

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Picks Up; Revenues and Average Wages Strengthen

Overview

Service sector activity picked up in July, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales rose sharply, despite lagging big-ticket sales and weaker shopper traffic. Retail inventories dropped. Non-retail services firms also reported stronger revenues this month. Looking ahead, survey participants expected stronger demand for goods and services through the end of the 2011 holiday season.

Hiring in the broad service sector was flat, as retailers added employees at a faster pace, while hiring slackened at non-retail services providing firms. Growth in average wages prevailed across the board.

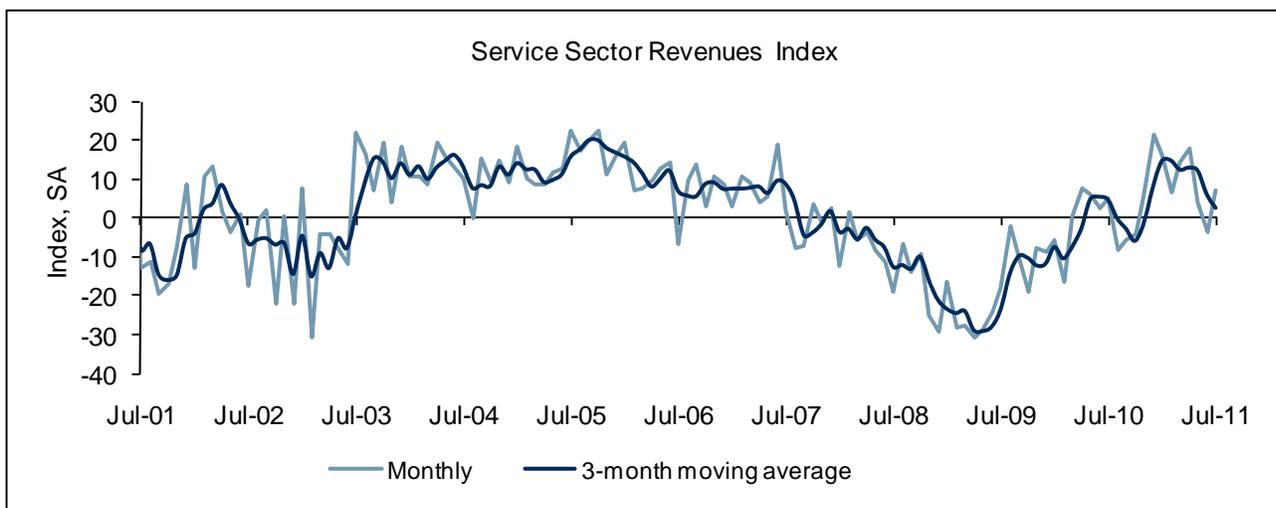
Price changes in the broad service sector slowed compared to a month ago, with most of the change coming from slower retail price increases. For the six months ahead, survey respondents expected prices to accelerate from the July pace.

