



Texas Service Sector Outlook Survey

F E D E R A L R E S E R V E B A N K O F D A L L A S

June 1, 2011

TEXAS SERVICE SECTOR ACTIVITY INCREASES BUT AT A SLOWER PACE

Texas service sector activity increased in May, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, fell from 12 to 2, which is indicative of slower revenue growth.

Labor market indicators continued to reflect some hiring and slightly longer workweeks. The May employment index edged down from 6 to 3, although 68 percent of the respondents noted no change in employment. The hours worked index rose from 7 to 10, posting a positive reading for the third consecutive month.

Respondents were less optimistic about the broader economy this month. The general business activity index fell from 8 to -2, its first negative reading since July 2010. The company outlook index stayed positive but moved down from 8 to 2.

Prices and wages rose again in May. The selling prices index came in at 9, its fifth consecutive reading in positive territory. The wages and benefits index held steady at a reading of 14, with the great majority of respondents indicating no change in compensation costs.

Indexes of future service sector activity generally decreased from April but remained positive with the exception of part-time employment, which dipped into negative territory.



RETAIL SALES WEAKEN

Retail sales fell in May, according to business executives responding to the Texas Retail Outlook Survey. The volatile sales index fell from 14 to -5 following two months of positive readings, and inventories were flat.

Labor market indicators generally reflected a slower pace of hiring and more hours worked. The employment index fell from 16 to 4, and part-time employment declined, although most respondents continued to note no change. The hours worked index held steady at 6, reflecting slightly longer workweeks.

Retailers were less optimistic about the direction of the broader economy in May. The general business activity index pushed further into negative territory this month, with nearly one-third of respondents noting weaker activity. The company outlook index moved down to 1, suggesting the outlook improved little from April.

Retail prices and wages continued to climb in May, although price increases appear to have slowed. The selling prices index fell from 30 to 18, which is consistent with a slower rate of price increase. The wages and benefits index rose from 13 to 18, although the majority of respondents noted no change in labor costs.

Indexes of future retail sector activity generally fell in May but remained in positive territory with the exception of part-time employment. The index of future part-time employment index came in at -3, down from a reading of 8 last month.

The Texas Retail Outlook Survey (TROS) is a component of the TSSOS that uses information only from respondents in the retail and wholesale sectors.

The Dallas Fed conducts the Texas Service Sector Outlook Survey monthly to obtain a timely assessment of the state's service sector activity. Data were collected May 17–25, and 222 Texas business executives responded to the survey. Firms are asked whether revenue, employment, prices, general business activity and other indicators increased, decreased or remained unchanged over the previous month.

Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. When the share of firms reporting an increase exceeds the share reporting a decrease, the index will be greater than zero, suggesting the indicator has increased over the prior month. If the share of firms reporting a decrease exceeds the share reporting an increase, the index will be below zero, suggesting the indicator has decreased over the prior month. An index will be zero when the number of firms reporting an increase is equal to the number of firms reporting a decrease.

