

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Weakening Slows, But Service Sector Remains Fragile; Average Wage Growth Strengthens

Overview

Service sector activity remained weak in October, according to the latest survey by the Federal Reserve Bank of Richmond. For a second month, revenues dropped at non-retail services providing establishments. Retailers' revenues also fell, albeit more slowly than a month earlier, as big-ticket sales rose for the first time since April 2007 and the summer-long fall-off in shopper traffic nearly halted. In addition, merchants' inventories declined in October. Looking ahead, retailers were pessimistic in their expectations for sales over the next six months, while services providers' optimism ticked up.

In service sector labor markets, employment flattened overall, as hiring increased at services firms but retail job losses broadened.

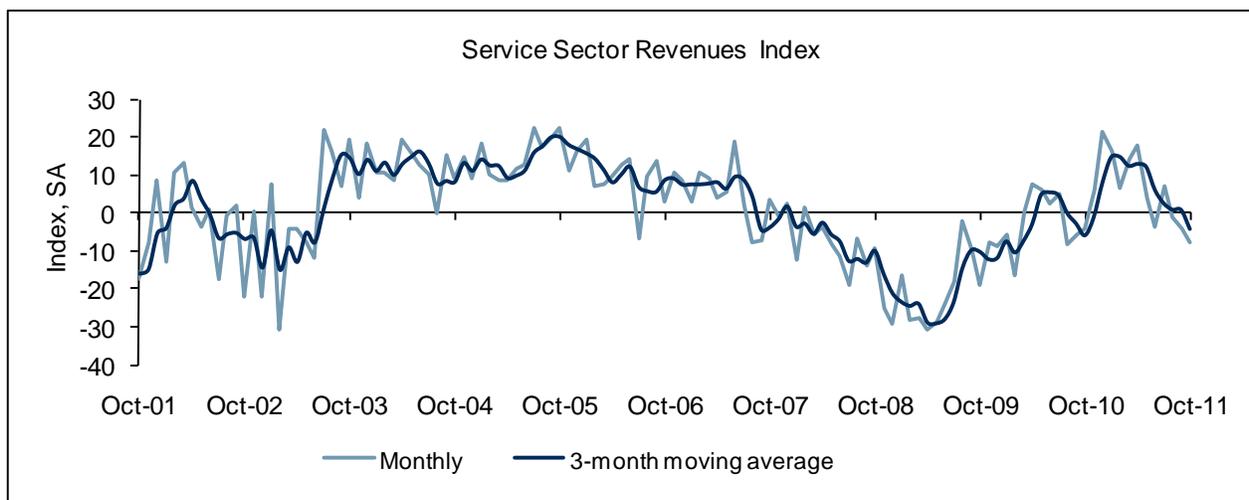
Price growth moderated in October, held in check by slower retail price change. For the six months ahead, survey respondents generally expected somewhat slower price acceleration than they predicted last month.

