



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

February 28, 2012

TEXAS SERVICE SECTOR ACTIVITY PICKS UP PACE

Texas service sector activity increased in February, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, rose sharply from 13.7 to 22.8, with 38 percent of respondents noting revenue increased from January.

Labor market indicators reflect stronger hiring and longer workweeks. The employment index rose to 15.5, its best reading since September 2007. The hours worked index jumped up from 1.6 in January to 12.4 in February.

Perceptions of general business conditions continued to improve. The general business activity index moved up to 24.6, its best reading in the history of the survey. The company outlook index rose to 22.5, also its best reading to date, with 31 percent of respondents reporting their outlooks improved from last month.

Selling prices and wages rose again in February. The selling prices index moved up 4 points to 12.7, and the wages and benefits index rose to 17.4. Both indexes posted their highest readings since July 2008.

Indexes of future service sector activity remained in solid positive territory. Expectations regarding future business conditions were slightly more optimistic. The index of future general business activity advanced from 22.8 to 27.1 in February, and the index of future company outlook also moved further into positive territory.



RETAIL SALES GROWTH STRENGTHENS

Retail sales increased in February, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose from 12.1 to 17.5, marking nine consecutive months of sales increases. Inventories rose sharply.

Labor market indicators reflected continued hiring and longer workweeks. The employment index rose slightly from 5.6 in January to 8.6 in February. The hours worked index jumped more than 8 points to 10.9 this month, suggesting average workweeks rose at a faster pace.

Perceptions of general business conditions improved markedly in February. The general business activity index rose sharply from 17.9 to 36.9, its best reading since the beginning of the survey. The company outlook index was positive for the sixth month in a row; it rose from 23 to 27.6, with 37 percent of respondents noting their company's outlook had improved from the prior month, compared with 9 percent who noted their outlook had worsened.

Retail prices and wages increased in February. The selling prices index fell from 21.2 to 17, suggesting retail price increases were less widespread this month. In contrast, the wages and benefits index moved up from 7.9 to 12.1, 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 February, while both the index of future general business activity and the index of future company outlook edged down.

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 Feb. 14–22, and 207 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: March 27, 2012

TEXAS SERVICE SECTOR OUTLOOK SURVEY

| Business Indicators Relating to Facilities and Products in Texas | | | | | | | | |
|---|------------------|------------------|---------------|-----------------------------|-------------------------|-----------------------------|------------------------------|-----------------------------|
| Current | | | | | | | | |
| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
| Revenue | 22.8 | 13.7 | +9.1 | Increasing | 28 | 38.4 | 46.0 | 15.6 |
| Employment | 15.5 | 12.4 | +3.1 | Increasing | 24 | 22.8 | 69.9 | 7.3 |
| Part-time employment | 0.5 | 0.3 | +0.2 | Increasing | 6 | 8.5 | 83.5 | 8.0 |
| Hours worked | 12.4 | 1.6 | +10.8 | Increasing | 12 | 15.9 | 80.6 | 3.5 |
| Wages and benefits | 17.4 | 13.9 | +3.5 | Increasing | 31 | 18.6 | 80.2 | 1.2 |
| Input prices | 31.5 | 29.6 | +1.9 | Increasing | 34 | 33.6 | 64.3 | 2.1 |
| Selling prices | 12.7 | 8.7 | +4.0 | Increasing | 14 | 17.6 | 77.5 | 4.9 |
| Capital expenditures | 15.3 | 13.6 | +1.7 | Increasing | 30 | 20.6 | 74.1 | 5.3 |
| General Business Conditions | | | | | | | | |
| Current | | | | | | | | |
| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (months) | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
| Company outlook | 22.5 | 16.9 | +5.6 | Improving | 6 | 30.6 | 61.3 | 8.1 |
| General business activity | 24.6 | 18.3 | +6.3 | Improving | 4 | 31.8 | 61.0 | 7.2 |
| Business Indicators Relating to Facilities and Products in Texas | | | | | | | | |
| Six Months Ahead | | | | | | | | |
| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
| Revenue | 44.6 | 46.9 | -2.3 | Increasing | 36 | 52.9 | 38.8 | 8.3 |
| Employment | 32.5 | 27.4 | +5.1 | Increasing | 35 | 40.6 | 51.3 | 8.1 |
| Part-time employment | 8.9 | 6.8 | +2.1 | Increasing | 8 | 15.0 | 78.9 | 6.1 |
| Hours worked | 8.3 | 7.2 | +1.1 | Increasing | 30 | 12.0 | 84.3 | 3.7 |
| Wages and benefits | 36.1 | 39.7 | -3.6 | Increasing | 62 | 38.7 | 58.7 | 2.6 |
| Input prices | 47.0 | 50.7 | -3.7 | Increasing | 62 | 51.3 | 44.4 | 4.3 |
| Selling prices | 31.1 | 30.5 | +0.6 | Increasing | 31 | 36.1 | 58.9 | 5.0 |
| Capital expenditures | 28.1 | 27.2 | +0.9 | Increasing | 35 | 36.0 | 56.1 | 7.9 |
| General Business Conditions | | | | | | | | |
| Six Months Ahead | | | | | | | | |
| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (months) | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
| Company outlook | 31.8 | 29.6 | +2.2 | Improving | 6 | 37.4 | 57.0 | 5.6 |
| General business activity | 27.1 | 22.8 | +4.3 | Improving | 5 | 32.8 | 61.5 | 5.7 |

