

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Revenues Accelerate Slightly; Sector Labor Markets Weaken

Overview

Service sector revenues picked up in July, fueled by solid gains at non-retail services firms, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales remained flat, however, while big-ticket sales dropped sharply. Shopper traffic also fell this month. Retail inventories declined, although reductions were somewhat less prevalent than a month ago. Retail merchants and survey respondents at non-retail firms were upbeat about sales prospects for the next six months.

Service sector labor markets weakened in July, with a drop in the number of retail employees and no change in hiring at non-retail services firms. In addition, average wages in the service sector flattened.

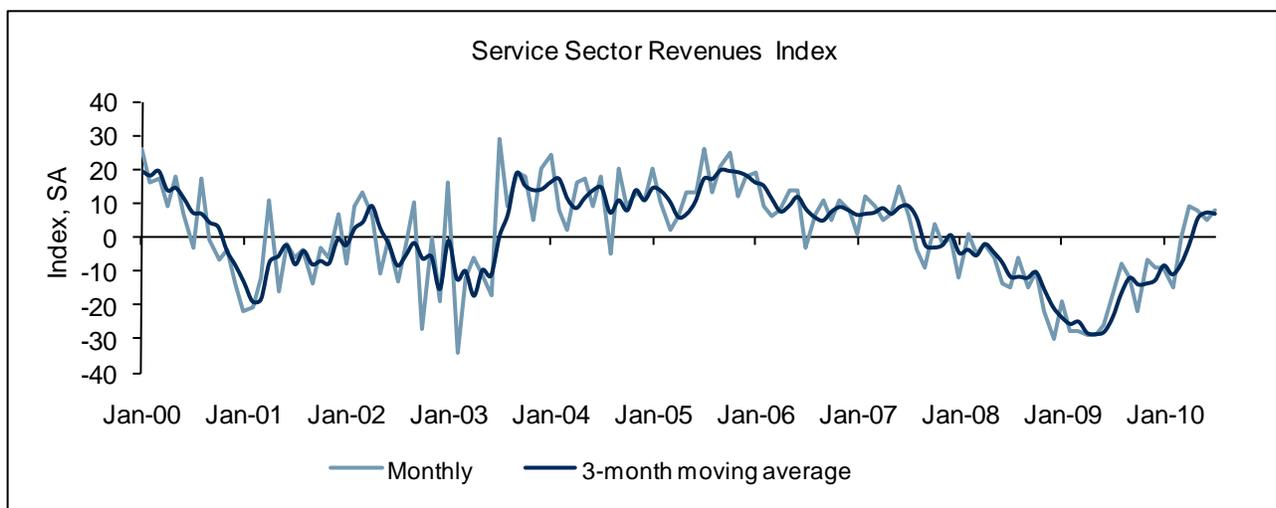
Price growth edged up mildly in July. Compared to their outlook of a month ago, survey respondents looked for slightly slower price growth through the rest of the year.

