



Texas Service Sector Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

January 31, 2012

TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS

WHAT'S NEW THIS MONTH

This month's survey data include annual seasonal revisions. In January of each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Service Sector Outlook Survey after calculating new seasonal adjustment factors. Annual seasonal revisions result in slight changes in the seasonally adjusted series. Read more information on seasonal adjustment at www.dallasfed.org/research/surveys/tssos/seasonal.cfm.

Texas service sector activity increased in January, 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 9.8 to 13.7, with 32 percent of respondents noting revenue increased from December.

Labor market indicators reflect stronger hiring and slightly longer workweeks. The employment index moved up from 8.8 to 12.4, its best reading in 10 months. The hours worked index edged down to 1.6 in January, suggesting hours worked rose more slowly in January.

Perceptions of general business conditions improved markedly in January. The general business activity index jumped to 18.3, its best reading since December 2010. The company outlook index moved up to 16.9 in January, its fifth consecutive month in positive territory, with 26 percent of respondents reporting their outlooks improved from last month.

Selling prices rose at a faster clip in January while wage pressures held steady. The selling prices index moved up from 2.1 to 8.7. The wages and benefits index was largely unchanged at 13.9, as the great majority of respondents continued to report 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 18.7 to 22.8 in January, its best reading since February 2011, and the index of future company outlook also moved further into positive territory.



RETAIL SALES GROWTH REMAINS SOLID

Retail sales increased in January, according to business executives responding to the Texas Retail Outlook Survey. The sales index edged down from 13.7 to 12.1, marking eight consecutive months of sales increases. Inventories rose albeit at the slowest pace in seven months.

Labor market indicators reflected continued hiring and slightly longer workweeks. The employment index was largely unchanged at 5.6. The hours worked index fell slightly to 2.2 in January, suggesting average workweeks grew but at a slower pace.

Perceptions of general business conditions improved again in January. The general business activity index came in at 17.9, its fourth consecutive reading in positive territory. The company outlook index was positive for the fifth month in a row, with a reading of 23. 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 rose faster in January, while wage pressures subsided slightly. The selling prices index rose from 13.7 to 21.2. The wages and benefits index moved down from 13.2 to 7.9, although the great majority of respondents continued to note no change in labor costs.

Indexes of future retail sector activity remained in solid positive territory in January, while both the index of future general business activity and the index of future company outlook were largely unchanged.

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 Jan. 17–25, and 211 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:February 28, 2012

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas									
Current									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	13.7	9.8	+3.9	Increasing	27	32.1	49.6	18.4	
Employment	12.4	8.8	+3.6	Increasing	23	21.9	68.5	9.5	
Part-time employment	0.3	2.2	-1.9	Increasing	5	7.5	85.3	7.2	
Hours worked	1.6	3.1	-1.5	Increasing	11	10.2	81.2	8.6	
Wages and benefits	13.9	14.6	-0.7	Increasing	30	17.9	78.1	4.0	
Input prices	29.6	31.2	-1.6	Increasing	33	32.8	64.0	3.2	
Selling prices	8.7	2.1	+6.6	Increasing	13	16.0	76.7	7.3	
Capital expenditures	13.6	14.8	-1.2	Increasing	29	22.9	67.7	9.3	
General Business Conditions									
Current									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	16.9	11.4	+5.5	Improving	5	26.3	64.4	9.4	
General business activity	18.3	8.6	+9.7	Improving	3	25.5	67.3	7.2	
Business Indicators Relating to Facilities and Products in Texas									
Six Months Ahead									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	46.9	44.5	+2.4	Increasing	35	53.9	39.1	7.0	
Employment	27.4	25.0	+2.4	Increasing	34	36.5	54.4	9.1	
Part-time employment	7.7	10.4	-2.7	Increasing	31	13.8	80.1	6.1	
Hours worked	7.2	8.0	-0.8	Increasing	29	11.0	85.2	3.8	
Wages and benefits	39.7	34.4	+5.3	Increasing	61	41.6	56.5	1.9	
Input prices	50.7	51.5	-0.8	Increasing	61	51.6	47.5	0.9	
Selling prices	30.5	22.7	+7.8	Increasing	30	37.4	55.8	6.9	
Capital expenditures	27.2	27.8	-0.6	Increasing	34	35.2	56.8	8.0	
General Business Conditions									
Six Months Ahead									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	29.6	24.6	+5.0	Improving	5	38.2	53.2	8.6	
General business activity	22.8	18.7	+4.1	Improving	4	31.0	60.8	8.2	

*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.

