



# Texas Service Sector Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

September 27, 2011

## TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS

Texas service sector activity increased in September, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, climbed from 3.2 to 14.1, with one third of respondents noting revenue increased from August.

Labor market indicators remained positive and reflected some hiring but little change in the workweek. The employment index edged up from 2.1 to 4.4, which is consistent with slightly more hiring activity, although two-thirds of respondents noted no change in employment. The hours worked index dropped to 0.9 in September, suggesting average workweeks stalled.

Perceptions of general business conditions were generally more pessimistic this month, although the pace of deterioration slowed. The general business activity index remained negative for the fifth month in a row, but advanced from -18.1 in August to -10 in September. The company outlook index came in at -0.4, suggesting company outlooks were largely unchanged after dropping in August.

Price and wage pressures were not much changed in September. The selling prices index came in at 6.5, up from a reading of 4.1 in August. The wages and benefits index held steady at a reading of 10, although the great majority of respondents noted no change in labor costs.

Indexes of future service sector activity remained in positive territory in September. However, expectations regarding future business conditions were mixed. The index of future general business activity remained negative, albeit less so, rising from -11.6 to -3.2. The index of future company outlook bounced back into positive territory after posting a negative reading in August.



## RETAIL SALES RISE FURTHER

Retail sales increased in September, according to business executives responding to the Texas Retail Outlook Survey. The volatile sales index rose from 9.2 to 18.6, marking two consecutive months of sales increases. Inventories rose.

Labor market indicators reflected slower labor demand growth. The employment index fell from 9.7 to 5.1, suggesting hiring slowed relative to August. The hours worked index fell into negative territory, indicating average workweeks shrank.

Perceptions of general business conditions were mixed in September. The general business activity index came in at -9.6 in September, its sixth consecutive negative reading. The company outlook index rebounded into positive territory after posting two months of negative readings. About a quarter of respondents said their company's outlook had improved from the prior month, compared with 15 percent who noted their outlook had worsened.

Retail prices and wages continued to climb in September albeit at a diminished pace. The selling prices index fell from 21.8 to 13.6. The wages and benefits index edged down from 9.9 to 7.8, although the great majority of respondents continued to note no change in labor costs.

Indexes of future retail sector activity remained in positive territory in September with the exception of part-time employment and hours worked. Expectations regarding broader economic activity improved slightly, although the index of future general business activity remained negative at -4.5, its second consecutive negative reading.

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 September 13–21, and 229 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: November 1, 2011

## TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	14.1	3.2	+10.9	Increasing	23	32.9	48.3	18.8
Employment	4.4	2.1	+2.3	Increasing	19	17.9	68.6	13.5
Part-time employment	0.4	-1.9	+2.3	Increasing	1	9.1	82.2	8.7
Hours worked	0.9	5.2	-4.3	Increasing	7	10.1	80.7	9.2
Wages and benefits	10.0	10.4	-0.4	Increasing	24	12.7	84.6	2.7
Input prices	30.2	30.5	-0.3	Increasing	29	34.5	61.2	4.3
Selling prices	6.5	4.1	+2.4	Increasing	9	14.5	77.5	8.0
Capital expenditures	9.6	4.9	+4.7	Increasing	25	20.5	68.7	10.9
General Business Conditions								
Current								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-0.4	-4.5	+4.1	Worsening	2	17.3	65.0	17.7
General business activity	-10.0	-18.1	+8.1	Worsening	5	12.5	65.0	22.5
Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	27.9	22.6	+5.3	Increasing	31	45.6	36.7	17.7
Employment	14.3	11.7	+2.6	Increasing	30	28.7	56.9	14.4
Part-time employment	0.7	1.5	-0.8	Increasing	3	10.1	80.5	9.4
Hours worked	1.2	4.0	-2.8	Increasing	25	9.3	82.6	8.1
Wages and benefits	27.5	31.0	-3.5	Increasing	57	33.9	59.7	6.4
Input prices	43.2	44.8	-1.6	Increasing	57	47.2	48.8	4.0
Selling prices	19.9	10.4	+9.5	Increasing	26	27.4	65.1	7.5
Capital expenditures	15.5	10.4	+5.1	Increasing	30	29.2	57.0	13.7
General Business Conditions								
Six Months Ahead								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	6.5	-1.7	+8.2	Improving	1	27.4	51.7	20.9
General business activity	-3.2	-11.6	+8.4	Worsening	2	20.3	56.2	23.5

\*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.

