

# Regional Surveys of Business Activity

## Fifth District Survey of Service Sector Activity

*Service Sector Activity Strengthened in September, Despite Declining Retail Employment*

### Overview

Service sector activity picked up moderately in September, according to the latest survey by the Federal Reserve Bank of Richmond. Strengthening revenues at non-retail services firms and a modest increase in retail sales pushed the broad sector revenues higher. Although cumulative retail sales edged up, big-ticket sales weakened; in addition, retail inventories grew more quickly this month. Shopper traffic remained nearly flat for a second month. Looking ahead, survey participants expected demand to continue to strengthen during the coming six months.

On the employment front, the number of retail employees and average retail wages dropped sharply. At non-retail services firms, hiring tapered off, while average wage increases intensified.

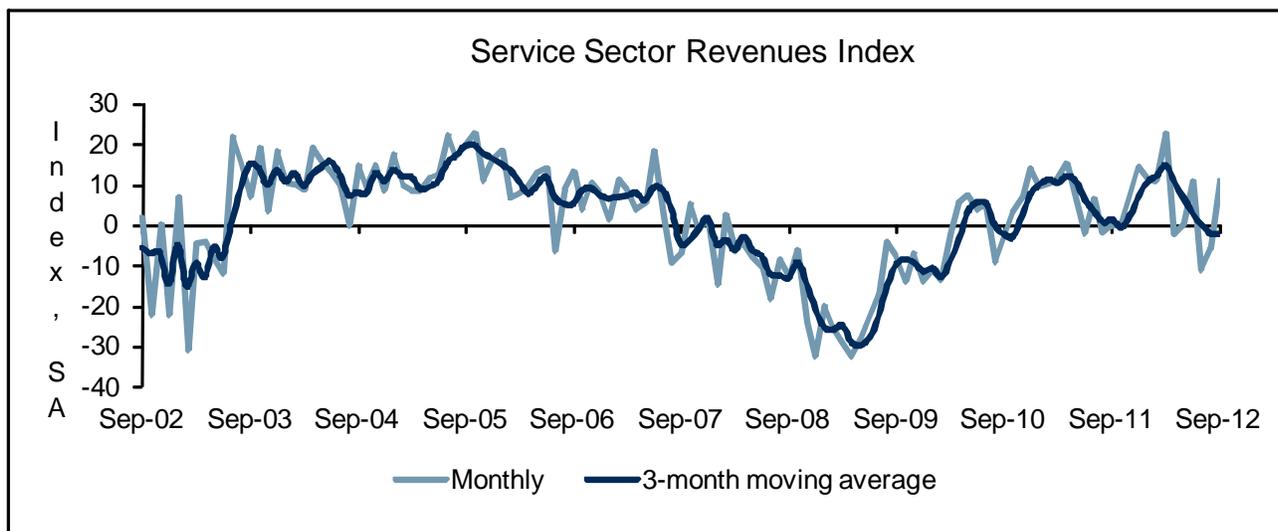
Prices increased at a restrained pace in the overall service sector in September, as both retail and non-retail prices rose more slowly. Looking to the six months ahead, survey participants expected prices in the broad service sector to climb at a quicker pace.

