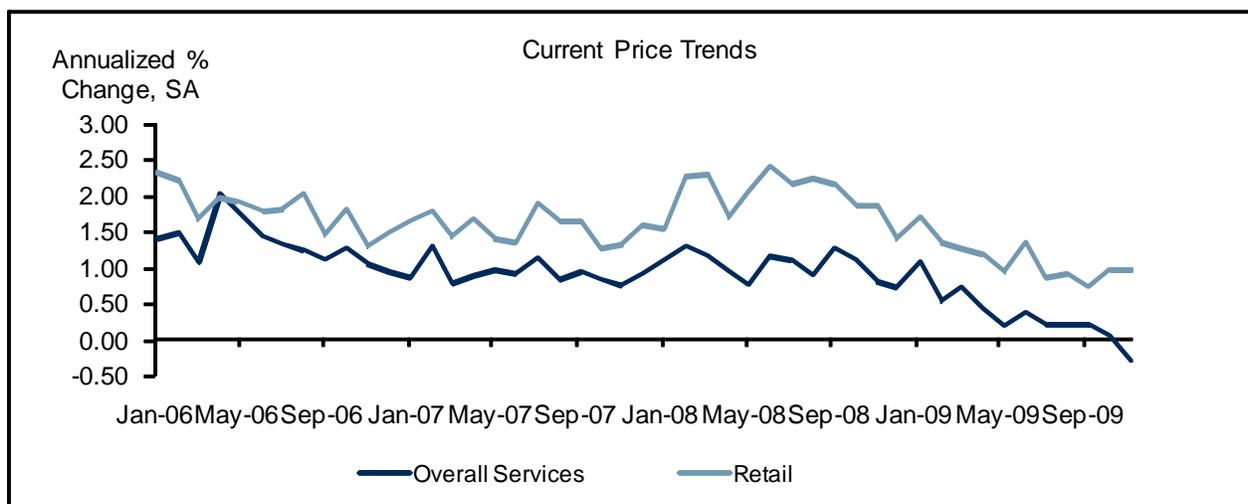
Overall Service Sector Conditions

Revenues in the broad service sector drifted down, although the decline was less pervasive than in October. The index added 15 points to finish at -7 in November. Employment in the service sector also improved, with that index rising 19 points to 2. Average wage growth was virtually flat this month, at an index of 1 compared to October's -6. Survey respondents were upbeat about future business opportunities—the expectations index rose to 21 from 3.

Retail

Retail sales stabilized in November; the sales index moved above zero for the first time since July 2007, ending the survey period at 1. A month ago, the index was -23. Although big-ticket sales continued to flounder, the index gained 13 points to -24. Inventories declined, with that index ending the period at -20, three points above October's reading. The decline in shopper traffic abated,





pushing the index up 23 points to -3. Looking ahead, retailers were more positive in their predictions for sales during the next six months. The expectations index rose to 37 in November from 12.

Job cuts eased in November, bringing the index for the number of employees up 13 points to -9. Average retail wage growth was nearly flat, at an index of -1 compared to October's 10.

Services-Providing Firms

Revenue contraction was less rampant at services firms in November; the index gained 11 points from the previous month's reading, to finish at -11. Services firms added employees in November, pushing the index to 3 from October's -16, and average wage growth was flat at an index of zero after October's reading of -12. Survey respondents at services firms regained their optimistic outlook, bringing the index for expected demand for services to 12 from last month's 2.

Prices

Price change was mildly negative for the broad service sector in November, at a -0.30 percent annual rate compared to October's 0.04 percent growth. Retail price growth was almost unchanged from a month ago, at an annual rate of 0.97 percent. Price change at services-providing firms was a bit more deflationary than in October,

at an annualized -0.72 percent following October's -0.38 percent pace. For the six months ahead, survey respondents expected 0.40 percent price growth, compared to last month's expectation for 0.87 percent. Retailers looked for price increases to pick up somewhat, to a 1.82 percent pace, after the previous month's outlook for 1.30 percent. Survey respondents at services firms expected price contraction at a 0.08 percent rate; in October, they predicted price growth of 0.74 percent.

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-Month Average
	Nov-09	Oct-09	Sep-09	
Revenues	-7	-22	-12	-13
Number of Employees	2	-17	-7	-7
Average Wage	1	-6	4	-1
Expected Demand ²	21	3	17	14
Retail Indicators				
Sales Revenues	1	-23	-6	-9
Number of Employees	-9	-22	-11	-14
Average Wage	-1	10	3	4
Inventories	-20	-23	-34	-26
Big-ticket Sales	-24	-37	-32	-31
Shopper Traffic	-3	-26	-3	-11
Expected Product Demand ²	37	12	16	22
Services Firms Indicators				
Revenues	-11	-22	-18	-17
Number of employees	3	-16	-9	-7
Average wage	0	-12	1	-3
Expected demand for services ²	12	2	18	11
Current Price Trends³				
Service Sector	-0.30	0.04	0.21	
Retail	0.97	0.96	0.71	
Services Firms	-0.72	-0.38	-0.05	
Expected Price Trends^{2,3}				
	Expectations			
	Nov-09	Oct-09	Sep-09	
Service Sector	0.40	0.87	0.72	
Retail	1.82	1.30	1.22	
Services Firms	-0.08	0.74	0.49	

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 92 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.