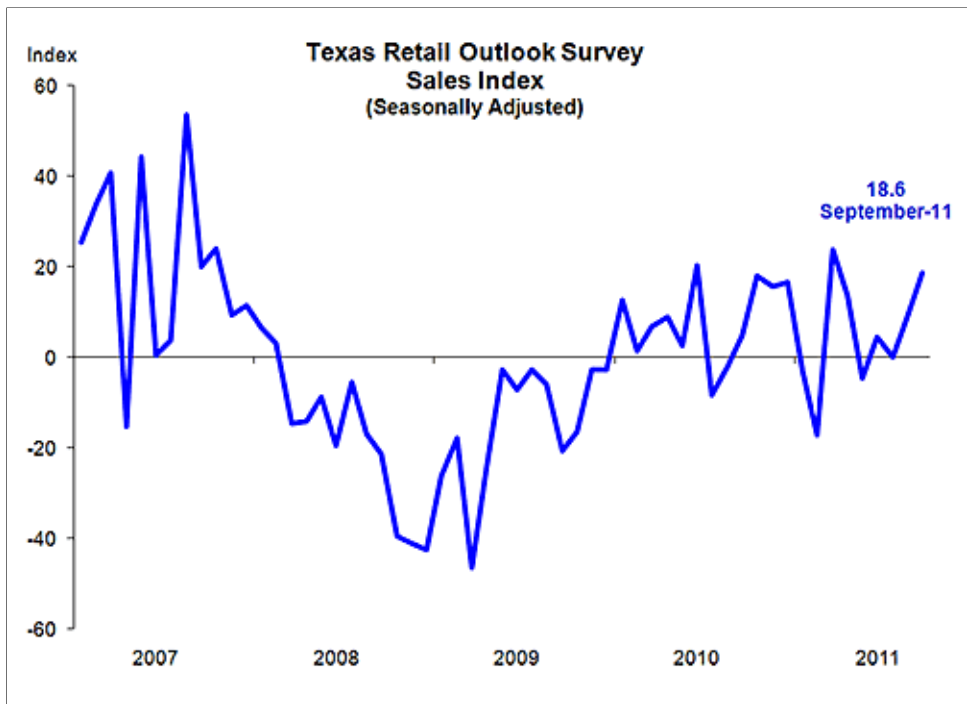
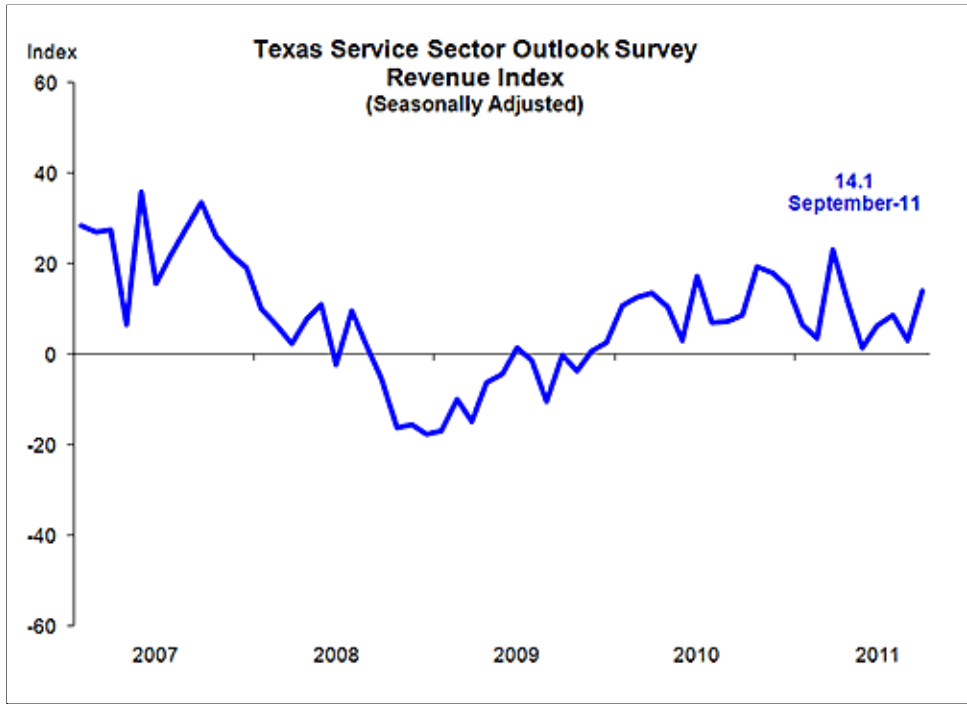
# TEXAS RETAIL OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products, Retail Current</b>									
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
<b>Retail Activity in Texas</b>									
Sales	18.6	9.2	+9.4	Increasing	2	37.7	43.3	19.1	
Employment	5.1	9.7	-4.6	Increasing	2	15.6	73.9	10.5	
Part-time employment	-1.6	-5.1	+3.5	Decreasing	2	8.1	82.3	9.7	
Hours worked	-7.8	1.6	-9.4	Decreasing	1	9.4	73.4	17.2	
Wages and benefits	7.8	9.9	-2.1	Increasing	7	12.5	82.8	4.7	
Input prices	36.2	33.6	+2.6	Increasing	14	41.9	52.4	5.7	
Selling prices	13.6	21.8	-8.2	Increasing	14	26.2	61.2	12.6	
Capital expenditures	3.1	3.2	-0.1	Increasing	6	15.6	71.9	12.5	
Inventories	9.7	9.3	+0.4	Increasing	3	25.8	58.1	16.1	
<b>Companywide Retail Activity</b>									
Sales	13.1	7.4	+5.7	Increasing	4	31.0	51.1	17.9	
Internet sales	2.1	18.4	-16.3	Increasing	3	14.9	72.3	12.8	
Catalog sales	-5.0	13.2	-18.2	Decreasing	1	5.0	85.0	10.0	
<b>General Business Conditions, Retail Current</b>									
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	8.8	-7.7	+16.5	Improving	1	23.9	61.0	15.1	
General business activity	-9.6	-14.0	+4.4	Worsening	6	17.3	55.8	26.9	
