

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Softens at Retail Establishments, Improves at Non-Retail Services Firms*

### Overview

Activity in the broad service sector gained momentum in December, bolstered by improvement in the non-retail services subsector, according to the latest survey by the Federal Reserve Bank of Richmond. However, total retail sales slowed and big-ticket sales weakened compared to November's survey. Shopper traffic flattened at retail establishments. Retail inventories increased more slowly than a month ago. At non-retail services firms, revenues rose sharply in December. Survey participants were upbeat about business prospects for the first half of 2012.

Hiring picked up notably at non-retail services firms, while retailers reduced their payrolls further this month. Average wage increases prevailed in the service sector.

Price change in the overall service sector increased at a slightly faster pace in December than in November. Looking ahead six months, survey respondents expected prices in the broad service sector to increase at nearly the same rate as their outlook a month ago.

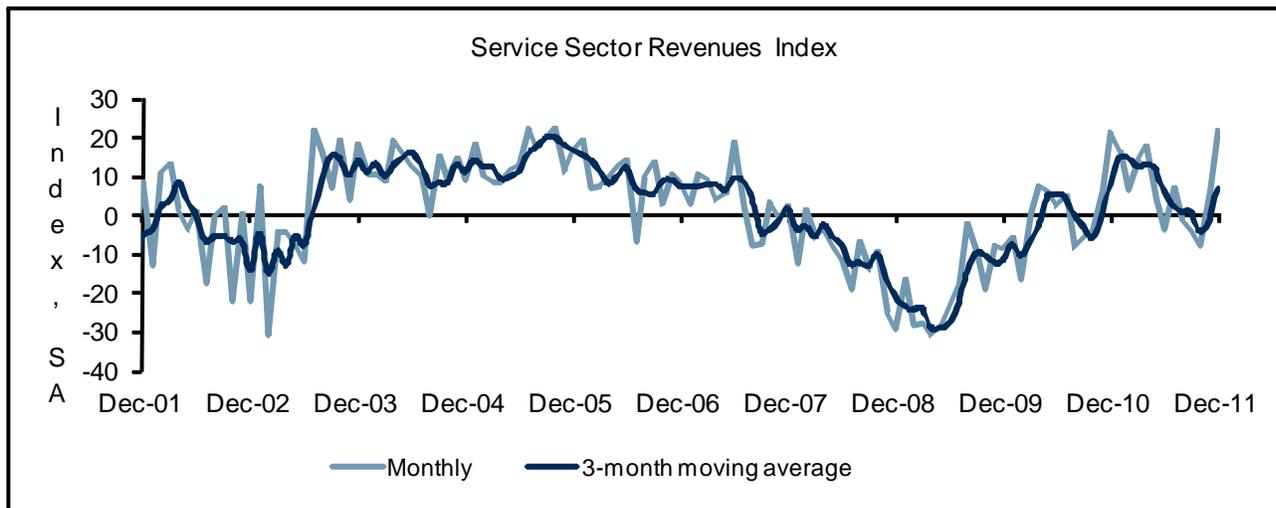
### Overall Service Sector Conditions

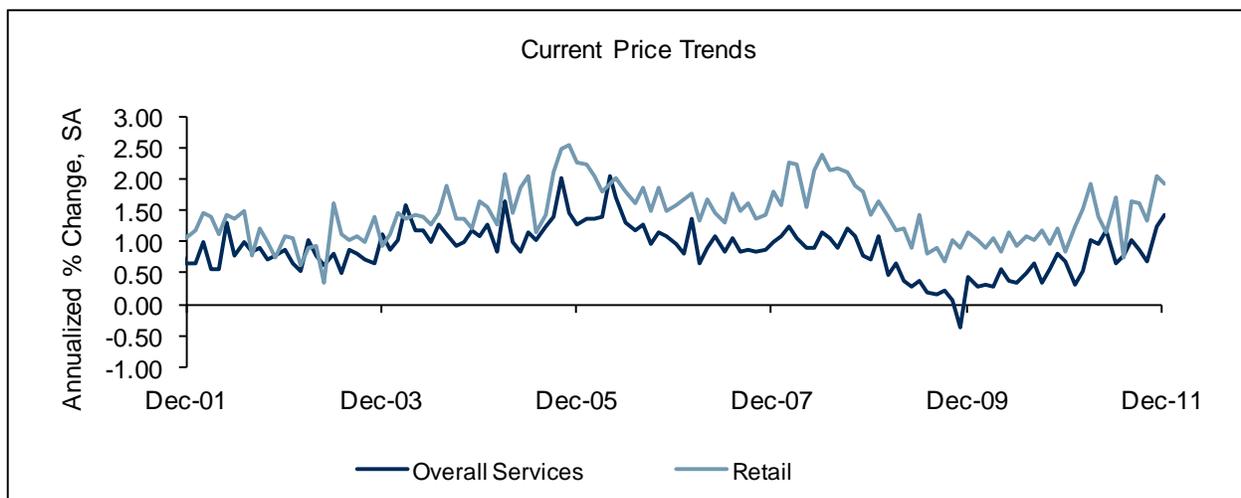
Service sector revenues accelerated in December, led by expansion at non-retail firms. The revenues index climbed sixteen points to end the survey period at 22. The index for the number of employees moved up to a reading of 5 from last month's -2, while the average wage indicator added ten points, finishing at 15. Survey participants' outlook for the six months ahead brightened further since November. The index rose to 19 from 11.

### Retail

Retail activity moderated in December compared to a month earlier. The index for retail sales cooled to 4 following November's reading of 23. In addition, the big-ticket index shaved six points to settle at -5. The shopper traffic index drifted down to -2 compared to November's 23. Retail inventories grew more slowly in December, leaving the index fourteen points below last month's reading at 12.

Retailers continued to look for improved sales in the six months ahead; the index for expected demand tacked on a point, rising to 28 this month.





Retail merchants continued to cut employees in December, bringing that index three points below last month's reading to -16.