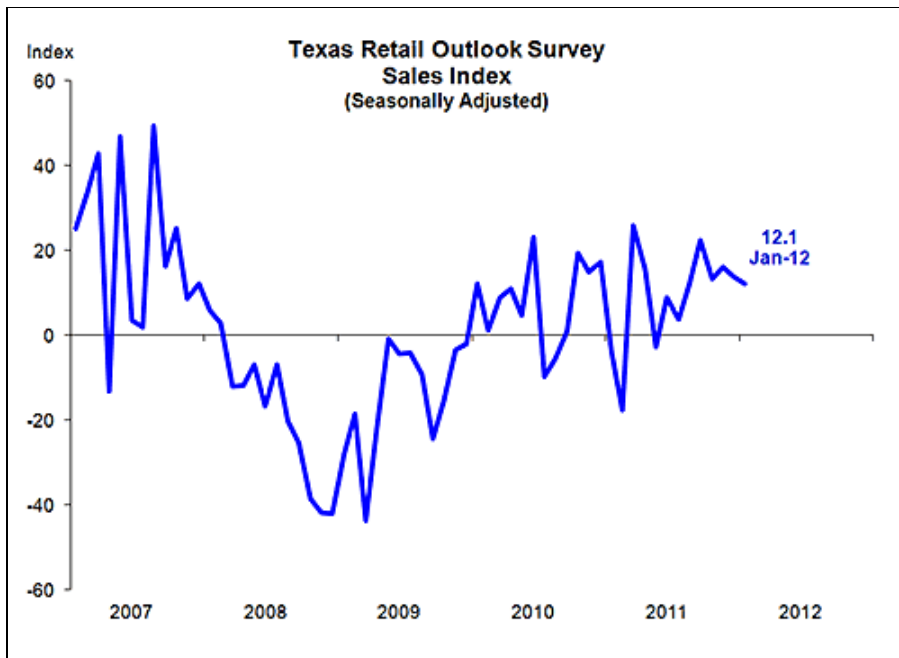
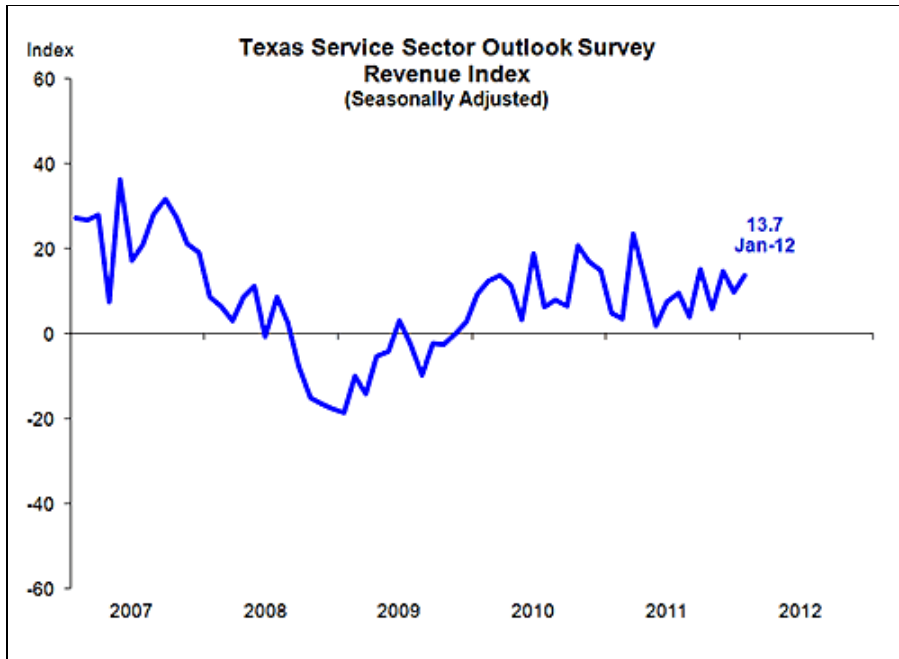
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products, Retail Current								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	12.1	13.7	-1.6	Increasing	8	38.1	35.9	26.0
Employment	5.6	5.9	-0.3	Increasing	6	14.3	77.0	8.7
Part-time employment	-4.7	1.6	-6.3	Decreasing	1	1.6	92.1	6.3
Hours worked	2.2	4.4	-2.2	Increasing	4	11.7	78.8	9.5
Wages and benefits	7.9	13.2	-5.3	Increasing	17	12.9	82.1	5.0
Input prices	27.3	28.5	-1.2	Increasing	18	30.3	66.6	3.0
Selling prices	21.2	13.7	+7.5	Increasing	18	27.6	66.0	6.4
Capital expenditures	15.1	4.6	+10.5	Increasing	10	21.2	72.7	6.1
Inventories	2.4	20.8	-18.4	Increasing	7	25.5	51.4	23.1
Companywide Retail Activity								
Sales	23.3	23.2	+0.1	Increasing	8	42.7	37.9	19.4
Internet sales	-4.1	13.7	-17.8	Decreasing	1	14.3	67.3	18.4
Catalog sales	-9.1	7.0	-16.1	Decreasing	1	9.1	72.7	18.2
General Business Conditions, Retail Current								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	23.0	24.8	-1.8	Improving	5	31.3	60.4	8.3
General business activity	17.9	17.8	+0.1	Improving	4	27.2	63.6	9.3
Business Indicators Relating to Facilities and Products, Retail Six Months Ahead								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	59.4	61.4	-2.0	Increasing	35	62.1	35.2	2.7
Employment	34.9	23.8	+11.1	Increasing	25	37.9	59.1	3.0
Part-time employment	10.1	13.0	-2.9	Increasing	61	10.1	89.9	0.0
Hours worked	10.2	13.2	-3.0	Increasing	28	12.9	84.4	2.7
Wages and benefits	27.4	29.6	-2.2	Increasing	37	27.7	72.0	0.3
Input prices	48.5	46.0	+2.5	Increasing	33	50.0	48.5	1.5
Selling prices	47.0	41.2	+5.8	Increasing	33	50.0	47.0	3.0
Capital expenditures	32.3	25.4	+6.9	Increasing	10	36.9	58.5	4.6
Inventories	26.6	19.9	+6.7	Increasing	26	34.6	57.5	8.0
Companywide Retail Activity								
Sales	56.4	47.5	+8.9	Increasing	34	58.5	39.5	2.1
Internet sales	36.2	20.8	+15.4	Increasing	34	36.2	63.8	0.0
Catalog sales	15.9	7.7	+8.2	Increasing	6	18.2	79.5	2.3
General Business Conditions, Retail Six Months Ahead								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	43.5	43.9	-0.4	Improving	33	45.6	52.3	2.1
General business activity	31.9	33.1	-1.2	Improving	4	37.0	58.0	5.1

