

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Maintains Momentum, Retail Softens, Non-Retail Activity Remains Up

Overview

Activity in the broad service sector continued to grow in February, despite weaker conditions at retail establishments, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales slumped in February, as shopper traffic declined and big-ticket sales fell; inventories rose. Revenues grew at non-retail services firms, although slightly less rapidly than a month earlier. Looking ahead six months, survey respondents expected stronger consumer demand, although optimism among services providers was partly offset by a bleaker outlook from retailers, compared to a month ago.

Turning to service sector labor, employment rose overall in February, with both retail and non-retail sectors adding employees. Widespread growth in average retail wages continued, while average wages at services firms flattened.

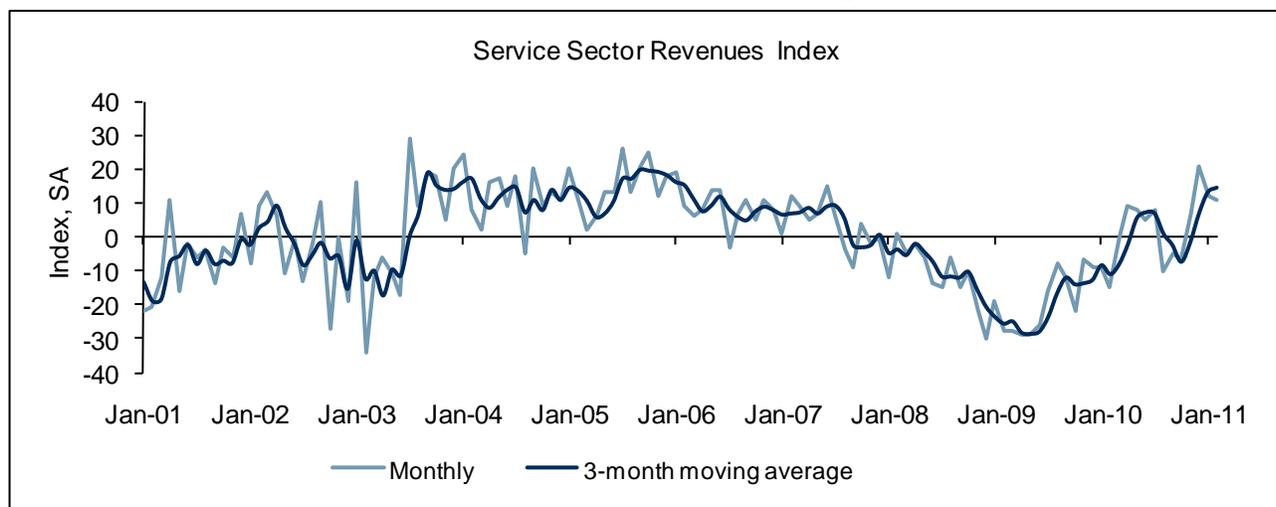
Price growth edged up slightly this month, and survey participants anticipated the pace of price growth would quicken in the six months ahead.

