Texas Service Sector Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

June 28, 2011

Texas Service Sector Activity Strengthens

What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on issues facing their firms and changes in wage and benefits costs. See page 6 for results.

Texas service sector activity increased in June, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, rose from 1.6 to 6.4, with 30 percent of respondents noting that revenue increased from May.

Labor market indicators continued to reflect some hiring and slightly longer workweeks. The June employment index held steady at a reading of 2.8, with 72 percent of the firms reporting no change in employment. The hours worked index fell from 9.8 to 2.7, suggesting hours worked rose more slowly in June.

Respondents were more pessimistic about the direction of the broader economy this month. The general business activity index pushed further negative, falling to –12. The company outlook index moved down from 1.7 to –5.9, its first negative reading since September 2009, with about one-fifth of respondents reporting their outlook had worsened from last month.

The pace of price and wage increases was largely unchanged in June. The selling prices index came in at 7.2, down from a reading of 8.8 last month. The wages and benefits index fell to 12.7 from 13.5, although the great majority of respondents continued to indicate there has been no change in compensation costs.

Indexes of future service sector activity generally decreased from May but remained positive, with the exception of general business activity, which dipped into negative territory for the first time since April 2009.

Retail Sales Rebound

Retail sales increased in June, according to business executives responding to the Texas Retail Outlook Survey. After posting a negative May reading, the volatile sales index rose to 4.6 this month, and inventories fell.

Labor market indicators reflected a slightly faster pace of hiring in June. The employment index advanced from 3.9 to 9.5, although most respondents continued to note no change. The hours worked index edged down from 6.2 to 3, suggesting hours worked rose more slowly as new workers were added.

Retailers were mixed in their assessment of the broader economy in June. The general business activity index was negative for the third month in a row, although it rose from its May reading. The company outlook index was zero, suggesting outlooks were about the same as in May.

Retail prices and wages continued to climb in June. The selling prices index rose from 18.1 to 24.5, suggesting prices rose at a faster pace than in May. The wages and benefits index fell from 17.9 to 12.2, although the majority of respondents continued to note no change in labor costs.

Indexes of future retail sector activity remained in positive territory in June, with the exception of part-time employment. Indexes of future business activity and company outlook improved.

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 June 14–22, and 220 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: July 26, 2011

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas Current								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	6.4	1.6	+4.8	Increasing	20	29.5	47.5	23.1
Employment	2.8	3.0	-0.2	Increasing	16	15.3	72.2	12.5
Part-time employment	0.1	0.1	0.0	Increasing	4	10.5	79.1	10.4
Hours worked	2.7	9.8	-7.1	Increasing	4	11.3	80.1	8.6
Wages and benefits	12.7	13.5	-0.8	Increasing	21	16.2	80.3	3.5
Input prices	34.6	30.7	+3.9	Increasing	26	38.4	57.8	3.8
Selling prices	7.2	8.8	-1.6	Increasing	6	17.2	72.8	10.0
Capital expenditures	11.9	16.0	-4.1	Increasing	22	20.6	70.8	8.7
General Business Conditions Current								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-5.9	1.7	-7.6	Worsening	1	15.5	63.2	21.4
General business activity	-12.0	-1.8	-10.2	Worsening	2	13.2	61.6	25.2
Business Indicators Relating to Facilities and Products in Texas Six Months Ahead								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	27.5	29.0	-1.5	Increasing	28	46.7	34.1	19.2
Employment	13.6	13.5	+0.1	Increasing	27	27.0	59.6	13.4
Part-time employment	-0.2	-0.5	+0.3	Decreasing	2	11.0	77.8	11.2
Hours worked	1.6	7.6	-6.0	Increasing	22	8.0	85.6	6.4
Wages and benefits	32.6	33.7	-1.1	Increasing	54	36.0	60.6	3.4
Input prices	48.1	47.8	+0.3	Increasing	54	51.8	44.6	3.7
Selling prices	19.7	22.3	-2.6	Increasing	23	28.0	63.7	8.3
Capital expenditures	15.0	25.7	-10.7	Increasing	27	28.3	58.5	13.3
General Business Conditions Six Months Ahead								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	6.5	8.3	-1.8	Improving	27	26.2	54.1	19.7
General business activity	-1.5	10.4	-11.9	Worsening	1	20.9	56.7	22.4