#### Services-Providing Firms

Non-retail services providers' revenues bounced back in December, driving the index to 24 from a nearly flat reading in November. In addition, hiring picked up at services firms; that index rose fourteen points to 13. Average wage increases at non-retail services firms were more widespread this month. The index climbed to 18 from November's reading of 5.

Survey participants at services firms expected strong demand for their services to continue during the next six months. The expectations index gained eleven points, to finish the period at 16.

#### Prices

Prices in the overall service sector increased at a slightly faster pace in December. The annualized price change ticked up to a 1.44 percent rate from November's 1.24 percent pace. Separately, retail price change slowed somewhat, to an annualized 1.91 percent rate of increase compared to last month's 2.05 percent rate. At services-providing firms, prices grew at a 1.23 percent pace following the previous month's 1.09 percent rate.

Looking ahead, survey respondents expected 1.53 percent annualized price growth in the broad service sector during the first half of 2012. In

November, they looked for prices to increase at a 1.51 percent rate. Retail merchants anticipated prices would advance at a 1.45 percent pace, while services providers expected a 1.60 percent rate. In November, those subsectors expected prices would change at rates of 2.17 percent and 1.34 percent, respectively.

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Business Activity Indexes <sup>1,4</sup>				
Service Sector Indicators	Current Conditions			3-Month Average
	Dec-11	Nov-11	Oct-11	
Revenues	22	6	-8	7
Number of E employees	5	-2	0	1
Average Wage	15	5	15	12
Expected Demand <sup>2</sup>	19	11	0	10
Retail Indicators				
Sales Revenues	4	23	-8	6
Number of E employees	-16	-13	-9	-13
Average Wage	2	4	5	4
Inventories	12	26	-3	12
Big-ticket Sales	-5	1	4	0
Shopper Traffic	-2	23	-1	7
Expected Product Demand <sup>2</sup>	28	27	-19	12
Services Firms Indicators				
Revenues	24	1	-8	5
Number of employees	13	-1	3	5
Average wage	18	5	16	13
Expected demand for services <sup>2</sup>	16	5	8	10
Current Price Trends <sup>3</sup>				
Service Sector	1.44	1.24	0.70	
Retail	1.91	2.05	1.33	
Services Firms	1.23	1.09	0.53	
Expected Price Trends <sup>2,3</sup>				
	Expectations			
	Dec-11	Nov-11	Oct-11	
Service Sector	1.53	1.51	1.17	
Retail	1.45	2.17	2.02	
Services Firms	1.60	1.34	1.01	

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 104 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.