

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Remains Weak— Retail Sales Decline; Optimistic Outlook Continues*

### Overview

Activity in the service sector remained weak in December, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales dropped sharply, led by falling big-ticket sales, and shopper traffic declined. Retail inventory contraction slowed. Revenues at services firms also fell in December. Looking ahead six months, however, survey respondents were optimistic about business prospects.

In service sector labor markets, job cuts increased at retail establishments and services firms. Average wages in the sector were unchanged, compared to a month ago, and price growth was mild. For the six months ahead, survey respondents expected modest price growth.

### Overall Service Sector Conditions

Revenues in the broad service sector declined in December, pulling the revenues index two points lower to -9. The index for the number of employees also lost ground, trimming 11 points to settle at -9. Average wages were unchanged, leveling the index at zero from November's

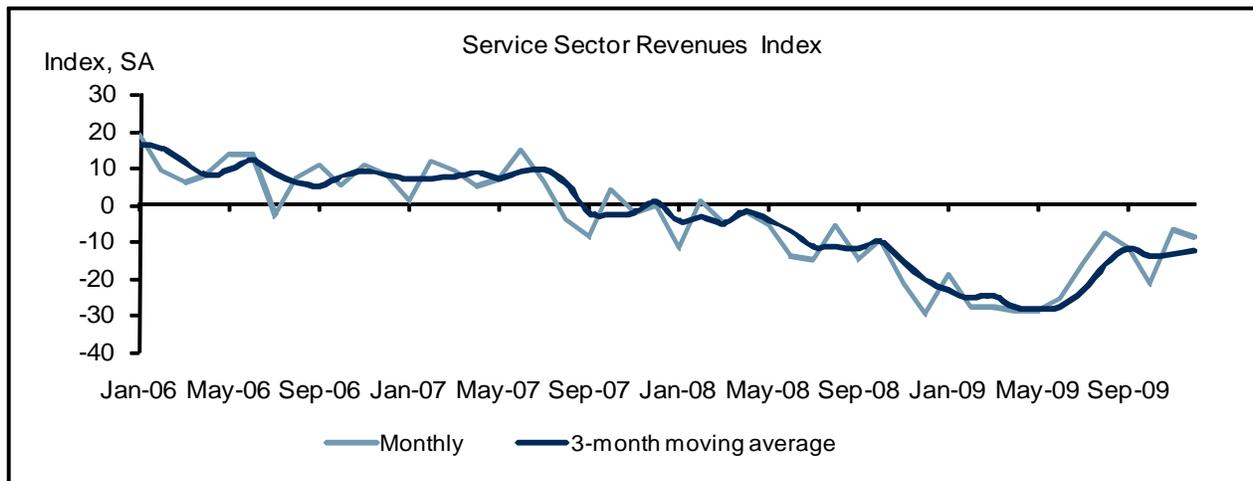
reading of 1. Despite weaker service sector activity, survey respondents remained optimistic about the business environment during the next six months. The index for expected demand slipped just three points to 18.

### Retail

Retail sales dropped 19 points in December to -18. Big-ticket sales also fell sharply to an index of -31 after November's -24. In addition, shopper traffic thinned, bringing that index to -7 from -3.

