

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Employment Weakens; Retail Activity Slumps

Overview

Service Sector activity retreated in August, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales fell, as shopper traffic declined and big-ticket sales dropped. Retail inventories inched up. Revenues at non-retail services firms also edged higher, compared to July. Retailers had a bleak outlook for sales in the six months ahead, while survey participants at non-retail firms were mildly optimistic about demand for their services.

The number of employees in the service sector dipped as retailers and non-retail services providers trimmed their payrolls. Average wage growth was little changed at retail establishments; wage growth slowed at services providers.

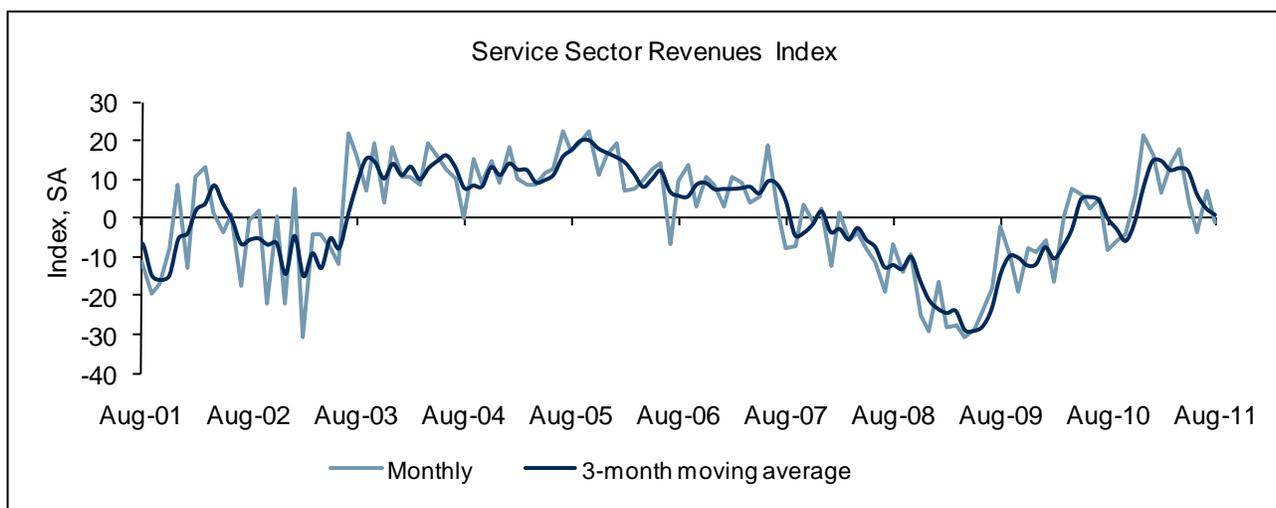
Price increases picked up somewhat in August, and survey respondents anticipated a slightly faster pace in the six months ahead, with most of the escalation coming from retailers.

