

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Weakens; Retail and Non-Retail Revenues Decline

Overview

Service sector activity weakened in September, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues dropped at both retail and non-retail establishments. Retail shopper traffic fell, and big-ticket sales also ended the month in decline. Merchants' inventories edged up on pace with a month ago. Retailers expected sales to remain weak for the six months ahead, and non-retail services providers anticipated flattening in business prospects over that period.

In service sector employment, the number of employees changed little this month, while average wages grew modestly.

Price growth slowed slightly in September. Survey respondents looked for the pace to accelerate during the next six months, though by a bit less than their outlook of a month earlier.

Overall Service Sector Conditions

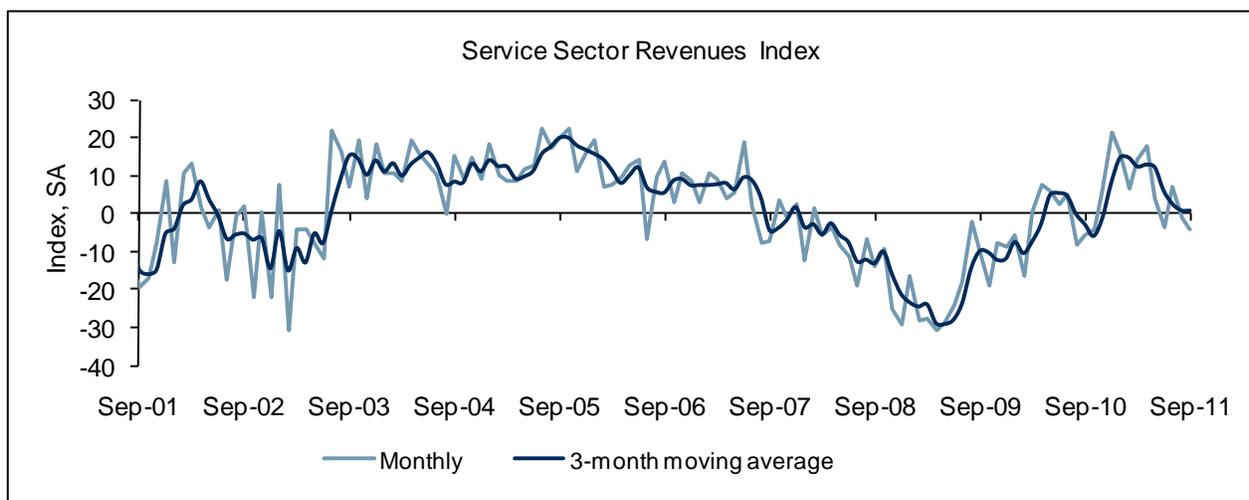
This month, services providers joined retailers in indicating that revenues weakened, pulling the overall revenues index to -4 from the August

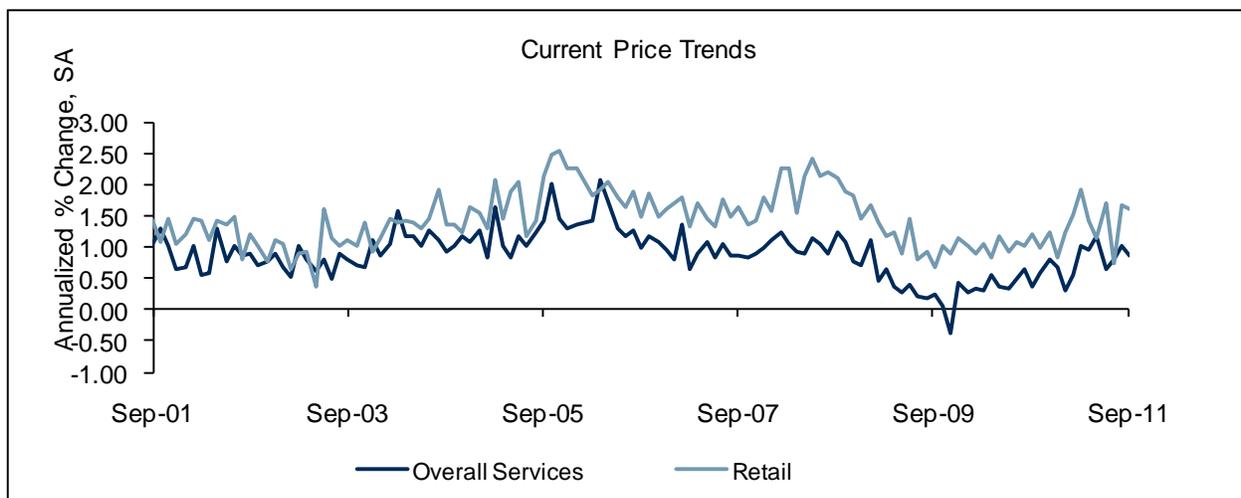
reading of -1. The index for the number of employees in the sector was nearly flat, finishing the survey period at -2 after last month's reading of -5. Average wages continued to grow, however, with that index registering 8 in September, one point higher than a month ago. However, survey participants' outlook lost its early summer luster. At -1, the index slipped four points from its month-earlier reading and twenty-four points from the July outlook index.

