

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Slows, Hiring Remains Stalled

Overview

Activity in the service sector moderated in October, according to the latest survey by the Federal Reserve Bank of Richmond. Although retail sales inched up, overall revenues were held in check by flat revenues at non-retail services firms. Inventory build-up slowed. Big-ticket sales drifted lower and shopper traffic declined. Looking ahead six months, survey participants anticipated restrained demand for goods and services.

In service sector labor markets, hiring remained stalled. The number of retail employees dropped, albeit by less than a month earlier, and hiring at services providers flattened. However, average wages strengthened.

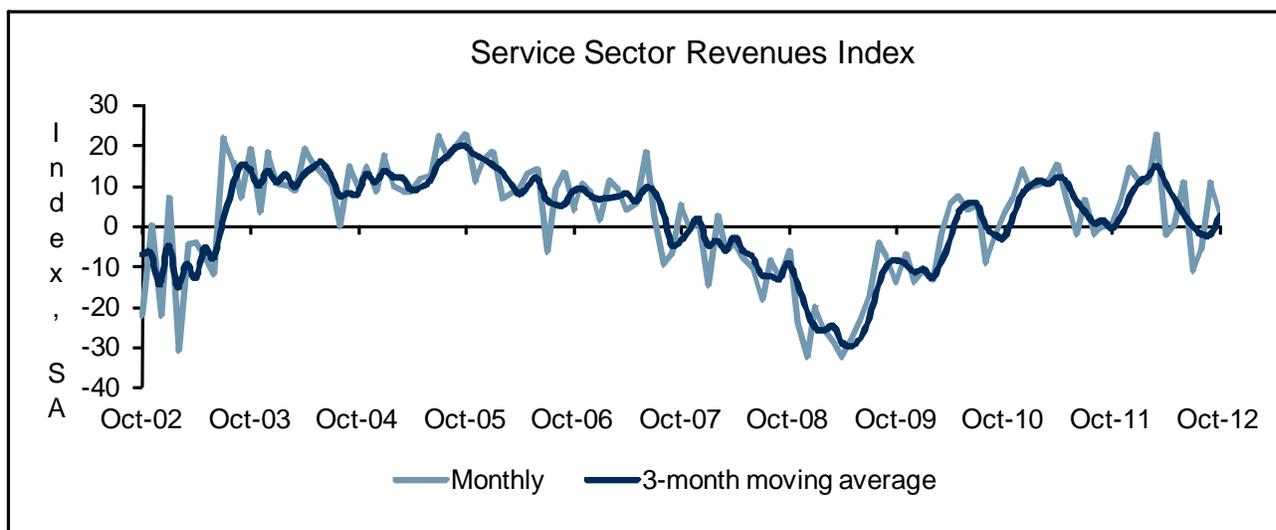
Price increases nearly matched last month's pace at non-retail services firms, while retail prices rose more quickly in October. Non-retail services firms expected the pace of price growth would pick up in the next six months, pushing up overall price change expectations for the broad service sector.

