

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Rebounds; Retail Sales Jump and Non-Retail Revenues Remain Solid*

### Overview

Activity in the service sector surged in December, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales rose sharply and shopper traffic increased. However, weakness in big-ticket sales continued. Retail inventories grew rapidly this month. At non-retail services firms, revenue growth was a bit more widespread than a month ago. Looking ahead six months, survey respondents anticipated a stronger market for their goods and services.

Labor markets also improved this month, as retail job cuts abated and hiring picked up at services-providing firms.

Service sector price growth eased somewhat in December, while survey respondents' overall outlook for price change during the next six months nearly matched that of a month ago.

### Overall Service Sector Conditions

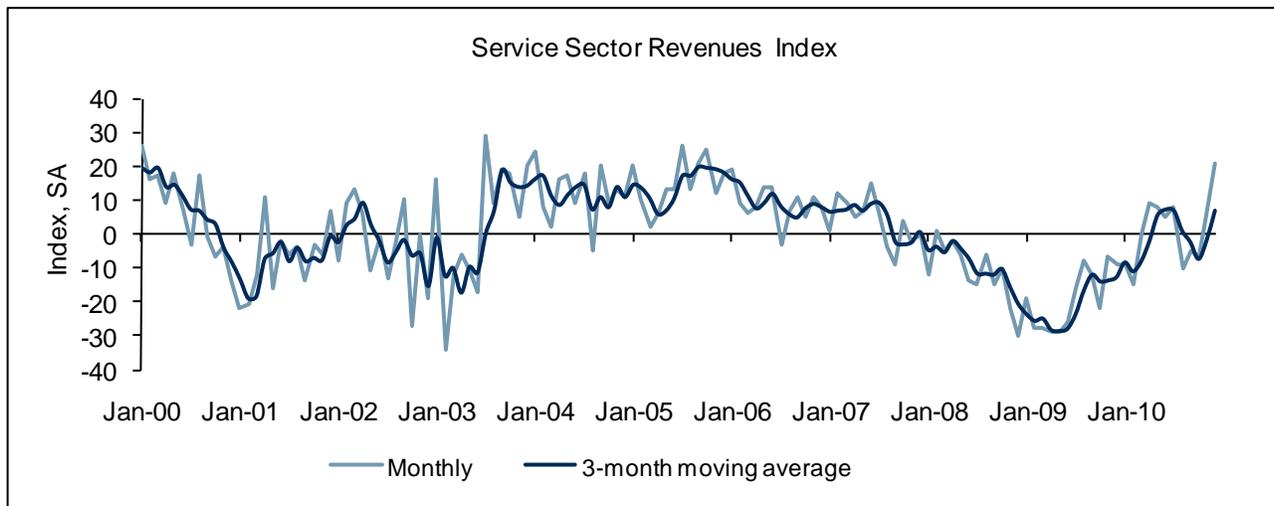
Revenues accelerated briskly in the broad service sector in December, pushing the index for

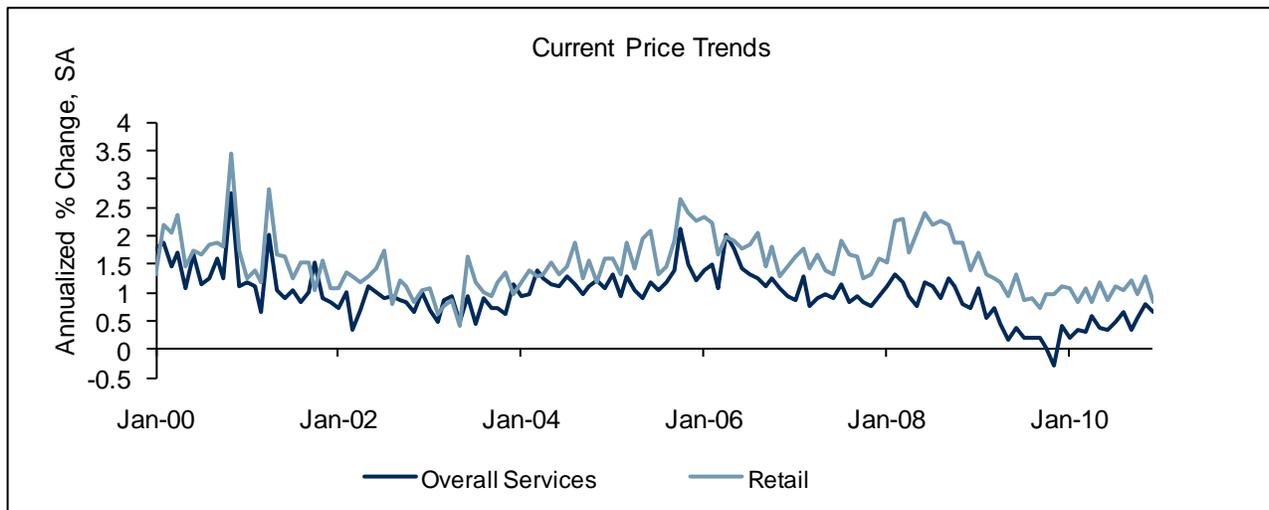
revenues 14 points higher than a month ago to a reading of 21. The number of employees increased rapidly, driving that index to 15 from 1. Average wage growth intensified, with the index rising three points in December, to 10. Survey respondents' outlook for business opportunities remained upbeat; the expectations index tacked on two points, to finish the survey period at 26.

