

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Edges Up; Non-Retail Strengthens, Retail Remains Lackluster

Overview

Activity in the broad service sector picked up in March, pushed by gains at non-retail firms, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales activity remained soft, with continued weakness in big-ticket sales. Shopper traffic flattened and retail inventories dipped compared to a month earlier. In contrast, revenues climbed sharply at non-retail services firms. Overall, survey respondents expected business to strengthen during the next six months.

In service sector labor markets, the report was mixed; retailers reduced payrolls and services firms added new employees. Average wage growth intensified, particularly at services-providing firms.

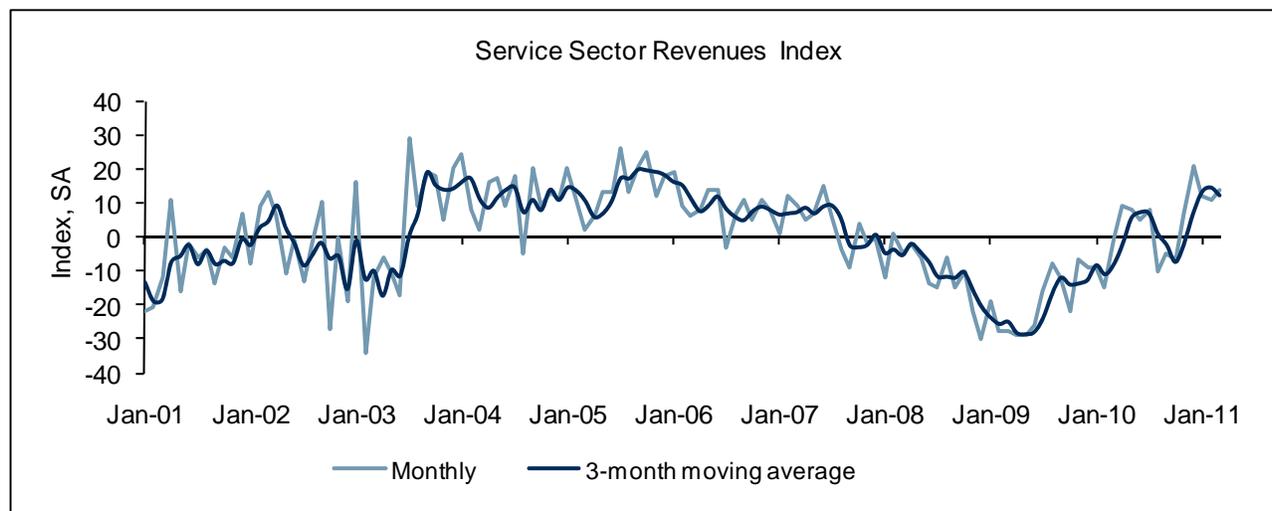
Price growth inched up in March and survey respondents anticipated somewhat faster increases during the six months ahead. However, their outlook was little changed from last month's prediction.

