

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Declines; Optimism Wanes

Overview

Service sector activity weakened in July, according to the latest survey by the Federal Reserve Bank of Richmond.* Shopper traffic dissipated and overall retail sales dropped, despite solid big-ticket sales. Retail inventories declined. The softness extended to non-retail services firms, where revenues also fell. Looking ahead six months, retail merchants remained unenthusiastic about sales. Services-providers' expectations were subdued, compared to the previous month's outlook.

Employment measures in the service sector also diminished in July. Survey participants reduced the number of employees at their establishments this month, and gains in average wages slowed.

Price increases in the broad service sector picked up somewhat this month. The six-month outlook for price change in the overall service sector was for faster price increases, compared to the current pace and to the outlook of a month ago.

Overall Service Sector Conditions

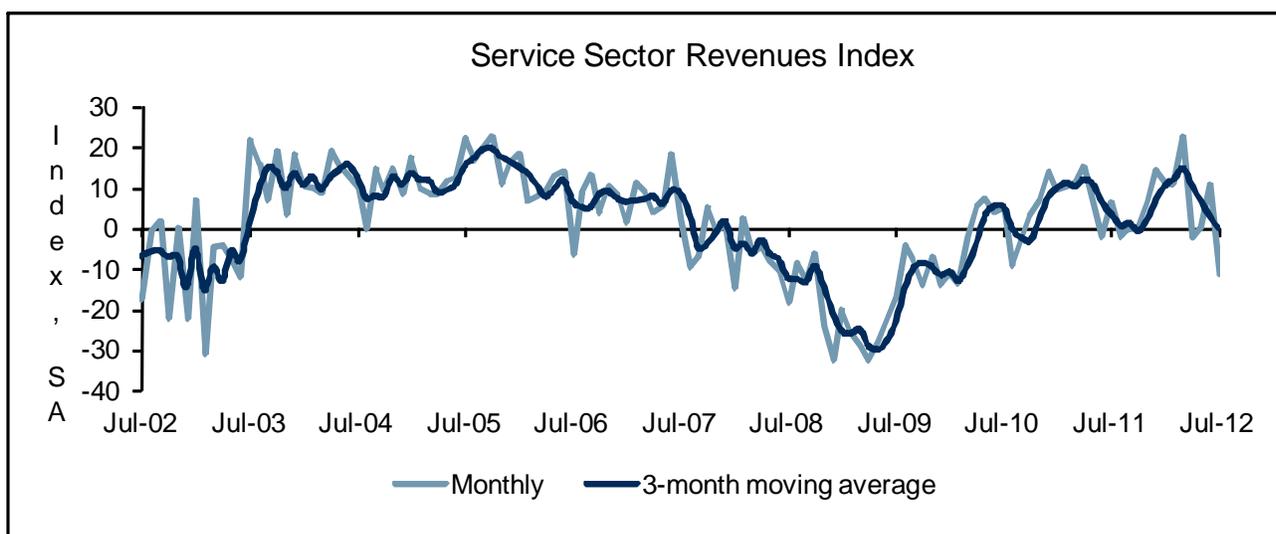
Service sector revenues fell in July, dragging the revenues index twenty-two points below June's

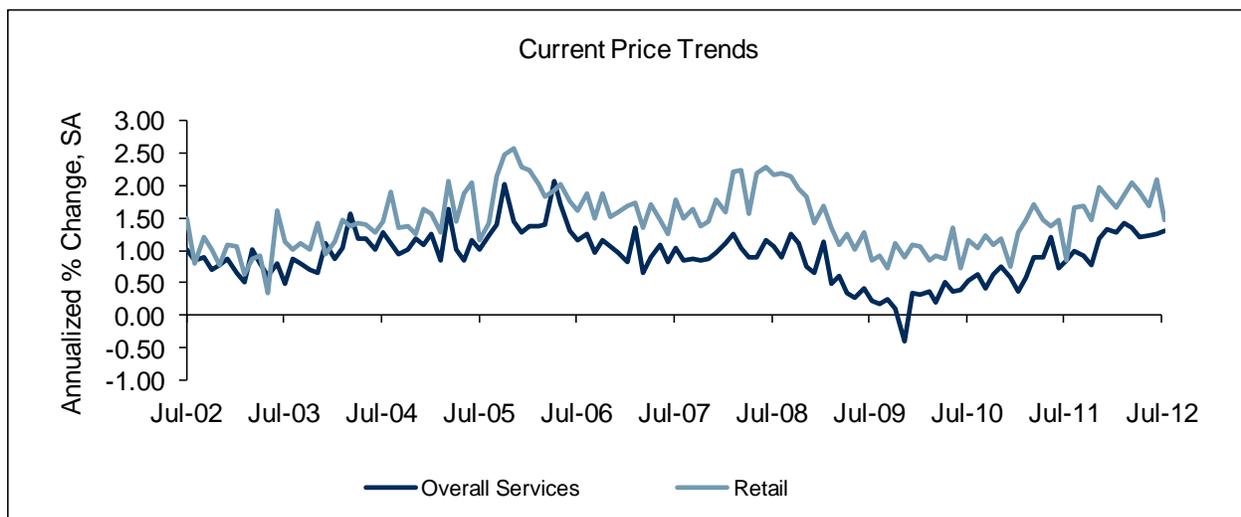
revised reading to -11. The index for the number of employees slipped to -3 from 6. Additionally, average wage increases proliferated more slowly in July. That index shed half its June value, settling at 8. Survey participants expected little change in sales over the next six months—the index for expected demand for goods and services softened to 4 from the previous reading of 18.

