

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Softens at Retail Establishments, Strengthens at Non-Retail Services Firms

Overview

A stronger performance at non-retail services firms pushed up overall service sector activity this month, according to the November survey by the Federal Reserve Bank of Richmond. However, weakness persisted in the retail sector, with overall softness in retail sales and another steep drop in big-ticket sales. In addition, shopper traffic withered. However, inventories edged up only slightly. Looking ahead six months, retail merchants remained optimistic about consumer demand, although their exuberance of a month ago waned. At services firms, survey respondents also remained upbeat, but less enthusiastic than in October.

A similar situation was reported in service sector labor markets—retailers cut jobs, while hiring managers at services firms added employees. Average wages grew on pace with a month ago.

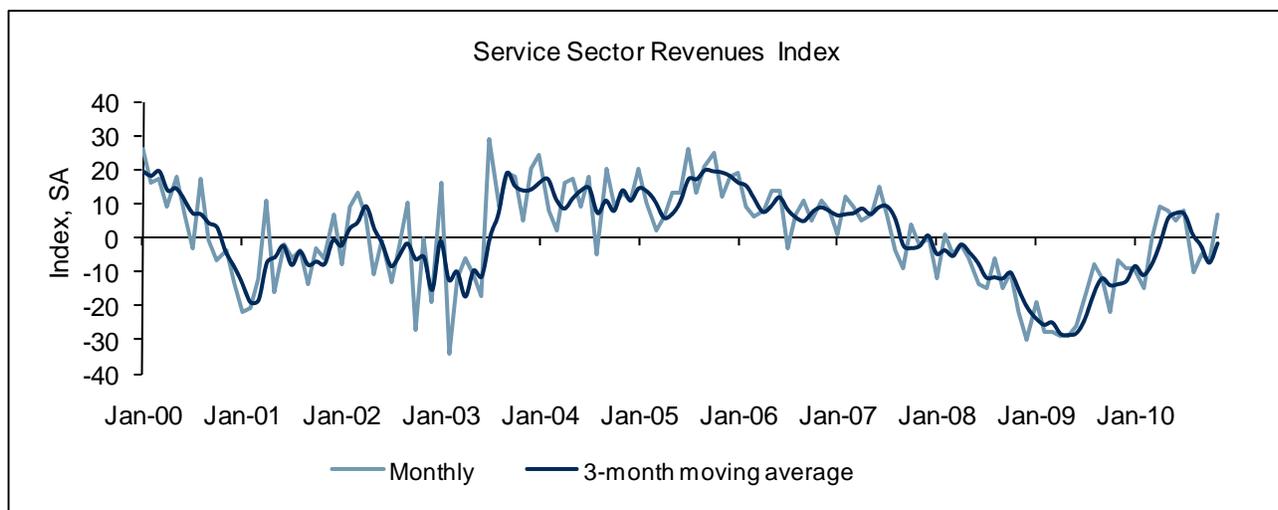
Service sector price growth inched up and, looking ahead, survey respondents expected an additional uptick over the next six months.

