

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Weakness Slows; Six-Month Outlook Optimistic

Overview

Service sector activity declined in October, according to the latest survey by the Federal Reserve Bank of Richmond, although the weakness in several indicators was less severe than a month earlier. Retail sales contraction continued, nearly matching September's drop. Nevertheless, shopper traffic flattened after falling for four months and big-ticket sales declined more slowly than a month ago. Retail inventories grew for the first time since January of 2010. Revenue weakness at services-providing firms was virtually the same as last month's. However, survey participants' predictions for business prospects during the next six months jumped up in October.

In service sector labor markets, retailers and services providers slowed employee cutbacks in October. Average retail wages were unchanged, while moderate growth in wages at services firms continued.

Price growth in the broad service sector picked up somewhat compared to a month ago, as this

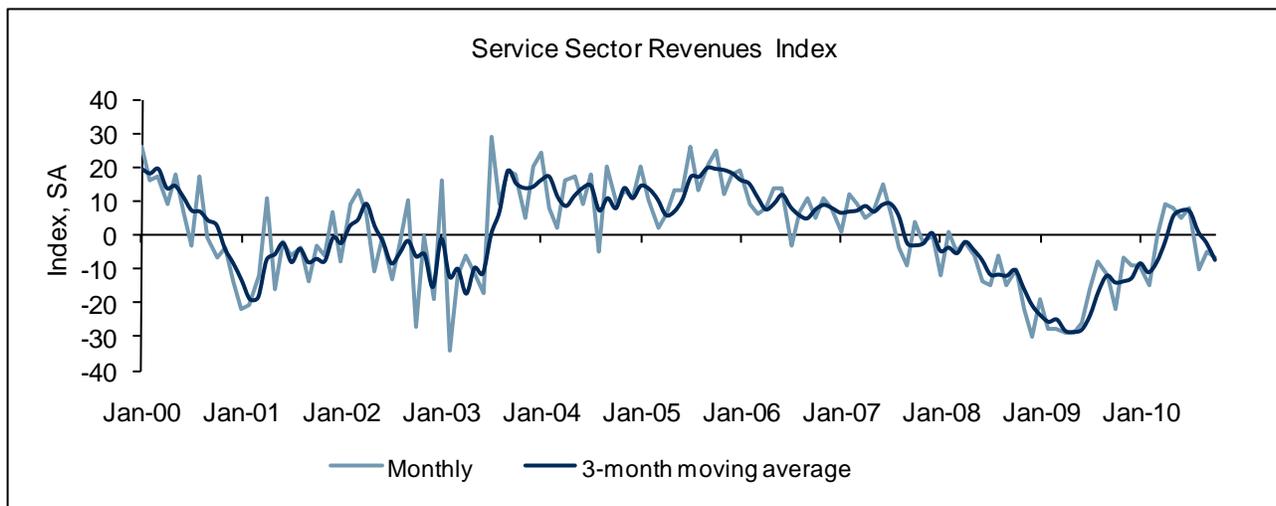
month's price acceleration at services-providing firms outpaced slightly slower price growth at retail establishments.