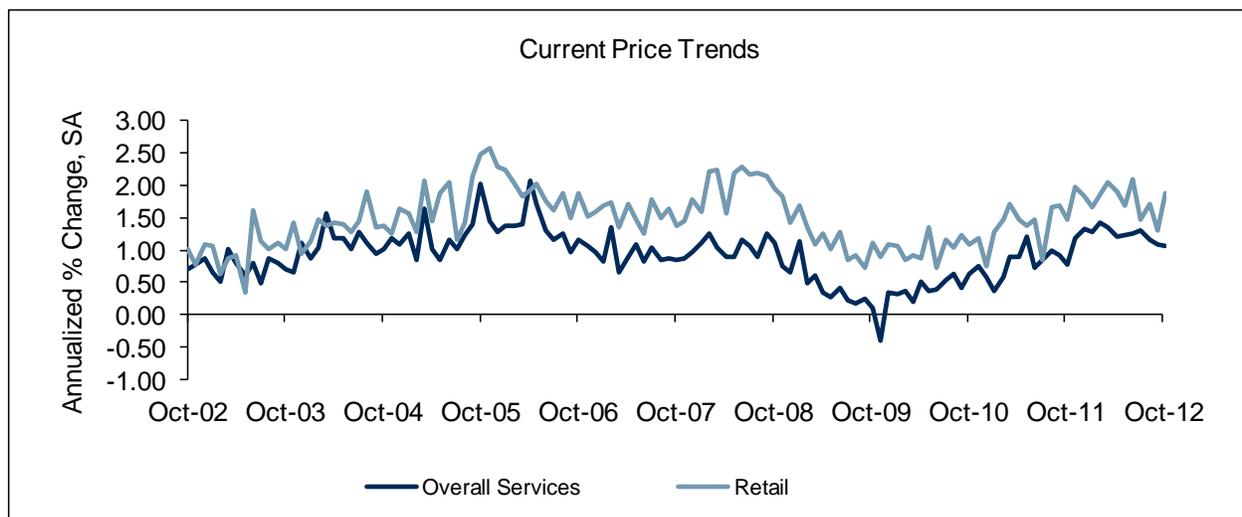
Overall Service Sector Conditions

Revenues in the overall service sector slowed in October, pulling the index to 3 from last month's 11. The index for the number of employees remained flat, inching up a point to -1, as weakness in retail employment eased and hiring by services providers was essentially unchanged. Average wages were the bright spot, with continuing strength at non retail firms and a slight uptick at retail establishments. That indicator edged up three points to 11. Survey participants looked for moderate demand during the next six months; the expectations index settled at 6 in October, following last month's reading of 9.

Retail

Retail sales improved but remained relatively muted in October. The index ended the survey period two points higher at 5—almost matching the three-month average of 4. Big-ticket sales continued to struggle, with that index slipping two points to a reading of -5. Shopper traffic retreated, pulling the gauge to -11 from September's reading of 1. Inventory accumulation slowed, leaving that





index eleven points lower at 12. Retailers maintained their outlook for moderate sales growth during the next six months, holding that indicator at a reading of 5 for a second month.

Retail employment cuts were less widespread this month, with the index for the number of employees ending at -12. A month earlier, the index reading was -33. Average retail wages settled at an index of 2 following the September reading of -24.

Services-Providing Firms

Revenues at non-retail services firms lost momentum in October, with that gauge flattening to 0 from September's reading of 12. In addition, hiring abated further, leaving the index for number of employees one point lower at 1. Average wage increases continued to advance, with that index ending the survey period just two points below September's reading at 10.

Looking ahead six months, services providers' expectations for demand remained generally in line with last month's optimism. The index cast off one point to end at 6 in October.

Prices

Overall service sector prices nearly matched last month's pace, rising at an annualized 1.07 percent rate, compared September's 1.08 percent rate. Within the service sector, retail prices picked up to an annualized 1.88 percent pace; in September,

retail prices advanced at a 1.29 percent rate. Non-retail services prices rose at an annualized 0.97 percent rate compared to September's 0.99 percent rate of increase.

For the six months ahead, survey participants anticipated a 1.41 percent annualized rate of price change. In September, they expected future prices to advance at a 1.50 percent pace. Retailers looked for prices to continue to move up quickly, at a 1.74 percent rate. Services providers expected a 1.39 percent rate of increase in prices. A month ago, retailers expected future price change of 1.26 percent, and services providers looked for 1.52 percent growth in prices over the next six months.

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Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month
	Oct-12	Sep-12	Aug-12	Average
Revenues	3	11	-6	3
Number of Employees	-1	-2	4	0
Average Wage	11	8	10	10
Expected Demand ²	6	9	7	7
Retail Indicators				
Sales Revenues	5	3	3	4
Number of Employees	-12	-33	0	-15
Average Wage	2	-24	4	-6
Inventories	12	23	5	13
Big-ticket Sales	-5	-3	-16	-8
Shopper Traffic	-11	1	-1	-4
Expected Product Demand ²	5	5	1	4
Services Firms Indicators				
Revenues	0	12	-6	2
Number of employees	1	2	5	3
Average wage	10	12	11	11
Expected demand for services ²	6	7	8	7
Current Price Trends³				
Service Sector	1.07	1.08	1.15	
Retail	1.88	1.29	1.70	
Services Firms	0.97	0.99	1.02	
Expected Price Trends^{2,3}				
	Expectations			
	Oct-12	Sep-12	Aug-12	
Service Sector	1.41	1.50	1.54	
Retail	1.74	1.26	1.18	
Services Firms	1.39	1.52	1.66	

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 120 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.