

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Slows in June; Outlook Remains Upbeat*

### Overview

Activity softened in the Fifth District service sector in June, according to the latest survey by the Federal Reserve Bank of Richmond. Revenue expansion at non-retail businesses slowed and retail sales were nearly flat, hampered in part by a continued slump in big-ticket sales. In addition, shopper traffic waned and inventory reductions slowed.

On the labor front, employment in the service sector leveled off in June as retailers cut more jobs and the pace of hiring cooled at non-retail services firms. Average wages continued to advance at a stable pace, however.

Price growth slowed slightly this month and survey respondents' outlook for the next six months was for only a mild pick-up in the pace. Expectations for sales during the next six months remained a bright spot in June.

### Overall Service Sector Conditions

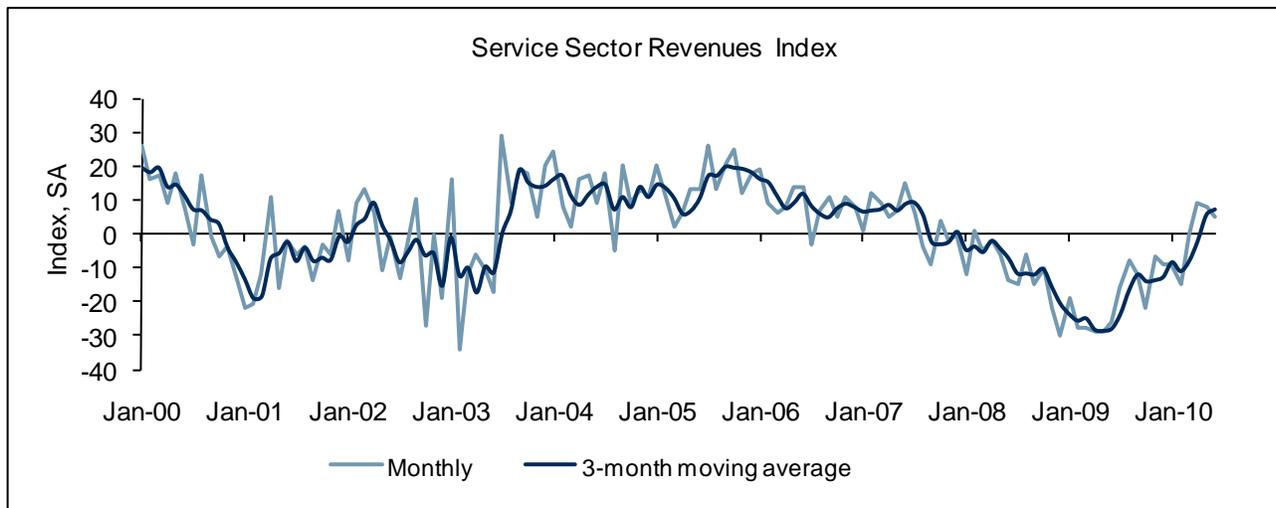
Slower growth at services firms, along with nearly flat retail sales, contributed to weaker growth in the

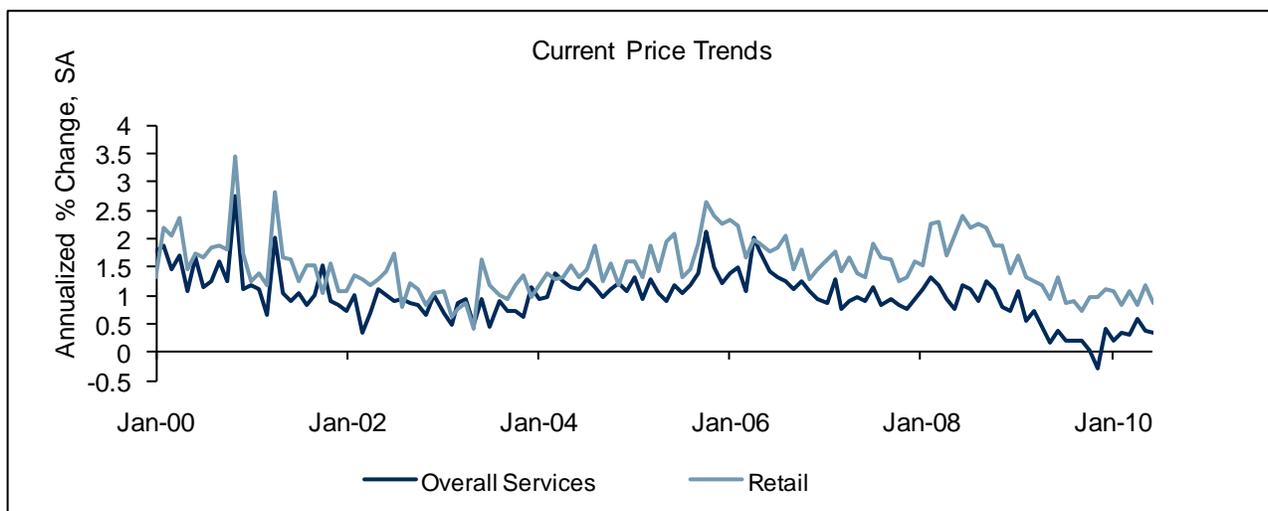
overall service sector. The revenues index for the broad service sector tapered off to 5 in June from May's reading of 8. Businesses added employees more slowly than a month ago, with the index for the number of employees declining eight points to end the survey period at 2. However, sustained average wage growth held that index at 8 for a second month.

