

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Remains Weak Overall; Sector Employment Strengthens*

### Overview

Service sector activity remained generally soft in May, although employment picked up, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales performance was subdued, with big-ticket sales in decline and shopper traffic unchanged from a month ago. Retail inventories were little changed. Revenues were also lackluster at non-retail services firms this month. Looking ahead six months, retailers expected sales to remain weak, while services providers anticipated stronger customer demand.

On the jobs front, hiring rose, with the majority of the growth occurring at non-retail firms. Average wages also made solid headway at services providers, driving up the wage indicator for the broad service sector.

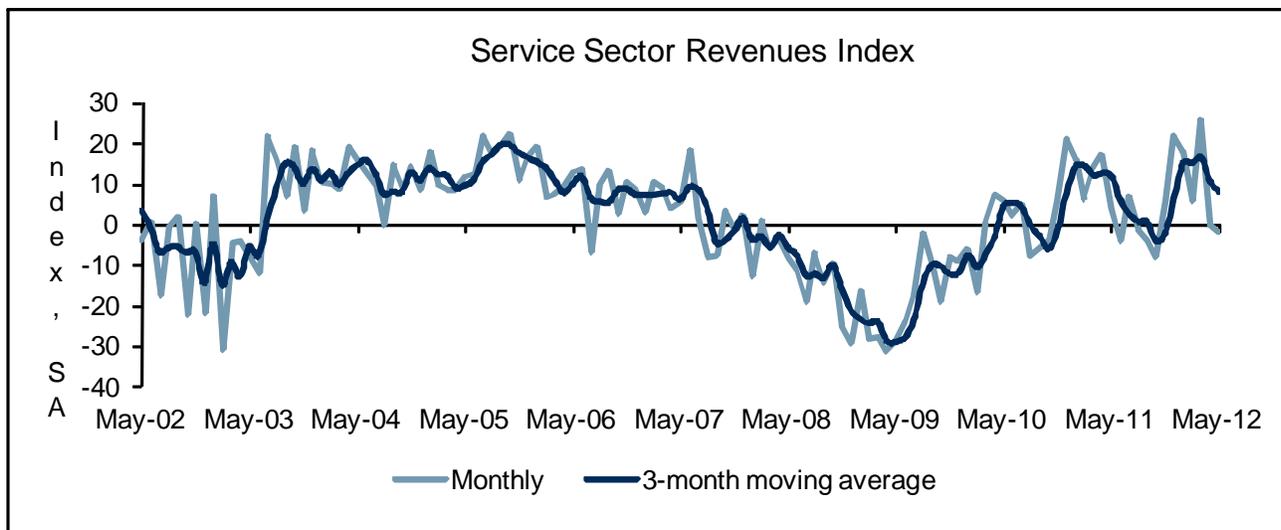
The pace of price change slowed overall in May compared to a month ago. Survey participants expected a faster rate of increase during the next six months.