*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	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	4.6	-4.6	+9.2	Increasing	1	31.5	41.6	26.9
Employment	9.5	3.9	+5.6	Increasing	10	20.8	67.9	11.3
Part-time employment	1.6	-3.0	+4.6	Increasing	1	12.5	76.6	10.9
Hours worked	3.0	6.2	-3.2	Increasing	4	18.2	66.7	15.2
Wages and benefits	12.2	17.9	-5.7	Increasing	4	16.7	78.8	4.5
Input prices	36.6	27.8	+8.8	Increasing	11	43.5	49.6	6.9
Selling prices	24.5	18.1	+6.4	Increasing	11	33.1	58.3	8.6
Capital expenditures	12.1	15.1	-3.0	Increasing	3	21.2	69.7	9.1
Inventories	-2.3	1.2	-3.5	Decreasing	1	25.3	47.2	27.6
Companywide Retail Activity								
Sales	12.9	-8.1	+21.0	Increasing	1	34.6	43.7	21.7
Internet sales	-2.1	5.6	-7.7	Decreasing	1	10.4	77.1	12.5
Catalog sales	2.3	0.0	+2.3	Increasing	1	11.6	79.1	9.3

General Business Conditions, Retail Current								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	0.0	0.6	-0.6	No Change	1	22.2	55.6	22.2
General business activity	-5.8	-9.9	+4.1	Worsening	3	22.1	50.0	27.9

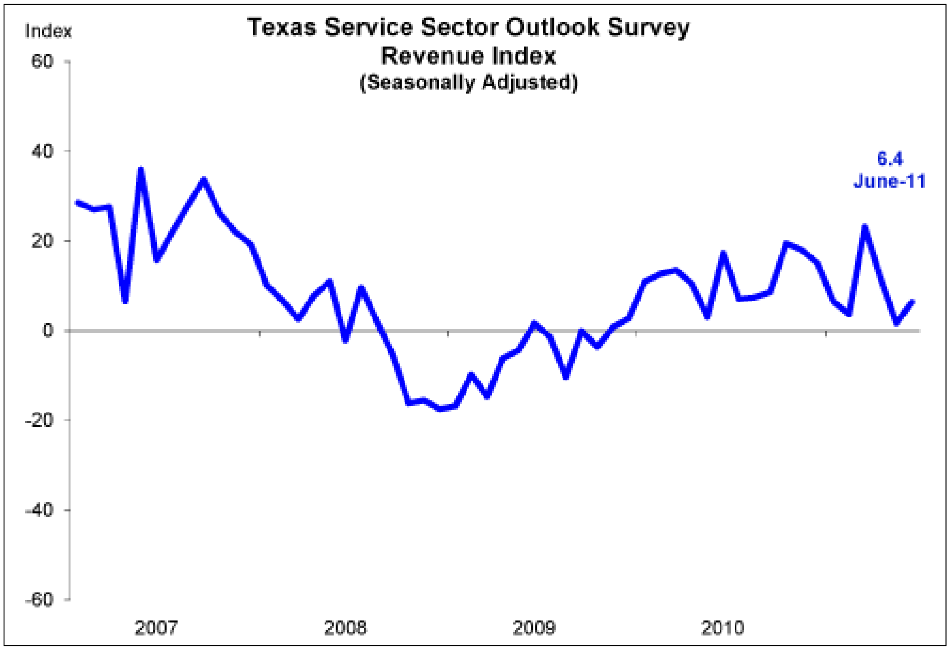
Business Indicators Relating to Facilities and Products, Retail Six Months Ahead								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	36.7	36.7	0.0	Increasing	28	53.1	30.5	16.4
Employment	12.5	13.5	-1.0	Increasing	18	23.4	65.6	10.9
Part-time employment	-10.4	-3.4	-7.0	Decreasing	2	3.7	82.2	14.1
Hours worked	2.3	4.1	-1.8	Increasing	11	11.6	79.1	9.3
Wages and benefits	24.4	32.3	-7.9	Increasing	30	31.5	61.4	7.1
Input prices	48.4	37.4	+11.0	Increasing	26	53.1	42.2	4.7
Selling prices	33.4	30.3	+3.1	Increasing	26	41.3	50.8	7.9
Capital expenditures	12.5	20.0	-7.5	Increasing	3	26.6	59.4	14.1
Inventories	3.1	7.5	-4.4	Increasing	18	21.9	59.4	18.8
Companywide Retail Activity								
Sales	36.2	26.6	+9.6	Increasing	27	50.9	34.4	14.7
Internet sales	19.1	18.9	+0.2	Increasing	27	25.5	68.1	6.4
Catalog sales	4.6	4.5	+0.1	Increasing	6	11.6	81.4	7.0

