

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Revenues Weaken Across the Service Sector; Retail Activity Slows Despite Uptick in Shopper Traffic*

### Overview

The latest survey by the Federal Reserve Bank of Richmond showed a slowdown in service sector activity. Retail sales dipped overall and big-ticket sales suffered another drop, despite an uptick in shopper traffic. Inventories declined in June, according to retail merchants. Non-retail services providers' revenues also decelerated. Looking ahead six months, retailers expected the weakness would persist, while contacts at services firms remained optimistic.

Turning to labor, retail hiring flattened and average retail wages fell in June. Hiring at services firms was also nearly flat. Average wages at non-retail establishments rose only slightly compared to a month ago.

Price change in the broad service sector almost matched May's pace. Within the sector, prices climbed more rapidly at retail businesses, but the pace slowed somewhat at services firms. For the six months ahead, survey respondents at retail

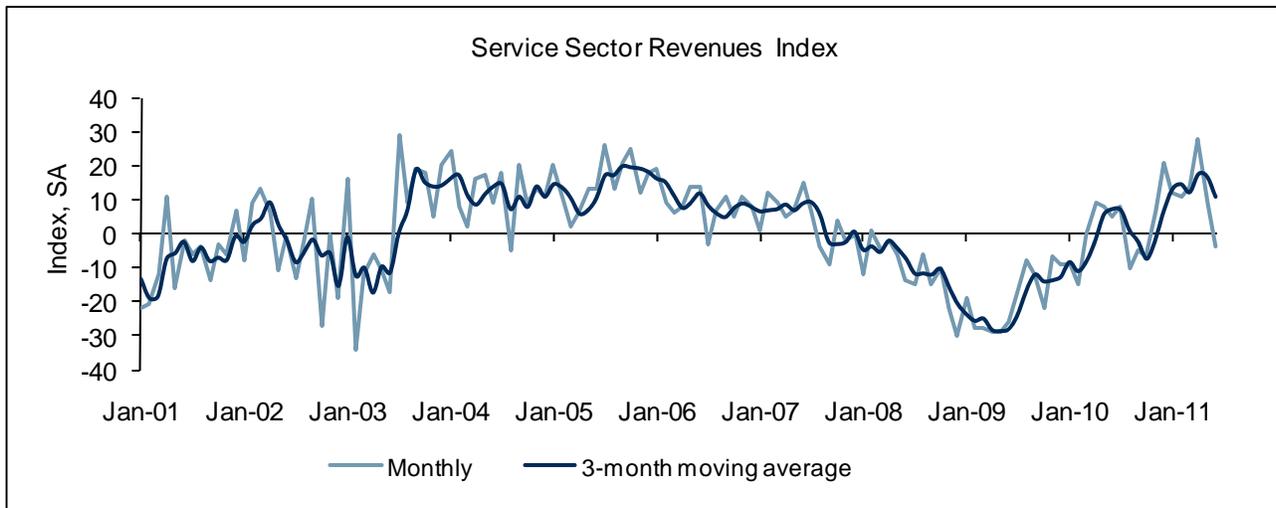
and non-retail services firms anticipated prices would advance more quickly than they had expected in May.

