



Texas Service Sector Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

June 26, 2012

TEXAS SERVICE SECTOR ACTIVITY EXPANDS BUT OUTLOOK LESS POSITIVE

Texas service sector activity increased in June, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, held steady at 10.9, suggesting revenue growth in June was about the same as last month.

Labor market indicators reflected slower labor demand growth and little change in the average workweek. The employment index fell from 11.1 to 7.8 in June, and the hours worked index dropped to 1 from 7.7.

Perceptions of broader economic conditions were mixed in June. The general business activity index edged up from 5.3 to 7.3 after falling for three consecutive months. The company outlook index posted its lowest reading in nine months, moving down to 2.6 from 8.5, with 20 percent of respondents reporting their outlooks improved from last month and 18 percent noting they worsened.

Upward pressure on selling prices continued easing, while wages rose faster in June. The selling prices index came in at 4.6, its lowest reading since December 2011, while the wages and benefits index rose to 16.4 from 13.8.

Most indexes of future service sector activity stayed positive but fell in June. The future revenue index dropped 18 points to 27.2, about where it was one year ago. Broader measures also retreated. The index of future general business activity fell to 5.8, its lowest reading since September 2011, and the index of future company outlook moved down to 11.3 from 20.



RETAIL SALES GROWTH SLOWS

Retail sales increased at a slower pace in June, according to business executives responding to the Texas Retail Outlook Survey. The sales index fell from 10.9 to 7, its lowest reading since July 2011. Inventories rose.

Labor market indicators reflected more hiring and shorter workweeks. The employment index rose from 10.8 in May to 13.3 in June. The hours worked index declined 13 points to -8.2, its first negative reading in nine months.

Perceptions of general business conditions were less optimistic in June. The general business activity index came in at 4.6—roughly 4 points below its reading last month. The company outlook index fell sharply from 8.6 to 0.7, its lowest reading since August 2011. Fifteen percent of respondents noted their company's outlook had improved from the prior month, compared with 14 percent who reported their outlook had worsened.

Retail price increases and wage growth slowed in June. The selling prices index edged down from 7.5 to 6.5. The wages and benefits index moved down from 12.2 to 5, although the great majority of respondents continued to note no change in labor costs.

Indexes of future retail sector activity generally fell in June but remained in positive territory. Perceptions of future economic conditions were stable and stayed positive. The index of future general business activity moved down about one point, while the index of future company outlook held steady.

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 June 12–20, 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: July 31, 2012

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	10.9	10.1	+0.8	Increasing	32	32.1	46.7	21.2
Employment	7.8	11.1	-3.3	Increasing	28	19.1	69.6	11.3
Part-time employment	3.1	7.9	-4.8	Increasing	10	8.7	85.7	5.6
Hours worked	1.0	7.7	-6.7	Increasing	16	9.0	83.0	8.0
Wages and benefits	16.4	13.8	+2.6	Increasing	35	19.2	78.0	2.8
Input prices	18.8	22.7	-3.9	Increasing	38	25.6	67.6	6.8
Selling prices	4.6	5.0	-0.4	Increasing	18	13.6	77.4	9.0
Capital expenditures	16.7	15.9	+0.8	Increasing	34	23.9	69.0	7.2
General Business Conditions								
Current								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	2.6	8.5	-5.9	Improving	10	20.4	61.8	17.8
General business activity	7.3	5.3	+2.0	Improving	8	22.1	63.0	14.8
Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	27.2	45.0	-17.8	Increasing	40	43.2	40.9	16.0
Employment	17.6	25.4	-7.8	Increasing	39	27.1	63.4	9.5
Part-time employment	-0.9	6.2	-7.1	Decreasing	1	9.6	79.9	10.5
Hours worked	6.8	6.2	+0.6	Increasing	34	10.8	85.2	4.0
Wages and benefits	34.4	32.6	+1.8	Increasing	66	36.1	62.2	1.7
Input prices	40.2	42.8	-2.6	Increasing	66	44.8	50.6	4.6
Selling prices	18.2	23.0	-4.8	Increasing	35	28.9	60.4	10.7
Capital expenditures	17.8	24.3	-6.5	Increasing	39	29.3	59.2	11.5
General Business Conditions								
Six Months Ahead								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	11.3	20.0	-8.7	Improving	10	28.0	55.3	16.7
General business activity	5.8	13.1	-7.3	Improving	9	20.4	65.0	14.6