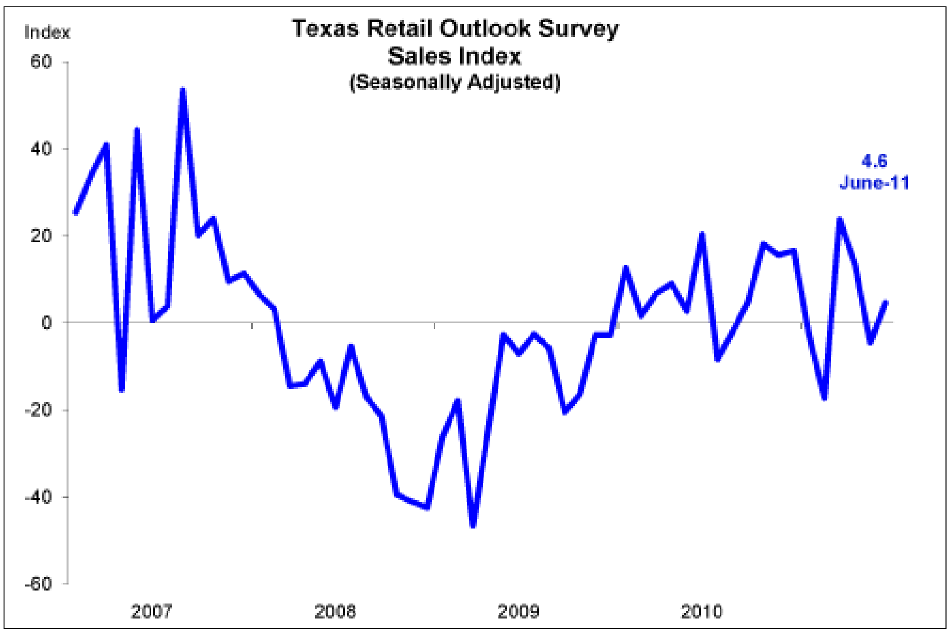
General Business Conditions, Retail Six Months Ahead								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	24.2	14.7	+9.5	Improving	26	38.8	46.6	14.6
General business activity	17.7	7.7	+10.0	Improving	26	33.0	51.7	15.3

*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.





Comments from Survey Respondents

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

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

Drought is taking its toll on cattle, farming and consumer attitudes. A noticeable slowdown in the last four months.

Professional, Scientific and Technical Services

We are seeing a slow improvement in business activity. We had some part-time additions this summer. They are paid minimum wage. We expect slow growth over next 12 months.

We continue to see weakening in government capital expenditures, and commercial lending has not improved. We think it is going to be a very slow recovery.

Things have slowed down quite a bit.

Management of Companies and Enterprises

Government regulations continue to add a huge burden in terms of lost productivity and increased cost that is passed on to the consumer.

Accommodation

We experienced a small softening of revenues during June. Our restaurant remodel came to an end last May. We are still planning some capital expenditures for the remainder of the year.

Bookings for future hotel stays have shown a slowing trend for several weeks now.

Food Services and Drinking Places

We are experiencing one of the worst summer sales in the history of our company. Consumer confidence has worsened due to high gasoline price and food cost. According to our projection, top line will remain under pressure for quite some time, which could force some restaurant and retail owners to fold their businesses.