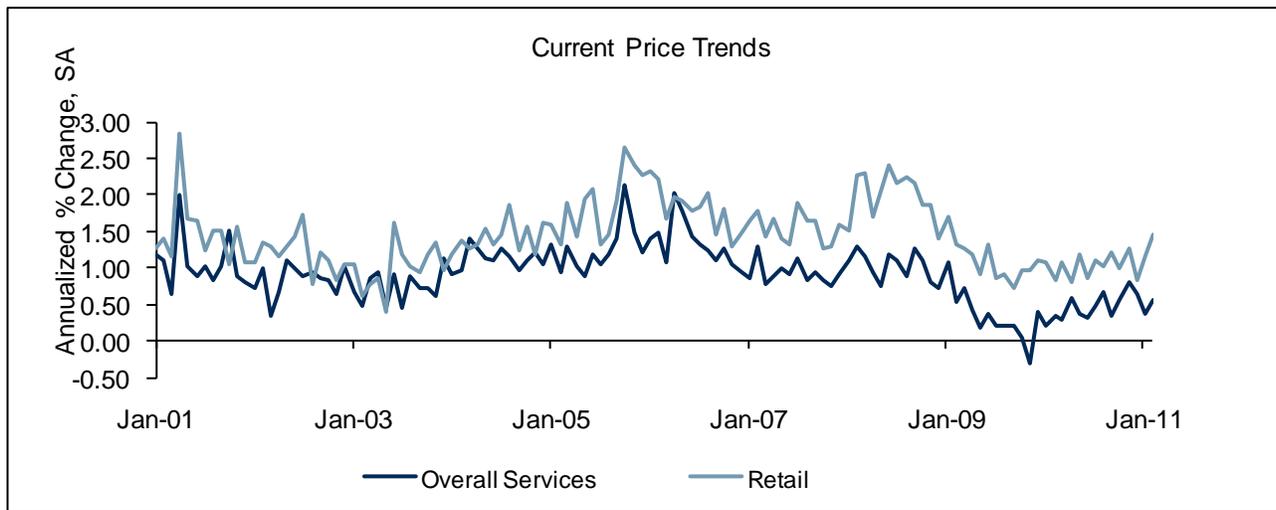
Overall Service Sector Conditions

Service sector revenues rose overall, with the index ending the survey period at 11 in February, just one point below last month's reading. However, the strength was concentrated in non-retail services firms, as retail sales weakened this month. Hiring grew in the broad service sector, with a slight gain in retail categories, for the first time since April 2007. The overall index added a point, reaching a reading of 10. Average wage growth in the sector slowed compared to last month, trimming that index by three points to 6. Survey respondents looked for stronger consumer demand for the period through August of this year, pushing the expectations index to 17 from January's reading of 10. The strengthening came from non-retail categories, however.

Retail

Retail sales weakened in February. The index fell to -12 from last month's reading of 33. A sharp drop in big-ticket sales contributed to the overall softness; the big-ticket index ended the month





twenty-eight points lower, at -37. Inventory growth nearly matched January's, with that index one point higher, at 20. Shopper traffic declined compared to last month, leaving the index thirty-nine points lower, at -9. Looking to the next six months, retailers' wariness about the business climate sank the expectations index to -31 from 15.

Retail employment made slight gains, however, with the index picking up eleven points to finish at 3. In addition, average retail wage growth remained strong, at an index of 27 in February, two points above last month's reading.

Services-Providing Firms

Activity at non-retail services firms continued to advance, although a bit more slowly than a month ago, with the revenues index slipping two points to 7 in February. Hiring also stepped down slightly, with the index for employment cropping three points to settle at 9. Average wage growth leveled off at services-providing firms, leaving that index at 1, following last month's 5. Looking ahead, survey respondents expected solid demand at services firms—the outlook index doubled from last month's reading to 22 in February.

Prices

Prices grew at an annualized 0.55 percent pace in February, ticking up from January's 0.36 rate. Separately, retail price growth moved up more

quickly, at a 1.46 percent pace, compared to 1.16 percent in January. At services firms, price change picked up slightly, to a 0.41 percent pace, after last month's 0.16 percent growth rate.

For the six months ahead, survey respondents expected overall service sector prices to accelerate to a 1.56 percent rate; a month ago, their outlook was for 1.23 percent price growth across the service sector. Within the service sector, retailers predicted price growth of 1.78 percent during the next six months, compared to their expectation last month for 1.40 percent growth in prices. Non-retail services providers anticipated their prices would grow at a 1.54 percent clip during the next six months; in January, they looked for a 1.22 percent rate of growth.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Feb-11	Jan-11	Dec-10	
Revenues	11	12	21	15
Number of Employees	10	9	15	11
Average Wage	6	9	10	8
Expected Demand ²	17	10	26	17
Retail Indicators				
Sales Revenues	-12	33	25	16
Number of Employees	3	-8	0	-2
Average Wage	27	25	20	24
Inventories	20	19	32	24
Big-ticket Sales	-37	-9	-25	-24
Shopper Traffic	-9	30	9	10
Expected Product Demand ²	-31	15	35	6
Services Firms Indicators				
Revenues	7	9	17	11
Number of employees	9	12	21	14
Average wage	1	5	8	5
Expected demand for services ²	22	11	23	19
Current Price Trends³				
Service Sector	0.55	0.36	0.65	
Retail	1.46	1.16	0.84	
Services Firms	0.41	0.16	0.55	
Expected Price Trends^{2,3}				
	Expectations			
	Feb-11	Jan-11	Dec-10	
Service Sector	1.56	1.23	1.31	
Retail	1.78	1.40	1.26	
Services Firms	1.54	1.22	1.38	

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 126 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.