

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Strengthens: Retail Revenues Rise; Services Firms Make Gains

Overview

Service sector activity picked up in April, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales rebounded and shopper traffic increased compared to a month earlier, although big-ticket sales remained down. Revenues also strengthened at non-retail services firms. In addition, survey respondents at retail and non-retail service sector businesses were upbeat in their outlook for business in the six months ahead.

On the labor front, the number of employees grew more rapidly at services-providing firms in April, while retail merchants made more payroll cuts. Average retail wages were nearly flat; at services firms, average wages picked up this month.

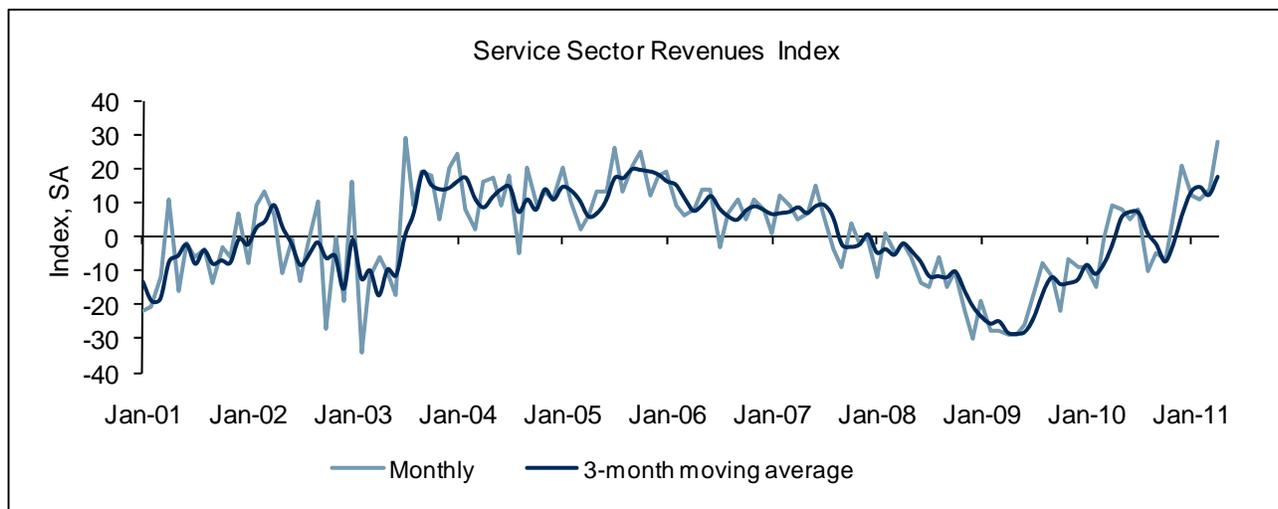
Price change was moderate, with the overall rate of increase slightly quicker in April than in March. Separately, retailers' prices slowed, while services providers indicated prices rose more rapidly. Survey participants looked for a small uptick in the pace of price increases during the next six months.

