

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Revenue Growth Continues, Led by Retail Sales

Overview

Service sector activity continued to improve overall in January, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales accelerated, despite a sharp fall in big-ticket sales and declining shopper traffic. Retailers' inventories grew more quickly this month. Revenues at non-retail services providers also advanced, although somewhat more slowly than a month ago. Retail merchants were generally more cautious in their outlook for sales over the next six months, while services providers expected increased demand for their services.

In service sector labor markets, hiring slowed slightly at non-retail firms and retailers cut workers. Average wage growth slowed at services businesses. At retail establishments, average wages declined.

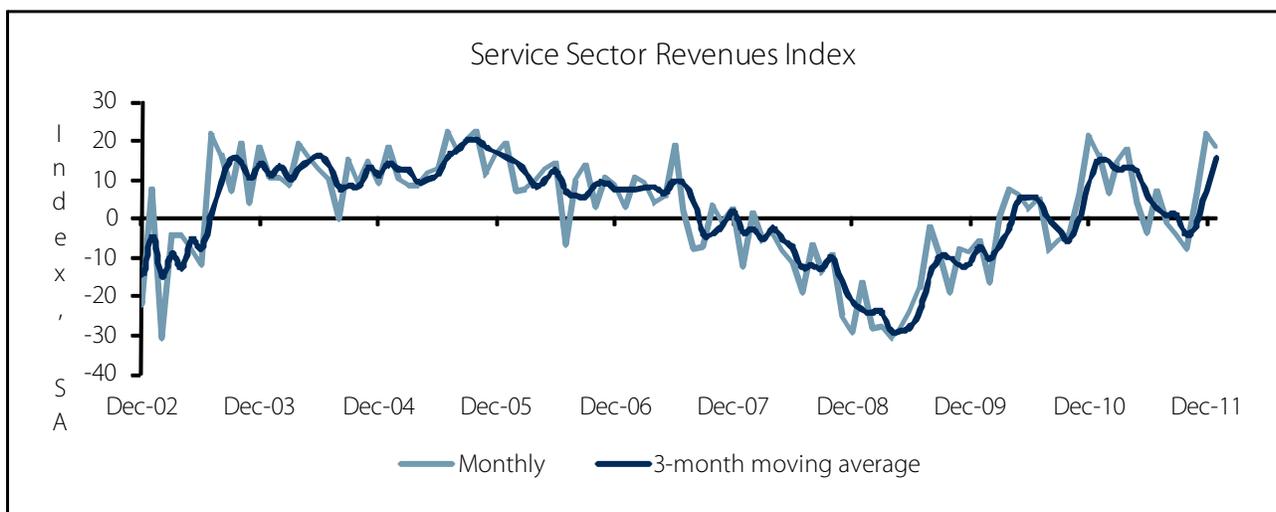
Price change in the overall service sector slowed slightly, compared to a month ago. Survey participants expected slightly faster price growth in the next six months, compared to their expectations in December.