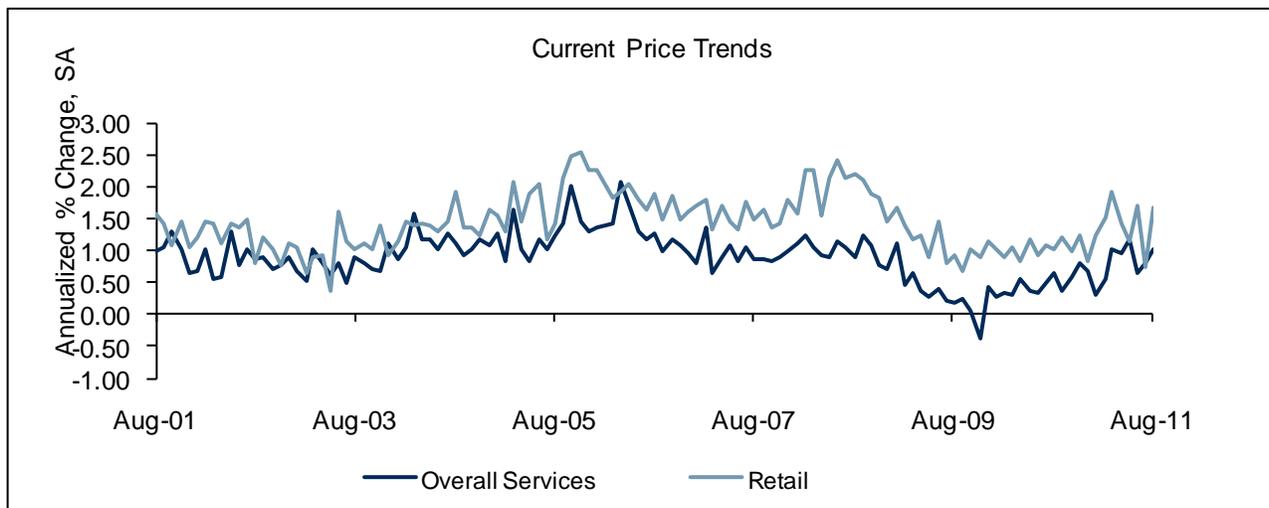
Overall Service Sector Conditions

Revenues in the broad service sector nearly flattened in August, as retail sales pulled back compared to a month ago, while revenues at services providing firms picked up. The overall index settled eight points below last month, at -1. Employment in the sector also lost ground, with that index slipping to -5 from July's reading of 0. Average wages grew more slowing, reducing that index by five points to 7. The index for expected demand during the next six months remained barely positive, at 3 compared to the previous index of 23.

Retail

Retail sales plummeted this month, pulling the index to -32 following July's reading of 11. The index for big-ticket sales slipped lower by fifteen points, reaching -40 in August. In addition, shopper traffic continued to withdraw, keeping the index at -11 for a second month. Retailers reversed their outlook for sales in the next six months, driving the expectations index to -23 from 3 a month earlier.





Merchants cut employees this month, dropping the index for the number of employees to -8 from July's 6. In addition, retail wages leveled off to an index of 2 following July's 17.

next six months, while non-retail services providers expected a 1.39 percent pace. A month ago, retailers expected a 1.20 percent rate of increase and services providers anticipated price acceleration of 1.40 percent.

Services-Providing Firms

Revenues picked up the pace at non-retail firms, moving the index to 10 in August from 6 a month earlier. The modest improvement in revenues did not spur hiring, however; that index settled at -3, only one point above last month's reading. Average wages in the non-retail subsector grew a bit more slowly than a month ago, drawing the index to 8 compared to July's 12.

Although services providers maintained a positive outlook, the expectations index cooled twenty points, ending the survey period at 7.

Prices

Price change in August sped up slightly, with overall service sector price acceleration at an annualized 1.03 percent rate in August; last month's rate was 0.79 percent. Retail price growth moved ahead at a 1.66 percent clip, following July's 0.75 percent pace. At services firms, the pace edged up to 0.93 percent compared to 0.86 percent a month ago. For the six months ahead, survey respondents looked for price change of 1.48 percent; in July, their outlook was for 1.34 percent. Separately, retail merchants looked for prices to increase at a 2.08 percent rate during the

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Aug-11	Jul-11	Jun-11	
Revenues	-1	7	-4	1
Number of Employees	-5	0	-2	-2
Average Wage	7	12	2	7
Expected Demand ²	3	23	12	13
Retail Indicators				
Sales Revenues	-32	11	-21	-14
Number of Employees	-8	6	-16	-6
Average Wage	2	17	-18	0
Inventories	3	-21	-26	-15
Big-ticket Sales	-40	-25	-41	-35
Shopper Traffic	-11	-11	-1	-8
Expected Product Demand ²	-23	3	-20	-13
Services Firms Indicators				
Revenues	10	6	0	5
Number of employees	-3	-4	2	-1
Average wage	8	12	9	10
Expected demand for services ²	7	27	18	18
Current Price Trends³				
Service Sector	1.03	0.79	0.66	
Retail	1.66	0.75	1.70	
Services Firms	0.93	0.86	0.44	
Expected Price Trends^{2,3}				
Expectations				
	Aug-11	Jul-11	Jun-11	
Service Sector	1.48	1.34	1.22	
Retail	2.08	1.20	2.03	
Services Firms	1.39	1.40	1.08	

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 116 of 311 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.