Next release: June 28, 2011

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas									
Current									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	1.6	11.7	-10.1	Increasing	19	26.6	48.4	25.0	
Employment	3.0	6.1	-3.1	Increasing	15	17.7	67.6	14.7	
Part-time employment	0.1	2.6	-2.5	Increasing	3	8.7	82.7	8.6	
Hours worked	9.8	6.9	+2.9	Increasing	3	15.0	79.8	5.2	
Wages and benefits	13.5	14.9	-1.4	Increasing	20	16.9	79.7	3.4	
Input prices	30.7	40.4	-9.7	Increasing	25	37.7	55.4	7.0	
Selling prices	8.8	12.3	-3.5	Increasing	5	18.0	72.8	9.2	
Capital expenditures	16.0	18.2	-2.2	Increasing	21	23.6	68.8	7.6	
General Business Conditions									
Current									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	1.7	7.8	-6.1	Improving	20	20.4	61.0	18.7	
General business activity	-1.8	7.7	-9.5	Worsening	1	16.9	64.4	18.7	
Business Indicators Relating to Facilities and Products in Texas									
Six Months Ahead									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	29.0	37.6	-8.6	Increasing	27	46.6	35.7	17.6	
Employment	13.5	19.0	-5.5	Increasing	26	28.4	56.6	14.9	
Part-time employment	-0.5	5.8	-6.3	Decreasing	1	10.2	79.0	10.7	
Hours worked	7.6	4.8	+2.8	Increasing	21	13.6	80.4	6.0	
Wages and benefits	33.7	28.8	+4.9	Increasing	53	37.4	58.9	3.7	
Input prices	47.8	55.1	-7.3	Increasing	53	53.8	40.2	6.0	
Selling prices	22.3	31.5	-9.2	Increasing	22	32.4	57.5	10.1	
Capital expenditures	25.7	21.2	+4.5	Increasing	26	34.6	56.4	8.9	
General Business Conditions									
Six Months Ahead									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	8.3	19.0	-10.7	Improving	26	27.2	54.0	18.9	
General business activity	10.4	16.9	-6.5	Improving	25	28.8	52.8	18.4	