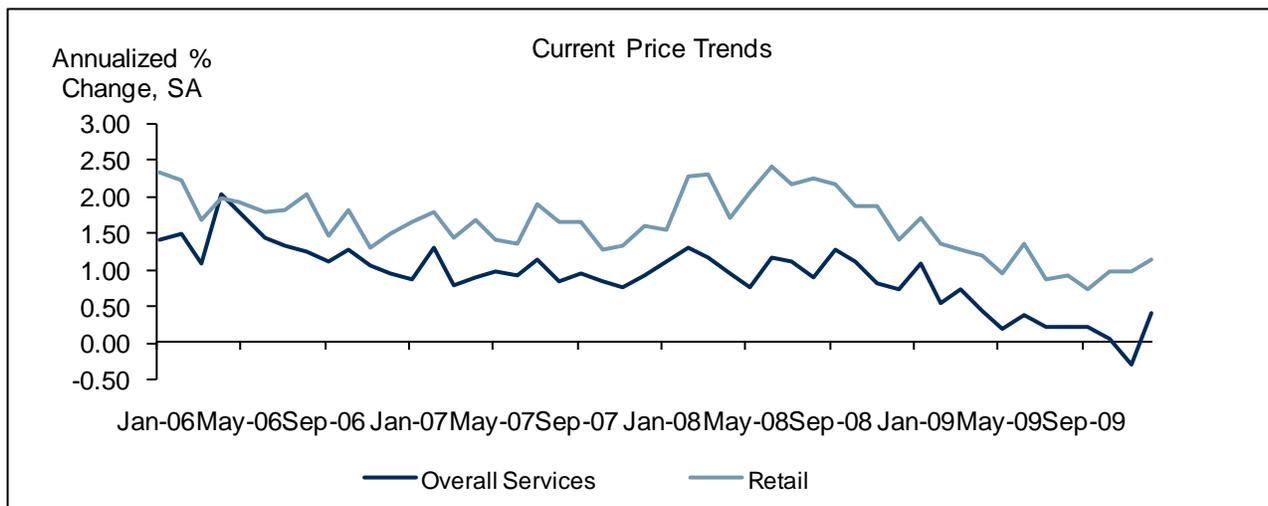
Inventories declined slightly during the month; the index settled at -9 compared to the previous month's -20. Looking ahead, retail merchants continued to be upbeat about potential sales over the six months ahead. The index for expected product demand remained strongly positive at 26; November's expectations indicator was 37.

Retailers cut payrolls in December, driving that index to -16 from last month's -9. Average retail wages edged up, moving the index to 4 from 1.



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#### Services-Providing Firms

Revenues fell at services firms in December, but the decline was somewhat less pronounced than a month ago. The index gained two points, ending the period at -9. Employers at services-providing firms ended the year with job losses. That index dropped six points from November's reading to finish at -3. Average wages at services firms also declined, with that index dropping to -3 from last month's zero. Looking ahead, however, survey respondents at services firms predicted a stronger business climate. The expectations index rose to 14 from November's 12.

#### Prices

Price growth ticked up slightly for the broad service sector in December, at a 0.39 percent annual rate compared to November's 0.30 percent decline. Retail price growth edged up, at an annual rate of 1.11 percent after the previous month's 0.97 percent pace. Price increases at services firms were mild, at 0.04 percent following last month's -0.72 percent price change. Survey respondents expected 1.04 percent price growth across the sector during the next six months, compared to last month's prediction of 0.40 percent. Separately, retailers looked for price growth to slow to a 1.73 percent pace; in November, they expected prices to increase at a 1.82 percent rate. Survey respondents at services

firms expected price growth of 0.90 percent, compared to their November outlook when they anticipated prices would decline at a rate of 0.08 percent.

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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>Dec-09</b>	<b>Nov-09</b>	<b>Oct-09</b>	
Revenues	-9	-7	-22	-12
Number of Employees	-9	2	-17	-8
Average Wage	0	1	-6	-2
Expected Demand <sup>2</sup>	18	21	3	14
<b>Retail Indicators</b>				
Sales Revenues	-18	1	-23	-13
Number of Employees	-16	-9	-22	-16
Average Wage	4	-1	10	4
Inventories	-9	-20	-23	-17
Big-ticket Sales	-31	-24	-37	-31
Shopper Traffic	-7	-3	-26	-12
Expected Product Demand <sup>2</sup>	26	37	12	25
<b>Services Firms Indicators</b>				
Revenues	-9	-11	-22	-14
Number of employees	-3	3	-16	-5
Average wage	-3	0	-12	-5
Expected demand for services <sup>2</sup>	14	12	2	9
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	0.39	-0.30	0.04	
Retail	1.11	0.97	0.96	
Services Firms	0.04	-0.72	-0.38	
<b>Expected Price Trends<sup>2,3</sup></b>				
<b>Expectations</b>				
	<b>Dec-09</b>	<b>Nov-09</b>	<b>Oct-09</b>	
Service Sector	1.04	0.40	0.87	
Retail	1.73	1.82	1.30	
Services Firms	0.90	-0.08	0.74	

**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.