

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Retail Sector Strengthens; Activity at Non-Retail Services Firms Slows

Overview

Service sector activity grew moderately in January, according to the latest survey by the Federal Reserve Bank of Richmond. Within the service sector, retail activity strengthened compared to last month, while services firms experienced softer growth than a month ago. Retail sales accelerated in January, with a jump in shopper traffic. In addition, the on-going decline in big-ticket sales slowed markedly. Some retail inventory-building occurred. At services-providing firms, revenues expanded, although to a lesser extent than in December. Survey respondents continued to hold a confident outlook for prospects over the next six months; however, their predictions were somewhat less optimistic than in December.

In service sector labor markets, retailers trimmed their payrolls. Hiring at services firms increased at a more measured pace than a month earlier.

Price growth slowed in the broad service sector, restrained by nearly flat price change at services firms. For the six months ahead, survey respondents

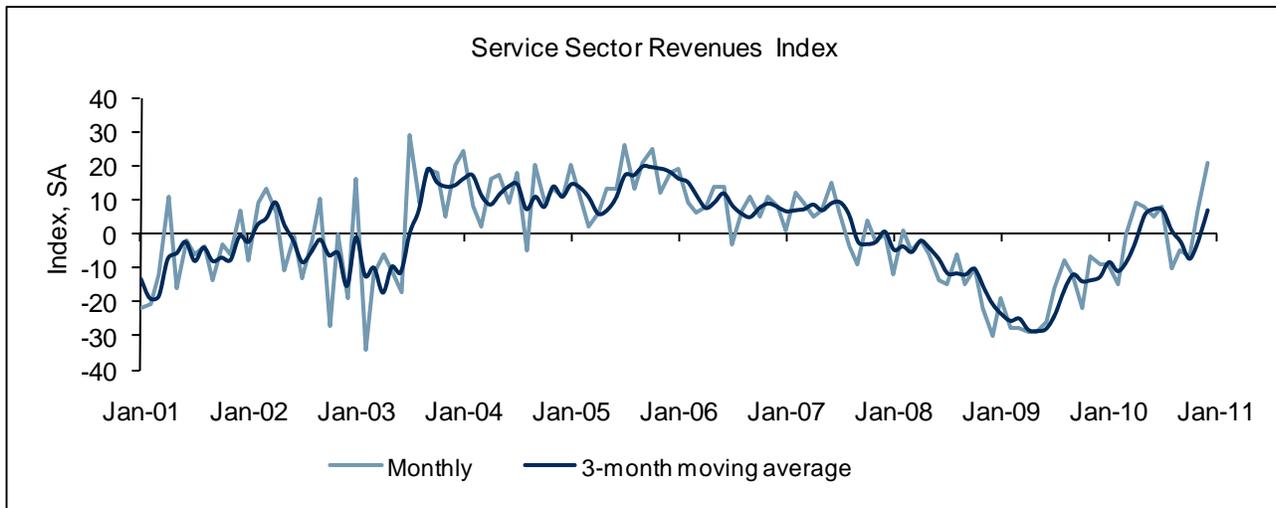
expected a pick-up in the pace of price growth compared to the current month's rate.