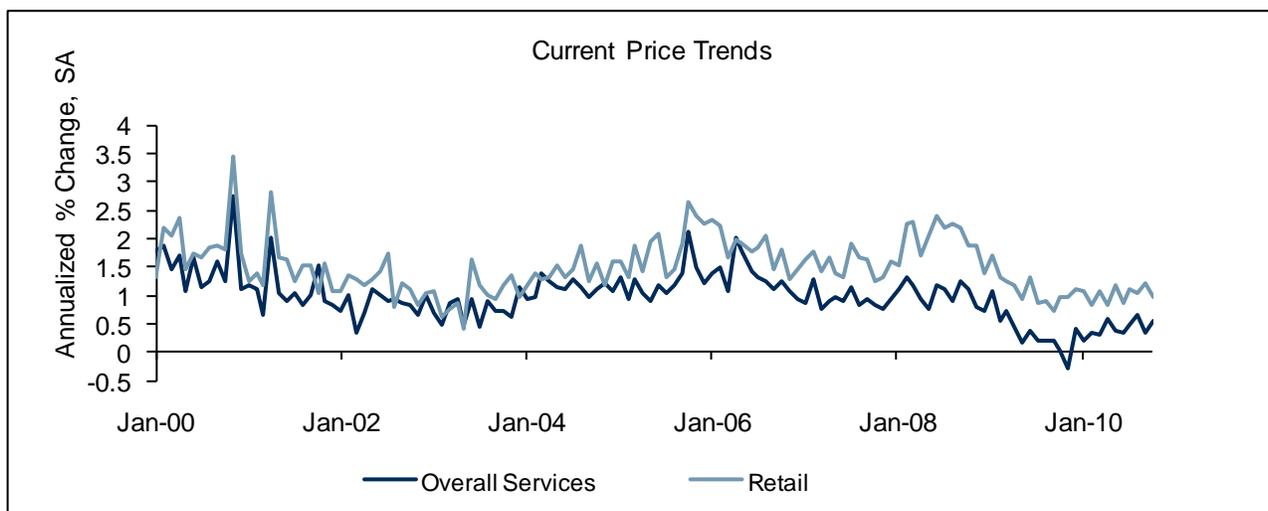
Overall Service Sector Conditions

Revenues contracted in the service sector during October, with weakness at retail and services businesses consistent with that of a month ago. The overall revenues index dropped two points from September's reading to -7. The index for the number of employees in the sector fell by less than a month earlier, with that index settling at -7 compared to -12. Average wages grew at a steady pace, keeping the index at 8 for a third consecutive month. Survey participants anticipated robust business prospects during the next six months. The index for expected demand rose fifteen points to 32.

Retail

Retail sales generally remained in a slump in October, with the index at -7 compared to last month's -8. However, shopper traffic ended four months of sharp decline, pulling that index up





fifteen points to a nearly flat reading of -1. Big-ticket sales fell, but the drop was much softer than in September; the index settled at -25 after its month-ago reading of -58. Retail inventories grew in October for the first time since January of this year, reversing seventeen points from September's index to end the survey period at 10. In addition, retail merchants indicated that they were enthusiastic about sales for the six months ahead, pushing the expectations index thirty-six points higher to a reading of 44.

Retail job losses continued, although cuts were less widespread in October than in September. Compared to a month ago, the index slowed its decline by seven points to -15. Average retail wages were flat this month, with the index at 0, following September's similar reading of -2.

Services-Providing Firms

Revenues at non-retail services firms also fell in October; at -5, the index nearly matched last month's reading of -6. Payroll reductions slowed at services providing firms, bringing the index for the number of employees to -5 from -8. Average wages grew on pace, with that index at 9, matching four of the last five months' indexes. Survey participants at services firms predicted stronger customer demand over the next six months. The outlook index rose twelve points to 32 in October.

Prices

Service sector price growth picked up to an annualized rate of 0.56 percent in October, compared to September's 0.34 percent rate. Separately, retail price growth moderated to 0.98 percent annually, compared to last month's 1.22 percent. Price change at non-retail services firms accelerated to a 0.41 percent pace following September's virtually flat 0.01 percent growth rate.

Looking ahead six months, survey respondents anticipated overall annualized price growth of 1.03 percent, somewhat above their previous outlook for 0.80 percent. Retailers looked for a 1.96 percent growth rate, compared to a September prediction of 1.85 percent. Services providers expected prices to pick up to a 0.78 percent clip during the next six months. In September they looked for 0.38 percent.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Oct-10	Sep-10	Aug-10	
Revenues	-7	-5	-10	-8
Number of Employees	-7	-12	-8	-9
Average Wage	8	8	8	8
Expected Demand ²	32	17	20	23
Retail Indicators				
Sales Revenues	-7	-8	-8	-8
Number of Employees	-15	-22	-29	-22
Average Wage	0	-2	5	1
Inventories	10	-7	-16	-4
Big-ticket Sales	-25	-58	-20	-34
Shopper Traffic	-1	-16	-21	-13
Expected Product Demand ²	44	8	4	19
Services Firms Indicators				
Revenues	-5	-6	-7	-6
Number of employees	-5	-8	0	-4
Average wage	9	9	9	9
Expected demand for services ²	32	20	25	26
Current Price Trends³				
Service Sector	0.56	0.34	0.66	
Retail	0.98	1.22	1.02	
Services Firms	0.41	0.01	0.53	
Expected Price Trends^{2,3}				
	Expectations			
	Oct-10	Sep-10	Aug-10	
Service Sector	1.03	0.80	0.83	
Retail	1.96	1.85	1.50	
Services Firms	0.78	0.38	0.57	

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 90 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.