

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Strengthens; Retail Sales Expand*

### Overview

Fifth District service sector activity strengthened in March, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales expanded and inventories decreased. In addition, the drop in big-ticket sales abated this month. Shopper traffic continued to slump, however. At non-retail services firms, revenues fell, but the decline was less pervasive than in recent months. Price change in the broad service sector was nearly the same as a month ago.

In labor markets, job cuts subsided at retail businesses and the number of employees was unchanged at services firms. Average wages in the overall service sector ticked higher in March.

Survey respondents were upbeat about expected growth in customer demand for goods and services during the next six months. They also predicted slightly quicker price increases over that period.

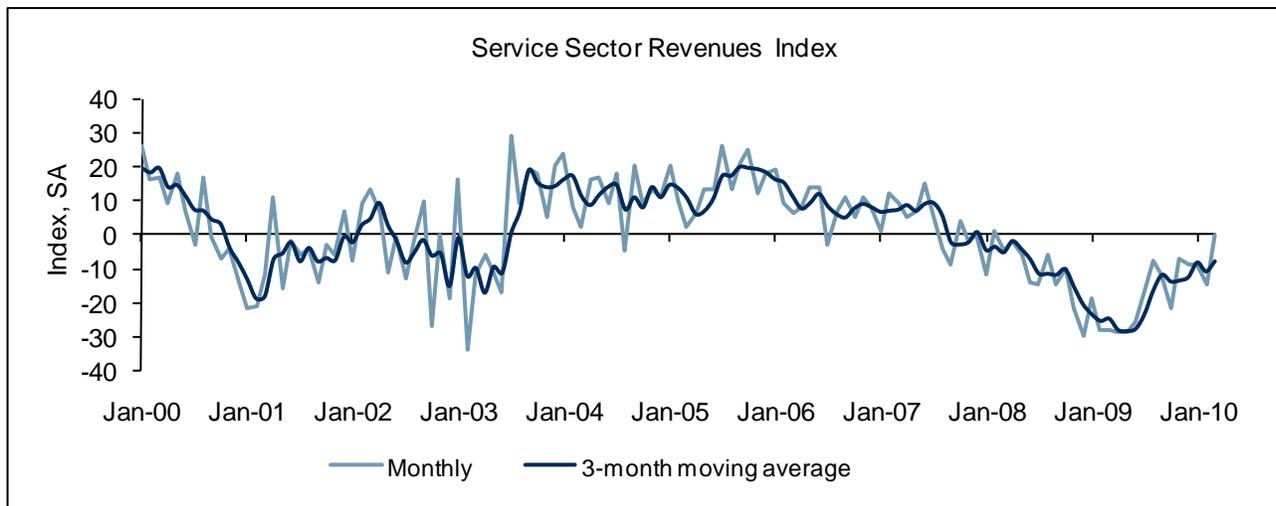
### Overall Service Sector Conditions

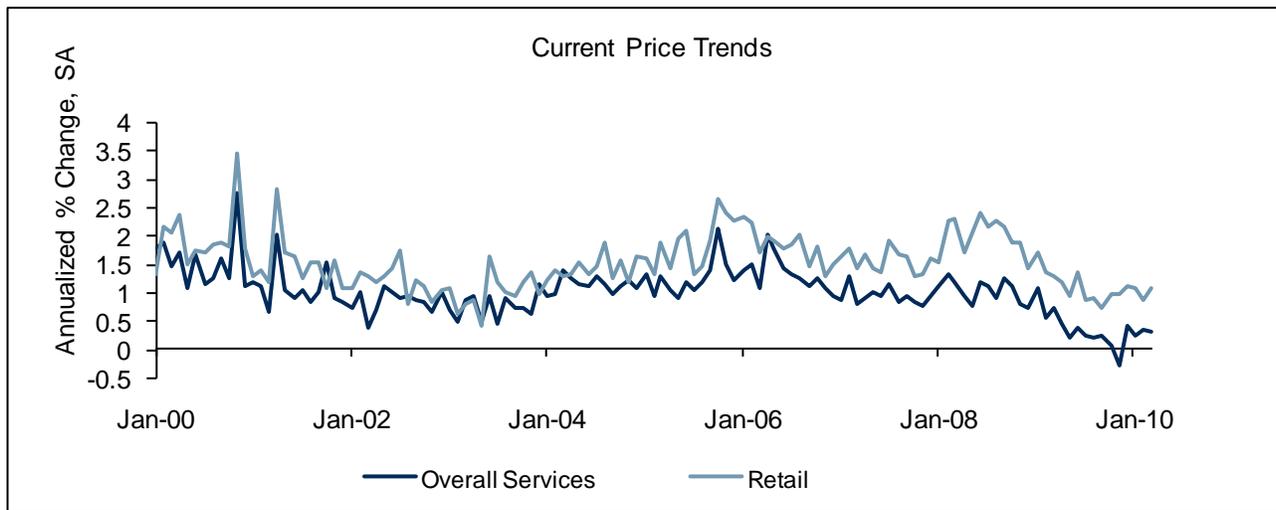
Revenues in the broad service sector were flat in March, moving out of negative territory for the first time in two years. The index settled at 0 after last month's reading of -15. Payroll reductions moderated; the index for the number of employees gained five points, ending at -3. Average wages in the service sector picked up, pushing the index to 9 from February's 5.

