

Regional Surveys of Business Activity

Fifth District Survey of Service Sector Activity

Service Sector Activity Weakened; Employment Declined

Overview

Service sector activity slowed in December, according to the latest survey by the Federal Reserve Bank of Richmond. Big ticket sales dropped this month, contributing to a fall in retail revenues. Inventories rose slightly. In addition, shopper traffic diminished and retailers indicated a more negative outlook for sales over the next six months. At non-retail services businesses, revenues flattened. In contrast to retail merchants, services providers remained optimistic about business prospects in the first half of the new year.

Labor indicators in the service sector weakened in December. The number of employees fell at both retail and non-retail establishments. While average wages grew on pace with a month earlier at services-providing firms, retail wages declined.

Price growth in the broad service sector hovered near November's moderate pace. However, survey respondents expected somewhat faster overall price growth during the next six months.

Overall Service Sector Conditions

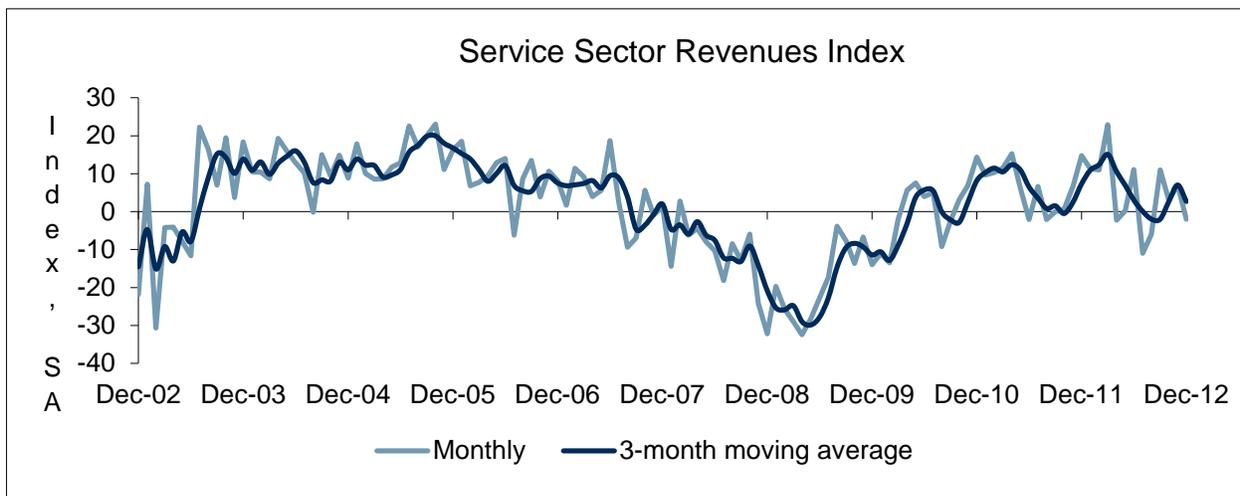
Service sector revenues declined in December, with the index slipping to -2 from November's

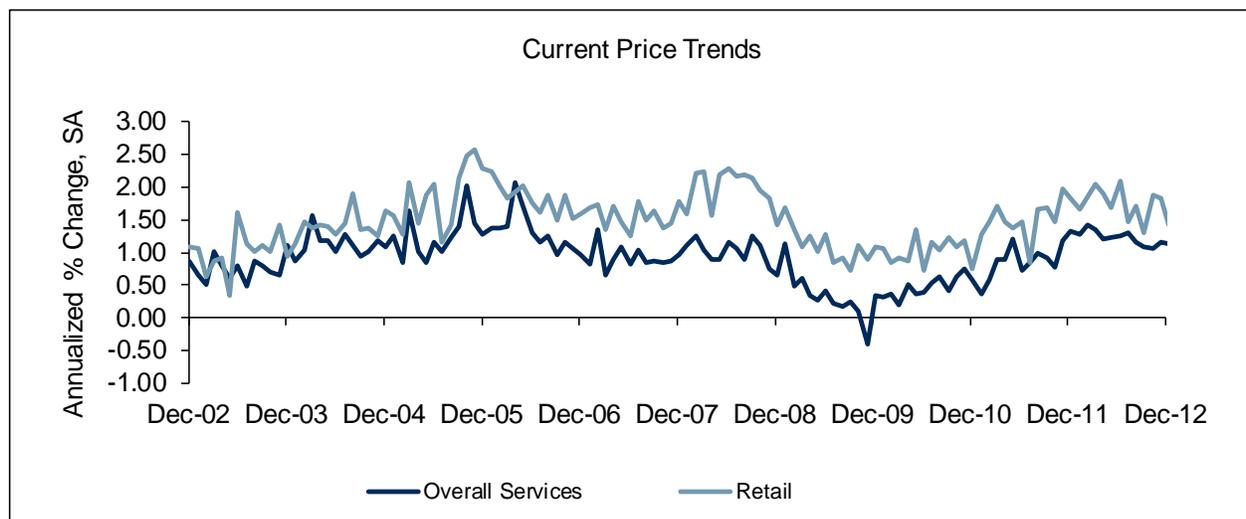
reading of 7. Employment remained on a downward trajectory, with the index subtracting six points to settle at -12. Additionally, average wage growth waned, softening that index to 5 from last month's 9. Looking ahead six months, survey respondents expected no change in demand for goods and services; the index finished seven points below last month's reading at 0.