### Retail

Retail sales spiked in December, after loitering in negative territory for seven months. The indicator rose 41 points to 25. However, big-ticket sales continued to weaken, remaining at an index of -25 for the third consecutive month. Shopper traffic returned, reinforcing that index by 28 points, to end at 9. Retail merchants were optimistic about sales in the next six months; that gauge added 20 points, wrapping up the year at 35.

In retail labor markets, employment flattened, positioning the index at 0 in December, following last month's -16. Average retail wages leapt after remaining flat for two months; the index rose to 20.





**Services-Providing Firms**

Revenues at non-retail firms grew somewhat faster than a month ago, with the index rising to 17 from November’s 15. Services providers were hiring in December, pushing the index for the number of employees up 19 points to 21. Average wage growth slowed slightly at services firms, shaving two points off the November index, to finish at 8. Looking ahead, services providers were upbeat about prospects—at 23, the expectations index nearly matched its previous reading of 24.

**Prices**

Price growth in the service sector slowed in December, to an annualized 0.65 percent pace, compared to November’s 0.80 percent rate. At retail establishments, price growth slowed to an annual 0.84 percent rate from 1.27 percent. In the non-retail sub-sector, price growth tapered off to 0.55 percent annually, compared to last month’s 0.67 percent.

For the six months ahead, expectations in the overall service sector were for price growth of 1.31 percent, nearly matching November’s outlook for 1.30 percent price growth. Retailers looked for price growth of 1.26 percent, somewhat slower than their November prediction of 1.92 percent. Services providers expected price growth to inch up to 1.38 percent in the months ahead, whereas last month they looked for 1.00 percent price growth.

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<b>Business Activity Indexes<sup>1,4</sup></b>				
<b>Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month Average</b>
	<b>Dec-10</b>	<b>Nov-10</b>	<b>Oct-10</b>	
Revenues	21	7	-7	7
Number of Employees	15	1	-7	3
Average Wage	10	7	8	8
Expected Demand <sup>2</sup>	26	24	32	27
<b>Retail Indicators</b>				
Sales Revenues	25	-16	-7	1
Number of Employees	0	-16	-15	-10
Average Wage	20	0	0	7
Inventories	32	4	10	16
Big-ticket Sales	-25	-25	-25	-25
Shopper Traffic	9	-19	-1	-4
Expected Product Demand <sup>2</sup>	35	15	44	31
<b>Services Firms Indicators</b>				
Revenues	17	15	-5	9
Number of employees	21	2	-5	6
Average wage	8	10	9	9
Expected demand for services <sup>2</sup>	23	24	32	26
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	0.65	0.80	0.56	
Retail	0.84	1.27	0.98	
Services Firms	0.55	0.67	0.41	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Dec-10</b>	<b>Nov-10</b>	<b>Oct-10</b>	
Service Sector	1.31	1.30	1.03	
Retail	1.26	1.92	1.96	
Services Firms	1.38	1.00	0.78	

**Technical Notes:**

- <sup>1</sup> 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 102 of 304 firms surveyed
- <sup>2</sup> Expectations refer to the time period six months out from the survey period.
- <sup>3</sup> Price changes are expressed as percent change, annualized.
- <sup>4</sup> 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.