*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	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	7.0	10.9	-3.9	Increasing	13	32.8	41.4	25.8
Employment	13.3	10.8	+2.5	Increasing	11	17.6	78.1	4.3
Part-time employment	4.9	13.1	-8.2	Increasing	5	8.1	88.7	3.2
Hours worked	-8.2	4.6	-12.8	Decreasing	1	7.6	76.6	15.8
Wages and benefits	5.0	12.2	-7.2	Increasing	22	9.1	86.8	4.1
Input prices	8.2	17.0	-8.8	Increasing	23	20.4	67.4	12.2
Selling prices	6.5	7.5	-1.0	Increasing	23	18.9	68.7	12.4
Capital expenditures	15.6	9.7	+5.9	Increasing	15	23.4	68.8	7.8
Inventories	8.6	2.7	+5.9	Increasing	12	24.6	59.4	16.0
Companywide Retail Activity								
Sales	16.0	11.9	+4.1	Increasing	13	35.1	45.8	19.1
Internet sales	11.3	10.2	+1.1	Increasing	2	22.7	65.9	11.4
Catalog sales	5.1	0.0	+5.1	Increasing	1	12.8	79.5	7.7

General Business Conditions, Retail Current

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	0.7	8.6	-7.9	Improving	10	15.1	70.5	14.4
General business activity	4.6	8.8	-4.2	Improving	9	21.5	61.6	16.9

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

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	33.4	45.0	-11.6	Increasing	40	44.0	45.5	10.6
Employment	17.7	30.5	-12.8	Increasing	30	24.2	69.4	6.5
Part-time employment	4.8	8.9	-4.1	Increasing	9	12.9	79.0	8.1
Hours worked	8.2	7.2	+1.0	Increasing	33	14.9	78.4	6.7
Wages and benefits	22.3	21.6	+0.7	Increasing	42	26.2	69.9	3.9
Input prices	29.0	30.5	-1.5	Increasing	38	40.3	48.4	11.3
Selling prices	27.4	32.2	-4.8	Increasing	38	38.7	50.0	11.3
Capital expenditures	16.4	25.9	-9.5	Increasing	15	29.5	57.4	13.1
Inventories	16.8	17.4	-0.6	Increasing	31	27.1	62.6	10.3
Companywide Retail Activity								
Sales	34.2	40.1	-5.9	Increasing	39	46.6	40.9	12.4
Internet sales	31.9	18.2	+13.7	Increasing	39	36.4	59.1	4.5
Catalog sales	7.9	0.0	+7.9	Increasing	1	18.4	71.1	10.5