*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.

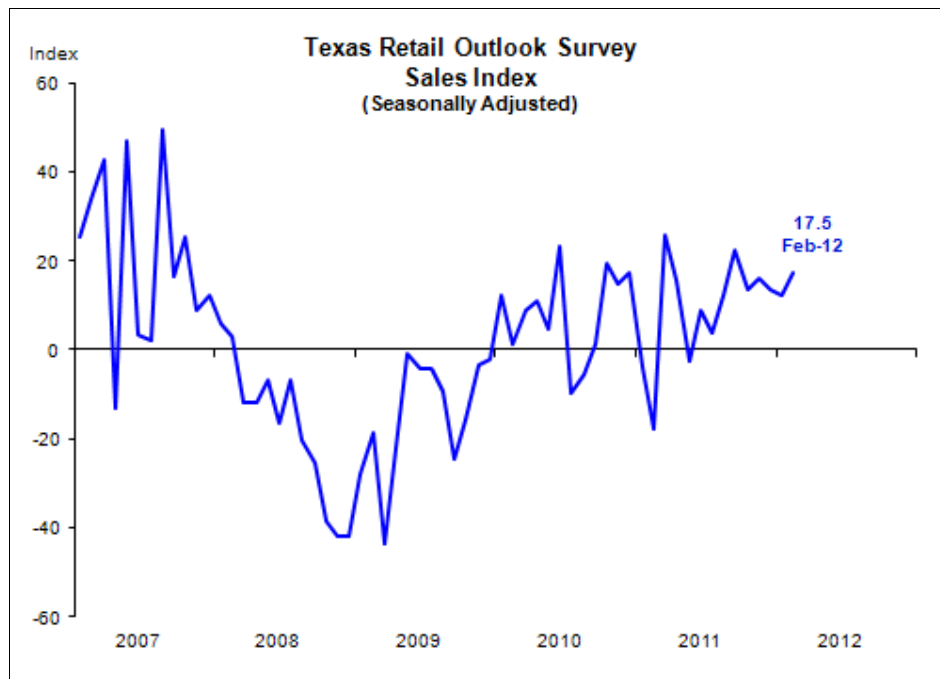
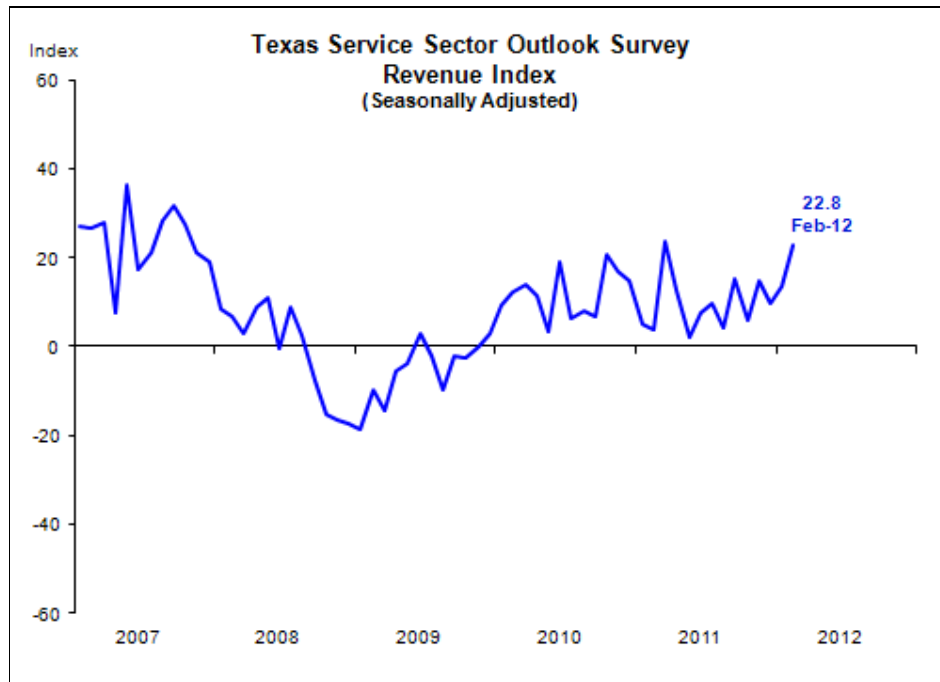
TEXAS RETAIL OUTLOOK SURVEY