Retail

Retail sales dropped in December, dragging November's index down twenty-seven points to a reading of -13. The index for shopper traffic also dropped into negative territory, ending at -18, following November's 23. Furthermore, big-ticket sales withered, pulling that index down seventeen points to -31 this month. Retail inventories rose slightly, with the index at 6 following last month's reading of -1. Merchants expected a weak market in the first half of the new year. The index for expected product demand fell to -24 in December from -3.

Retail employment declined this month, with the index for the number of employees falling to -21 from the previous reading of -13. The index for average wages lost twelve points, settling at -4.





Services-Providing Firms

Revenues were nearly flat at non-retail services firms. The index finished at a reading of 1, compared to last month's 4. Services providers trimmed their payrolls; the index for the number of employees dropped two points to -8 in December. Average wage growth remained constant, however, keeping the index at 7 for a second month.

Looking ahead six months, non-retail firms continued to anticipate solid demand for their services. The expectations index shed just one point from last month's reading, ending the December survey period at a reading of 8.

Prices

Overall service sector prices grew nearly on pace with last month, rising at an annualized 1.13 percent rate. In November, prices advanced at a 1.16 percent rate. Separately, retail prices slowed somewhat to a 1.41 percent growth rate, compared to last month's 1.84 percent pace. Non-retail services prices grew at a 0.99 percent annualized rate, compared to 1.01 percent growth in November.

Expectations were for overall quicker price change during the next six months. Survey respondents looked for annualized price growth of 1.73 percent, whereas in November, they expected prices to rise at a 1.68 percent annualized pace.

Non-retail services providers anticipated a 1.67 percent rate of increase, compared to their November outlook for 1.53 percent price growth. In contrast, retailers expected future prices to grow more slowly than in November's outlook. December's expectation was for a 2.20 percent rise, compared to the 2.43 percent rate expected last month.

Contact

Aileen Watson

Senior Economic Analyst/Supervisor
Research Dept. /Regional Economics
Federal Reserve Bank of Richmond
Richmond Office

Ph: 804.697.7995 • Fax: 804.697.8123
aileen.watson@rich.frb.org
www.richmondfed.org

Business Activity Indexes^{1,4}				
Service Sector Indicators	Current Conditions			3-Month Average
	Dec-12	Nov-12	Oct-12	
Revenues	-2	7	3	3
Number of Employees	-12	-6	-1	-7
Average Wage	5	9	11	8
Expected Demand ²	0	7	6	4
Retail Indicators				
Sales Revenues	-13	14	5	2
Number of Employees	-21	-13	-12	-15
Average Wage	-4	8	2	2
Inventories	6	-1	12	6
Big-ticket Sales	-31	-14	-5	-17
Shopper Traffic	-18	23	-11	-2
Expected Product Demand ²	-24	-3	5	-7
Services Firms Indicators				
Revenues	1	4	0	2
Number of employees	-8	-6	1	-4
Average wage	7	7	10	8
Expected demand for services ²	8	9	6	8
Current Price Trends³				
Service Sector	1.13	1.16	1.07	
Retail	1.41	1.84	1.88	
Services Firms	0.99	1.01	0.97	
Expected Price Trends^{2,3}				
Expectations				
	Dec-12	Nov-12	Oct-12	
Service Sector	1.73	1.68	1.41	
Retail	2.20	2.43	1.74	
Services Firms	1.67	1.53	1.39	

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 100 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.