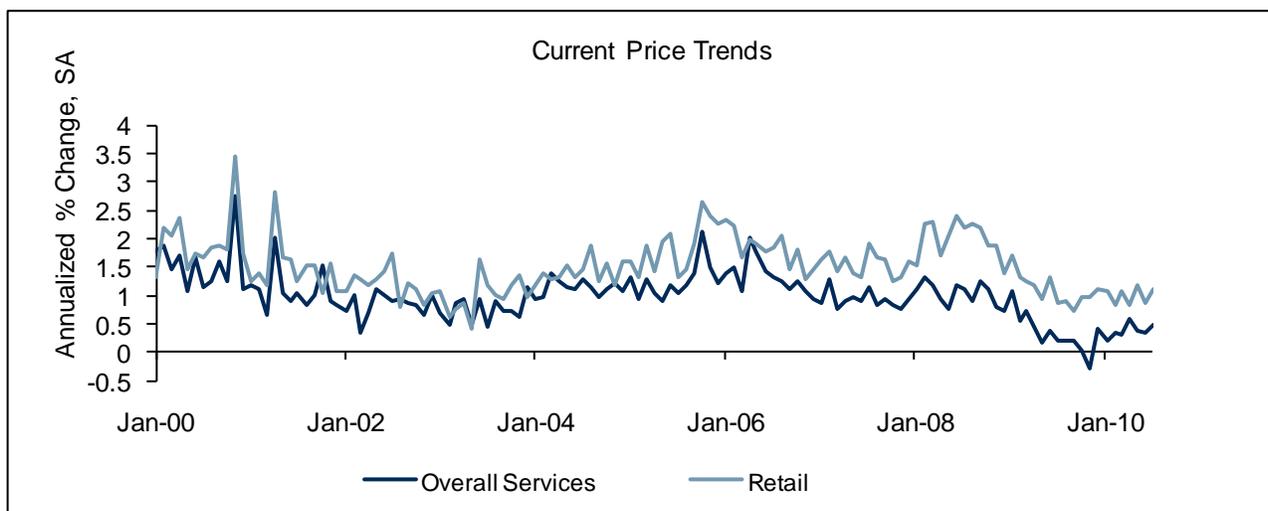
Overall Service Sector Conditions

Although retail sales remained flat for a third month, revenues accelerated at non-retail services firms, strengthening the overall revenues index to 8 in July from last month's reading of 5. According to the survey, the labor market weakened notably this month, with the index for the number of employees losing 8 points to settle at -6 and the average wage index sliding 12 points lower, to taper off at -4. Expectations were optimistic regarding sales prospects through the remainder of 2010; at 27, that index was only two points below June's reading.

Retail

Retail sales flattened for a third consecutive month, with the July index at 0. Consumers largely abandoned big-ticket sales, dragging that index to -23 from June's -13. In addition, shopper traffic fell sharply, driving the index to -19 from -8. Retail inventories declined; the index picked up six points in July but remained negative, at -13.





Turning to labor markets, merchants once again cut payrolls deeply, pulling the index for the number of employees to -29 from June's reading of -12. Average retail wage growth stalled, with the index slipping eight points from a month earlier, to -1.

Looking ahead six months, retailers on the whole remained optimistic about potential sales, with the expectations index settling at 12, four points below the June index.

Services-Providing Firms

Revenues bounced up at non-retail services firms, doubling last month's index to 10 in July. However, services firms generally stopped hiring; the index for the number of employees skidded to 0 in July from June's reading of 7. Average wages also flattened at services-providing firms, pulling that index to -1 from the June reading of 9.

Survey respondents at non-retail services firms remained sanguine about business opportunities through the end of the year—the expectations index shaved off four points to end the survey period at 32.

Prices

Price growth in the overall service sector quickened slightly in July. Prices for the overall service sector grew at 0.49 percent annually, compared to last month's 0.32 percent annual

rate. Separately, retail price growth accelerated to an annualized 1.10 percent rate and non-retail prices increased at a 0.31 percent pace. A month ago, those rates were 0.85 percent and 0.15 percent.

Expectations for the remainder of the year were a bit more conservative overall than the outlook of a month ago. Survey respondents predicted overall annualized price growth of 0.84 percent in the service sector, compared to the 1.04 percent pace anticipated in June. Retailers expected price growth of 1.49 percent, while survey respondents at non-retail services firms looked for prices to increase at a 0.67 percent pace. In June, their outlook was for 1.43 percent and 0.90 percent.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jul-10	Jun-10	May-10	
Revenues	8	5	8	7
Number of Employees	-6	2	10	2
Average Wage	-4	8	8	4
Expected Demand ²	27	29	26	27
Retail Indicators				
Sales Revenues	0	-1	0	0
Number of Employees	-29	-12	-8	-16
Average Wage	-1	7	11	6
Inventories	-13	-19	-34	-22
Big-ticket Sales	-23	-13	-17	-17
Shopper Traffic	-19	-8	-1	-9
Expected Product Demand ²	12	16	12	14
Services Firms Indicators				
Revenues	10	5	11	9
Number of employees	0	7	17	8
Average wage	-1	9	9	6
Expected demand for services ²	32	36	35	34
Current Price Trends³				
Service Sector	0.49	0.32	0.37	
Retail	1.10	0.85	1.18	
Services Firms	0.31	0.15	0.05	
Expected Price Trends^{2,3}				
	Expectations			
	Jul-10	Jun-10	May-10	
Service Sector	0.84	1.04	0.89	
Retail	1.49	1.43	0.96	
Services Firms	0.67	0.90	0.79	

Technical Notes:

- 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 98 of 133 firms surveyed
- Expectations refer to the time period six months out from the survey period.
- Price changes are expressed as percent change, annualized.
- 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.