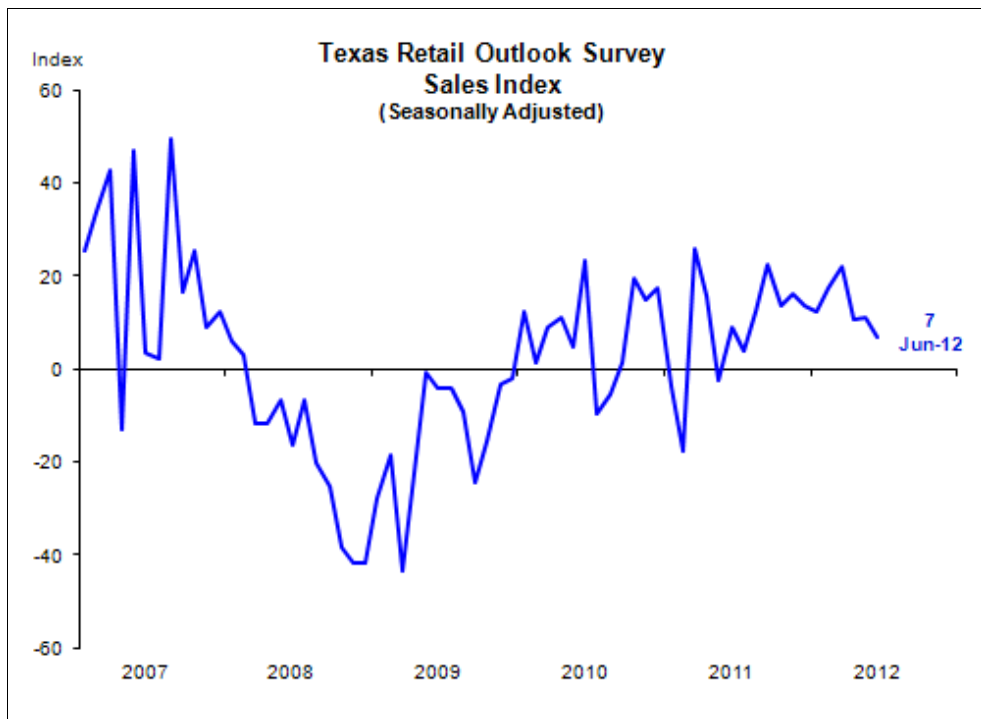
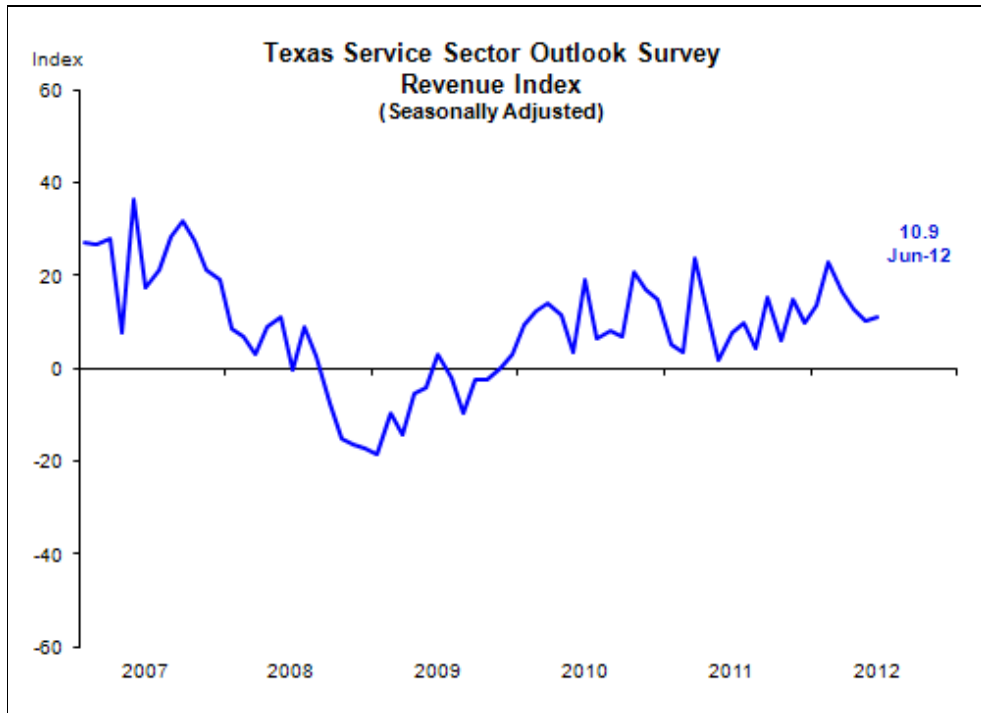
General Business Conditions, Retail Six Months Ahead

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	18.6	18.4	+0.2	Improving	38	27.6	63.4	9.0
General business activity	10.5	11.7	-1.2	Improving	9	22.6	65.3	12.1

*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)

- To improve their outlook, businesses need the uncertainty of future taxes and regulations resolved.