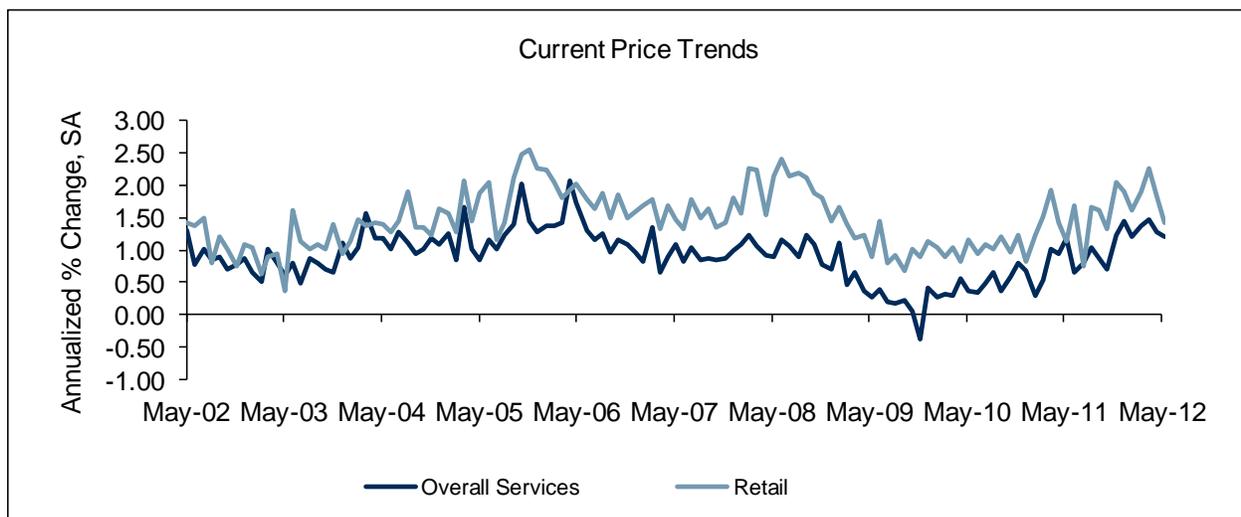
### Overall Service Sector Conditions

Revenues in the service sector contracted slightly in May, as retail sales slumped and revenues struggled at services-providing firms. The index settled at -2, two points below last month's reading. In contrast, the service sector labor market improved this month, with the index for the number of employees rising to 10 from 0. In addition, the average wage indicator gained four points, ending the survey period at 14. Expectations for demand for goods and services remained solid, though more restrained, than in April. The index shed eight points in May, finishing at 18.

### Retail

Retail activity declined in May, with the sales index settling at -15. However, the softness was a significant improvement from April's reading of -53. Big-ticket sales also contracted by less in May, with that index at -34 compared to -66 a month earlier. Shopper traffic was unchanged, as indicated by the index of 0. In April, that index fell





to -51. Retail inventories also stabilized this month, moving the index to -2 from -13.

Merchants were nearly neutral in their outlook for sales in the next six months—the expectations gauge settled at -3, compared to last month's posting of -17.

Retailers were hiring cautiously in May, pushing the index up seven points to 2. Wages in the retail subsector remained weak, however, with that index at -7; in April, the reading was -9.

**Services-Providing Firms**

Revenues at non-retail services businesses slowed in May, pulling the index to 3 from last month's reading of 16. However hiring picked up, with the indicator for the number of employees rising twelve points to 13 in May. Average wages also strengthened, with that index climbing to 22 from its month-ago reading of 14.

Services providers anticipated firm growth in the six months ahead, although their outlook was less sanguine than in April. The index settled eleven points lower than last month, finishing the survey period at 26.

**Prices**

Prices in the broad service sector grew at a 1.21 percent annualized rate in May, slightly below

April's 1.28 percent pace. In retail, price change slowed to a 1.42 percent annual rate, compared to April's 1.84 percent pace. At non-retail services firms, price change quickened to a 1.25 percent pace, following last month's 1.10 percent rate.

Expected price trends for the next six months in the overall service sector nearly matched April's outlook. In May, the expected annualized rate of increase was 1.58 percent and in April, survey respondents looked for a 1.59 percent rate. Within the subsectors of retail and non-retail services firms, this month's expectations were for respective rates of change of 1.93 percent and 1.45 percent. In April, those expectations were for 2.63 percent and 1.35 percent.

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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>May-12</b>	<b>Apr-12</b>	<b>Mar-12</b>	
Revenues	-2	0	26	8
Number of Employees	10	0	15	9
Average Wage	14	10	18	14
Expected Demand <sup>2</sup>	18	26	40	28
<b>Retail Indicators</b>				
Sales Revenues	-15	-53	33	-12
Number of Employees	2	-5	6	1
Average Wage	-7	-9	15	0
Inventories	-2	-13	2	-4
Big-ticket Sales	-34	-66	7	-31
Shopper Traffic	0	-51	23	-9
Expected Product Demand <sup>2</sup>	-3	-17	13	-2
<b>Services Firms Indicators</b>				
Revenues	3	16	26	15
Number of employees	13	1	18	11
Average wage	22	14	20	19
Expected demand for services <sup>2</sup>	26	37	50	38
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.21	1.28	1.48	
Retail	1.42	1.84	2.27	
Services Firms	1.25	1.10	1.31	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>May-12</b>	<b>Apr-12</b>	<b>Mar-12</b>	
Service Sector	1.58	1.59	2.01	
Retail	1.93	2.63	2.39	
Services Firms	1.45	1.35	1.95	

**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 132 survey participants
- <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.