| Business Indicators Relating to Facilities and Products, Retail Current | | | | | | | | |
|---|-----------|-----------|--------|----------------------|------------------|----------------------|-----------------------|----------------------|
| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
| Retail Activity in Texas | | | | | | | | |
| Sales | 17.5 | 12.1 | +5.4 | Increasing | 9 | 41.4 | 34.8 | 23.9 |
| Employment | 8.6 | 5.6 | +3.0 | Increasing | 7 | 19.5 | 69.6 | 10.9 |
| Part-time employment | 3.3 | -4.7 | +8.0 | Increasing | 1 | 11.5 | 80.3 | 8.2 |
| Hours worked | 10.9 | 2.2 | +8.7 | Increasing | 5 | 18.9 | 73.1 | 8.0 |
| Wages and benefits | 12.1 | 7.9 | +4.2 | Increasing | 18 | 13.0 | 86.1 | 0.9 |
| Input prices | 27.8 | 27.3 | +0.5 | Increasing | 19 | 32.0 | 63.8 | 4.2 |
| Selling prices | 17.0 | 21.2 | -4.2 | Increasing | 19 | 24.4 | 68.2 | 7.4 |
| Capital expenditures | 14.3 | 15.1 | -0.8 | Increasing | 11 | 20.6 | 73.0 | 6.3 |
| Inventories | 22.2 | 2.4 | +19.8 | Increasing | 8 | 33.0 | 56.2 | 10.8 |
| Companywide Retail Activity | | | | | | | | |
| Sales | 13.9 | 23.3 | -9.4 | Increasing | 9 | 40.7 | 32.5 | 26.8 |
| Internet sales | 6.2 | -4.1 | +10.3 | Increasing | 1 | 18.4 | 69.4 | 12.2 |
| Catalog sales | 2.4 | -9.1 | +11.5 | Increasing | 1 | 14.3 | 73.8 | 11.9 |
| General Business Conditions, Retail Current | | | | | | | | |
| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (months) | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
| Company outlook | 27.6 | 23.0 | +4.6 | Improving | 6 | 36.6 | 54.4 | 9.0 |
| General business activity | 36.9 | 17.9 | +19.0 | Improving | 5 | 46.2 | 44.6 | 9.3 |
| Business Indicators Relating to Facilities and Products, Retail Six Months Ahead | | | | | | | | |
| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
| Retail Activity in Texas | | | | | | | | |
| Sales | 42.8 | 59.4 | -16.6 | Increasing | 36 | 50.4 | 42.0 | 7.6 |
| Employment | 32.8 | 34.9 | -2.1 | Increasing | 26 | 39.7 | 53.4 | 6.9 |
| Part-time employment | 8.3 | 6.0 | +2.3 | Increasing | 5 | 11.3 | 85.7 | 3.0 |
| Hours worked | 11.7 | 10.2 | +1.5 | Increasing | 29 | 15.7 | 80.3 | 4.0 |
| Wages and benefits | 28.2 | 27.4 | +0.8 | Increasing | 38 | 29.0 | 70.2 | 0.8 |
| Input prices | 46.6 | 48.5 | -1.9 | Increasing | 34 | 53.3 | 40.0 | 6.7 |
| Selling prices | 40.0 | 47.0 | -7.0 | Increasing | 34 | 43.3 | 53.3 | 3.3 |
| Capital expenditures | 38.4 | 32.3 | +6.1 | Increasing | 11 | 41.7 | 55.0 | 3.3 |
| Inventories | 16.9 | 26.6 | -9.7 | Increasing | 27 | 29.4 | 58.1 | 12.5 |
| Companywide Retail Activity | | | | | | | | |
| Sales | 46.5 | 56.4 | -9.9 | Increasing | 35 | 51.1 | 44.3 | 4.6 |
| Internet sales | 31.1 | 36.2 | -5.1 | Increasing | 35 | 33.3 | 64.4 | 2.2 |
| Catalog sales | 17.9 | 15.9 | +2.0 | Increasing | 7 | 20.5 | 76.9 | 2.6 |
| General Business Conditions, Retail Six Months Ahead | | | | | | | | |
| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (months) | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
| Company outlook | 36.4 | 43.5 | -7.1 | Improving | 34 | 41.3 | 53.8 | 4.9 |
| General business activity | 29.0 | 31.9 | -2.9 | Improving | 5 | 35.2 | 58.6 | 6.2 |

*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.

