



# Texas Service Sector Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

May 1, 2012

## TEXAS SERVICE SECTOR ACTIVITY EXPANDS AT A SLOWER PACE

Texas service sector activity increased in April, 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 16.5 to 12.6, suggesting growth slowed.

Labor market indicators reflected continued hiring and slightly longer workweeks. The employment index rose to 11.1 in April from 7.7 in March. The hours worked index edged up to 11.1 from 9.

Respondents noted continued improvement in the broader economy but were slightly less optimistic than last month. The general business activity index moved down to 12, its lowest reading in three months. The company outlook index dipped to 10.1 from 11.5, its eighth consecutive month in positive territory, with 22 percent of respondents reporting their outlooks improved from last month.

Upward pressure on selling prices moderated, while wages rose faster in April. The selling prices index fell from 12.4 to 9.7, while the wages and benefits index moved up from 13.8 to 16.8.

Indicators of future service sector activity generally improved from last month. However, the index of future general business activity fell to 18.9 in April from 27.5 in March, and the index of future company outlook moved down from 26 to 24.7.



## RETAIL SALES GROWTH SLOWS

Retail sales increased in April, according to business executives responding to the Texas Retail Outlook Survey. The sales index fell sharply from 22 to 10.6, consistent with slower sales growth. Inventories rose.

Labor market indicators reflected continued hiring and slightly longer workweeks. The employment index increased from 13.1 in March to 14.4 in April. The hours worked index edged down from 8.2 to 7.1, suggesting average workweeks rose at about the same pace as last month.

Perceptions of general business conditions were less optimistic in April. The general business activity index came in at 13.9—8 points below its reading last month. The company outlook index was positive for the eighth month in a row but fell sharply from 26.5 to 13.7. Twenty-six percent of respondents noted their company's outlook had improved from the prior month, compared with 12 percent who reported their outlook had worsened.

Retail price pressures dissipated, and wage growth slowed in April. The selling prices index plunged from 23 to 1.2, its lowest reading since July 2010. The wages and benefits index edged down from 10.7 to 8.4, although the great majority of respondents continued to note no change in labor costs.

Indexes of future retail sector activity generally remained in solid positive territory in April, while both the index of future general business activity and the index of future company outlook moved 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 Apr. 17–25, and 223 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: May 30, 2012

## TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	12.6	16.5	-3.9	Increasing	30	30.6	51.4	18.0
Employment	11.1	7.7	+3.4	Increasing	26	20.5	70.1	9.4
Part-time employment	6.1	6.8	-0.7	Increasing	8	12.2	81.7	6.1
Hours worked	11.1	9.0	+2.1	Increasing	14	15.9	79.3	4.8
Wages and benefits	16.8	13.8	+3.0	Increasing	33	19.5	77.8	2.7
Input prices	28.3	33.8	-5.5	Increasing	36	30.7	66.9	2.4
Selling prices	9.7	12.4	-2.7	Increasing	16	16.5	76.7	6.8
Capital expenditures	20.1	15.3	+4.8	Increasing	32	25.1	69.8	5.0
General Business Conditions								
Current								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	10.1	11.5	-1.4	Improving	8	22.0	66.1	11.9
General business activity	12.0	18.9	-6.9	Improving	6	25.3	61.4	13.3
Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	46.4	35.2	+11.2	Increasing	38	54.9	36.6	8.5
Employment	22.6	20.9	+1.7	Increasing	37	31.6	59.4	9.0
Part-time employment	8.0	8.8	-0.8	Increasing	10	16.4	75.2	8.4
Hours worked	9.5	5.1	+4.4	Increasing	32	13.6	82.3	4.1
Wages and benefits	37.1	33.2	+3.9	Increasing	64	39.3	58.5	2.2
Input prices	54.4	48.2	+6.2	Increasing	64	56.1	42.1	1.7
Selling prices	26.6	30.7	-4.1	Increasing	33	33.6	59.4	7.0
Capital expenditures	29.8	25.9	+3.9	Increasing	37	37.4	55.0	7.6
General Business Conditions								
Six Months Ahead								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	24.7	26.0	-1.3	Improving	8	32.5	59.7	7.8
General business activity	18.9	27.5	-8.6	Improving	7	29.4	60.1	10.5

