

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Activity Remains Weak at Services Firms; Retail Contraction Subsides

Overview

The overall service sector weakened in January, damped by softness at services providers, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales were nearly flat for the month, although big-ticket sales remained in decline. For the first time since December 2007, shopper traffic rose. Merchants' inventories also increased slightly in January. In contrast to the strengthening at retail establishments, however, revenues at services firms fell this month. Even so, survey respondents overall were upbeat about business prospects for the six months ahead.

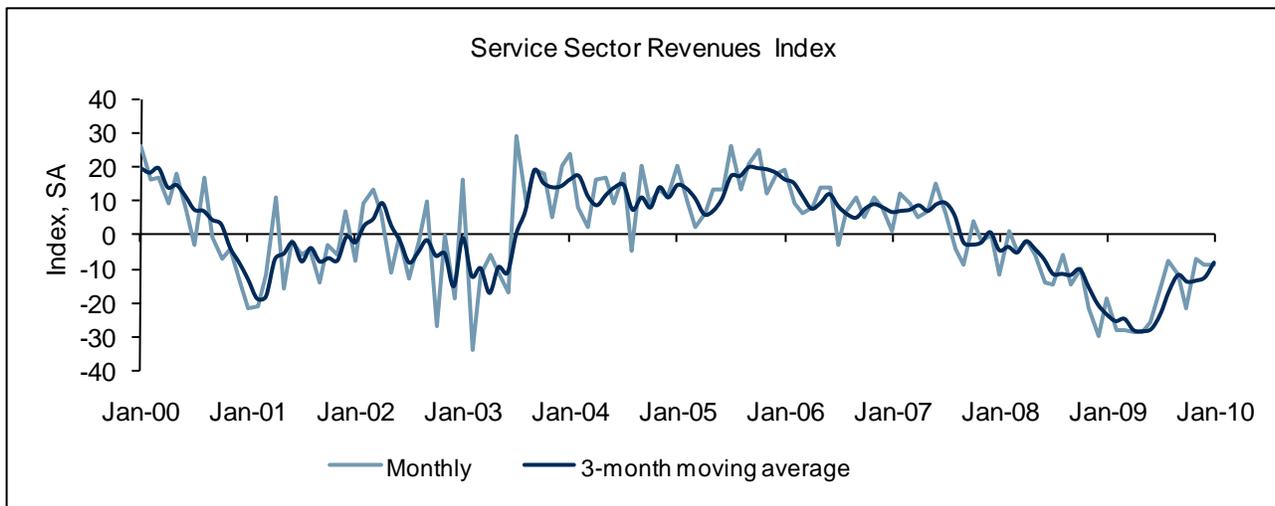
The number of employees continued to shrink in the service sector, but the decline slowed at retail establishments. Average wages were virtually unchanged, and service sector price growth slowed. Expectations were for price increases during the coming six months to be somewhat slower than anticipated in last month's outlook.

