

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Contracts; Although Tempered, Outlook Remains Optimistic

Overview

Service sector activity contracted in February, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales fell, with big-ticket sales dropping sharply. In addition, services firms revenues contracted. Shopper traffic dissipated, held down in part by a series of heavy snow storms that occurred on weekends. Retail inventories were little changed. Looking ahead, survey respondents remained optimistic about business prospects during the next six months, although their outlook was less upbeat than a month ago.

Employment in the service sector declined, with most of the cuts coming in retail. Average wages edged up slightly, and service sector price increases were mild. Survey respondents anticipated prices would rise a bit more quickly in the six months ahead.

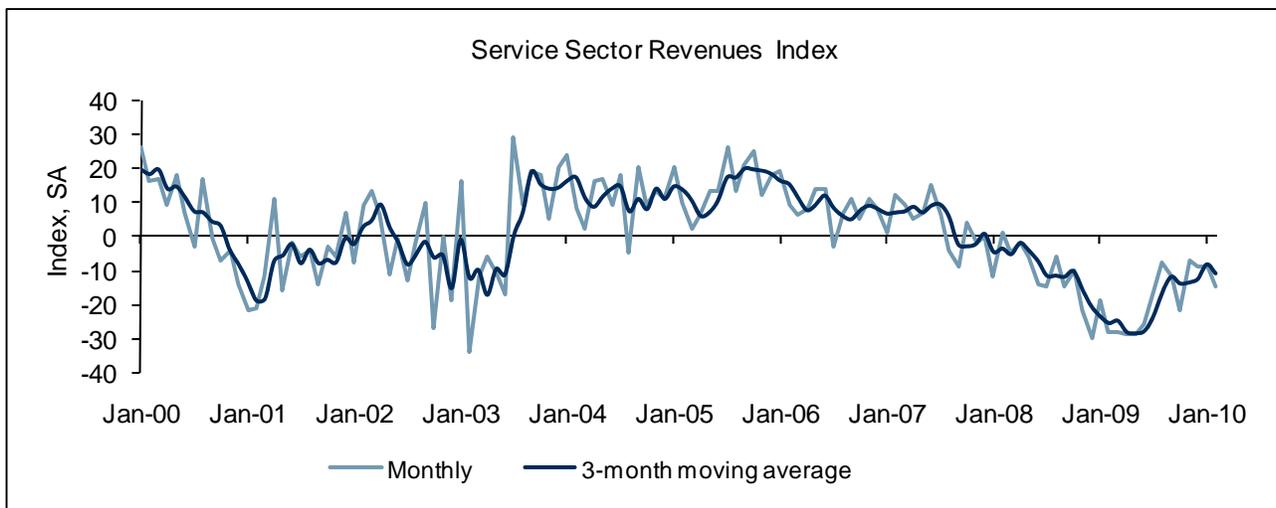
Overall Service Sector Conditions

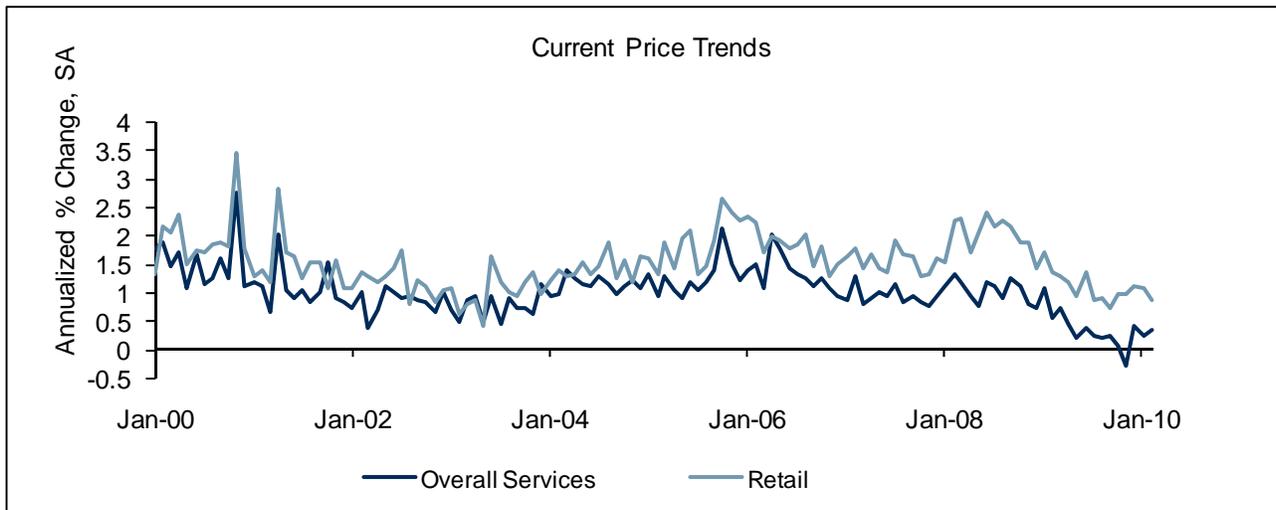
Service sector revenues fell in February, with the index settling at -15, six points below January's reading. The number of service sector employees also dropped, pulled lower primarily by deep cuts in retail—the index slipped to -8 from -7. Average wages grew slightly, bringing that index to 5 from last month's reading of 0.

