

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Revenues and Hiring Accelerate at Services-Providing Firms in May; Retail Sales Level Off*

### Overview

Activity in the Fifth District service sector was mixed in May, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales flattened, even though big-ticket sales declined more slowly than a month ago and retail inventories fell. Shopper traffic also tapered off. In contrast, revenues picked up at non-retail services firms.

In related labor markets, a jump in employment at services-producing firms overshadowed the steady pace of retail job cuts. Growth in average wages was more widespread in May at retail and non-retail establishments, while price growth in the broad service sector was mild.

Looking ahead six months, survey respondents remained optimistic about sales prospects. Compared with last month's outlook, expectations were for slower price growth in the coming months.

### Overall Service Sector Conditions

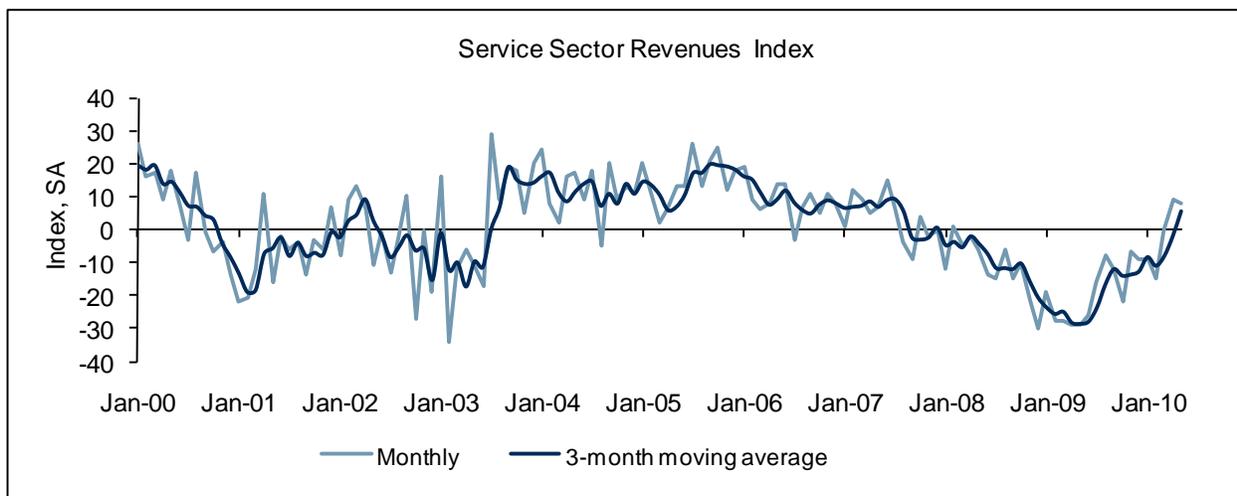
Service sector revenues grew in May, with the

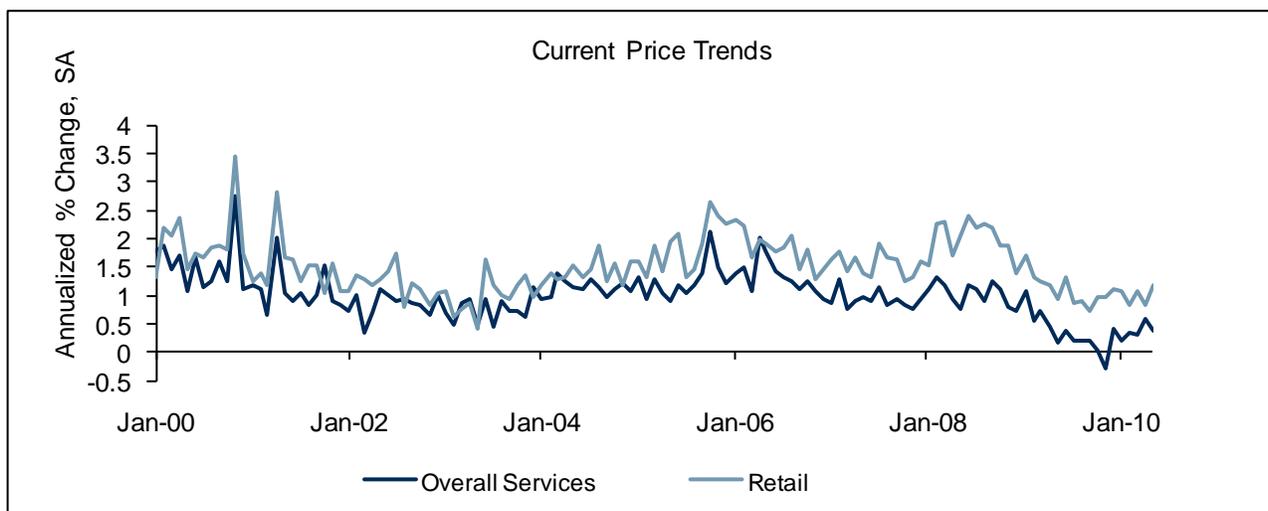
index settling at 8, just one point below April's reading. The number of employees picked up, driven by an acceleration in hiring at services-providing firms; the index gained two points this month, rising to 10. Average wage growth intensified, pushing that index to 8 from last month's reading of 6.