We took a 2.6 percent price increase early in the month in our coffee shops. The price increase was not enough to totally recoup the reduction in margins we have seen in recent months because of the increases in cost of goods. Our incremental gain (gain over price increases) is running right at 1 percent so far in June, but it may very well be lower by month-end. We had planned a 1.5 percent increase for the entire fiscal year, but that did not seem prudent after the recent softening we have seen. Our restaurant business, with a much higher menu price per person, is having an extraordinarily good year. Our dinner houses are up 10 percent from a year ago. The recession is over for them. We had a major jump in the number of employees both last month and this month because we opened a new restaurant in the first week of June. We added 50 to 60 people. Cost of goods sold has been up every month for the last few months. We are not planning any major remodeling of any of our existing restaurants at this point. We would like to do several but want to wait until the economy is a little stronger.

Merchant Wholesalers, Durable Goods

The energy sector is still the main driver for our business. Our industrial space improved slightly in the month of June.

Building Material and Garden Equipment and Supplies Dealers

We are optimistic about the next six months. We have made all the cuts we can, and we are on track to break even. We need more activity in construction and confidence in the economy.

We can't find help: Everyone has a degree; if not, they can't read or write. We need more middle-of-the-road employees. There is a huge labor supply imbalance between low-skill and high-skill workers.

Miscellaneous Store Retailers

We continue experiencing lower sales. The downturn in the general economy is taking its toll on consumers' ability to maintain lifestyle. We just closed down a retail store. We had to terminate all employees except three to keep basic services operating.

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.

Texas Service Sector Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

June 28, 2011

SPECIAL QUESTIONS

Texas Service Sector Outlook Survey

1. To what extent do the following issues pose a problem for your firm?

	No problem (percent)	Relatively minor problem (percent)	Relatively major problem (percent)
Weak sales	23.6	36.8	39.7
Input costs	30.6	49.7	19.7
Supply chain disruptions	61.4	25.0	13.6
Labor costs - wages	32.2	52.5	15.3
Labor costs - benefits	18.8	37.5	43.8
Finding qualified workers	17.6	47.2	35.2
Government regulation	9.1	33.0	58.0
Business taxes	18.6	39.0	42.4
Availability or cost of credit	56.0	28.0	16.0
Uncertain business outlook	7.5	32.8	59.8

2. How do you estimate wage per employee will change during 2011 compared with 2010?

	Percent
Decrease	1.1
Stay at 2010 levels	23.3
Increase less than 2.5%	31.8
Increase 2.5% to 5%	39.2
Increase more than 5%	4.5

3. How do you estimate benefits per employee (employer contribution only) will change during 2011 compared with 2010?	
	Percent
Decrease	5.1
Stay at 2010 levels	20.9
Increase less than 2.5%	14.7
Increase 2.5% to 5%	26.0
Increase more than 5%	33.3

4. If wages or benefits costs are increasing, is the increase larger than you expected or budgeted for?	
	Percent
Yes	39.3
No	60.7

Texas Retail Outlook Survey

1. To what extent do the following issues pose a problem for your firm?			
	No problem (percent)	Relatively minor problem (percent)	Relatively major problem (percent)
Weak sales	28.0	26.0	46.0
Input costs	12.0	62.0	26.0
Supply chain disruptions	35.3	43.1	21.6
Labor costs - wages	33.3	52.9	13.7
Labor costs - benefits	18.0	24.0	58.0
Finding qualified workers	13.7	43.1	43.1
Government regulation	6.0	36.0	58.0
Business taxes	10.2	38.8	51.0
Availability or cost of credit	56.0	34.0	10.0
Uncertain business outlook	6.0	26.0	68.0

2. How do you estimate wage per employee will change during 2011 compared with 2010?	
	Percent
Decrease	0.0
Stay at 2010 levels	32.0
Increase less than 2.5%	26.0
Increase 2.5% to 5%	38.0
Increase more than 5%	4.0

3. How do you estimate benefits per employee (employer contribution only) will change during 2011 compared with 2010?	
	Percent
Decrease	2.0
Stay at 2010 levels	27.5
Increase less than 2.5%	11.8
Increase 2.5% to 5%	23.5
Increase more than 5%	35.3

4. If wages or benefits costs are increasing, is the increase larger than you expected or budgeted for?	
	Percent
Yes	38.8
No	61.2

Survey collection period: 6/6/2011–6/9/2011

Special Questions Comments

These comments have been edited for publication.

Publishing Industries (except Internet)

The rate of increase for health care costs is a major concern and has a potentially grave impact on our ability to succeed.