\*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

## Business Indicators Relating to Facilities and Products in Texas, Retail Current

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	10.6	22.0	-11.4	Increasing	11	35.6	39.4	25.0
Employment	14.4	13.1	+1.3	Increasing	9	18.3	77.8	3.9
Part-time employment	4.8	4.6	+0.2	Increasing	3	12.7	79.4	7.9
Hours worked	7.1	8.2	-1.1	Increasing	7	15.5	76.1	8.4
Wages and benefits	8.4	10.7	-2.3	Increasing	20	14.0	80.4	5.6
Input prices	18.4	34.9	-16.5	Increasing	21	25.9	66.6	7.5
Selling prices	1.2	23.0	-21.8	Increasing	21	18.3	64.6	17.1
Capital expenditures	10.6	18.9	-8.3	Increasing	13	19.7	71.2	9.1
Inventories	11.0	12.8	-1.8	Increasing	10	23.4	64.2	12.4
Companywide Retail Activity								
Sales	17.4	29.3	-11.9	Increasing	11	34.5	48.3	17.1
Internet sales	0.0	15.1	-15.1	No Change	1	14.0	72.0	14.0
Catalog sales	-11.4	7.1	-18.5	Decreasing	1	4.5	79.5	15.9

## General Business Conditions, Retail Current

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	13.7	26.5	-12.8	Improving	8	25.9	61.9	12.2
General business activity	13.9	21.5	-7.6	Improving	7	29.9	54.1	16.0

