



May 30, 2012

TEXAS SERVICE SECTOR ACTIVITY EXPANDS AT A SLOWER PACE

Texas service sector activity increased in May, 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 12.6 to 10.1, suggesting growth continued slowing in May.

Labor market indicators reflected some hiring and slightly longer workweeks. The employment index was unchanged at 11.1 in May, and the hours worked index dropped to 7.7 from 11.1.

Respondents were less optimistic about the broader economy than last month. The general business activity index moved down to 5.3, its lowest reading in seven months. Similarly, the company outlook index posted its lowest reading since October, edging down to 8.5 from 10.1, with 21 percent of respondents reporting their outlooks improved from last month and 12 percent noting they worsened.

Upward pressure on prices and wages eased in May. The selling prices index fell from 9.7 to 5, its lowest reading since December 2011, while the wages and benefits index slipped from 16.8 to 13.8.

Indexes of future service sector activity remained in solid positive territory. However, the index of future general business activity fell to 13.1 in May from 18.9 in April, and the index of future company outlook moved down to 20 from 24.7.



RETAIL SALES GROWTH HOLDS STEADY

Retail sales increased in May, according to business executives responding to the Texas Retail Outlook Survey. The sales index held steady, coming in at 10.9 and marking 12 consecutive months of sales increases. Inventories rose at the slowest pace in four months.

Labor market indicators reflected slower job growth and slightly longer workweeks. The employment index fell from 14.4 in April to 10.8 in May. The hours worked index edged down from 7.1 to 4.6.

Perceptions of general business conditions were less optimistic in May. The general business activity index came in at 8.8—roughly 5 points below its reading last month. The company outlook index was positive for the ninth month in a row but fell from 13.7 to 8.6. Twenty-one 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 prices and wages rose faster in May. The selling prices index advanced from 1.2 to 7.5. The wages and benefits index moved up from 8.4 to 12.2, although the great majority of respondents continued to note no change in labor costs.

Indexes of future retail sector activity increased in May. While still positive, 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 May 15–23, and 215 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: June 26, 2012

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	10.1	12.6	-2.5	Increasing	31	30.0	50.1	19.9
Employment	11.1	11.1	+0.0	Increasing	27	21.1	68.9	10.0
Part-time employment	7.9	6.1	+1.8	Increasing	9	12.6	82.7	4.7
Hours worked	7.7	11.1	-3.4	Increasing	15	12.9	81.9	5.2
Wages and benefits	13.8	16.8	-3.0	Increasing	34	15.7	82.4	1.9
Input prices	22.7	28.3	-5.6	Increasing	37	26.7	69.3	4.0
Selling prices	5.0	9.7	-4.7	Increasing	17	15.7	73.5	10.7
Capital expenditures	15.9	20.1	-4.2	Increasing	33	24.1	67.7	8.2
General Business Conditions								
Current								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	8.5	10.1	-1.6	Improving	9	20.6	67.3	12.1
General business activity	5.3	12.0	-6.7	Improving	7	19.9	65.5	14.6
Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	45.0	46.4	-1.4	Increasing	39	54.1	36.8	9.1
Employment	25.4	22.6	+2.8	Increasing	38	33.2	59.0	7.8
Part-time employment	6.2	8.0	-1.8	Increasing	11	14.2	77.8	8.0
Hours worked	6.2	9.5	-3.3	Increasing	33	10.6	85.0	4.4
Wages and benefits	32.6	37.1	-4.5	Increasing	65	35.0	62.6	2.4
Input prices	42.8	54.4	-11.6	Increasing	65	46.5	49.9	3.7
Selling prices	23.0	26.6	-3.6	Increasing	34	31.1	60.8	8.1
Capital expenditures	24.3	29.8	-5.5	Increasing	38	35.3	53.7	11.0
General Business Conditions								
Six Months Ahead								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	20.0	24.7	-4.7	Improving	9	29.7	60.6	9.7
General business activity	13.1	18.9	-5.8	Improving	8	24.7	63.7	11.6

*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	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	10.9	10.6	+0.3	Increasing	12	34.5	41.9	23.6
Employment	10.8	14.4	-3.6	Increasing	10	14.1	82.6	3.3
Part-time employment	13.1	4.8	+8.3	Increasing	4	16.4	80.3	3.3
Hours worked	4.6	7.1	-2.5	Increasing	8	14.4	75.8	9.8
Wages and benefits	12.2	8.4	+3.8	Increasing	21	13.8	84.6	1.6
Input prices	17.0	18.4	-1.4	Increasing	22	25.2	66.6	8.2
Selling prices	7.5	1.2	+6.3	Increasing	22	21.6	64.3	14.1
Capital expenditures	9.7	10.6	-0.9	Increasing	14	19.4	71.0	9.7
Inventories	2.7	11.0	-8.3	Increasing	11	23.3	56.2	20.6
Companywide Retail Activity								
Sales	11.9	17.4	-5.5	Increasing	12	30.2	51.5	18.3
Internet sales	10.2	0.0	+10.2	Increasing	1	18.4	73.5	8.2
Catalog sales	0.0	-11.4	+11.4	No Change	1	9.1	81.8	9.1