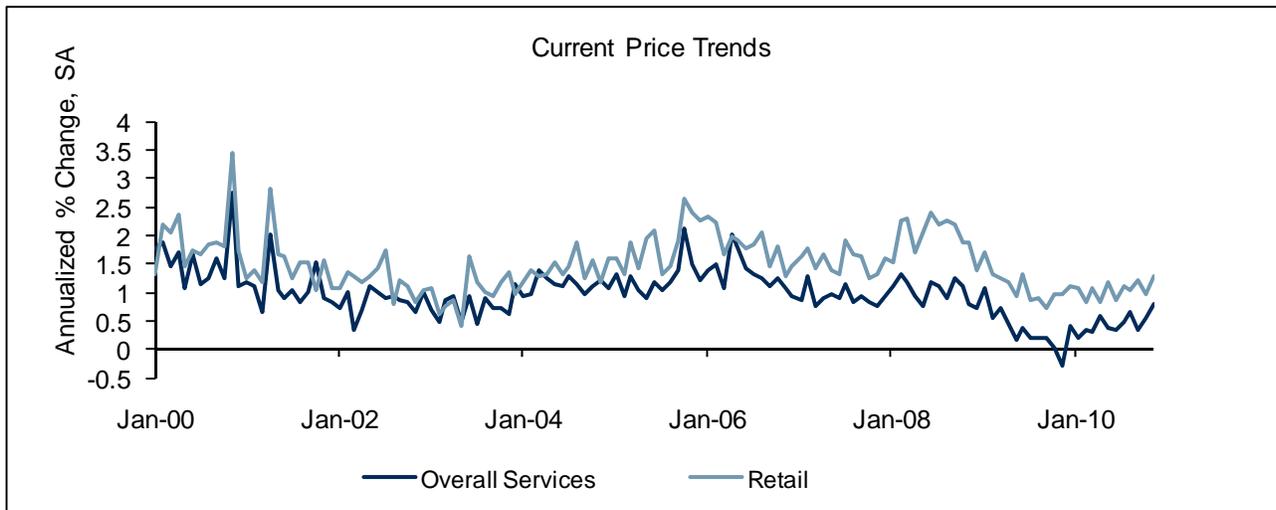
Overall Service Sector Conditions

The overall service sector bounced back in November, with the rebound driven by non-retail services firms. Retailers, on the other hand, continued to report slower sales and diminished foot traffic. The index for broad service sector revenues reversed direction this month, rising 14 points to a reading of 7. The index for the number of employees flattened to 1, eight points above October's index, while the index for average wages was one point lower than a month ago, at 7. Looking ahead six months, survey respondents were generally optimistic about sales prospects, although their outlook cooled from that of a month ago. The index settled at 24 in November, compared to 32.

Retail

Retail sales fell in November, according to survey respondents, with big-ticket sales continuing to drop sharply. The index for sales revenues lost nine points against last month's indicator, settling at -16,





while the index for big-ticket sales remained at -25 for a second month. Shopper traffic thinned, with that index falling to -19 from -1. Inventories increased modestly compared to a month ago, with the index losing six points to settle at 4 this month. Looking ahead, retailers expected sales would improve, but their rosy outlook of a month earlier faded; at 15, the expectations index was optimistic, but well below October's index of 44.

Retail labor markets remained weak, with merchants cutting more jobs this month. The index for the number of retail employees ended the survey period at -16 following October's reading of -15. Average retail wage growth was flat. The index remained at 0 in November, matching October's index reading.

Services-Providing Firms

Revenues at non-retail services firms rose sharply compared to a month ago. The revenues index climbed 20 points in November, to 15. The index for the number of employees rose seven points above October's indicator, to a reading of 2. In addition, rising average wages at services firms prevailed, pulling that index up another point this month, to 10.

Prices

Price growth in the service sector edged higher in November. Overall price growth picked up to an annualized 0.80 percent rate following October's

0.56 percent pace, and in the retail sub-sector, price growth quickened to 1.27 percent from 0.98 percent. At services-providing firms, price growth accelerated to 0.67 percent in November from last month's 0.41 percent.

For the six months ahead, retailers expected price growth to remain stable, predicting a 1.92 percent annualized rate of increase, while survey respondents at services firms anticipated price growth of 1.00 percent. In October, they looked for future price growth of 1.96 percent and 0.78 percent. For the overall sector, expectations were slightly above the month-ago outlook, at 1.30 percent, compared to October's 1.03 percent expectation.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Nov-10	Oct-10	Sep-10	
Revenues	7	-7	-5	-2
Number of Employees	1	-7	-12	-6
Average Wage	7	8	8	7
Expected Demand ²	24	32	17	24
Retail Indicators				
Sales Revenues	-16	-7	-8	-10
Number of Employees	-16	-15	-22	-17
Average Wage	0	0	-2	-1
Inventories	4	10	-7	2
Big-ticket Sales	-25	-25	-58	-36
Shopper Traffic	-19	-1	-16	-12
Expected Product Demand ²	15	44	8	22
Services Firms Indicators				
Revenues	15	-5	-6	1
Number of employees	2	-5	-8	-4
Average wage	10	9	9	9
Expected demand for services ²	24	32	20	25
Current Price Trends³				
Service Sector	0.80	0.56	0.34	
Retail	1.27	0.98	1.22	
Services Firms	0.67	0.41	0.01	
Expected Price Trends^{2,3}				
	Expectations			
	Nov-10	Oct-10	Sep-10	
Service Sector	1.30	1.03	0.80	
Retail	1.92	1.96	1.85	
Services Firms	1.00	0.78	0.38	

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 87 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.