<b>Business Indicators Relating to Facilities and Products, Retail Six Months Ahead</b>									
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
<b>Retail Activity in Texas</b>									
Sales	23.9	27.1	-3.2	Increasing	31	44.1	35.7	20.2	
Employment	12.9	1.7	+11.2	Increasing	21	27.4	58.1	14.5	
Part-time employment	-13.3	-2.0	-11.3	Decreasing	5	4.1	78.5	17.4	
Hours worked	-0.4	10.2	-10.6	Decreasing	1	13.7	72.2	14.1	
Wages and benefits	15.5	23.6	-8.1	Increasing	33	29.1	57.3	13.6	
Input prices	38.7	36.1	+2.6	Increasing	29	41.9	54.8	3.2	
Selling prices	25.8	26.2	-0.4	Increasing	29	33.9	58.1	8.1	
Capital expenditures	3.3	14.7	-11.4	Increasing	6	19.4	64.5	16.1	
Inventories	0.0	4.9	-4.9	No Change	1	23.3	53.3	23.3	
<b>Companywide Retail Activity</b>									
Sales	31.4	33.9	-2.5	Increasing	30	49.7	32.0	18.3	
Internet sales	21.0	22.4	-1.4	Increasing	30	32.6	55.8	11.6	
Catalog sales	5.7	5.6	+0.1	Increasing	2	17.1	71.4	11.4	
<b>General Business Conditions, Retail Six Months Ahead</b>									
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	15.1	7.7	+7.4	Improving	29	30.8	53.5	15.7	
General business activity	-4.5	-6.0	+1.5	Worsening	2	20.8	53.9	25.3	

