

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Slowed in May; Hiring and Wages Remained Strong at Non-Retail Firms, and Leveled off at Retail Businesses

Overview

Service sector activity slowed in May, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales dwindled as shopper traffic dropped sharply; big ticket sales remained in decline. Revenues also weakened at non-retail services firms. Looking ahead six months, retail merchants pulled back from their optimism of a month ago. Non-retail services providers maintained a positive outlook, but were less upbeat than in April.

In service sector labor markets, retailers made few changes, while hiring rose solidly at non-retail firms, albeit more slowly than a month earlier. Average wages were nearly unchanged at retail establishments, but spiked at services firms.

Price change in the sector was contained; retail price growth remained at last month's pace, while services firms' prices advanced a bit more slowly in May. Services providers' expectations for price change in the months ahead moderated from their outlook of a

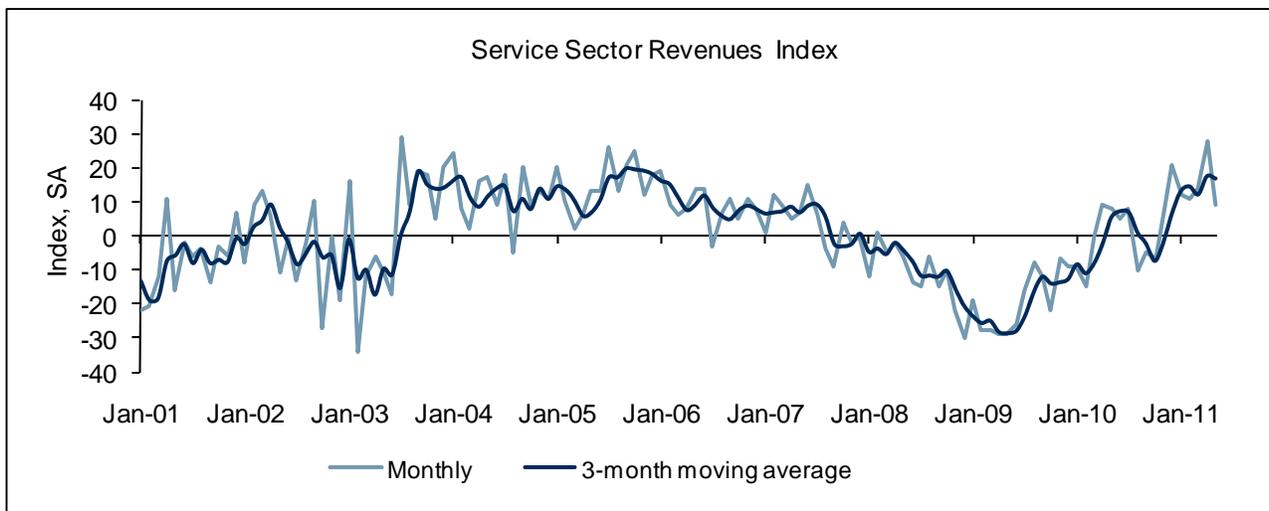
month ago, while merchants anticipated an uptick from their previous estimates.