Survey respondents' outlook for sales of goods and services remained bright, with the index for expected demand rising three points in June to 29.

### Retail

Retail sales remained nearly flat in June—the index notched down to -1 from May's reading of 0. Big-ticket sales fell, but the decline was slower than in May; the index settled four points above the previous reading to end the reporting period at -13. Inventories were drawn down more slowly in June than a month ago, strengthening that index to -19 from -34. Shopper traffic dissipated—the index slipped seven points to -8.





Despite weak current conditions, retailers remained upbeat about their prospects for the next six months. The index for expected demand tacked on four points to last month's reading, finishing at 16.

Employment languished among the most anemic components of retail activity; the index for the number of employees dropped to -12, four points below May's index. Average retail wage growth was less widespread in June, cooling that index four points to 7.

**Services-Providing Firms**

Revenues at non-retail services firms continued to grow this month, although the scope was less expansive than in May. The index for services firms' revenues moderated six points to 5. In addition, hiring slowed, softening the index 10 points to end at 7 in June, while the index for average wage growth matched May's reading of 9. Looking ahead six months, however, survey participants expected stronger demand for their services. The index for expected demand inched up one point from May's reading to 36.

**Prices**

Price growth in the overall service sector remained subdued. The annualized change in prices for the overall service sector was 0.32 percent in June compared to 0.37 percent a month earlier. Retail price growth slowed to 0.85 percent annually; in May,

retail prices advanced at a 1.18 percent pace. Survey respondents at non-retail services firms reported 0.15 percent annual price growth in June compared to 0.05 percent in May.

Looking ahead six months, survey respondents expected a slight price acceleration in the overall service sector, stepping up to a 1.04 percent annual rate from May's outlook for 0.89 percent. Separately, retailers looked for prices to advance at a 1.43 percent pace, while survey respondents at services firms anticipated price change of 0.90 percent in the next six months. A month ago, expectations were for 0.96 percent and 0.79 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>Jun-10</b>	<b>May-10</b>	<b>Apr-10</b>	
Revenues	5	8	9	7
Number of Employees	2	10	8	7
Average Wage	8	8	6	8
Expected Demand <sup>2</sup>	29	26	29	28
<b>Retail Indicators</b>				
Sales Revenues	-1	0	15	5
Number of Employees	-12	-8	-8	-9
Average Wage	7	11	4	7
Inventories	-19	-34	-24	-26
Big-ticket Sales	-13	-17	-23	-17
Shopper Traffic	-8	-1	13	1
Expected Product Demand <sup>2</sup>	16	12	22	17
<b>Services Firms Indicators</b>				
Revenues	5	11	8	8
Number of employees	7	17	9	11
Average wage	9	9	7	8
Expected demand for services <sup>2</sup>	36	35	32	34
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	0.32	0.37	0.58	
Retail	0.85	1.18	0.81	
Services Firms	0.15	0.05	0.41	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Jun-10</b>	<b>May-10</b>	<b>Apr-10</b>	
Service Sector	1.04	0.89	1.07	
Retail	1.43	0.96	1.67	
Services Firms	0.90	0.79	0.76	

**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 103 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.