Support Activities for Transportation

February has started very slowly for our business and for our customers.

Credit Intermediation and Related Activities

Looking ahead, there is a glimmer of optimism for increased consumer activity in terms of retail borrowing, as well as mortgage activity.

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

We are seeing a lot of regulation compliance cost increases. Selling prices are hard to increase to cover these types of expenses.

Real Estate

The local real estate market has posted year-to-year increases for the past four months. Consumers appear to be shaking off the hangover of negative national economic and political news reports. The biggest concern locally is the prolonged drought conditions.

Rental and Leasing Services

Business has held up through mid-February, a bit to my surprise.

Professional, Scientific and Technical Services

Gains are slight but steady. We expect business conditions to improve throughout the year. There are plenty of challenges, mainly Washington and Europe. Clients' attitudes are more positive. We have to manage expenses very carefully. In Houston, Dallas and Austin the beat goes on.

The increased cost of energy is a giant weight on operations.

The residential market in Texas and, in particular, the Dallas-Fort Worth metroplex is getting better this year. Usually, January and February are the worst months for order counts for both residential and commercial transactions, but not in 2012. Orders for closings in those two months are up almost 50 percent, and we are close to capacity in our self-imposed deadlines for completion of this work. Two new employees were hired this month, and we expect our summer intern program to return in 2012 for college and high school students after almost three years of absence. On the other hand, there are longer term (governmental) concerns that could severely impact this welcome improvement. We are also upgrading our computers throughout the company this year, which accounts for an increase in capital expenditures for the first time in a long time as well. Two new hires is not a trend yet, but if the order counts continue going up proportionately to the first two months of 2012, we will have to add staff.

Last year, the first quarter increased as well, but then stalled. With an election year, what is the level of false security?

Management of Companies and Enterprises

As a bank, we are seeing interest rate margins continue to compress due to the low rate environment we have to deal with at the present. With rates forecast to remain at current levels and the regulatory headwinds we face in Washington impacting noninterest income, banks are forced to continue to look at noninterest expense reduction and loan volume to bolster income in 2012 and beyond.

Administrative and Support Services

We are unwilling to make long-term expenditure and hiring commitments due to the uncertainty in the education market and budgets.

The change in average employee work week is a result of the New Year holidays. There has been a considerable reduction in volume of customer requests for contract labor and full-time staff hires. This may be a pause or forecast of things to come in 2012, but it is way too soon to make a judgment.

Social Assistance

It's too early to know how February is going to compare to January.

Food Services and Drinking Places

Our revenues are consistent with last year; however, our cost of product has increased. The economy seems to be buying smarter.

We were way up in sales over the last few days. We think underlying sales are improving; therefore, our outlook has improved. We still see very little change in wages, which are up less than 1 percent from a year ago. Our cost of goods has at least temporarily stopped increasing. However, stores are just now beginning to receive product at higher prices.

Merchant Wholesalers, Durable Goods

All of South Texas has received some moisture, creating a positive outlook and market.

Best month in the history of our company, led by oil equipment.

Better attitudes across the board. People are more optimistic. We are still tentative but feel more comfortable spending capital and hiring folks. We have added six people over the past 90 days. Our head count is now over 115. Productivity has improved by 18-25 percent over the past two years. Our new additions are sales people. December was terrible, our first monthly loss in 24 months. January rebounded to small profit. February is even better, showing stronger profit growth.

The pattern for the last several months seems to be that the months start off well for the first two weeks, but then business activity fades. Hope to pick up some new business from a competitor that has died off.

Motor Vehicle and Parts Dealers

We recently opened a second location for subprime customers. Business is brisk. Future capital expenditures will be the result of manufacturer-requested expansion and remodeling of current facility.

The level of overall confidence is definitely increasing.

Food and Beverage Stores

Weather patterns in the first six weeks of 2012 were very different from 2011, when we had such unusual freezes. It's hard to tell where consumer spending is going to be this year; rising gasoline prices could temper renewed consumer confidence.

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