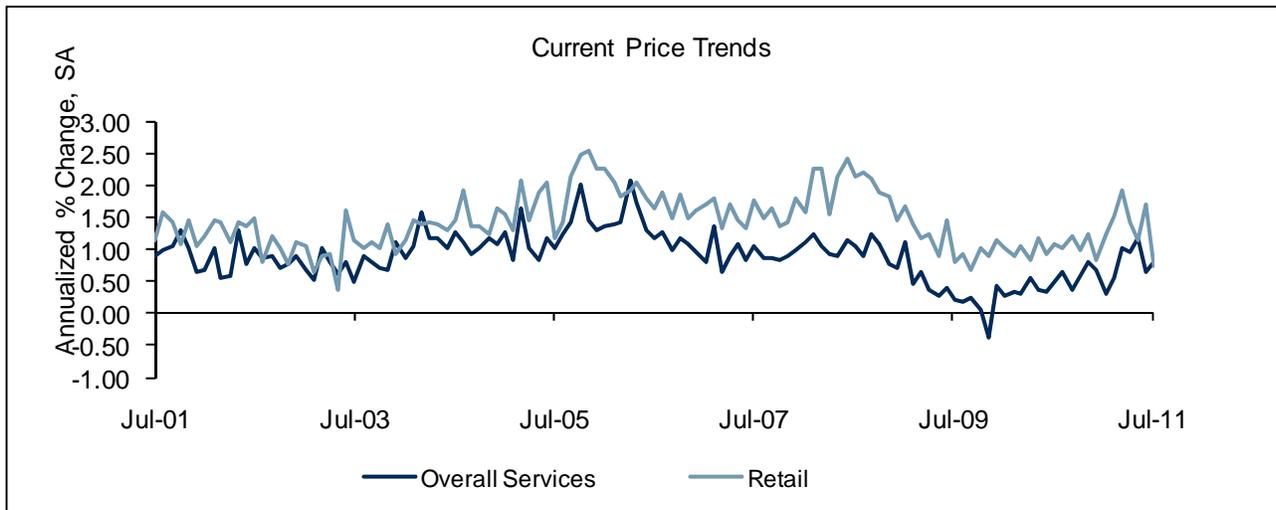
Overall Service Sector Conditions

Service sector revenue growth broadened in July, with the index rising to 7 from June's reading of -4. Employment in the sector was flat, at an index of 0, while average wage growth gained momentum, pushing that index to 12. The indexes for June were -2 and 2, respectively. Looking ahead, survey participants expected customer demand to further improve, with the index rising to 23 from the June's 12.

Retail

Retail sales rose sharply this month, climbing back into positive territory to an index of 11. June's index reading was -21. Shopper traffic weakened in July; the index stood at -11, ten points lower than a month ago. Big-ticket sales were also softer. Although the index gained sixteen points from the June reading, it remained negative at a reading of -25. Merchants anticipated a better business climate for the six months ahead — the index for expected demand rose twenty-three points from the previous month to settle at 3.





Retailers began to hire again in July, bringing that index to 6 from -16. In addition, average retail wages rose, with the index jumping thirty-five points to 17 this month.

Services-Providing Firms

Revenues also gained ground at non-retail services firms in July. The index tacked on six points, finishing the survey period at 6. However, services providers cut their payrolls, pulling the employment index to -4 from June’s reading of 2. Average wages advanced more quickly at services firms this month, with the index up three points to 12.

Looking ahead six months, services providers had a brighter outlook than they held in June. The index for expected demand climbed nine points to 27.

Prices

In July, service sector price change accelerated mildly to an annualized 0.79 percent overall, compared to June’s 0.66 percent. Within the sector, retail price change slowed to a 0.75 percent rate following June’s 1.70 percent pace. In the non-retail service sector, prices increased at a 0.86 percent clip in July; a month earlier, that pace was 0.44 percent. For the six months ahead, survey respondents looked for price growth at an overall 1.34 percent pace, following their June expectation for a 1.22 percent rate of increase.

Retailers anticipated price growth of 1.20 percent through the end of the year, while non-retail services providers expected a 1.40 percent pace. A month ago, their expectations were for 2.03 percent and 1.08 percent.

(Note: Seasonal adjustment factors were recalculated this month and applied to historical data to better reflect current economic trends. Comparisons to last month’s indexes are made to the revised June indexes. New factors will be calculated annually.)

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^{1,4,5}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jul-11	Jun-11	May-11	
Revenues	7	-4	4	3
Number of Employees	0	-2	16	5
Average Wage	12	2	23	12
Expected Demand ²	23	12	21	19
Retail Indicators				
Sales Revenues	11	-21	12	1
Number of Employees	6	-16	7	-1
Average Wage	17	-18	-3	-1
Inventories	-21	-26	-2	-16
Big-ticket Sales	-25	-41	-40	-35
Shopper Traffic	-11	-1	-25	-12
Expected Product Demand ²	3	-20	-8	-8
Services Firms Indicators				
Revenues	6	0	4	3
Number of employees	-4	2	20	6
Average wage	12	9	31	17
Expected demand for services ²	27	18	29	25
Current Price Trends³				
Service Sector	0.79	0.66	1.18	
Retail	0.75	1.70	1.14	
Services Firms	0.86	0.44	1.28	
Expected Price Trends^{2,3}				
	Expectations			
	Jul-11	Jun-11	May-11	
Service Sector	1.34	1.22	1.71	
Retail	1.20	2.03	1.94	
Services Firms	1.40	1.08	1.61	

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 103 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.
- ⁵ This table includes recalculation of seasonal adjustment factors to better reflect current economic trends. New factors will be calculated annually.