*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

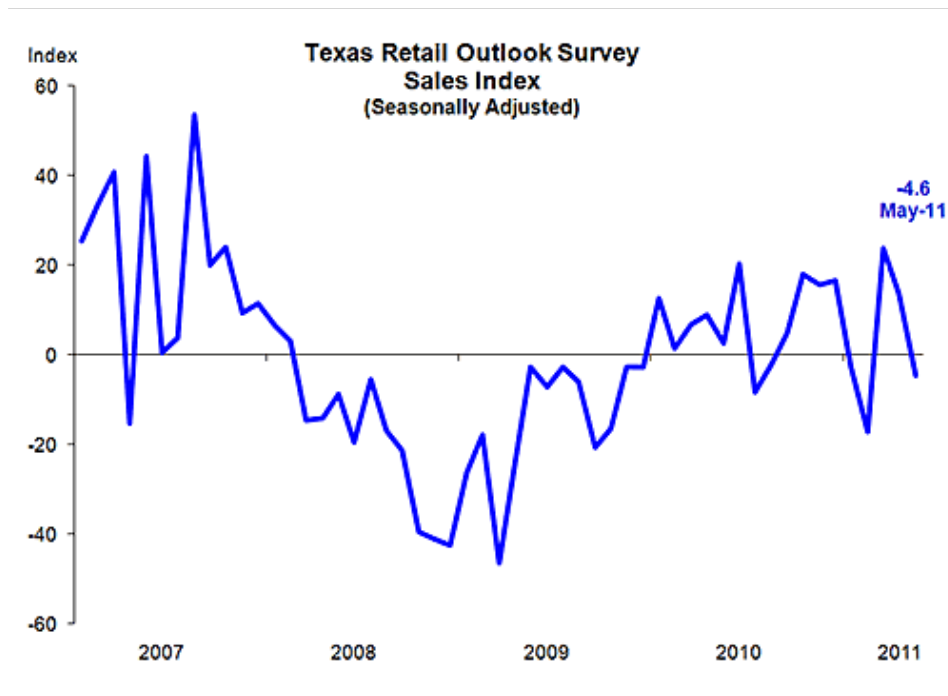
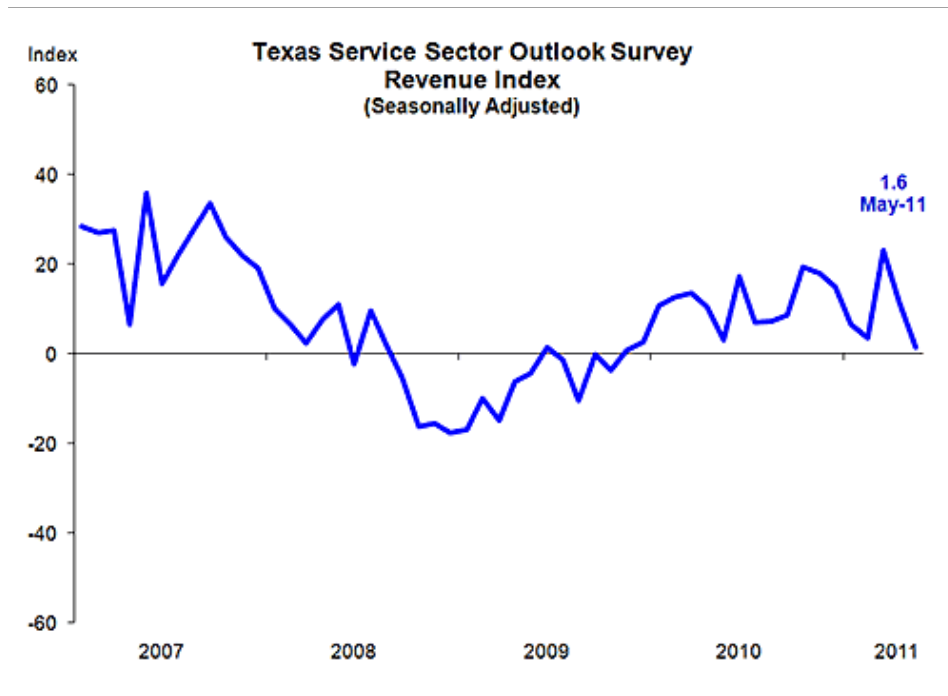
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products, Retail Current									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Retail Activity in Texas									
Sales	-4.6	13.5	-18.1	Decreasing	1	27.6	40.2	32.2	
Employment	3.9	16.1	-12.2	Increasing	9	19.5	64.9	15.6	
Part-time employment	-3.0	3.0	-6.0	Decreasing	1	9.1	78.8	12.1	
Hours worked	6.2	7.3	-1.1	Increasing	3	15.4	75.4	9.2	
Wages and benefits	17.9	13.2	+4.7	Increasing	3	23.9	70.1	6.0	
Input prices	27.8	51.7	-23.9	Increasing	10	41.7	44.4	13.9	
Selling prices	18.1	29.5	-11.4	Increasing	10	34.2	49.7	16.1	
Capital expenditures	15.1	19.4	-4.3	Increasing	2	24.2	66.7	9.1	
Inventories	1.2	20.9	-19.7	Increasing	8	26.7	47.9	25.5	
Companywide Retail Activity									
Sales	-8.1	20.0	-28.1	Decreasing	1	24.4	43.2	32.5	
Internet sales	5.6	20.0	-14.4	Increasing	3	16.7	72.2	11.1	
Catalog sales	0.0	0.0	0.0	No Change	2	13.3	73.3	13.3	
General Business Conditions, Retail Current									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	0.6	7.5	-6.9	Improving	9	22.0	56.6	21.4	
General business activity	-9.9	-1.3	-8.6	Worsening	2	20.0	50.0	29.9	
Business Indicators Relating to Facilities and Products, Retail Six Months Ahead									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Retail Activity in Texas									
Sales	36.7	43.4	-6.7	Increasing	27	52.2	32.3	15.5	
Employment	13.5	23.6	-10.1	Increasing	17	29.9	53.7	16.4	
Part-time employment	-3.4	8.4	-11.8	Decreasing	1	12.8	71.1	16.2	
Hours worked	4.1	5.9	-1.8	Increasing	10	18.7	66.6	14.6	
Wages and benefits	32.3	25.8	+6.5	Increasing	29	38.4	55.5	6.1	
Input prices	37.4	49.2	-11.8	Increasing	25	47.8	41.8	10.4	
Selling prices	30.3	46.2	-15.9	Increasing	25	40.9	48.5	10.6	
Capital expenditures	20.0	27.6	-7.6	Increasing	2	33.8	52.3	13.8	
Inventories	7.5	26.5	-19.0	Increasing	17	29.9	47.8	22.4	
Companywide Retail Activity									
Sales	26.6	45.1	-18.5	Increasing	26	43.4	39.8	16.8	
Internet sales	18.9	30.6	-11.7	Increasing	26	26.4	66.0	7.5	
Catalog sales	4.5	9.1	-4.6	Increasing	5	13.6	77.3	9.1	
General Business Conditions, Retail Six Months Ahead									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	14.7	25.9	-11.2	Improving	25	29.0	56.8	14.3	
General business activity	7.7	22.1	-14.4	Improving	25	26.0	55.7	18.3	