## Business Indicators Relating to Facilities and Products in Texas, Retail Six Months Ahead

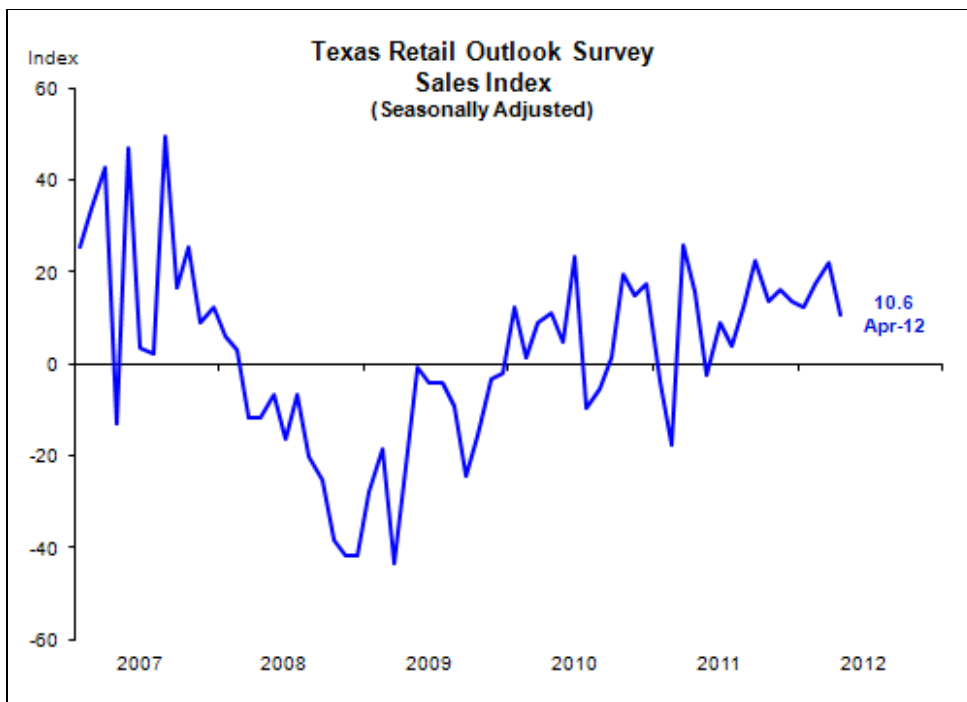
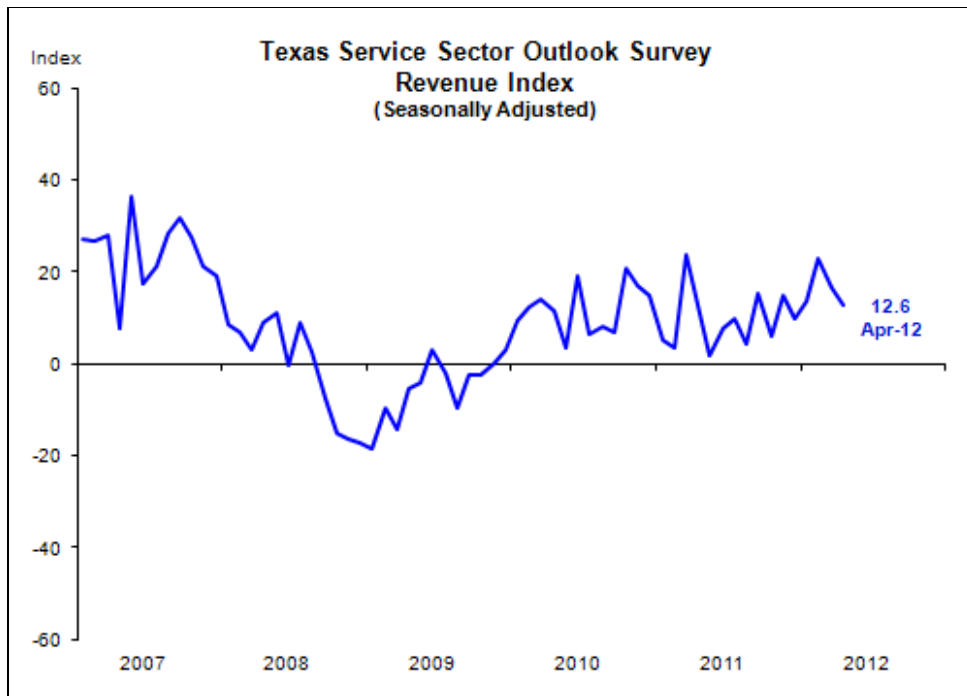
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	43.0	41.5	+1.5	Increasing	38	52.4	38.2	9.4
Employment	23.8	24.6	-0.8	Increasing	28	28.6	66.7	4.8
Part-time employment	9.3	6.0	+3.3	Increasing	7	17.3	74.7	8.0
Hours worked	2.3	0.3	+2.0	Increasing	31	9.1	84.1	6.8
Wages and benefits	24.4	30.5	-6.1	Increasing	40	28.0	68.4	3.6
Input prices	40.3	48.5	-8.2	Increasing	36	43.5	53.2	3.2
Selling prices	33.9	41.2	-7.3	Increasing	36	37.1	59.7	3.2
Capital expenditures	38.7	35.8	+2.9	Increasing	13	43.5	51.6	4.8
Inventories	10.0	8.8	+1.2	Increasing	29	22.6	64.8	12.6
Companywide Retail Activity								
Sales	38.6	40.4	-1.8	Increasing	37	47.1	44.4	8.5
Internet sales	19.2	15.4	+3.8	Increasing	37	27.7	63.8	8.5
Catalog sales	14.3	2.5	+11.8	Increasing	9	21.4	71.4	7.1

## General Business Conditions, Retail Six Months Ahead

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	25.1	36.6	-11.5	Improving	36	32.5	60.1	7.4
General business activity	26.4	29.6	-3.2	Improving	7	33.2	60.0	6.8

\*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.