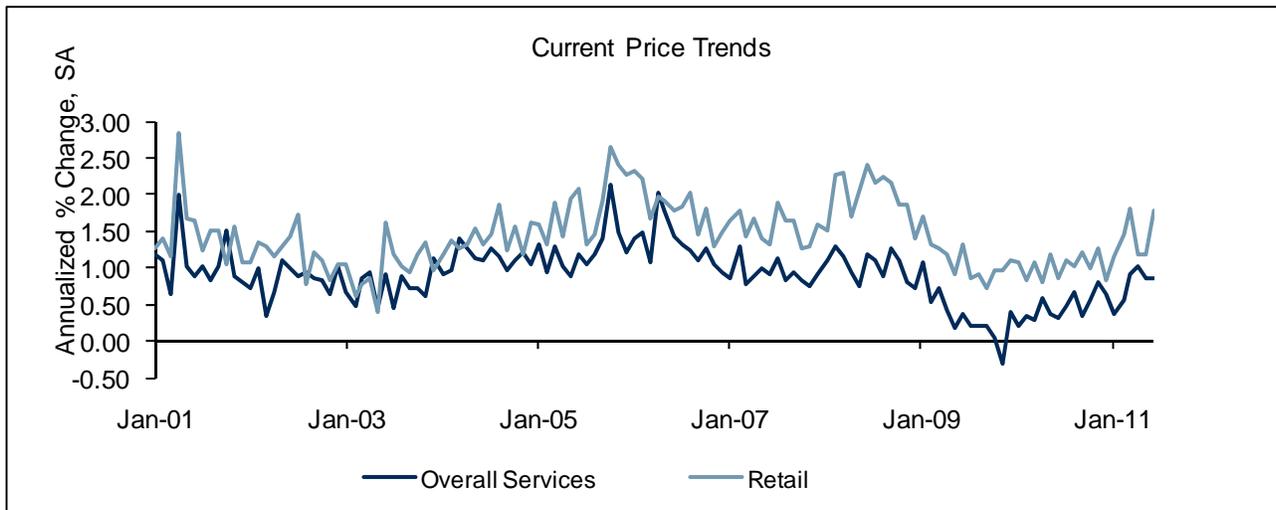
### Overall Service Sector Conditions

Revenues in the overall service sector weakened in June, pulling the index to -4 from its previous reading of 9. Growth in the number of employees slowed, with average wage growth in the sector flattening this month. The index for the number of employees lost six points to settle at 3, and the average wage index skidded to 0 from May's reading of 22. Following last month's softer optimism for future sales, survey participants withdrew further in June, causing the index for expected demand to fall to 14 from 20.

### Retail

Retail sales declined slightly in June, pulling the index into negative territory. The revenues index dropped to -2 from its month-earlier reading of 3. Shopper traffic edged up this month, perhaps





contributing to the drawdown in inventories, but big-ticket sales remained in the doldrums. The index for shopper traffic jumped from -29 to 4 in June and the index for inventories fell nine points to finish at -12. The big-ticket index persisted at -27 for a second month. Merchants expected lackluster sales prospects through the summer and into autumn; the index for expected demand during the next six months remained at its month ago reading of -4.

District retail employment had no movement in June, with a reading of 0 after May's index of 1. Average retail wages declined, pulling the index seven points lower, to -8.

### Services-Providing Firms

Revenues dropped at non-retail services firms in June, lopping seventeen points from the index, to end the survey period at -8. Hiring at services-providing firms also weakened this month, with that index sliding to -1 from its month-ago reading of 14. Growth in average wages at services firms faded, softening the index to 6 from 29.

Looking ahead six months, services providers were less enthusiastic about business prospects than they were in May, with that index losing seven points. However, they continued to expect solid growth; the expectations index finished at 18.

### Prices

Service sector price change in June remained nearly on pace, reaching an annualized 0.87 percent rate this month compared to 0.85 percent in May. Within the sector, retail price change picked up to a 1.79 percent pace following May's 1.17 percent. Price change at non-retail services firms moderated to 0.66 percent from 0.85 percent.

For the six months ahead, survey respondents anticipated price acceleration across the board. Overall, they expected price change at a 1.60 percent pace, compared with May's outlook for 1.43 percent. Retailers looked for 2.03 percent growth in prices, while services providers anticipated 1.52 percent. In May, the expectation was for price change of 1.94 percent and 1.32 percent, respectively.

### Contact

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Business Activity Indexes <sup>1,4</sup>				
Service Sector Indicators	Current Conditions			3-Month Average
	Jun-11	May-11	Apr-11	
Revenues	-4	9	28	11
Number of Employees	3	12	12	9
Average Wage	0	22	10	11
Expected Demand <sup>2</sup>	14	20	37	24
Retail Indicators				
Sales Revenues	-2	3	24	8
Number of Employees	0	1	-17	-5
Average Wage	-8	-1	-2	-4
Inventories	-12	-3	-1	-5
Big-ticket Sales	-27	-27	-31	-28
Shopper Traffic	4	-29	34	3
Expected Product Demand <sup>2</sup>	-4	-4	21	4
Services Firms Indicators				
Revenues	-8	9	26	9
Number of employees	-1	14	22	12
Average wage	6	29	15	17
Expected demand for services <sup>2</sup>	18	25	43	29
Current Price Trends <sup>3</sup>				
Service Sector	0.87	0.85	1.02	
Retail	1.79	1.17	1.17	
Services Firms	0.66	0.85	1.01	
Expected Price Trends <sup>2,3</sup>				
	Expectations			
	Jun-11	May-11	Apr-11	
Service Sector	1.60	1.43	1.61	
Retail	2.03	1.94	1.70	
Services Firms	1.52	1.32	1.56	

**Technical Notes:**

- <sup>1</sup> 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 96 of 266 firms surveyed
- <sup>2</sup> Expectations refer to the time period six months out from the survey period.
- <sup>3</sup> Price changes are expressed as percent change, annualized.
- <sup>4</sup> 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.