Retail

Retail sales dropped in July, compared to a month earlier; stronger big-ticket sales were insufficient to keep the index in positive territory. The index for sales revenues cut twenty-one points from the revised June reading, to settle at -18; the index for big-ticket sales registered 21, following June's reading of 9. Contributing to the weakness, shopper traffic faded, with that index losing two points this month to end the survey period at -6. Retail inventories declined, bringing the index to -6 from last month's posting of 7.

Looking ahead six months, retail merchants continued to limit their sales expectations, holding that index at -3 for a third month.





Retail labor markets also slowed. Merchants cut their number of employees in July, driving the index to -15 from June's -5. The gauge for average retail wages settled nine points lower at 4.

Services-Providing Firms

Revenues at non-retail services firms declined; the index fell to -11 from June's revised reading of 14. Hiring was nearly flat at services-providing firms, restraining the index at -2, following the month-ago reading of 10. Average wage gains in the subsector slowed, with that indicator settling at 11 after marking 19 in June.

Services providers curbed their outlook for the next six months, bringing the index for expected demand down nineteen points in July to 4.

Prices

Overall service sector prices increased at a slightly faster pace in July. The annualized rate of change rose to 1.30 percent from June's 1.25 percent pace. Separately, retail prices rose more slowly in July, at 1.46 percent annually, compared to June's 2.10 percent annual pace. The pace of price change edged up at non-retail establishments to a 1.23 percent rate following the month-earlier 1.18 percent rate.

For the six months ahead, price expectations in the overall service sector were for a 1.71 percent annualized rate of increase, up from June's outlook for 1.55 percent. Retailers expected price increases

of 1.61 percent, whereas in June, they looked for future price change of 2.24 percent. In July, non-retail services providers looked for a 1.72 percent rate of increase over the next six months, while June's expectation was for a 1.44 percent pace.

** Seasonal adjustment factors were recalculated this month and applied to historical data to better reflect current economic trends. Comparisons to last month's indexes are made to the revised June indexes. New factors will be calculated annually.*

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Business Activity Indexes ^{1,4,5}				
Service Sector Indicators	Current Conditions			3-Month Average
	Jul-12	Jun-12	May-12	
Revenues	-11	11	0	0
Number of Employees	-3	6	4	2
Average Wage	8	16	14	13
Expected Demand ²	4	18	16	13
Retail Indicators				
Sales Revenues	-18	3	-15	-10
Number of Employees	-15	-5	-2	-7
Average Wage	4	13	-3	5
Inventories	-6	7	1	1
Big-ticket Sales	21	9	-31	0
Shopper Traffic	-6	-4	0	-3
Expected Product Demand ²	-3	-3	-3	-3
Services Firms Indicators				
Revenues	-11	14	8	4
Number of employees	-2	10	8	5
Average wage	11	19	20	17
Expected demand for services ²	4	23	22	16
Current Price Trends ³				
Service Sector	1.30	1.25	1.23	
Retail	1.46	2.10	1.68	
Services Firms	1.23	1.18	1.27	
Expected Price Trends ^{2,3}				
	Expectations			
	Jul-12	Jun-12	May-12	
Service Sector	1.71	1.55	1.50	
Retail	1.61	2.24	1.96	
Services Firms	1.72	1.44	1.37	

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 112 survey participants
- 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.
- ⁵ This table includes recalculation of seasonal adjustment factors to better reflect current economic trends. New factors will be calculated annually.