Survey respondents were generally upbeat about their business prospects for the coming six months, although retailers' optimism moderated from a month earlier—the index for expectations slipped three points, concluding at 26 in May.

### Retail

Retail sales leveled off in May, drawing the index to 0 after April's reading of 15. While big-ticket sales remained in decline, the index recouped six points this month, ending the survey period at -17. Retail inventories fell further in May, with that index dropping to -34 from its month-ago reading of -24. Shopper traffic was little changed, prompting the index to settle at -1, compared to April's 13. Optimism among retail merchants was less





widespread in May, reducing that index to 12 from 22.

Retail job cuts prevailed in May, holding the index for the number of employees at -8 for a third consecutive month. Average wages strengthened, with that index tacking on seven points to finish at 11.

**Services-Providing Firms**

Revenues picked up in May, according to survey respondents at non-retail services firms; the index gained three points to end at 11. In addition, hiring expanded, giving the index for the number of employees an eight-point boost to 17, and average wages strengthened, rising two points to 9.

Looking to the next six months, survey participants expected their businesses to make further gains. The index for expected demand for services climbed three points to end the May survey period at 35.

**Prices**

Price growth in the overall service sector slowed slightly in May, to an annual rate of 0.37 percent, following April's 0.58 percent pace. Retailers' price increases picked up slightly in May, to a 1.18 percent annual rate following last month's 0.81 percent pace. Among services providers, price change was nearly flat at 0.05 percent. In April,

survey respondents at services firms indicated prices grew at a 0.41 percent rate.

Compared to last month's outlook, survey respondents anticipated slower price growth during the next six months—for the broad service sector, they predicted price growth of 0.89 percent, whereas in April they expected 1.07 percent price growth. Among retailers, the outlook was for 0.96 percent in May compared to April's expectation for a 1.67 percent rate of increase in prices. At services firms, the prediction was for prices to rise at a 0.79 percent pace; a month ago, survey respondents at services firms expected prices would increase at a 0.76 percent rate.

Contact

**Aileen Watson**

Senior Economic Analyst  
Research Dept./Regional Economics  
Federal Reserve Bank of Richmond  
Richmond Office

Ph: 804.697.7995 • Fax: 804.697.8123

[aileen.watson@rich.frb.org](mailto:aileen.watson@rich.frb.org)

[www.richmondfed.org](http://www.richmondfed.org)

<b>Business Activity Indexes<sup>1,4</sup></b>				
<b>Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month Average</b>
	<b>May-10</b>	<b>Apr-10</b>	<b>Mar-10</b>	
Revenues	8	9	0	6
Number of Employees	10	8	-3	5
Average Wage	8	6	9	8
Expected Demand <sup>2</sup>	26	29	19	25
<b>Retail Indicators</b>				
Sales Revenues	0	15	8	7
Number of Employees	-8	-8	-8	-8
Average Wage	11	4	11	9
Inventories	-34	-24	-25	-28
Big-ticket Sales	-17	-23	-9	-16
Shopper Traffic	-1	13	-13	-1
Expected Product Demand <sup>2</sup>	12	22	27	20
<b>Services Firms Indicators</b>				
Revenues	11	8	-3	5
Number of employees	17	9	0	9
Average wage	9	7	8	8
Expected demand for services <sup>2</sup>	35	32	18	28
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	0.37	0.58	0.30	
Retail	1.18	0.81	1.07	
Services Firms	0.05	0.41	0.02	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>May-10</b>	<b>Apr-10</b>	<b>Mar-10</b>	
Service Sector	0.89	1.07	0.98	
Retail	0.96	1.67	1.93	
Services Firms	0.79	0.76	0.64	

**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 96 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.