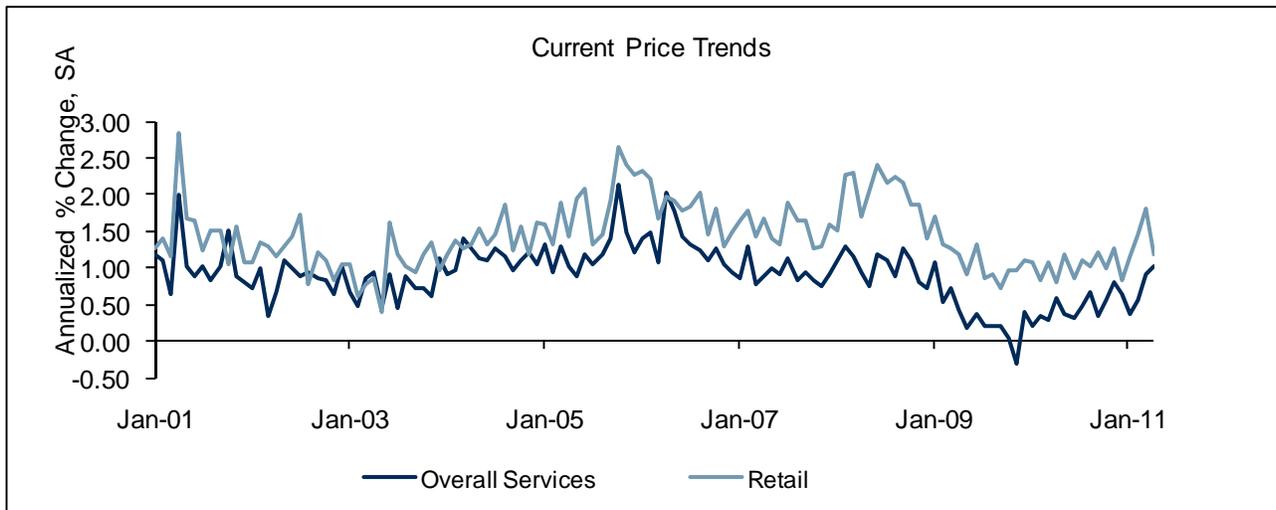
Overall Service Sector Conditions

Revenues in the broad service sector bounced up in April, doubling last month's index to 28 in April. The index for the number of employees added four points to finish the period at a reading of 12, as strength in non-retail hiring overshadowed cuts at retail establishments. Average wages rose, with that index remaining at 10 for a second month. Looking ahead six months, survey respondents were optimistic about expected demand; the index climbed fourteen points from the March reading to 37.

Retail

Retail sales jumped up in April, pushing the index thirty-six points above the March index to 24. Shopper traffic also rose sharply, driving that index to 34 from the month-ago reading of 1. Big-ticket sales remained soft, however. The index picked up two points to finish the period at -31. Retail inventories leveled off, with the index at -1, compared to -6 last month. Retailers anticipated





continuing growth in sales during the next six months; the expectations index advanced thirty-three points to 21.

Retail employment remained slack, however. Merchants reduced the number of employees sharply in April, pulling the index to -17 from last month's -7. The index for average retail wages dipped to -2 from its month-ago reading of 10.

Services-Providing Firms

Revenues at non-retail firms grew solidly in April, with the index adding five points to end at 26. In addition, services providers expanded hiring, increasing the index for the number of employees to 22 from 12. Average wages also picked up momentum; the index rose to 15 from last month's 11. Survey respondents at services firms expected strong sales in the next six months. The index for expected demand gained six points, finishing at 43.

Prices

Service sector price growth inched up in April at an annualized rate of 1.02 percent. This follows a 0.92 percent increase in March. Retail prices increased at a somewhat slower annual pace of 1.17 percent, compared to last month's 1.81 percent. Price change at services firms picked up to a 1.01 percent rate; in March, services providers' prices rose at an annualized 0.69 percent pace.

Looking ahead six months, survey respondents predicted that prices would increase at a 1.61 percent pace overall, compared to their outlook of 1.50 percent in March. Retailers looked for slightly slower price growth than they had expected last month – a 1.70 percent rate versus March's outlook for 1.84 percent. Non-retail services providers anticipated prices would rise at a 1.56 percent rate over the next six months, slightly faster than their prediction of 1.44 percent a month ago.

Contact

Aileen Watson

Senior Economic Analyst
Research Dept./Regional Economics
Federal Reserve Bank of Richmond
Richmond Office

Ph: 804.697.7995 • Fax: 804.697.8123
aileen.watson@rich.frb.org
www.richmondfed.org

Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Apr-11	Mar-11	Feb-11	
Revenues	28	14	11	18
Number of Employees	12	8	10	10
Average Wage	10	10	6	9
Expected Demand ²	37	23	17	25
Retail Indicators				
Sales Revenues	24	-12	-12	0
Number of Employees	-17	-7	3	-7
Average Wage	-2	10	27	12
Inventories	-1	-6	20	4
Big-ticket Sales	-31	-33	-37	-34
Shopper Traffic	34	1	-9	9
Expected Product Demand ²	21	-12	-31	-7
Services Firms Indicators				
Revenues	26	21	7	18
Number of employees	22	12	9	15
Average wage	15	11	1	9
Expected demand for services ²	43	37	22	34
Current Price Trends³				
Service Sector	1.02	0.92	0.55	
Retail	1.17	1.81	1.46	
Services Firms	1.01	0.69	0.41	
Expected Price Trends^{2,3}				
Expectations				
	Apr-11	Mar-11	Feb-11	
Service Sector	1.61	1.50	1.56	
Retail	1.70	1.84	1.78	
Services Firms	1.56	1.44	1.54	

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 86 of 266 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.