

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Shrinks; Optimism Dims Among Retailers

Overview

Service sector activity pulled back in August, according to the latest survey by the Federal Reserve Bank of Richmond. After three months of nearly flat sales, overall retail revenues declined, led by a sharp drop in big-ticket sales. Depressed shopper traffic added to the slump in retail activity. Merchants reduced inventories as they predicted weak demand for their products in the coming six months. Revenues at non-retail services firms also dropped in August, following five months of mild expansion. Services providers softened their outlook regarding demand for their services in the six months ahead.

Turning to service sector labor markets, job reductions continued, although average wage growth strengthened across the board.

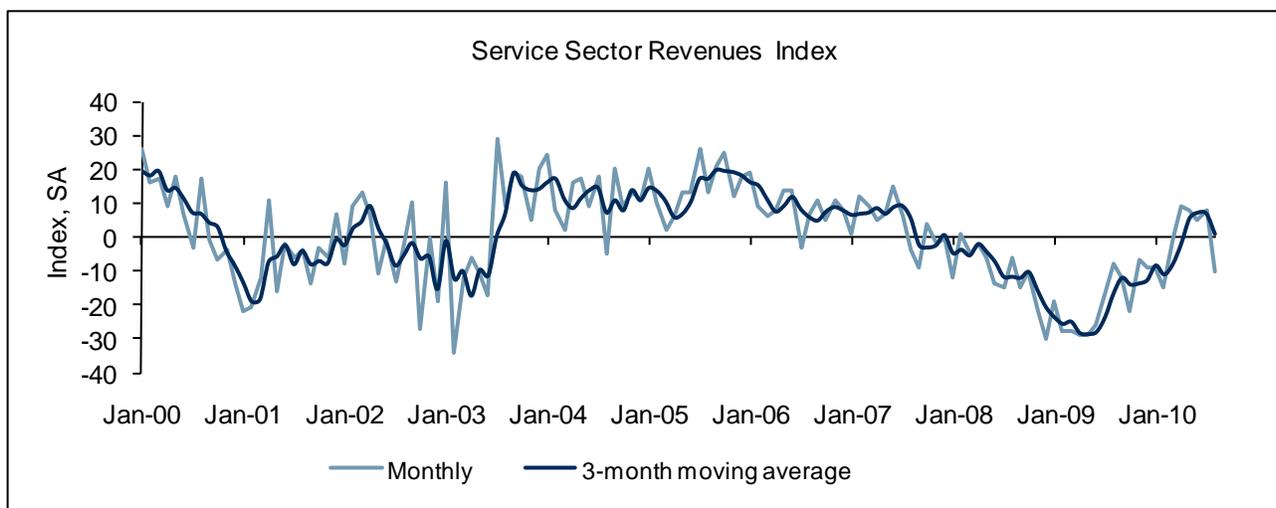
Price growth slowed somewhat at retail establishments and ticked up at non-retail services firms, raising overall price growth slightly.