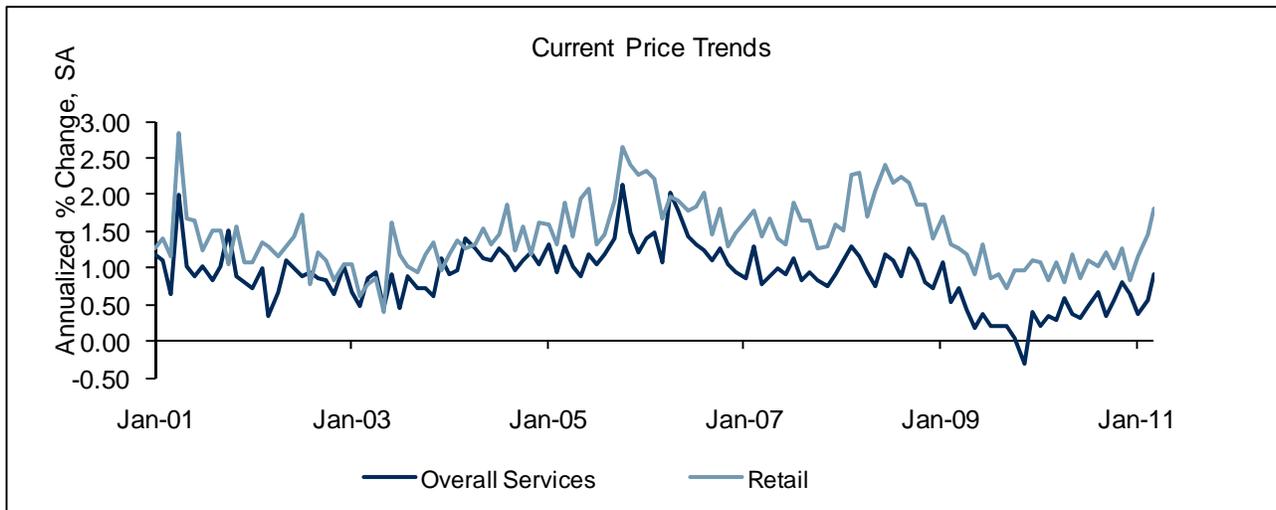
Overall Service Sector Conditions

Overall service sector revenues grew in March, although the increase was diluted by continued weakness in retail sales. The revenues index rose to 14 from February's 11. Hiring was more widespread at services firms, while retailers made cuts this month. The index for the number of employees shed two points to settle at 8. Average wage increases prevailed in March, with the index picking up four points to end the survey period at 10. Survey respondents expected stronger sales during the next six months, with that index jumping six points to 23.

Retail

Retail sales were anemic in March, with the index staying at -12 for a second month. Separately, big-ticket sales also remained down; at a reading of -33, that index changed only slightly from last month's -37. Shopper traffic nearly flattened, bringing the index up 10 points to 1 in March. Retail inventories declined, with the index falling 26





points to -6. Merchants predicted sales would remain weak, but their outlook was much-improved from a month ago. The expectations index picked up 19 points to reach -12 in March.

Employment in the retail sector pulled back in March as merchants cut jobs, leaving the index at -7 following February's 3. Average retail wages moved ahead with less gusto than a month earlier—that index retreated 17 points to a reading of 10.

Services-Providing Firms

Activity at non-retail services firms strengthened in March, with the index for revenues jumping to 21 from February's 7. In addition, a greater percentage of services providers were hiring, bringing that index to 12 from its reading of 9 a month earlier. Average wages also grew solidly in March, building the index up by 10 points to 11. Survey respondents at services firms were confident about business during the next six months—the index for expectations rose fifteen points to 37 in March.

Prices

Service sector price growth accelerated in March, to an annualized 0.92 percent pace, compared to February's 0.55 percent rate. Retail merchants' prices picked up at a 1.81 percent rate after rising at a 1.46 percent rate last month. At services

firms, the pace was 0.69 percent, following a 0.41 percent rate of growth a month earlier.

For the six months ahead, survey respondents looked for price growth in the overall service sector to be 1.50 percent, somewhat slower than their outlook for 1.56 percent a month ago. Retailers anticipated 1.84 percent price growth, whereas a month earlier, they looked for 1.78 percent. Non-retail services providers expected price growth of 1.44 percent for the six months ahead; last month, they predicted a 1.54 percent rate.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Mar-11	Feb-11	Jan-11	
Revenues	14	11	12	12
Number of Employees	8	10	9	9
Average Wage	10	6	9	8
Expected Demand ²	23	17	10	16
Retail Indicators				
Sales Revenues	-12	-12	33	3
Number of Employees	-7	3	-8	-4
Average Wage	10	27	25	21
Inventories	-6	20	19	11
Big-ticket Sales	-33	-37	-9	-26
Shopper Traffic	1	-9	30	7
Expected Product Demand ²	-12	-31	15	-9
Services Firms Indicators				
Revenues	21	7	9	12
Number of employees	12	9	12	11
Average wage	11	1	5	5
Expected demand for services ²	37	22	11	24
Current Price Trends³				
Service Sector	0.92	0.55	0.36	
Retail	1.81	1.46	1.16	
Services Firms	0.69	0.41	0.16	
Expected Price Trends^{2,3}				
	Expectations			
	Mar-11	Feb-11	Jan-11	
Service Sector	1.50	1.56	1.23	
Retail	1.84	1.78	1.40	
Services Firms	1.44	1.54	1.22	

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 92 of 320 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.