General Business Conditions, Retail Current

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	8.6	13.7	-5.1	Improving	9	20.9	66.8	12.3
General business activity	8.8	13.9	-5.1	Improving	8	24.5	59.8	15.7

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

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	45.0	43.0	+2.0	Increasing	39	53.9	37.2	8.9
Employment	30.5	23.8	+6.7	Increasing	29	35.6	59.3	5.1
Part-time employment	8.9	9.3	-0.4	Increasing	8	17.0	74.9	8.1
Hours worked	7.2	2.3	+4.9	Increasing	32	12.9	81.4	5.7
Wages and benefits	21.6	24.4	-2.8	Increasing	41	27.6	66.4	6.0
Input prices	30.5	40.3	-9.8	Increasing	37	37.3	55.9	6.8
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Inventories	17.4	10.0	+7.4	Increasing	30	30.4	56.6	13.0
Companywide Retail Activity								
Sales	40.1	38.6	+1.5	Increasing	38	50.8	38.5	10.7
Internet sales	18.2	19.2	-1.0	Increasing	38	25.0	68.2	6.8
Catalog sales	0.0	14.3	-14.3	No Change	1	7.7	84.6	7.7

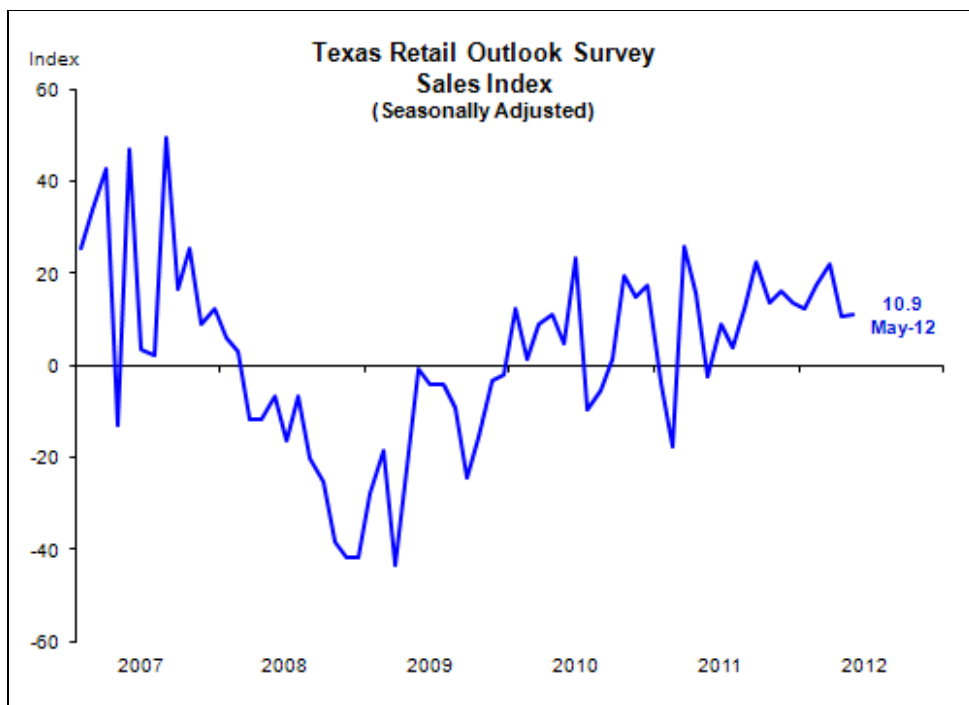
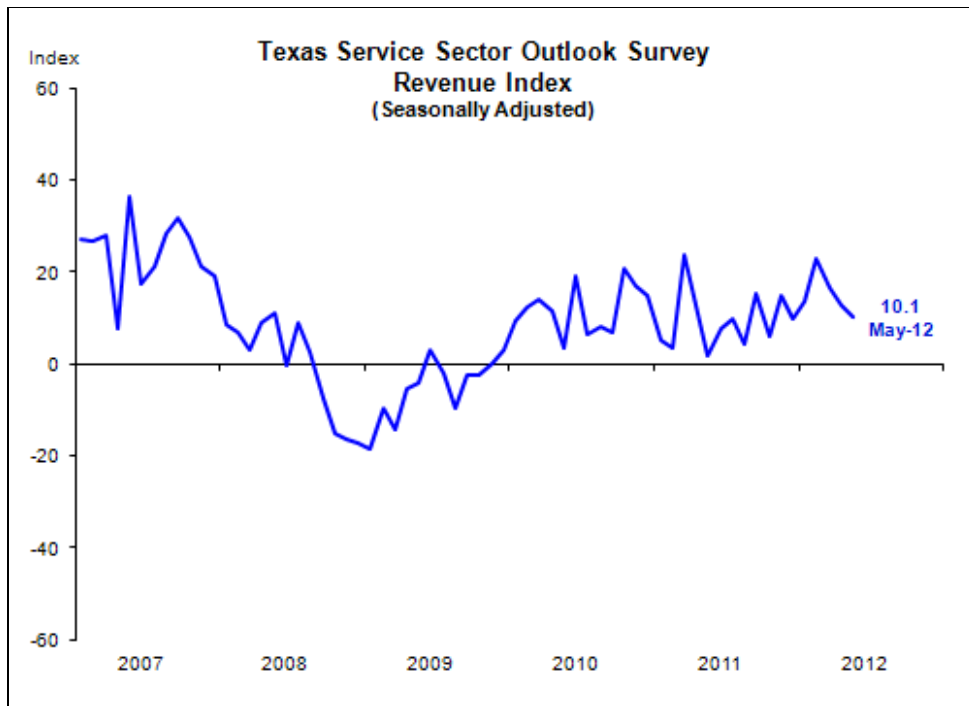
General Business Conditions, Retail Six Months Ahead