## COMMENTS FROM SURVEY RESPONDENTS

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

### Truck Transportation

We have no part-time employees. Our revenues and selling prices are improving, but rising fuel costs prohibit a commensurate increase in operating profits.

### Publishing Industries (except Internet)

The biggest concern we have is not knowing what taxes are going to be added. Health insurance is a big concern. How we grow our company will determine the tax burden and insurance we are required to have. We are small now, but we

may keep our company just small enough to avoid the health insurance issues. We wish government would get out of the way. We are very concerned about the future.

### **Credit Intermediation and Related Activities**

Six months out? We wish we knew.

Our biggest concern is the regulatory environment.

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

Costs are large: employee training, changing processes and material components.

### **Real Estate**

Residential sales activity continues to improve on a year-to-year basis as we move into the prime home buying season. Hopefully, regulators have taken pause in their efforts to tighten up mortgage lending requirements and underwriting standards. Commercial activity continues to lag. There are few new retail or industrial entries into the market. Investors remain interested in commercial real estate investments but are hesitant to come off the sidelines until the politicians settle on fiscal and tax policies (not expected to happen in 2012). Likewise, current owners of investment properties are reluctant to market properties for lack of a place to go with their equity.

### **Rental and Leasing Services**

Government regulation continues to kill jobs and the economy. Our company runs profitably without debt, is a blessing to our customers and the communities in which we live and work and raise our families and provides great benefits to our 330 employees and their families.

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

The increase in energy cost will suck the life out of any business momentum.

We are still optimistic about the increasing level of commercial and residential real estate activity in Texas, although the dramatic increases of the first quarter appear to be moderating and maintaining at increased levels. We are now actively hiring and adding staff, but we have filled most positions and increased hiring will diminish. Looking back, we can see that 2010 and 2011 were much better years than 2009 but not enough better to warrant increases in hiring. 2012 has been a surprise, which we have welcomed with a conservative approach to see if this is a real change in the real estate market. Cautious optimism is our outlook and probably will be until after the national elections.

Our increases in revenue and employment are small.

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

We need to have the Dodd-Frank Act eliminated!

### **Administrative and Support Services**

The demand for hiring seems to have cooled to 2010 levels.

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

We are experiencing upticks on sales during April but also experiencing pressure on rising cost of foods and gas.

Very little has changed this period. Our sales are still up, and costs increases have been very little recently. We are projecting revenue increases in the six-month horizon because we expect to take a price increase in late May or June to offset expected cost increases. We give almost all salaried personnel wage increases at the beginning of the fiscal year—July 1—so unless conditions worsen, there will be a 1.5 to 2 percent increase in our cost.

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

We have trouble getting raw materials to produce our products. This combined with no ability to get credit is creating a bleak future.

Housing starts have driven our sales the first quarter to an extent, but there is also a lot of upper-end remodeling and home improvement going on. Now, with storm damage all over our five-state market area, there will be revenue increases above plan due to hail and wind damage repairs. We still do not believe housing starts are going to increase nationally much this year—maybe 2.5 to 3 percent—but our sales should increase due to increased remodeling and storm damage repairs. We are happy!

### **Motor Vehicle and Parts Dealers**

We are confident that our business will gradually improve for the remainder of this year.

Overall activity is up. However, consumer traffic is not consistent—it comes and goes reflecting overall hesitation and conservatism from an expending point of view. The economy seems to be moving in the right direction, but company-wise it is difficult to predict six months down the road due to so many unknowns still in the market.

April business is still good on preowned sales and fixed operations but slower on new car sales. We are looking for improvement with new product introductions coming in the next few months.

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

Sales are good this month, but estimating activity is poor. This is not a good sign for the upcoming months.

There are still too many mixed signals as far as business activity is concerned—busy one week and slow the next. Some customers are busier than ever, while some are still very slow, but no one seems to be very profitable as margins are tight.

---

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/microsites/research/surveys/tssos/](http://www.dallasfed.org/microsites/research/surveys/tssos/).

---