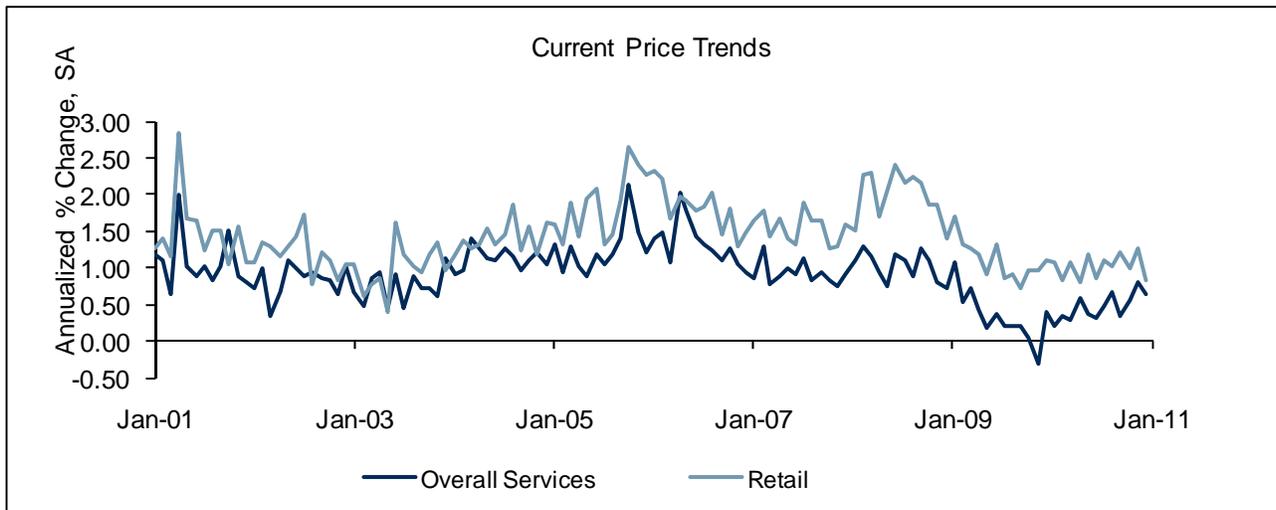
Overall Service Sector Conditions

Revenues in the overall service sector grew more slowly in January than a month earlier, held in check by slower revenue growth at services firms. The revenues index settled at 12, compared to last month's 21. Employment in the service sector also tapered off, with that index six points lower, at 9 in January. Growth in average wages nearly matched last month's, with the index at 9 compared to December's reading of 10. Looking ahead six months, survey respondents remained upbeat, but their expectations were more guarded in January than a month ago. The index shed sixteen points, ending the survey period at 10.

Retail

Retail sales intensified in January, pushing the indicator eight points above last month's reading to 33. The fall-off in big-ticket sales diminished this month, leaving the index at -9 compared to the





previous three months at -25. Shopper traffic was brisk, propelling that index to 30 from its month-ago reading of 9. Retail inventory growth was more limited than in December, with the index at 19 this month, compared to 32. Looking ahead six months, retail merchants generally expected rising sales, although their predictions were less enthusiastic than a month earlier—the expectations index slipped twenty points to 15.

Among the components of retail activity, the employment index was a weak spot, ending the survey period at -8 after settling at 0 a month ago. Average retail wage growth rose, however, bringing that index to 25 from last month's 20.

Services-Providing Firms

Revenues at services-providing firms grew more slowly in January than in December, with the index shrinking eight points to 9. The pace of hiring at services firms also slowed, softening the index nine points to 12. Growth in average wages at services firms also sagged, leaving that index at 5 after December's reading of 8. Survey respondents at services firms continued to be optimistic about business potential in the six months ahead, although their outlook was not as cheerful in January; the index retreated twelve points to 11.

Prices

Service sector price growth slowed in January to an annualized 0.36 percent pace, following December's

0.65 percent growth. Retail price change stepped up to 1.16 percent in January after its 0.84 percent pace a month ago. At services firms, prices grew at a 0.16 percent pace; in December, price change at services providers was 0.55 percent.

For the first half of this year, survey respondents anticipated that overall service sector prices would rise at a 1.23 percent rate. Separately, retailers expected price growth of 1.40 percent in the coming months. In December, the overall outlook was for 1.31 percent growth in prices and merchants predicted their prices would rise at a 1.26 percent pace. Survey respondents at non-retail services firms expected price growth of 1.22 percent in the next six months; in December, they looked for future price increases at a 1.38 percent pace.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jan-11	Dec-10	Nov-10	
Revenues	12	21	7	14
Number of Employees	9	15	1	8
Average Wage	9	10	7	9
Expected Demand ²	10	26	24	20
Retail Indicators				
Sales Revenues	33	25	-16	14
Number of Employees	-8	0	-16	-8
Average Wage	25	20	0	15
Inventories	19	32	4	19
Big-ticket Sales	-9	-25	-25	-20
Shopper Traffic	30	9	-19	7
Expected Product Demand ²	15	35	15	21
Services Firms Indicators				
Revenues	9	17	15	13
Number of employees	12	21	2	12
Average wage	5	8	10	8
Expected demand for services ²	11	23	24	19
Current Price Trends³				
Service Sector	0.36	0.65	0.80	
Retail	1.16	0.84	1.27	
Services Firms	0.16	0.55	0.67	
Expected Price Trends^{2,3}				
	Expectations			
	Jan-11	Dec-10	Nov-10	
Service Sector	1.23	1.31	1.30	
Retail	1.40	1.26	1.92	
Services Firms	1.22	1.38	1.00	

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 128 of 304 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.