

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Revenue Growth Slows; Employment Makes Gains

Overview

Activity in the service sector improved in February, notably with respect to employment, according to the latest survey by the Federal Reserve Bank of Richmond. Retail sales advanced at a slower pace, although shopper traffic increased. Big-ticket sales remained weak, but pulled back from last month's sharp drop. Retail inventory accumulation nearly matched January's rise. Revenues slowed abruptly at non-retail services firms. Retailers expected weak demand for their goods during the next six months. In contrast, non-retail services providers anticipated stronger demand for their services over that period.

Labor market indicators strengthened across the broad service sector, with a jump in the number of employees and widespread wage increases.

Price change in the overall service sector sped up slightly, with most of that pick-up in retail. Looking ahead six months, expectations were for continued mild acceleration.

Overall Service Sector Conditions

Revenues in the service sector slowed in February compared with a month earlier. The index shed

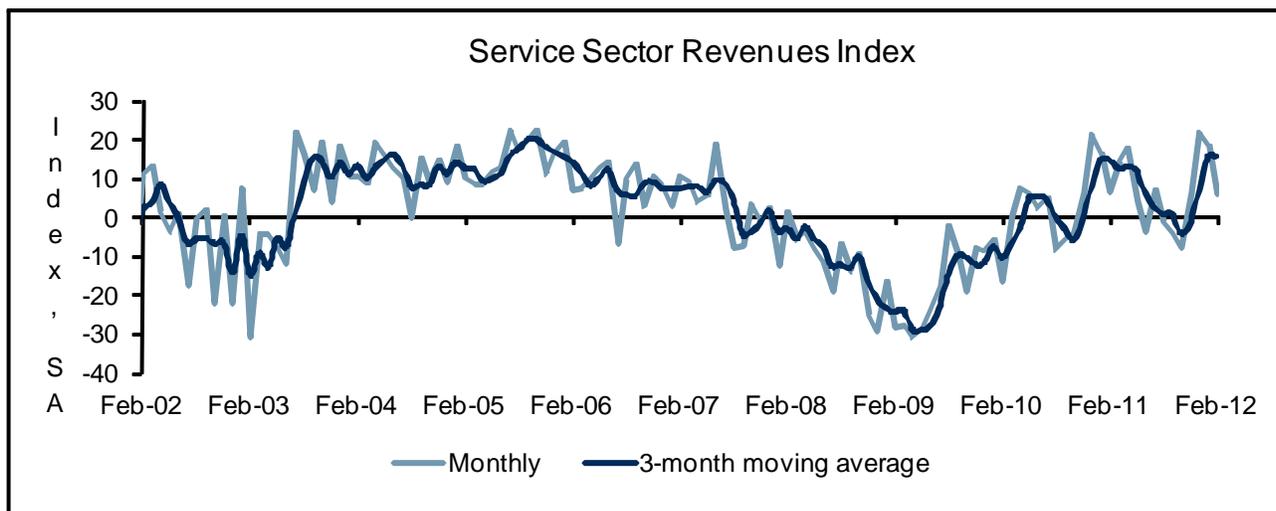
twelve points, settling at 6. Labor activity strengthened, however, with the index for the number of employees doubling from a month ago to end the period at 16. Average wage growth also prevailed, bringing that indicator up eleven points to 16. Non-retail services firms anticipated gains in demand during the next six months; that marker climbed eight points to 25.

