



Texas Service Sector Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

December 28, 2011

TEXAS SERVICE SECTOR ACTIVITY EXPANDS BUT AT A SLOWER PACE

Texas service sector activity increased in December, 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 14 to 9, which is indicative of slower revenue growth.

Labor market indicators reflected stronger hiring and slightly longer workweeks. The employment index moved up from 5.5 to 8.8, its best reading in nine months. The hours worked index edged down to 2.1 in December, suggesting hours worked rose more slowly in December.

Perceptions of general business conditions remained positive in December. The general business activity index was largely unchanged, coming in at 6.7, its second consecutive positive reading. The company outlook index edged up to 11.2 in December, its third consecutive month in positive territory, with 20 percent of respondents reporting their outlooks improved from last month.

Price pressures eased in December while wage pressures held steady. The selling prices index fell sharply from 8.8 to 1.6, its lowest reading in 12 months. The wages and benefits index was largely unchanged at 12.6, and the great majority of respondents noted no change in labor costs.

Indexes of future service sector activity generally improved from last month, and expectations regarding future business conditions were more optimistic. The index of future general business activity advanced from 15.5 to 18.2 in December, its best reading since March, and the index of future company outlook moved further into positive territory from 19.9 to 23.6.



RETAIL SALES GROWTH REMAINS SOLID

Retail sales increased in December, according to business executives responding to the Texas Retail Outlook Survey. The volatile sales index edged down from 12.8 to 11 and has seen five consecutive months of sales increases. Inventories rose.

Labor market indicators reflected continued hiring, but little change in the length of the workweek. The employment index ticked up to 8.8. The hours worked index dropped to zero in December, suggesting average workweeks stalled.

Perceptions of general business conditions improved sharply in December. The general business activity index jumped from 5.2 to 16.4, its third consecutive reading in positive territory. The company outlook index was positive for the fourth month in a row, with a reading of 22.1, up from 13.2. Nearly a third of respondents said their company's outlook had improved from the prior month, compared with 8 percent who noted their outlook had worsened.

Retail prices and wages continued to climb in December, albeit at a slower pace. The selling prices index fell sharply from 26.4 to 10.9. The wages and benefits index moved down from 14.9 to 9.2, although the majority of respondents continued to note no change in labor costs.

Indexes of future retail sector activity rose further into positive territory in December, while both the index of future general business activity and the index of future company outlook improved sharply.

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 Dec. 13–21, and 208 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: January 31, 2012

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	9.0	14.0	-5.0	Increasing	26	26.2	56.6	17.2
Employment	8.8	5.5	+3.3	Increasing	22	19.9	69.0	11.1
Part-time employment	0.0	0.2	-0.2	Unchanged	1	8.4	83.2	8.4
Hours worked	2.1	2.7	-0.6	Increasing	10	10.1	81.9	8.0
Wages and benefits	12.6	13.3	-0.7	Increasing	27	15.4	81.8	2.8
Input prices	31.5	32.7	-1.2	Increasing	32	33.0	65.5	1.5
Selling prices	1.6	8.8	-7.2	Increasing	12	11.7	78.2	10.1
Capital expenditures	14.8	11.8	+3.0	Increasing	28	23.1	68.6	8.3
General Business Conditions								
Current								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	11.2	10.3	+0.9	Improving	3	20.2	70.8	9.0
General business activity	6.7	7.4	-0.7	Improving	2	20.8	65.1	14.1
Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	45.2	36.6	+8.6	Increasing	34	52.9	39.4	7.7
Employment	22.8	16.2	+6.6	Increasing	33	34.2	54.4	11.4
Part-time employment	9.6	7.7	+1.9	Increasing	6	14.6	80.4	5.0
Hours worked	7.1	9.3	-2.2	Increasing	28	12.6	81.9	5.5
Wages and benefits	33.7	32.9	+0.8	Increasing	60	37.0	59.7	3.3
Input prices	51.5	46.7	+4.8	Increasing	60	55.4	40.7	3.9
Selling prices	22.7	26.4	-3.7	Increasing	29	31.7	59.3	9.0
Capital expenditures	27.8	25.6	+2.2	Increasing	33	36.6	54.6	8.8
General Business Conditions								
Six Months Ahead								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	23.6	19.9	+3.7	Improving	4	34.1	55.4	10.5
General business activity	18.2	15.5	+2.7	Improving	3	31.0	56.2	12.8

*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.