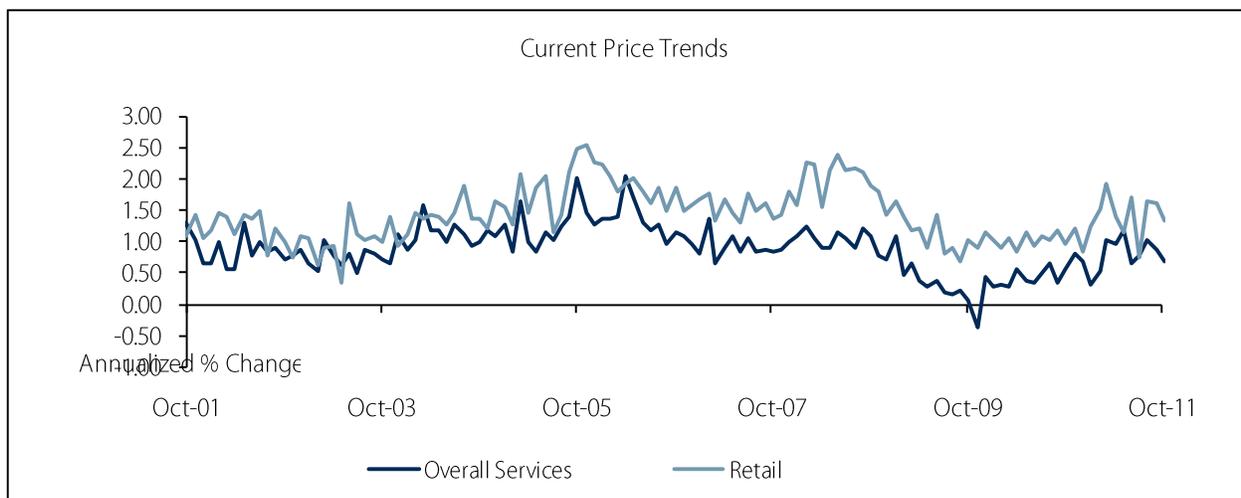
Overall Service Sector Conditions

Revenues in the service sector fell, pulling the index to -8 in October from last month's -4, as both retailers and services firms indicated a contraction. Overall employment flattened to an index reading of 0; retail job cuts expanded, while services firms took on more employees. In September, that index was -2. Average wage growth strengthened markedly, pushing the index to 15 from 8. The six-month outlook for demand for products and services remained generally negative among retailers, while non-retail survey respondents increasingly expected stronger growth—putting the overall index at 0 following September's reading of -1.

Retail

Retail activity generally weakened in October, although a few categories of indexes strengthened. Retail sales remained down, leaving the index at -8, just two points above the September reading. Big-ticket sales jumped, however, with that index climbing fifty-two points to 4. In addition, shopper traffic returned, bringing





the index up thirty-one points to end at -1. Retail inventories declined slightly, pulling that index to -3 from last month's 4.

Despite the change in those indicators, retailers remained generally downbeat about sales prospects for the next six months, with the expectations index settling at -19, four points above the month-ago reading.

Retailers shrank payrolls in October, following little change in September; the index slipped to -9 from 1. Average retail wages rose slightly, pushing that index to 5 from 3.

Services-Providing Firms

Revenues contracted at surveyed services firms, dragging the index to -8 from last month's -3. Those firms were hiring however; the index for the number of employees moved eight points above last month's reading to 3. Average wages at services-providing firms also strengthened, with that index rising to 16 from September's value of 9.

Services providers looked for greater customer demand in the next six months, pushing the outlook index up six points to 8 in October.

Prices

Price change in the overall service sector moderated to an annualized 0.70 percent pace, following September's 0.86 percent rate. Retail

price growth slowed to a 1.33 percent rate in October, compared to last month's 1.62 percent pace. At services firms, price change quickened slightly, reaching a 0.53 percent clip; in September, price growth was 0.48 percent among non-retail services respondents.

Looking ahead six months, survey respondents expected annualized price change of 1.17 percent, whereas in September, they anticipated a 1.43 percent rate. Among retailers, the outlook was for a 2.02 percent pace, slightly faster than September's expectation for a 1.71 percent rate. Services providers anticipated prices would advance at a 1.01 percent rate during the next six months. In September, they looked for a 1.35 percent rate for the six months ahead.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month
	Oct-11	Sep-11	Aug-11	Average
Revenues	-8	-4	-1	-4
Number of Employees	0	-2	-5	-2
Average Wage	15	8	7	10
Expected Demand ²	0	-1	3	1
Retail Indicators				
Sales Revenues	-8	-10	-32	-17
Number of Employees	-9	1	-8	-6
Average Wage	5	3	2	4
Inventories	-3	4	3	1
Big-ticket Sales	4	-48	-40	-28
Shopper Traffic	-1	-32	-11	-15
Expected Product Demand ²	-19	-23	-23	-22
Services Firms Indicators				
Revenues	-8	-3	10	-1
Number of employees	3	-5	-3	-2
Average wage	16	9	8	11
Expected demand for services ²	8	2	7	6
Current Price Trends³				
Service Sector	0.70	0.86	1.03	
Retail	1.33	1.62	1.66	
Services Firms	0.53	0.48	0.93	
Expected Price Trends^{2,3}				
	Expectations			
	Oct-11	Sep-11	Aug-11	
Service Sector	1.17	1.43	1.48	
Retail	2.02	1.71	2.08	
Services Firms	1.01	1.35	1.39	

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 101 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.