

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Overall Service Sector Activity Softens; Big-Ticket Sales Drop Sharply

Overview

Activity in the service sector remained weak in September, according to the latest survey by the Federal Reserve Bank of Richmond. A steep drop in big-ticket sales weighed down total retail sales, and shopper traffic continued to decline this month. Retail inventory depletion slowed, compared to a month ago. Revenues also contracted at non-retail services firms. Looking ahead six months, however, retailers expected demand for goods to pick up, and services providers anticipated solid demand for their services.

In labor markets, retail merchants and services providers trimmed their payrolls. Average wage growth advanced moderately across the sector.

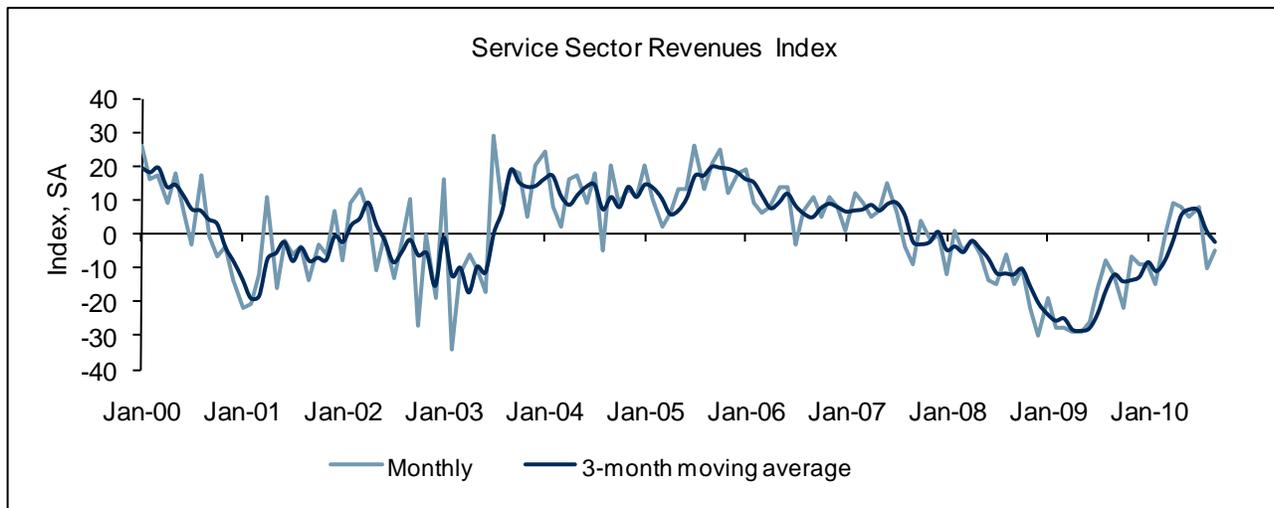
Compared to a month ago, price growth slowed overall in the broad service sector, with a mild acceleration at retail establishments, while price change was virtually flat at services-providing firms.