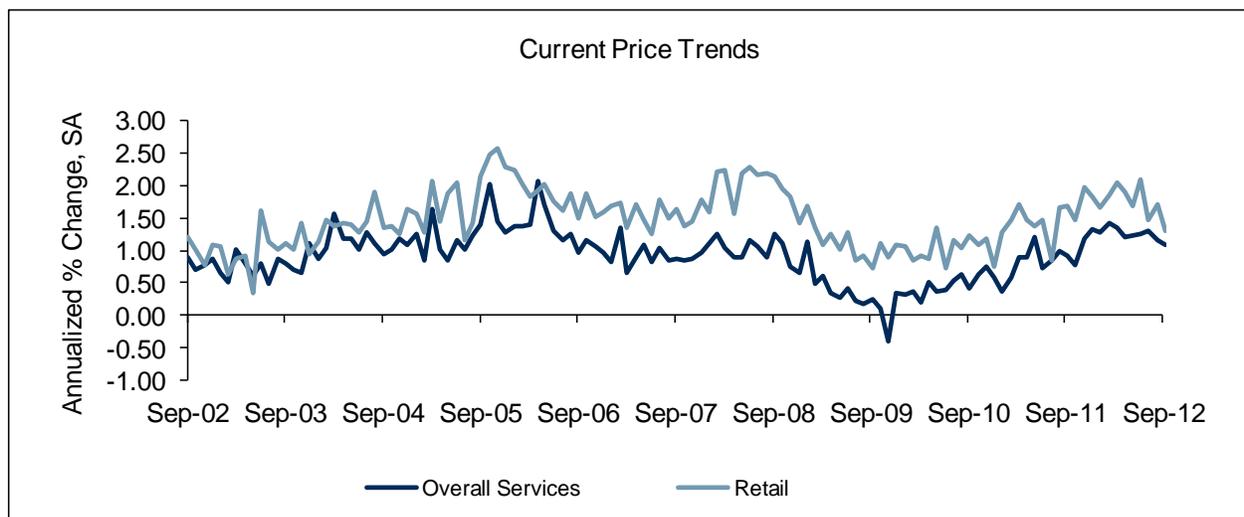
### Overall Service Sector Conditions

Revenues in the broad service sector regained ground in September, with the index rising seventeen points to 11. In contrast, hiring declined, pulling that index to -2 from last month's reading of 4. Average wages increased at non-retail services providers and fell sharply at retail establishments, leaving the overall index at 8—two points below last month's reading. Survey participants remained optimistic in their outlook for the next six months, with that index tacking on two points to end at 9 this month.

### Retail

Retail sales ticked up in September, holding the index at 3 for a second month. Big-ticket sales weakened, although the gauge declined by less this month. The index settled at -3, compared to the August reading of -16. Shopper traffic was little changed, at 1 in September from -1. However, inventory accumulation rose to an indicator of 23, eighteen points above the August survey index. Retailers were mildly upbeat in their outlook for the next six months, drawing that index up four points from a month earlier to 5.





Retail employment retrenchment was widespread. The index for the number of retail employees fell abruptly to -33 from last month's flat reading of 0. In addition, average retail wages collapsed, with that index losing twenty-eight points to end the survey period at -24.

**Services-Providing Firms**

Revenues accelerated at services-providing firms, pushing the index to 12 from the August reading of -6. Although the number of employees at non-retail services firms increased more slowly than a month earlier, average wages maintained upward momentum. The gauge for employment settled at 2, following the August indicator of 5, and the indicator for average wages picked up a point, finishing at 12.

Services providers looked for improved business prospects in the six months ahead, with that index ending one point below last month's mark at 7.

**Prices**

Overall service sector prices slowed in September, rising at an annualized 1.08 percent rate, compared to last month's 1.15 percent pace. Separately, retail prices moved up at a 1.29 percent annualized pace following the August rate of 1.70 percent. Services providers' prices advanced at an annualized 0.99 percent rate; in August, price change in that sub-sector occurred at a 1.02 percent rate.

For the six months ahead, survey participants expected prices to rise by 1.50 percent annually, whereas last month, they looked for prices to rise at a 1.54 percent clip. Retail merchants anticipated prices would generally maintain the current pace in the six months ahead, for an outlook of 1.26 percent growth. A month ago, they expected future price change of 1.18 percent. Among services providers, the outlook was for 1.52 percent growth in prices over the next six months. In August, the expectation was for 1.66 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>Sep-12</b>	<b>Aug-12</b>	<b>Jul-12</b>	
Revenues	11	-6	-11	-2
Number of Employees	-2	4	-3	0
Average Wage	8	10	8	9
Expected Demand <sup>2</sup>	9	7	4	6
<b>Retail Indicators</b>				
Sales Revenues	3	3	-18	-4
Number of Employees	-33	0	-15	-16
Average Wage	-24	4	4	-5
Inventories	23	5	-6	7
Big-ticket Sales	-3	-16	21	1
Shopper Traffic	1	-1	-6	-2
Expected Product Demand <sup>2</sup>	5	1	-3	1
<b>Services Firms Indicators</b>				
Revenues	12	-6	-11	-2
Number of employees	2	5	-2	2
Average wage	12	11	11	11
Expected demand for services <sup>2</sup>	7	8	4	6
<b>Current Price Trends<sup>3</sup></b>				
Service Sector	1.08	1.15	1.30	
Retail	1.29	1.70	1.46	
Services Firms	0.99	1.02	1.23	
<b>Expected Price Trends<sup>2,3</sup></b>				
	<b>Expectations</b>			
	<b>Sep-12</b>	<b>Aug-12</b>	<b>Jul-12</b>	
Service Sector	1.50	1.54	1.71	
Retail	1.26	1.18	1.61	
Services Firms	1.52	1.66	1.72	

**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 115 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.