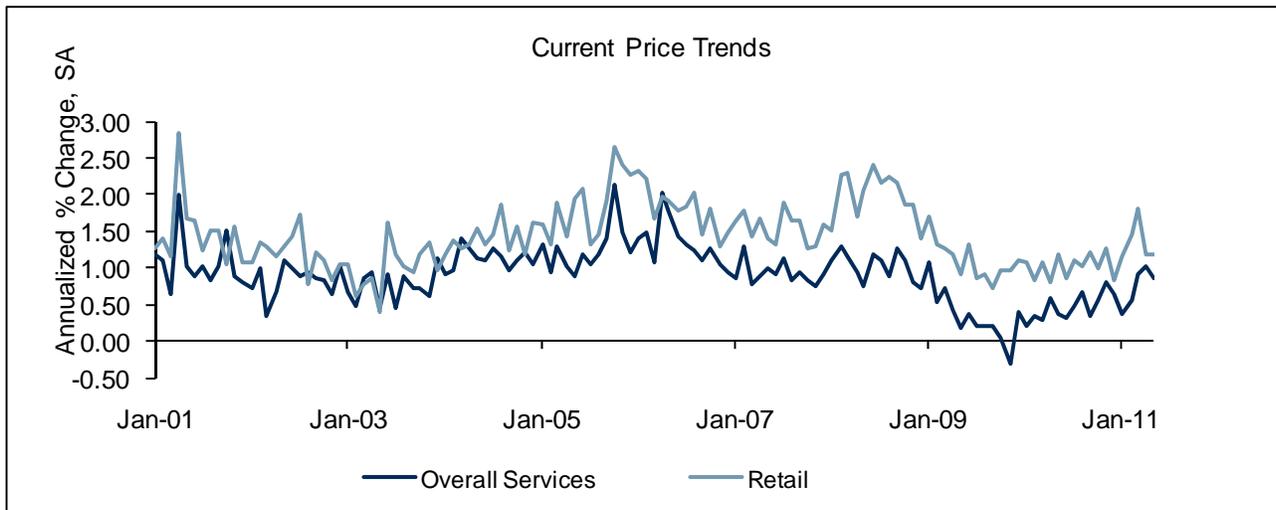
Overall Service Sector Conditions

Service sector revenues softened in May, pulling the index to 9 from 28. Hiring flattened at retail establishments and grew at services firms, holding the overall index for the number of employees at 12 for a second month. Average wages rose, led by a jump at non-retail services firms. The average wage index gained twelve points, finishing the survey period at 22. Survey respondents anticipated improved business opportunities in the six months ahead, although their outlook moderated from last month's exuberance. The expectations index shed seventeen points to settle at 20.

Retail

Retail sales cooled in May, as shopper traffic fell sharply. The revenues index slashed twenty-one points from last month's reading, ending the survey





period at 3. The index for shopper traffic plummeted from 34 to -29 in May. In addition, falling big-ticket sales remained a drag on overall sales revenues. The big-ticket index faltered once again, finishing at -27, compared to April's -31. Retailers kept inventories tight, with that index dropping two points to a reading of -3. Looking to the next six months, merchants anticipated weaker sales opportunities; the expectations index lost twenty-five points in May, ending at -4.

Retail employment leveled off this month, with the index for the number of employees settling at 1, following April's reading of -17. Average retail wages remained virtually flat, with that index at -1, just one point lower than a month ago.

Services-Providing Firms

Revenues at non-retail firms slowed markedly in May, pulling the index to 9 from 26. Services providers continued hiring, although increases were less widespread—the index for the number of employees softened to 14 from April's 22. Average wages in the non-retail services sector picked up sharply, however, driving the index to 29 from 15. Survey respondents remained optimistic about potential for business in the next six months, although their expectations were more restrained than a month earlier. The index for expected demand weakened eighteen points to 25.

Prices

Service sector price change slowed slightly in May, to an annualized 0.85 percent rate, compared to 1.02 in April. Retailer's prices advanced at a 1.17 percent pace, matching last month's rise. Price change at services firms notched down to 0.85 percent, following April's 1.01 percent rate.

Survey respondents expected slightly slower price growth in the broad service sector during the next six months; their outlook was for price growth of 1.43 percent in May, compared to expectations of 1.61 percent in April. However, within the sector, retailers looked for a 1.94 percent growth rate over the next six months, compared to last month's expectation of 1.70 percent. Services providers anticipated a rate of 1.32 percent in the coming months, whereas a month ago they looked for 1.56 percent.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	May-11	Apr-11	Mar-11	
Revenues	9	28	14	17
Number of Employees	12	12	8	11
Average Wage	22	10	10	14
Expected Demand ²	20	37	23	26
Retail Indicators				
Sales Revenues	3	24	-12	5
Number of Employees	1	-17	-7	-8
Average Wage	-1	-2	10	2
Inventories	-3	-1	-6	-3
Big-ticket Sales	-27	-31	-33	-30
Shopper Traffic	-29	34	1	2
Expected Product Demand ²	-4	21	-12	2
Services Firms Indicators				
Revenues	9	26	21	19
Number of employees	14	22	12	16
Average wage	29	15	11	18
Expected demand for services ²	25	43	37	35
Current Price Trends³				
Service Sector	0.85	1.02	0.92	
Retail	1.17	1.17	1.81	
Services Firms	0.85	1.01	0.69	
Expected Price Trends^{2,3}				
	Expectations			
	May-11	Apr-11	Mar-11	
Service Sector	1.43	1.61	1.50	
Retail	1.94	1.70	1.84	
Services Firms	1.32	1.56	1.44	

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 88 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.