Management of Companies and Enterprises

If I had to point to one single item that is hurting our business and our customers, it is government regulation. We spend thousands of dollars every year trying to comply with government regulation and red tape. You hear it talked about all the time, but no one listens.

While business is better this year than the last two years, our customers tell us that they are holding back due to uncertainty about taxes, health care costs and regulation.

As a bank, we have been pushed into a situation where we continue to lose noninterest income because of provisions of Dodd–Frank [Wall Street Reform and Consumer Protection Act] and attitudes of our regulatory agencies. Loan growth is stagnant as companies sit on cash and delay plans for capital expenditures. As a result, we have to deepen our expense reduction plans and look to recoup other fees without chasing our customer base away to competitors.

Government regulation continues to be the biggest drag on the overall economy. Employers are concerned about putting cash into an expansion or hiring additional staff with the unknown of what the regulatory issues are and what regulations coming down from the current administration are going to do to them. Until this level of unknown is corrected, the expansion does not have a snowball's chance of moving employment forward.

Professional, Scientific and Technical Services

Demand seems to be weakening. This could be a seasonal situation, but companies seem to be pulling back.

Insurance Carriers and Related Activities

Health benefits were a significant problem during the last renewal. We had to make major changes to the employee participation in health care costs to maintain firm health care premium increases at reasonable levels. Specific provisions within the Dodd–Frank financial reform bill have generated a significant amount of state-level conforming legislation and regulation.

Accommodation

Good rig counts, but for how long?

Nursing and Residential Care Facilities

We are a skilled nursing facility dependent on Medicaid and Medicare for revenue. Government regulations add additional cost while revenue is shrinking.

Administrative and Support Services

We need to keep the H-2B [temporary worker] program for the service industry.

Credit Intermediation and Related Activities

In today's environment, every employee is a potential government investigation or lawsuit. In almost 30 years, we've had one workers' comp claim. Yet, the insurance is costly. As a friend commented last summer, it's almost against the law to be an employer.

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

Health insurance increased approximately 15 percent. Wages have to move up; there is inflation everywhere. Suppliers of all kinds of materials are increasing prices, significantly. Government regulations are beginning to be an expensive pain, i.e., EPA, OSHA, etc. We are trying to improve our selling prices. Competition will hold our selling prices to modest increases. The overall net cost increases will be offset with layoffs.

Rental and Leasing Services

The trucking industry is experiencing a severe driver shortage. We've already raised our driver pay 10 percent and will probably increase that again in the fall another 5 percent to 10 percent. Even with high unemployment rates, we can't find people to drive trucks.

My top leadership team and I are spending more time complying with government regulations, inspections, audits, reports and taxes than ever.

Ambulatory Health Care Services

I cannot predict overhead in the future because of unknown government demands.

Building Material and Garden Equipment and Supplies Dealers

We are in the construction supply business, and things are still flat because of tight credit and lack of consumer confidence. Sales are flat and running at 2010 numbers. We are down from 112 employees to 72 and still struggling to make ends meet. We know better times are ahead but need to start seeing improvement soon.

We are a small business (54 employees) and our health insurance costs have ballooned.

We need an employment office, not an unemployment office. The unemployment office is just there to give benefits, not to help find jobs. We need truck drivers, equipment operators, irrigators, landscapers, bookkeepers, but we cannot find workers.

Merchant Wholesalers, Durable Goods

Health care inflation and the lack of qualified job applicants are very worrisome to us. We are starting new employees at higher wages than at any time in our past.

Increasing interference in not only the workplace, but inside the employer–employee relationship is hurting our firm's productivity. Energy, productivity and creativity are sapped by the burdens of managing and executing strategies that have little or no relevance to the core mission of the enterprise.

Business credit was not an issue six months ago. We decided to move bank relations to a new bank. We have no debt but do have a mortgage on the building. Our new bank had to comply with the 75 percent value-to-debt ratio, costing us money just to move to another bank.

Construction is still in a slump. Residential, except for multifamily, is languishing at very low levels. Commercial, private sector, continues to be skittish. Public sector, mainly water sewer projects, is good. We are very concerned about the direction of the construction industry. We think poor or very poor are the two directions construction is headed.

Motor Vehicle and Parts Dealers

Health insurance costs have increased dramatically.