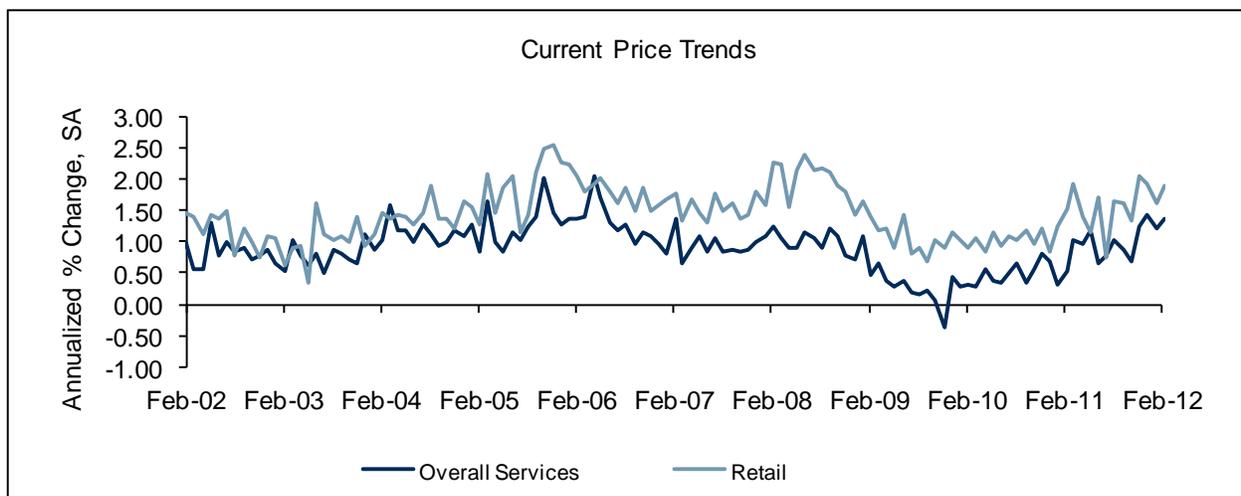
Retail

Retail sales advanced more slowly in February than a month ago, softening the index to 7 from 23. The index for big-ticket sales settled at -7, a substantial improvement from January's reading of -52. In addition, shopper traffic returned, pushing that index up twenty four points to 15. Retail inventory accumulation was moderate, at an index of 26 compared with last month's 24.

Retailers foresaw weak sales through the end of the summer; the expectations index registered -5, following January's index of -9.

In contrast, retail labor markets made sizeable gains in February, with the index for the number of employees picking up twenty-nine points to end the survey period at 22. Average retail wages also





advanced briskly, with that index finishing at 38. A month ago, the reading was -20.

Services-Providing Firms

February revenues nearly flattened at services providing firms. The index dropped thirteen points to settle at 4. Despite slower revenues, non-retail services firms added to their payrolls, bringing the index for the number of employees to 16 from last month’s 10. Average wages in the sub-sector maintained momentum, with that indicator ticking up a point to 10.

Survey respondents at services establishments were optimistic about demand for their services in the six months ahead, augmenting the expectations index by 13 points since last month, to finish at 31.

Prices

Prices in the overall service sector moved up slightly faster in February, at a 1.37 percent annualized pace. In January, the rate of price change was 1.20 percent. Looking at sub-sectors, retail price change stepped up to 1.89 percent growth; a month ago, retail prices grew at a 1.62 percent pace. Prices also grew more quickly at non-retail services firms; the pace of price change picked up to 1.25 percent following January’s 1.09 percent annualized rate.

For the six months ahead, survey respondents looked for faster price growth in the broad service

sector. They expected an annualized 1.88 percent pace, compared to their expectation last month for 1.66 percent future price growth. Retailers anticipated a rate of 1.91 percent in the six months ahead, while non-retail services providers looked for a 1.87 percent pace. A month ago, their expectations were for 1.67 percent and 1.69 percent rates of price change, respectively.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Feb-12	Jan-12	Dec-11	
Revenues	6	18	22	16
Number of Employees	16	8	5	10
Average Wage	16	5	15	12
Expected Demand ²	25	17	19	20
Retail Indicators				
Sales Revenues	7	23	4	11
Number of Employees	22	-7	-16	0
Average Wage	38	-20	2	7
Inventories	26	24	12	21
Big-ticket Sales	-7	-52	-5	-21
Shopper Traffic	15	-9	-2	2
Expected Product Demand ²	-5	-9	28	5
Services Firms Indicators				
Revenues	4	17	24	15
Number of employees	16	10	13	13
Average wage	10	9	18	12
Expected demand for services ²	31	18	16	22
Current Price Trends³				
Service Sector	1.37	1.20	1.44	
Retail	1.89	1.62	1.91	
Services Firms	1.25	1.09	1.23	
Expected Price Trends^{2,3}				
	Expectations			
	Feb-12	Jan-12	Dec-11	
Service Sector	1.88	1.66	1.53	
Retail	1.91	1.67	1.45	
Services Firms	1.87	1.69	1.60	

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 103 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.