

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

### *Retail Sector Rebounds; Non-Retail Activity Flattens*

#### Overview

Service sector activity strengthened in November, boosted by improvement in the retail sub-sector, according to the latest survey by the Federal Reserve Bank of Richmond. Revenues at services-providing firms were nearly flat this month, but retail sales jumped and foot traffic rose sharply. Big-ticket sales were flat, however. Retail inventories expanded and merchants were upbeat about potential sales during the next six months. Services providers remained optimistic about revenues in the six months ahead, though their outlook was somewhat less enthusiastic than in October.

The number of employees in the broad service sector edged down, driven by continuing cuts in retail. In addition, average wage increases were less prevalent in November.

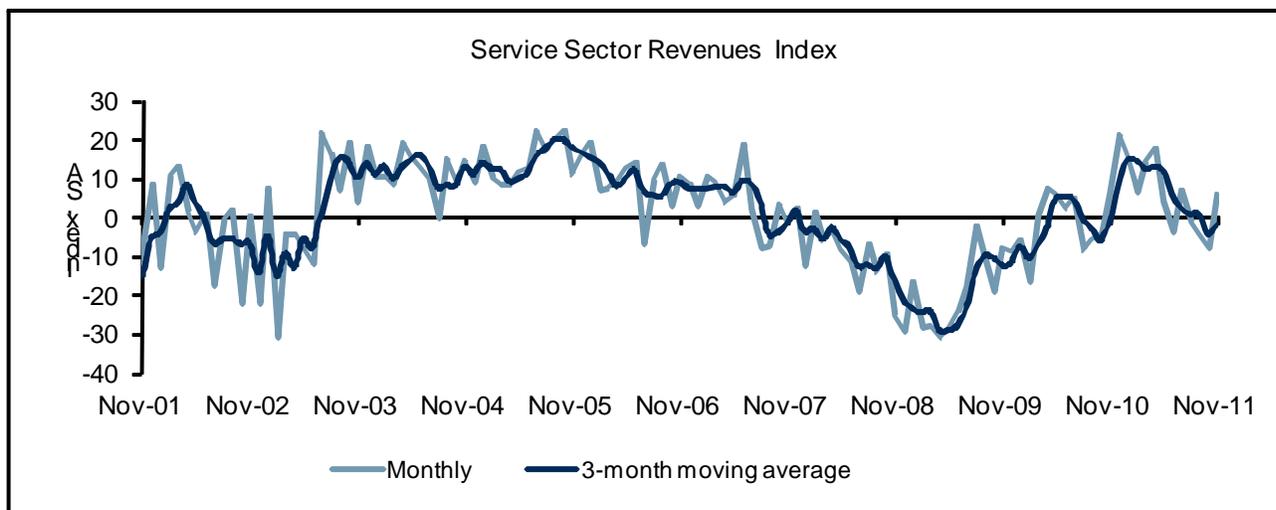
The pace of service sector price change picked up in November, compared with a month ago. Survey respondents also expected a somewhat faster rate of price increase during the next six months than they predicted last month.