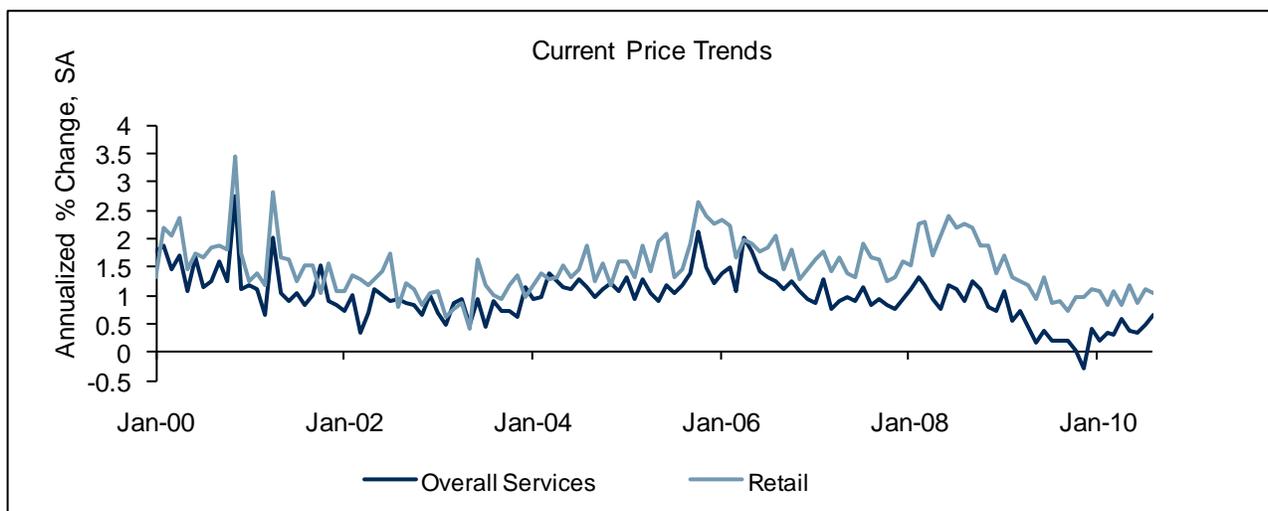
Overall Service Sector Conditions

After several months in positive territory, the index for service sector revenues turned negative this month. At a reading of -10, the August index dropped 18 points from its previous mark. Service sector employment also moved lower, as the index for the number of employees shaved two points from July's reading to settle at -8. In contrast, average wage growth in the sector strengthened, pushing the index to 8 from July's -4. Survey respondents were generally optimistic about expected demand for their goods and services in the six months ahead, although the index drifted seven points lower this month to a reading of 20.

Retail

Retail sales sagged in August, following three months of little to no change; the index dipped to -8 from 0. Big-ticket sales remained in the doldrums, with that index at -20 compared to July's -23. In addition, shoppers deserted stores, pulling the shopper traffic index to -21, two points below the previous month's reading. Retail inventories





remained in decline, with the index losing three more points from the July reading, to end the survey period at -16.

In retail labor markets, job cuts proliferated, keeping the index at -29 for a second month. Average retail wages rose, however, pushing that index up six points to 5.

Retail merchants anticipated unexceptional sales prospects over the next six months—the expectations index softened eight points to finish at 4 in August.

Services-Providing Firms

Revenues at non-retail services firms contracted in August, with the index dropping to -7 from July's reading of 10. The number of employees was unchanged, holding the index at 0, while growth in average wages accelerated at services firms. The index for average wages rose to 9 from -1.

The outlook for demand at services-providing firms remained upbeat, although enthusiasm was less widespread than a month ago. The index trimmed seven points from its July reading to settle at 25.

Prices

Service sector price growth inched up to an annualized rate of 0.66 percent in August, slightly above last month's rate. Separately, retail sales grew at 1.02 percent annually and prices at non-retail services firms advanced at a 0.53 percent

annual pace. In July, price growth was 0.49 percent for the broad service sector, with growth rates of 1.10 percent and 0.31 percent at retail and services firms.

Looking ahead six months, survey respondents expected overall annualized price growth of 0.83 percent, nearly matching July's outlook for 0.84 percent. Retailers were also in line with last month in their outlook; they expected price growth of 1.50 percent compared to July's prediction of 1.49 percent. Survey respondents at non-retail services firms looked for prices to increase at a 0.57 percent pace, just below their July outlook of 0.67 percent.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Aug-10	Jul-10	Jun-10	
Revenues	-10	8	5	1
Number of Employees	-8	-6	2	-4
Average Wage	8	-4	8	4
Expected Demand ²	20	27	29	25
Retail Indicators				
Sales Revenues	-8	0	-1	-3
Number of Employees	-29	-29	-12	-23
Average Wage	5	-1	7	4
Inventories	-16	-13	-19	-16
Big-ticket Sales	-20	-23	-13	-18
Shopper Traffic	-21	-19	-8	-16
Expected Product Demand ²	4	12	16	11
Services Firms Indicators				
Revenues	-7	10	5	3
Number of employees	0	0	7	2
Average wage	9	-1	9	5
Expected demand for services ²	25	32	36	31
Current Price Trends³				
Service Sector	0.66	0.49	0.32	
Retail	1.02	1.10	0.85	
Services Firms	0.53	0.31	0.15	
Expected Price Trends^{2,3}				
	Expectations			
	Aug-10	Jul-10	Jun-10	
Service Sector	0.83	0.84	1.04	
Retail	1.50	1.49	1.43	
Services Firms	0.57	0.67	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 94 of 126 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.