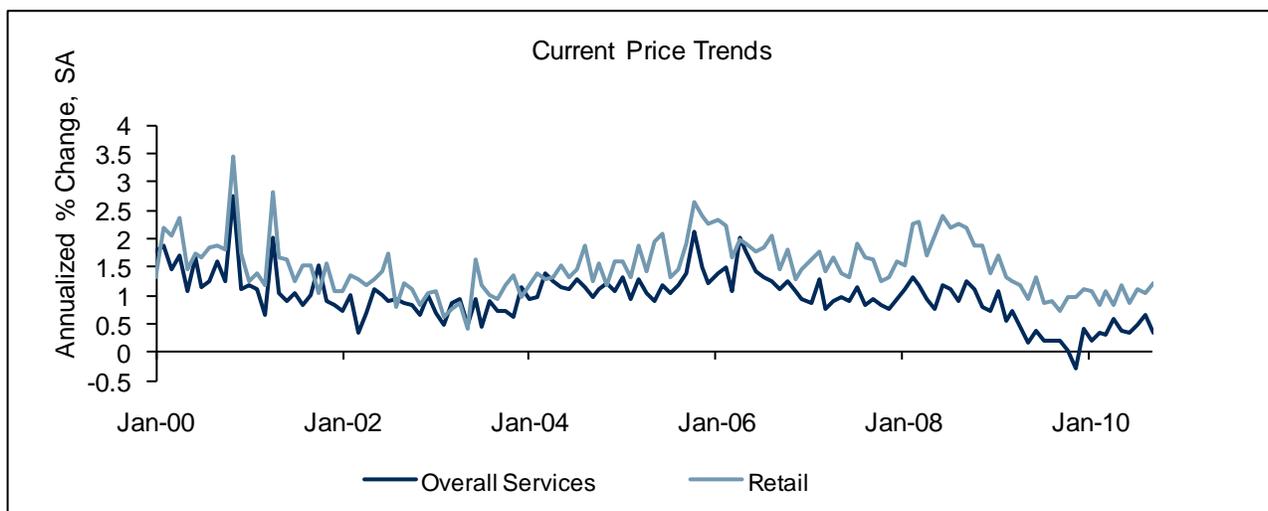
Overall Service Sector Conditions

The service sector revenues index moved to -5 in September, five points above the August reading. Employment in the service sector fell below that of a month ago, pulling the index down four points to -12. Services providers raised average wages, while average retail wages notched down, holding the overall average wage index at 8 this month. Survey respondents were generally optimistic about future demand for goods and services. The expectations index for the next six months settled at 17, just three points below the August reading.

Retail

Retail sales softened in September, with the index holding steady at -8 for the second month. Big-ticket sales fell sharply, however. The index dipped thirty-eight points to -58. Although shopper traffic declined, the reduction was less severe than in August. That index ended the survey period at -16 compared to -21 in August. Retail inventories contracted more slowly than a month ago, with the index regaining nine points to finish at -7.





The index for the number of retail employees settled at -22, following a reading of -29 last month. The index for average retail wages slipped to -2, after last month's uptick to 5.

Despite soft business conditions in September, merchants were optimistic about demand for their products during the next six months. The expectations index rose four points to 8.

Services-Providing Firms

Revenues at non-retail services firms remained weak in September, with the index at -6, only one point above last month's reading. Management at services firms cut jobs, pulling the index for the number of employees to -8, after two months of flat readings. Average wages at services firms continued to grow, however, keeping that index at 9.

Survey participants at services firms expected demand for their services to strengthen over the next six months, although their optimistic outlook was a bit less widespread than in August. The index for expected demand settled five points lower in September, at 20.

Prices

Service sector price growth slowed to an annualized rate of 0.34 percent in September, compared to last month's 0.66 percent pace.

Retail prices grew at 1.22 percent annually, while prices at non-retail services firms were flat at 0.01 percent. A month ago, retail price growth was 1.02 percent, while price change at services firms moved ahead at a 0.53 percent rate.

Looking ahead six months, survey respondents expected overall annualized price growth of 0.80 percent, just below their previous prediction of 0.83 percent. Retail merchants looked for a mild acceleration in price growth to 1.85 percent, compared to last month's outlook for 1.50 percent. Survey respondents at services firms expected price growth of 0.38 percent during the next six months; in August, they looked for 0.57 percent future growth in prices.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Sep-10	Aug-10	Jul-10	
Revenues	-5	-10	8	-2
Number of Employees	-12	-8	-6	-9
Average Wage	8	8	-4	4
Expected Demand ²	17	20	27	21
Retail Indicators				
Sales Revenues	-8	-8	0	-5
Number of Employees	-22	-29	-29	-26
Average Wage	-2	5	-1	1
Inventories	-7	-16	-13	-12
Big-ticket Sales	-58	-20	-23	-34
Shopper Traffic	-16	-21	-19	-19
Expected Product Demand ²	8	4	12	8
Services Firms Indicators				
Revenues	-6	-7	10	-1
Number of employees	-8	0	0	-3
Average wage	9	9	-1	6
Expected demand for services ²	20	25	32	26
Current Price Trends³				
Service Sector	0.34	0.66	0.49	
Retail	1.22	1.02	1.10	
Services Firms	0.01	0.53	0.31	
Expected Price Trends^{2,3}				
	Expectations			
	Sep-10	Aug-10	Jul-10	
Service Sector	0.80	0.83	0.84	
Retail	1.85	1.50	1.49	
Services Firms	0.38	0.57	0.67	

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 95 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.