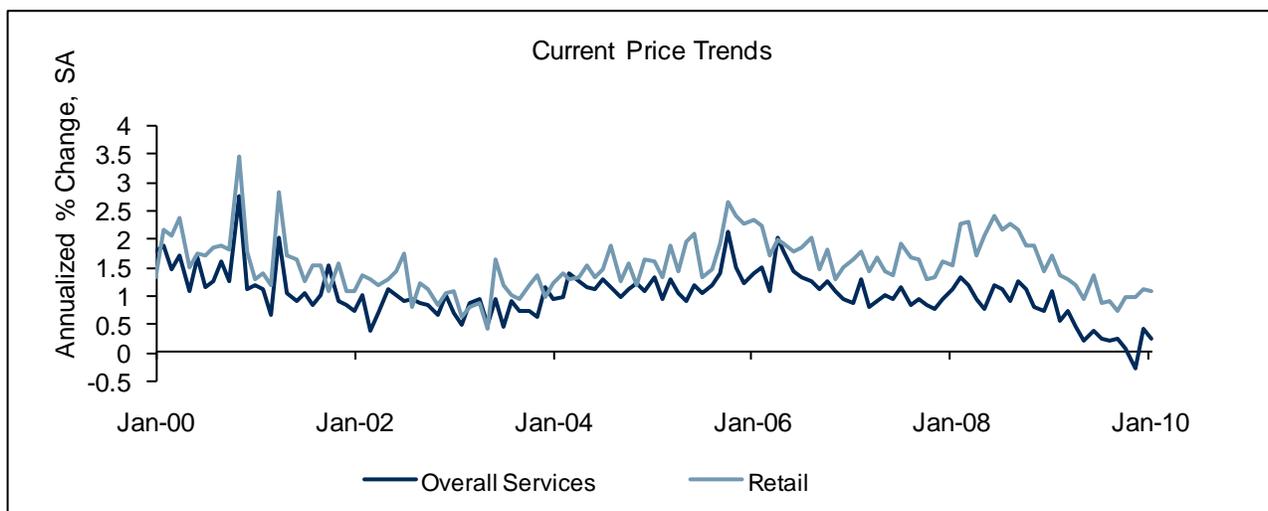
Overall Service Sector Conditions

Revenues in the broad service sector remained weak at the start of the new year, leaving that index at -9 for a second month. The index for the number of employees gained two points, finishing the period at -7, while average wages remained flat, keeping that index at 0 in January—the same as December's reading. For the six months ahead, survey respondents anticipated stronger business conditions; the expectations index climbed nine points to 27 in January.

Retail

The contraction in retail sales abated in January, pulling last month's index up 19 points to 1. Although big-ticket sales declined, the slide was less pervasive than a month ago. The index improved by 11 points, finishing at -20. Shopper traffic increased, with that index gaining 10 points to end the survey period at 3. Inventories grew, with the index rising to 4 following December's reading of -9. Retailers were buoyant about sales





potential in the months ahead; the index for expected product demand surged 11 points to 37 in January.

Turning to retail labor markets, the number of employees continued to fall, but the drop softened compared to December. That index added eight points to finish the survey period at -8. Average retail wages were unchanged in January, with the index settling at 0 following December's 4.

Services-Providing Firms

Revenues dropped at services firms in January, with the index matching December's reading of -9. Services firms continued to shed employees; the index slipped three points to -6. Average wages were little changed, with that index at -1 compared to December's -3. Despite January's weakness, survey respondents increasingly held an upbeat outlook for business prospects in the six months ahead. The expectations index tacked on five points, ending the survey period at 19.

Prices

Price growth in the broad service sector slowed to an annualized 0.21 percent pace in January following December's 0.39 percent rate of increase. Separately, January's retail prices grew at a 1.08 percent pace compared to last month's 1.11 percent. Prices at services firms declined, diminishing at a 0.19 percent rate; in December

prices at services firms increased at a 0.04 percent pace.

Survey respondents predicted service sector prices would increase mildly in the six months ahead. The overall outlook for price change was for a 0.73 percent annual rise, compared to December's expected 1.04 percent price change. Retailers anticipated price growth would be 1.49 percent; a month ago, they looked for prices to increase at a 1.73 percent pace. Survey respondents at services firms also expected prices to edge up more slowly, at a 0.57 percent rate compared to their December prediction of 0.90 percent price growth.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jan-10	Dec-09	Nov-09	
Revenues	-9	-9	-7	-8
Number of Employees	-7	-9	2	-4
Average Wage	0	0	1	0
Expected Demand ²	27	18	21	22
Retail Indicators				
Sales Revenues	1	-18	1	-6
Number of Employees	-8	-16	-9	-11
Average Wage	0	4	-1	1
Inventories	4	-9	-20	-9
Big-ticket Sales	-20	-31	-24	-25
Shopper Traffic	3	-7	-3	-2
Expected Product Demand ²	37	26	37	34
Services Firms Indicators				
Revenues	-9	-9	-11	-10
Number of employees	-6	-3	3	-2
Average wage	-1	-3	0	-1
Expected demand for services ²	19	14	12	15
Current Price Trends³				
Service Sector	0.21	0.39	-0.30	
Retail	1.08	1.11	0.97	
Services Firms	-0.19	0.04	-0.72	
Expected Price Trends^{2,3}				
	Expectations			
	Jan-10	Dec-09	Nov-09	
Service Sector	0.73	1.04	0.40	
Retail	1.49	1.73	1.82	
Services Firms	0.57	0.90	-0.08	

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 93 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.