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General business activity	11.7	26.4	-14.7	Improving	8	23.0	65.7	11.3

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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)

There remains substantial downward pressure in the retail sector to maintain or cut advertising expenses relating to traditional media. This has pushed traditional media to further consolidations, and in our case, an additional reduction in full-time employees of 15 percent in the next 90 days.

There is too much uncertainty in regulations and the tax code to justify business expansion.

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

Rain has helped attitudes. Commodity prices dropping will reduce incomes.

Conditions are somewhat better, although we keep having the same old issues of the past few years—but with more regulation problems now than before.

Insurance Carriers and Related Activities

We are insurance brokers and are seeing property insurance premiums increasing. On the other hand, we are seeing flat payroll audits on our liability and workers comp clients, indicating not a lot of business growth in the building and services area in Northeast Texas.

Real Estate

Conditions are slightly improving due to better attitudes, a little more confidence and improved prospects for moisture in west Texas.

Rental and Leasing Services

The only thing driving this economy, at least in Texas, right now is the energy industry

Professional, Scientific and Technical Services

The first month of the second quarter was good, but dropped slightly from the end of the first quarter. We have noticed a slight diminution in the commercial title orders, but the residential market remains increasingly strong. Year-to-year comparisons of profit and cash flow are significantly greater and improved over the last four months compared with the same period in 2011. We have hired summer interns for the first time since 2008 and have resumed accruals to the 401k plan, both significant improvements from previous years (2008, 2009 and 2010). We will purchase additional computer terminals in the coming six months, which explains our increased capital expenditures projections. Our concerns are primarily now with the national debt, continuing and increasing entitlements, health insurance and the upcoming elections. We still do not feel safe in this improved market, and that is why we aren't hiring more permanent employees yet.

Over the past 60 days we have added significant projects from current clients and four new major clients. As a result, we need to add three senior account directors and support staff. We see major marketers getting more aggressive, especially in the Southwest. Right now there is less competition and more opportunity in the marketing and advertising world. It seems like every company is rolling out new or improved products right now. Our problem now will be to find qualified marketing leadership that has a special understanding of new technology-based media for our management roles.

The election has paralyzed the economy. The recent JPMorgan fiasco has added fear. The situation in Greece and Spain continues to add fear and hesitation. Jobs are not increasing. We are not certain of anything.

Management of Companies and Enterprises

Overregulation is hurting our economy. We once felt it was in a just few industries, but overregulation is everywhere. Everyone we talk to is complaining about it. Some of the regulations are hurting the very people they were intended to help.

Ambulatory Health Care Services

There have been several midsized employers that have gone out of business in the past month in our area. The general consensus is that the economy is, at best, continuing to lag and stagnate and may even be worsening.

Food Services and Drinking Places

Sales are very slow. We are actually down compared with last year on a same-store basis. Costs have remained fairly stable, with at most a very slow creep upwards. We have seen some increase in hourly labor costs, but that has been because our management teams did not successfully react fast enough to the dropping sales over the last few weeks. We are still hopeful that the economy will improve as we get further into the year. We are still very much waiting for the Supreme Court decision on health care.

Animal Production

Lower input prices for raw milk and packaging will translate into higher sales since there is a strong elasticity for bottled milk.

Merchant Wholesalers, Durable Goods

We will have to get some funding to help get us through the year.

Motor Vehicle and Parts Dealers

The concentration of all economic and media discussion on the financial markets (from a point of view of speculative investments and returns) is definitely not assisting in job creation and a belief of well-being in the final consumer.

The Eagle Ford has been very beneficial. Without the Eagle Ford, we would likely be back to 2009–10 business levels, which would not be good.

Our customers remain reluctant to add capacity due to the toughness of their business and the unknowns, like Europe and the presidential election.

There has been a noticeable increase in buyers, and the financing available to purchasers remains positive. Down payments from equity in vehicle trades have helped in obtaining financing approval.

Building Material and Garden Equipment and Supplies Dealers

This year, we have gotten busier than expected, faster than the usual seasonal bump.

Our business seems to be getting better at a slow pace; we are quoting more jobs that have resurfaced but have not hit the books yet. There are still many mixed signals among our customers.

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/microsites/research/surveys/tssos/.