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COMMENTS FROM SURVEY RESPONDENTS

These comments were selected from respondents' completed surveys and have been edited for publication.

Credit Intermediation and Related Activities

Data suggest that consumers are intent on deleveraging their personal balance sheets. Prepayments on consumer loans have increased, and loan demand remains very weak. Overall financial performance remains strong, but unknowns from future regulatory changes may negatively impact the outlook for future performance.

Securities, Commodity Contracts, and Other Financial Investments and Related Activities

There is caution on all fronts due to high federal spending, no progress in cutting the deficit and increasing regulation.

Real Estate

The current housing market combined with recent regulations by the Consumer Financial Protection Bureau (CFPB) make it very difficult to make hiring and growth decisions.

Professional, Scientific and Technical Services

The oil and gas business in South Texas is creating a very robust business climate for us. The outlook is very good.

We lost a client last month, which accounts for our reduction in revenue and employee counts. There is not a lot of intensity around projects. Business just seems OK, so we remain cautious.

Our country's \$14 trillion debt is a heavy burden, affecting our economy's ability to grow and absorb jobs.

Management of Companies and Enterprises

Extensive government regulations have been the greatest deterrent to an improved outlook.

Banks' bottom lines continue to remain under pressure from slow loan demand and decreases in noninterest income. With interchange fee income from debit cards due to be reduced by 70 percent in July, we have begun to review noninterest expense to try to offset some of the declines we are forecasting.

Hospitals

State budget reductions in the area of health care and Medicaid are expected to have a negative impact on hospital operations.

Accommodation

We believe the Eagle Ford Shale project will create as many good paying jobs as the Pecos project did in 2007.

Food Services and Drinking Places

Sales increased over the last four weeks. Employment is growing due to business expansion, but wages are stable. The cost of goods has increased in the last four week period. We have the same prices right now but will be taking a price increase of about 2.5 percent next month. We think the business climate is improving and will continue to do so.

Religious, Grantmaking, Civic, Professional and Similar Organizations

Significant changes are anticipated due to state of Texas budget reductions coming with the new state fiscal year. Approx 55 percent of the organization's revenue is tied to state contracts.

Animal Production

Parent company secured several new customers, resulting in higher dairy sales for our operation.

Merchant Wholesalers, Durable Goods

The energy industry continues to be very robust especially in South Texas.

Manufacturing orders increased in offshore drilling as rigs need to be upgraded due to the Macondo spill. Steel manufacturing improved as well; mining is still flat to poor.

While we see a lot of construction activity that is very promising at this time, we cannot emphasize enough that a large number of construction industry subcontractors who have managed to survive this recession are teetering on the edge of survival. There has been a major culling of subcontractors due to the recession. There are quite a few of these subcontractors hanging on that need a minimum of six to nine more months of patience and low interest rates to survive and be around to help get the nation's construction industry back on its feet.

Motor Vehicle and Parts Dealers

Sales began declining in the last part of April, and the decline has accelerated in May. We do business across the country, and most regions have declined in this period as well.

Building Material and Garden Equipment and Supplies Dealers

Business activity has slowed significantly during May.

General Merchandise Stores

It is difficult to predict six months from now due to the current economic situation.

Miscellaneous Store Retailers

We are scheduled to close the doors in mid-May if nothing changes to stop it.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Jesus Cañas at jesus.canas@dal.frb.org.

The Texas Service Sector Outlook Survey can be found online at www.dallasfed.org/research/surveys/tssos.