Survey respondents had an optimistic outlook for their business prospects in the six months ahead—the index for expected demand tacked on two points, finishing the period at 19.

### Retail

Retail sales rebounded in March, drawing inventories down. The index for sales revenues climbed 23 points to 8 this month, buttressed by strengthening big-ticket sales, while the inventories index plummeted 24 points to -25. The index for big-ticket sales jumped 35 points to -9. Shopper





traffic continued to decline, although the index gained six points, finishing at -13.

Retail job cuts were less prevalent in March, with the index for the number of employees rising 14 points to -8. Retail wages grew, pushing that index to 11 from last month's reading of 7.

Retail merchants remained sanguine about business opportunities for the coming six months—the expectations index held steady at 27 for a second month.

### Services-Providing Firms

Revenues at services firms also strengthened in March; the index rose 14 points to -3. The index for the number of employees gained three points to end at a neutral index of 0, while average wages picked up at services providers. That index doubled from a month ago, for a reading of 8.

Looking ahead six months, confidence broadened among survey respondents at services firms. The index for expected demand for their services added six points in March, finishing the period at 18.

### Prices

Price growth in the overall service sector, at an annual rate of 0.30, was little changed from a month ago; in February prices advanced at a 0.33 percent pace. Among retail merchants,

annualized price growth was 1.07 percent compared to February's 0.84 percent. At services-providing firms, prices advanced at a 0.02 percent pace in March compared to 0.14 percent last month.

Survey respondents expected price growth of 0.98 percent during the next six months following their month-ago outlook for 0.71 percent price growth. Separately, retailers looked for price increases at 1.93 percent, while survey respondents at services firms predicted prices would advance at a 0.64 percent rate. A month earlier, retailers expected 1.80 percent growth, and contacts at services-providing firms anticipated 0.30 percent price growth.

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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>Mar-10</b>	<b>Feb-10</b>	<b>Jan-10</b>	
Revenues	0	-15	-9	-8
Number of Employees	-3	-8	-7	-6
Average Wage	9	5	0	5
Expected Demand <sup>2</sup>	19	17	27	21
<b>Retail Indicators</b>				
Sales Revenues	8	-15	1	-2
Number of Employees	-8	-22	-8	-13
Average Wage	11	7	0	6
Inventories	-25	-1	4	-7
Big-ticket Sales	-9	-44	-20	-25
Shopper Traffic	-13	-19	3	-10
Expected Product Demand <sup>2</sup>	27	27	37	30
<b>Services Firms Indicators</b>				
Revenues	-3	-17	-9	-9
Number of employees	0	-3	-6	-3
Average wage	8	4	-1	4
Expected demand for services <sup>2</sup>	18	13	19	17
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	0.30	0.33	0.21	
Retail	1.07	0.84	1.08	
Services Firms	0.02	0.14	-0.19	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Mar-10</b>	<b>Feb-10</b>	<b>Jan-10</b>	
Service Sector	0.98	0.71	0.73	
Retail	1.93	1.80	1.49	
Services Firms	0.64	0.30	0.57	

**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 100 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.