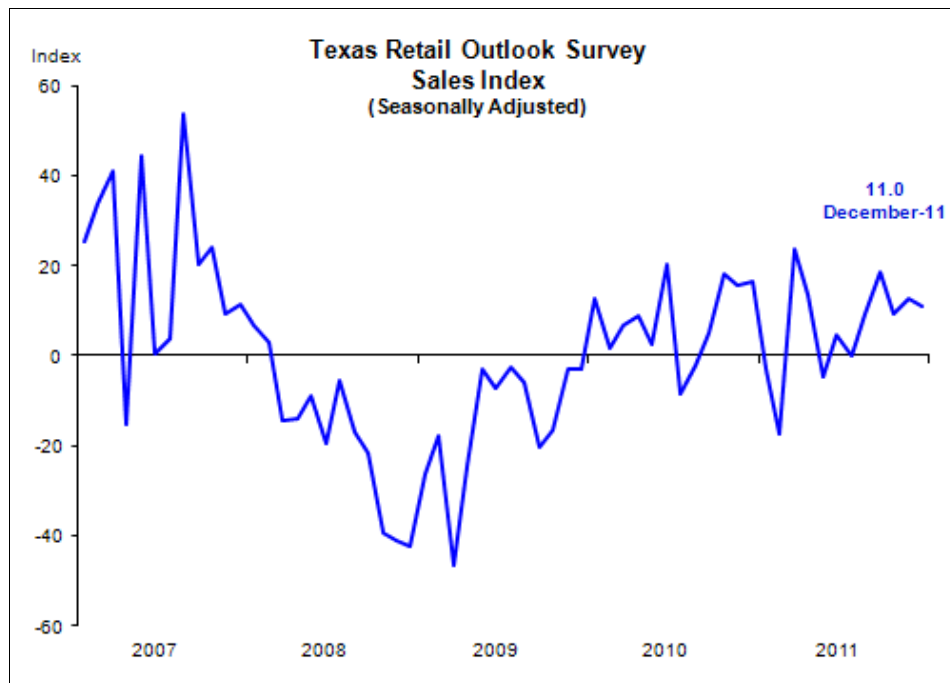
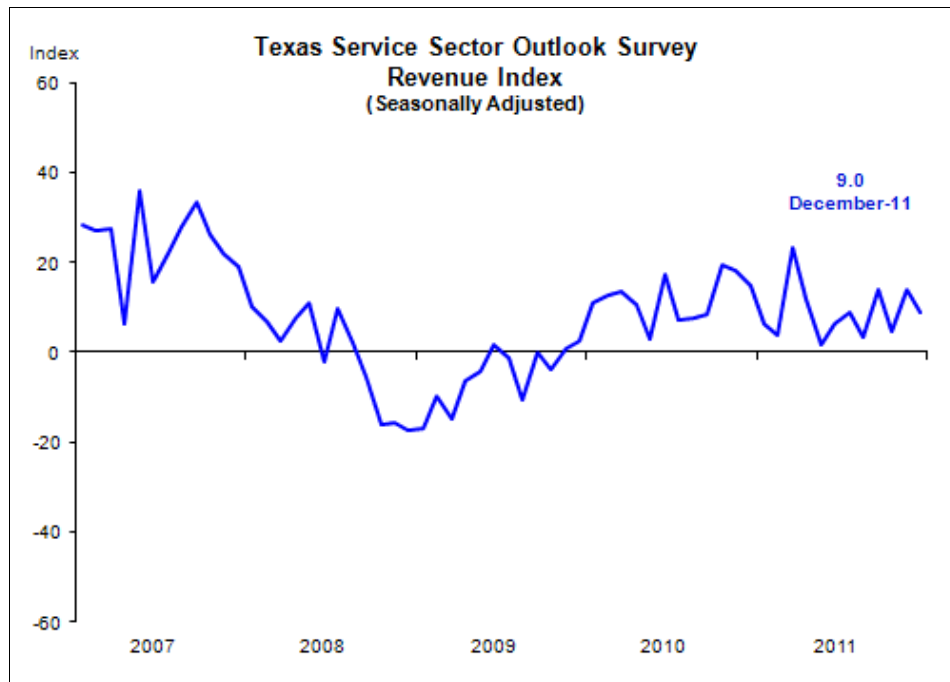
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products, Retail Current								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	11.0	12.8	-1.8	Increasing	5	31.3	48.3	20.3
Employment	8.8	8.2	+0.6	Increasing	5	20.0	68.8	11.2
Part-time employment	1.6	-6.2	+7.8	Increasing	1	9.7	82.3	8.1
Hours worked	0.0	7.5	-7.5	No Change	1	15.4	69.2	15.4
Wages and benefits	9.2	14.9	-5.7	Increasing	10	12.3	84.6	3.1
Input prices	29.8	36.6	-6.8	Increasing	17	34.0	61.8	4.2
Selling prices	10.9	26.4	-15.5	Increasing	17	22.5	65.9	11.6
Capital expenditures	4.6	12.1	-7.5	Increasing	9	16.9	70.8	12.3
Inventories	25.3	22.8	+2.5	Increasing	6	31.9	61.5	6.6
Companywide Retail Activity								
Sales	16.2	11.5	+4.7	Increasing	7	32.8	50.6	16.6
Internet sales	13.7	2.1	+11.6	Increasing	6	23.5	66.7	9.8
Catalog sales	7.0	-9.3	+16.3	Increasing	1	16.3	74.4	9.3
General Business Conditions, Retail Current								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	22.1	13.2	+8.9	Improving	4	30.2	61.7	8.1
General business activity	16.4	5.2	+11.2	Improving	3	29.1	58.2	12.7
Business Indicators Relating to Facilities and Products, Retail Six Months Ahead								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	62.6	45.9	+16.7	Increasing	34	62.6	37.4	0.0
Employment	23.8	15.1	+8.7	Increasing	24	34.9	54.0	11.1
Part-time employment	9.1	6.4	+2.7	Increasing	3	13.5	82.1	4.4
Hours worked	10.2	6.3	+3.9	Increasing	3	14.4	81.4	4.2
Wages and benefits	30.2	37.8	-7.6	Increasing	36	31.5	67.2	1.3
Input prices	46.0	46.2	-0.2	Increasing	32	50.8	44.4	4.8
Selling prices	41.2	41.0	+0.2	Increasing	32	46.0	49.2	4.8
Capital expenditures	25.4	25.0	+0.4	Increasing	9	34.9	55.6	9.5
Inventories	16.7	13.8	+2.9	Increasing	3	31.7	53.3	15.0
Companywide Retail Activity								
Sales	47.9	50.5	-2.6	Increasing	33	49.7	48.6	1.8
Internet sales	20.8	30.4	-9.6	Increasing	33	27.1	66.7	6.3
Catalog sales	7.7	15.0	-7.3	Increasing	5	15.4	76.9	7.7
General Business Conditions, Retail Six Months Ahead								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	46.7	28.5	+18.2	Improving	32	48.9	48.9	2.2
General business activity	36.8	25.4	+11.4	Improving	3	41.0	54.8	4.2