Despite weak current conditions in the service sector, survey respondents were optimistic about customer demand during the next six months. The expectations index lost 10 points but remained positive at 17.

Retail

Retail sales slumped in February and shopper traffic dwindled, as most retailers in the District struggled with losing Saturday sales to repeated weekend snow storms. The retail revenues index sank to -15 from its previous reading of 1 and the shopper traffic index lost 22 points, settling at -19.





Big-ticket sales were sharply lower, slashing another 24 points from that index to end the survey period at a reading of -44. Retailers kept inventories tight; that index notched down to -1 compared to January's 4.

Merchants' payrolls also shrank, with the index for the number of retail employees plummeting to -22 from January's -8. Average wages rose, bringing that index to 7 from 0 a month ago.

Services-Providing Firms

Revenues fell at services firms this month, driving the index deeper into negative territory. The index ended the survey period at -17, compared to its month-ago reading of -9. Job cuts were less prevalent among service-providers than retailers, with that index moving up three points to -3. Average wages ticked up, pushing the index five points higher, to 4.

Looking ahead six months, survey respondents at services firms anticipated demand for their services would strengthen. The index settled at 13, six points below the previous month's index.

Prices

Price increases across the broad service sector continued to be mild at an annualized 0.33 percent rate in February, after growing at 0.21 percent in January. At retail establishments, price growth was 0.84 percent and 0.14 percent at service-

providing firms. A month ago, price changes were 1.08 percent and -0.19 percent respectively.

For the six months ahead, survey respondents predicted prices would rise at a 0.71 percent pace overall. In January, they looked for price growth of 0.73 percent. Separately retailers looked for price growth at a 1.80 percent rate in the months ahead, and service-providers anticipated prices would rise at a 0.30 percent pace. Last month, retailers expected price increases of 1.49 percent and service-providers looked for increases of 0.57 percent.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Feb-10	Jan-10	Dec-09	
Revenues	-15	-9	-9	-11
Number of Employees	-8	-7	-9	-8
Average Wage	5	0	0	2
Expected Demand ²	17	27	18	21
Retail Indicators				
Sales Revenues	-15	1	-18	-11
Number of Employees	-22	-8	-16	-15
Average Wage	7	0	4	4
Inventories	-1	4	-9	-2
Big-ticket Sales	-44	-20	-31	-32
Shopper Traffic	-19	3	-7	-8
Expected Product Demand ²	27	37	26	30
Services Firms Indicators				
Revenues	-17	-9	-9	-11
Number of employees	-3	-6	-3	-4
Average wage	4	-1	-3	0
Expected demand for services ²	13	19	14	15
Current Price Trends³				
Service Sector	0.33	0.21	0.39	
Retail	0.84	1.08	1.11	
Services Firms	0.14	-0.19	0.04	
Expected Price Trends^{2,3}				
Expectations				
	Feb-10	Jan-10	Dec-09	
Service Sector	0.71	0.73	1.04	
Retail	1.80	1.49	1.73	
Services Firms	0.30	0.57	0.90	

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 103 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.