Retail

Retail sales fell in September, but the index strengthened twenty-two points from the August reading, moving to -10 this month. The index for big-ticket sales dropped to -48, eight points below the August reading. Further, the index for shopper traffic cast off twenty-one points more than in August, finishing at -32. Inventories inched up, with that index at 4, just one point higher than a month earlier.

Looking ahead six months, retailers remained pessimistic about sales, holding the index for expected product demand at -23 for a second month.





Retail employment generally flattened this month, with the index for the number of employees at 1, after the August reading of -8. Average retail wages inched up to an index of 3 compared to last month's 2.

Services-Providing Firms

Revenues declined at non-retail firms, moving into negative territory; the index settled at -3 from 10 in the previous month. The number of employees dipped slightly, pulling that index to -5 from -3. The index for average wages at services-providing firms tacked on a point to finish at 9.

For the six months ahead, services providers were generally neutral about prospects. The non-retail expectations index lost five points from the August reading, ending the survey period at 2.

Prices

The annualized price change across the broad service sector moderated to 0.86 percent in September, from 1.03 percent a month ago. Retail price change nearly matched last month's at 1.62 percent, compared to 1.66 percent previously. At services firms, price growth cooled to 0.48 percent, following August's growth rate of 0.93 percent.

Going forward, survey respondents looked for price change of 1.43 percent during the next six

months; in August, their outlook was for 1.48 percent. In retail, the expectation was for prices to increase at a 1.71 percent rate during the coming six months, whereas in August they anticipated a 2.08 percent pace. Non-retail services firms looked for prices to rise at a 1.35 percent pace, compared to their month-ago expectation of 1.39 percent.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Sep-11	Aug-11	Jul-11	
Revenues	-4	-1	7	1
Number of Employees	-2	-5	0	-2
Average Wage	8	7	12	9
Expected Demand ²	-1	3	23	8
Retail Indicators				
Sales Revenues	-10	-32	11	-11
Number of Employees	1	-8	6	0
Average Wage	3	2	17	7
Inventories	4	3	-21	-5
Big-ticket Sales	-48	-40	-25	-38
Shopper Traffic	-32	-11	-11	-18
Expected Product Demand ²	-23	-23	3	-14
Services Firms Indicators				
Revenues	-3	10	6	4
Number of employees	-5	-3	-4	-4
Average wage	9	8	12	10
Expected demand for services ²	2	7	27	12
Current Price Trends³				
Service Sector	0.86	1.03	0.79	
Retail	1.62	1.66	0.75	
Services Firms	0.48	0.93	0.86	
Expected Price Trends^{2,3}				
	Expectations			
	Sep-11	Aug-11	Jul-11	
Service Sector	1.43	1.48	1.34	
Retail	1.71	2.08	1.20	
Services Firms	1.35	1.39	1.40	

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 106 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.