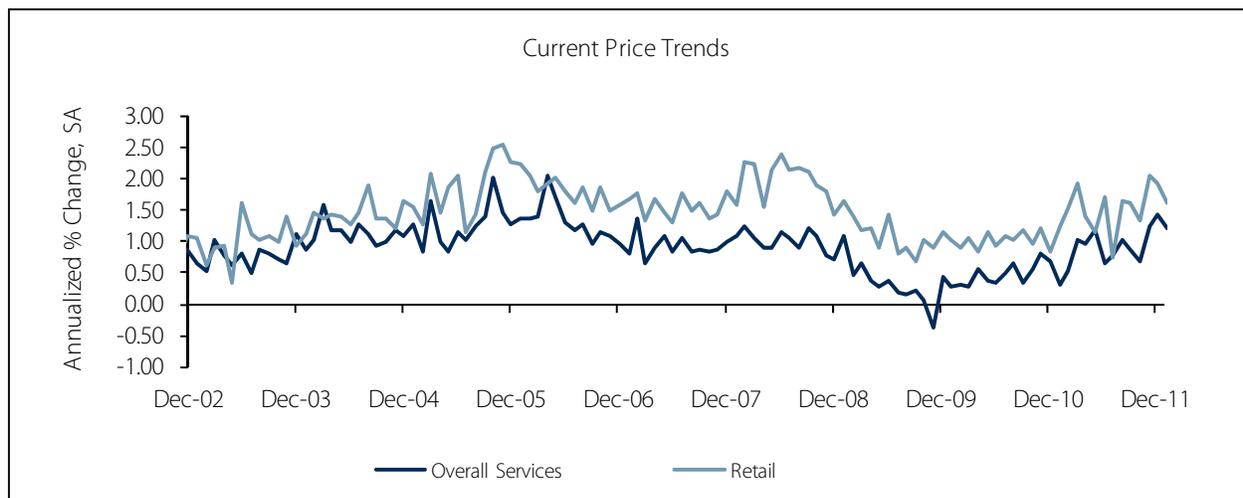
Overall Service Sector Conditions

Service sector revenues maintained momentum in January. The revenues index settled at 18, following December's reading of 22. Hiring picked up for the sector, compared to a month ago, as services firms continued to add employees and job losses slowed at retail businesses. The index added three points, ending the survey period at 8. Average wages grew more slowly, with that index settling at 5; in December the index reading was 15. Looking ahead, non-retail firms anticipated greater demand for their services, while retailers' outlook dimmed. The expectations index for the sector shed two points, finishing at 17.

Retail

The new year began with a jump in retail sales; the index surged nineteen points to 23 in January. In contrast, big-ticket sales fell abruptly, leaving the index forty-seven points below December's reading at -52. Shopper traffic also waned this month, pulling the index to -9 from -2. Retail inventories built up more rapidly, with that index rising to 24 from last month's index of 12.





Retail merchants reined in their outlook for sales this month, pulling the expectations index to -9, compared to a reading of 28 in December.

On the jobs front, retailers slowed the reduction in their payrolls, mitigating by nine points last month's index for the number of employees. The index settled at -7 in January.

Services-Providing Firms

Revenues grew moderately at services firms in January, with the index losing seven points from December's reading, to end at 17. Services providers remained in hiring mode; that index ticked down to 10 from 13. Average wages at non-retail services firms also slowed, with the index finishing the survey period at a reading of 9—half its previous value.

Survey participants at services remained upbeat about business prospects over the next six months. The expectations index tacked on two points in January, reaching 18.

Prices

Prices in the overall service sector slowed somewhat compared to a month ago. The overall annualized price change eased to a 1.20 percent pace, following December's 1.44 percent rate. Retail price growth moderated to a 1.62 percent pace, while price growth at services providing firms cooled to a 1.09 percent rate. A month earlier,

prices rose at a 1.91 percent pace at retail establishments and 1.23 percent at services firms.

For the six months ahead, survey respondents anticipated prices in the broad service sector would grow at an annualized 1.66 percent clip, whereas they looked for 1.53 percent growth last month. Separately, retailers looked for slightly faster increases, at a rate of 1.67 in the months ahead, and non-retail services providers expected a 1.69 percent pace. In December, those subsectors anticipated rates of price change would be 1.45 percent and 1.60 percent, respectively.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jan-12	Dec-11	Nov-11	
Revenues	18	22	6	15
Number of Employees	8	5	-2	4
Average Wage	5	15	5	8
Expected Demand ²	17	19	11	15
Retail Indicators				
Sales Revenues	23	4	23	17
Number of Employees	-7	-16	-13	-12
Average Wage	-20	2	4	-4
Inventories	24	12	26	21
Big-ticket Sales	-52	-5	1	-19
Shopper Traffic	-9	-2	23	4
Expected Product Demand ²	-9	28	27	15
Services Firms Indicators				
Revenues	17	24	1	14
Number of employees	10	13	-1	7
Average wage	9	18	5	10
Expected demand for services ²	18	16	5	13
Current Price Trends³				
Service Sector	1.20	1.44	1.24	
Retail	1.62	1.91	2.05	
Services Firms	1.09	1.23	1.09	
Expected Price Trends^{2,3}				
	Expectations			
	Jan-12	Dec-11	Oct-11	
Service Sector	1.66	1.53	1.51	
Retail	1.67	1.45	2.17	
Services Firms	1.69	1.60	1.34	

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 105 of 347 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.