*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.

Publishing Industries (except Internet)

Further growth and development of Internet retail activities and social media continue to fragment the advertising, promotion and marketing sectors for both small and large retail and service businesses.

Credit Intermediation and Related Activities

We have a temporary increase in business. Beyond that, I wish I knew.

Real Estate

The Consumer Financial Protection Bureau is creating a great deal of uncertainty, which is not conducive to business.

All local housing market conditions are favorable (job creation, interest rates, inventory levels). The unknowns remain drought, Europe and further tightening of underwriting criteria.

Professional, Scientific and Technical Services

The energy sector is providing the opportunity for our business to grow. New pipeline construction is booming.

December 2011 was our best month commercially since we started in 1991. Our overall year ended way up based solely on the increase in commercial real estate business. The residential market was the same as 2010 and also modestly profitable. January has started out with very low volumes both commercially and residentially, but this is not a surprise and repeats the beginning of 2010. We will know if our prediction of an increase in the residential market is correct after February's order counts. Our hope is that volumes will increase employment, but efficiencies are high and we saw no breakdown in our ability to deliver, even at high volumes. It will take several months of continued higher volumes to cause us to add staff, but we are hopeful we will see this in 2012.

Our clients are more active and more aggressive in their planning and budgets. However, they are still cautious. We are seeing more new business opportunities from clients seeking certain skills and capabilities. We're guardedly optimistic, too.

We have seen several sectors slow and need to reduce temporary help. This is sad as these people counted on jobs. But the first quarter projections are not good, and budgets continue to be tight and margins very low.

Financing of projects continues to be the bane of our industry.

The design side of the business continues to improve. We are seeing more projects on the drawing board and anticipate construction to follow suit within three to six months.

The current regulatory environment for community banks continues to be a concern for us. Despite 60 years of stable, profitable operation and a focus on being a good corporate citizen in our community, we find some examiners and regulators more intent on finding problems than on recognizing our health. Unless the overall burden is lifted, it will continue to be difficult for us to operate responsibly and profitably and in doing so, to provide benefit to our city and the community at large.

Management of Companies and Enterprises

Regulatory burden continues to be the biggest obstacle for our business and that of our customers.

Food Services and Drinking Places

On a same-store basis there is very little difference in our operations from December to January. We are up about 1.5 percent over last year on a same-store basis. We continue to hold a moderate, cautious outlook for 2012. We are being very cautious about spending, making every effort to avoid or delay expenses. We have allowed a few contracts for services to lapse rather than renew them for this year. An example of this type of expense is a software package with advanced analysis capabilities—nice to have and we've used it, but some old fashion spreadsheet work by the office staff will replace the slick software package this year, which obviously nets out to a loss of business for someone else.

Merchant Wholesalers, Durable Goods

While we are forecasting a stronger next six months after the holidays slowdown in our segment, there's a general feeling that the economy is still very unpredictable. Given the instability in Europe, coupled with the U.S. presidential election that could still go either way, these reservations are justified. Unpredictability must be removed for business owners to have the confidence to invest and put people back to work.

We supply residential shelter products, dependent on new home and apartment construction (slightly up); storm repair (still at highly increased levels); and repair, restore, remodel activities (slightly up). The summer hail storm reroof business will be over in about three months, which will decrease our revenues. We believe the nonstorm activity business will be up only slightly this year, maybe 2 percent.

Building Material and Garden Equipment and Supplies Dealers

Demand is sluggish. There is enough work to keep everyone working 40 hours a week but not enough to plan on growth in the near future.

Motor Vehicle and Parts Dealers

Customer confidence is definitely improved.

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