\*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.

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**COMMENTS FROM SURVEY RESPONDENTS**

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

**Air Transportation**

High fuel prices are a big deterrent to our business.

**Credit Intermediation and Related Activities**

We are experiencing some recovery from previous losses.

**Real Estate**

We are uncertain about the effect of Dodd-Frank.

### **Professional, Scientific and Technical Services**

We think there will be a slight improvement in our business this fall and winter. We see some improvement in confidence in the business community thanks to energy, medical care, exports and transportation.

The drought and heat are crippling individual spending and business activity.

The building industry continues to tread water with little upward movement or positive growth.

We looked at our actual numbers for the last three months and compared them with our sentiment and found that we were more pessimistic than the facts warranted. Now incentives and bonuses are being paid again (in lower amounts), and we have an adequate and well-trained workforce in place. If the last three months are a trend, we will be hiring again in the last part of the first quarter of 2012.

The uncertainty in the capital markets has caused a malaise in the commercial real estate finance market. The general outlook for commercial real estate activity has recently become more negative.

There still seems to be a lot of reluctance to move forward with projects. Our clients are very concerned about future economic growth. The constant threat of new taxes or regulations is wearing down the market.

### **Management of Companies and Enterprises**

We have not made new home loans because of some of the new rules and regulations. Some of these rules have actually kept us from renegotiating more favorable loan terms on some home loans that would have helped our customers.

The federal government regulatory burden is hurting our ability to expand and create new jobs. Although the intentions are good, the unintended consequences offset any perceived benefit.

Regulatory overreach continues to be the biggest obstacle for our business to gain any traction to expand or increase our employment numbers. Several customers over the past 12 months said that they need to expand their business and number of employees to meet demand but do not have a clear understanding of the current regulatory environment related to chemical handling in the agricultural industry.

### **Administrative and Support Services**

The upscale housing market has been strong but is now slowing a bit. The typical house pricing is about on par with 2006.

Low interest rates are the biggest factor contributing to the growth in our business. With low rates, combined with a generally poor new housing market, the remodeling sector of the construction industry has flourished. While consumers today are still more cautious than they were in 2007, the trend is for consumers to enhance what they have rather than buy completely new. The inflationary pressures caused by increases in fuel prices are the biggest challenge we face today.

Patient deductibles and copayments are increasing for many of our clients, and they are unable to make these payments prior to their procedure being done. This results in the procedure being rescheduled until the clients can pay.

### **Nursing and Residential Care Facilities**

Health insurance regulation changes made our carrier go up over 25 percent on our premiums when we renewed in August. The small 2 percent pay raise we were able to provide employees was negated by the increase in deductibles and the increased premiums for spouse and or dependents.

### **Food Services and Drinking Places**

Sales have slowed down from the previous month. There is one bright spot. Our dinner house concept is posting double-digit sales increases from a year ago. We are stilling clinging to the hope that six months from now there will be some improvement in the general economy. We have already received preliminary notice from our insurance broker that there is likely to be a very substantial increase in the cost of our employee health insurance when we renew Jan. 1, 2012. That is why we are expecting an increase in wages and benefits over the next six months. If our cost of goods sold continues rising and if we get a substantial increase in the cost of benefits, we

are going to increase prices of our goods within the six-month horizon.

Sales were growing from 2000 to 2008. Sales took a 12 percent dip in 2010, and we are 12 to 15 percent down this year.

#### **Merchant Wholesalers, Durable Goods**

We need to reduce federal regulations. The improved outlook for our business is not due to the improving economy, but because two of our major competitors went bankrupt.

We are holding on, hoping the economy will improve. Input costs continue to rise, so we had to pass that increase to our customers.

#### **Building Material and Garden Equipment and Supplies Dealers**

We are adding new equipment and new customers.

Business activity is best described as fluctuating. Sales are great for a month or so and then very poor for a month or so. There is no steady flow of business.

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Questions regarding the Texas Service Sector Outlook Survey can be addressed to Jesus Cañas at [jesus.canas@dal.frb.org](mailto:jesus.canas@dal.frb.org).

The Texas Service Sector Outlook Survey can be found online at [www.dallasfed.org/research/surveys/tssos](http://www.dallasfed.org/research/surveys/tssos).

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