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

Credit Intermediation and Related Activities

Seasonal retail activity increased as expected.

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

Right now, we're seeing more regulatory problems and across-the-board cost increases.

Insurance Carriers and Related Activities

The gridlock in the U.S. Congress is embarrassing.

Real Estate

Uncertainty continues to keep buyers and sellers of residential real estate on the sidelines.

Rental and Leasing Services

We're struggling to hire enough truck drivers. We have \$50,000-a-year jobs with no one to fill them.

Regulatory inefficiencies and expense continue to stifle any recovery in the construction industry. We are trying to add onto our current service facility, but new regulations and their related expense are impeding it.

Professional, Scientific and Technical Services

The commercial part of our business continues to be strong, and it appears it will remain so through the end of the year. The residential part of our business is declining as expected and did not improve over 2010 numbers. We expect that Texas residential sales will be better in 2012 and that commercial real estate will continue strong; therefore, we will hire six months from now, if not sooner.

Our European business remains uncertain based on current turmoil in the European capital markets. Approximately 20 percent of our revenue is originated in Europe.

Election, energy cost, tax doubts, budget deficit, etc. all create doubt, with nothing extremely positive on the horizon to offset the uncertain future.

We are cautiously optimistic. We will have small revenue increases early next year and hopefully can build momentum.

Administrative and Support Services

We think the seasonality of year-end and holidays is slowing business commitments down a bit.

Ambulatory Health Care Services

Banks and investment houses can be bailed out, with the public paying the price. There is no help for the little man.

Nursing and Residential Care Facilities

We expect an increase in the cost of medical coverage. We are medical services providers, and if Medicare fee cuts stay in place, we may have to reduce our workforce.

Accommodations

Our big capital projects will be finished by around April or May 2012.

Food Services and Drinking Places

Our sales softened by an additional 1.2 percent to 1.3 percent last month. Our customer counts confirm that. Cost of goods sold isn't exactly flat, but it has leveled out. Wages and benefits are up, primarily because we have already paid the January premiums. We are beginning to see just a little movement upward in wages for some positions, but, so far, it is very small. The hit on benefits was very substantial and wiped out about a third of the margin gain we got from taking the price increase. The general outlook forecast is backed off from our previous reports based on the recent softening in sales. Additionally, as a normal seasonal pattern, we should be seeing sales rapidly ramping up as we go through this last week before Christmas. So far (although we are early in the week), we are not seeing that happen. The future expectations are backed off from our previous responses because we are running out of reasons to tell ourselves that improvement is just around the corner.

We continue to see steady same-store sales growth, driven in part by increased economic activity, especially in the Permian Basin and the Eagle Ford areas. Also, hot, dry weather has positively impacted sales trends. Traffic in tourism areas is surprisingly soft versus last year, however.

Merchant Wholesalers, Durable Goods

The economy does not seem to be turning around. We were recently turned down for credit by our bank. Times are tough, but so are we. Let's hope we can last long enough to see light at the end of the tunnel.

Inventory and supplies are harder to get. We expect delivery of supplies to get better after the holidays.

Our low growth so far in the year dipped in late November/December, meaning our rate of growth has gone to zero. However, year-over-year growth is probably 8 percent or so. After a slow start in 2012, we believe the second and third quarters should be pretty solid.

Motor Vehicle and Parts Dealers

Year-end sales are strong, which is normal for this time of year.

As a truck dealer, we almost always experience a slowdown in December.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Pia Orrenius at pia.orrenius@dal.frb.org.

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