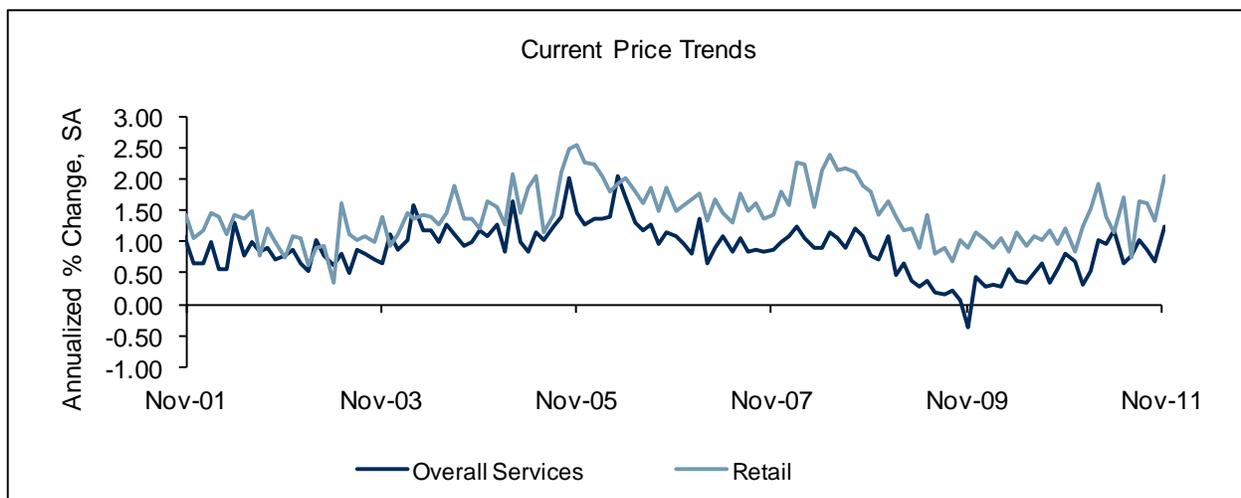
#### Overall Service Sector Conditions

Revenues in the broad service sector rose slightly in November, pushed up by strengthening retail activity. The index for revenues moved up to a reading of 6, fourteen points above last month's gauge. The index for the number of employees slipped to -2 from October's flat reading, as both retailers and services firms trimmed their payrolls. Average wage growth slowed, with that index dropping to 5 in November from 15. Looking ahead six months, survey participants were optimistic about demand for their goods and services; the index for expected demand climbed to 11 from its previous reading of 0.

#### Retail

Retail activity bounced back in November, with the index for sales rising thirty-one points to finish at 23. Big-ticket sales were flat, however, at an index of 1, three points below October's index. In contrast, shopper traffic spiked, pushing that index to a reading of 23 from last month's -1. Retail inventories swelled, bringing the index to 26 from the previous reading of -3.





Retailers were decidedly optimistic in November — the index for expected product demand rose to 27 from the bleak reading of -19 a month earlier.

Retail labor markets remained weak, however. The index for the number of employees retreated four points in November to end at -13. Average retail wages were little changed, with that index settling one point lower at 4.

**Services-Providing Firms**

Revenues flattened at services firms, following two months of decline. The index leveled off at 1, compared to the previous reading of -8. Non-retail hiring was little-changed in November. The index for the number of employees slipped four points below last month’s reading to -1. Average wage growth also slowed, with that index trimming eleven points to finish the survey period at 5.

Services providers’ optimism for demand during the next six months waned compared to a month earlier. The index for expected demand for services shaved three points from October’s reading to settle at 5 in November.

**Prices**

Price change in the overall service sector accelerated to an annualized 1.24 percent pace in November, following October’s 0.70 percent rate. Separately, the rate of change in retail and non-retail services prices picked up to 2.05 percent and

1.09 percent, respectively. In October, prices in those sub-sectors advanced at somewhat slower rates of 1.33 percent and 0.53 percent.

For the six months ahead, survey respondents looked for an overall annualized price change of 1.51 percent, compared to their month-ago outlook for 1.17 percent. Retail merchants expected slightly faster price growth at a 2.17 percent rate, whereas a month earlier they looked for prices to change at a 2.02 percent rate. Services providers anticipated price change of 1.34 percent over the next six months, compared to last month’s outlook for a 1.01 percent pace.

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<b>Business Activity Indexes<sup>1,4</sup></b>				
<b>Service Sector Indicators</b>	<b>Current Conditions</b>			<b>3-Month Average</b>
	<b>Nov-11</b>	<b>Oct-11</b>	<b>Sep-11</b>	
Revenues	6	-8	-4	-2
Number of E employees	-2	0	-2	-1
Average Wage	5	15	8	9
Expected Demand <sup>2</sup>	11	0	-1	3
<b>Retail Indicators</b>				
Sales Revenues	23	-8	-10	1
Number of E employees	-13	-9	1	-7
Average Wage	4	5	3	4
Inventories	26	-3	4	9
Big-ticket Sales	1	4	-48	-14
Shopper Traffic	23	-1	-32	-3
Expected Product Demand <sup>2</sup>	27	-19	-23	-5
<b>Services Firms Indicators</b>				
Revenues	1	-8	-3	-4
Number of employees	-1	3	-5	-1
Average wage	5	16	9	10
Expected demand for services <sup>2</sup>	5	8	2	5
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.24	0.70	0.86	
Retail	2.05	1.33	1.62	
Services Firms	1.09	0.53	0.48	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Nov-11</b>	<b>Oct-11</b>	<b>Sep-11</b>	
Service Sector	1.51	1.17	1.43	
Retail	2.17	2.02	1.71	
Services Firms	1.34	1.01	1.35	

**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 85 of 347 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.