- With the election and the euro, we are not sure what is in the future.

SECURITIES, COMMODITY CONTRACTS, AND OTHER FINANCIAL INVESTMENTS AND RELATED ACTIVITIES

- We see the same problems as in the past months: more regulation and more expense.

CREDIT INTERMEDIATION AND RELATED ACTIVITIES

- Market competition continues to drive loan rates down, but loan demand continues to be weak. Cost of funds remains at a low point. Interest rate margin (profit margin) is being pressured even more. The local economy continues a very slow recovery that started midyear 2011.

INSURANCE CARRIERS AND RELATED ACTIVITIES

- Higher fuel, airfare and lodging prices have had a negative impact on our company over the past year.

REAL ESTATE

- Things are very positive in the residential real estate brokerage, mortgage, insurance and home services business.
- Both the commercial and residential real estate markets are slightly improved. The residential market has been averaging 10 percent ahead on a month-to-month comparison from a year earlier. Of course, some of the activity is being driven by incredibly low interest rates. We are starting to see more interest from both national and regional retail tenants in the commercial market. Local fundamentals are solid, and consumers appear to be more confident that the country is actually beginning to recover.
- We are extremely concerned about potentially negative impacts of the Consumer Financial Protection Bureau and Dodd-Frank.

PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES

- May was a near-record month for residential transactions, with only one month in 2007 being slightly better. We believe the residential resale, new home and mortgage refinancing markets will continue strong through the end of the year. New hiring continues if we can find the right people, which is becoming more difficult. Bonuses are up, improving payrolls. On the commercial side of real estate, transactions are moderating as prices rise. There is still significant cash watching and waiting. Whether this is sustainable over any longer term still awaits the elections, fiscal policy decision on taxation at the end of this year and the status of the stock and bond markets. We are enjoying each good month as it comes.
- Everyone is holding their breath in fear of the November election.
- We have added seven new clients in the past 90 days. Existing clients have expanded our responsibilities. Now we're scrambling to hire professional staff. We added nine new

professional staff members in the past 10 days. Also 15 summer college interns started on Monday, June 11. The world's screwed-up economies keep us nervous. The U.S. political chaos keeps us nervous. That's life without a safety net.

- Election politics complicate the economic recovery.

ADMINISTRATIVE AND SUPPORT SERVICES

- We work in the areas impacted by the Eagle Ford formation. Our growth has and will be strong. We are facing pressures because costs are up. The Department of Labor forced us into an employee relationship with our workers that cost more, and we are not getting higher rates. Our company is one of the very few in our industry playing by the rules and it is affecting our ability to hire enough people and our bottom line.
- While the cost of fuel is less than our earlier forecast, we expect to see other cost components increase gradually.

FOOD SERVICES AND DRINKING PLACES

- Our sales are down compared with last year. We are seeing a strong payroll-cycle-driven sales pattern. We, in the restaurant business, are a discretionary expenditure for families. When money is tight, you can clearly see the payroll cycle in your sales. Nowadays, the two-week cycle is dominant. People have money the week they get paid but are watching expenditures in the second week of the payroll cycle. In better times, the decision to go out to eat isn't directly based on what is in the wallet right now, and the payroll cycle becomes irrelevant to our sales. Our employee count (both full-time and part-time) has dropped since last month. We have had a small wage increase in most positions over the past year; the average for all positions is less than 1.5 percent for the full year. We are not expecting sales to increase or accelerate. Cost-of-goods increases have flattened out recently, which is a welcome relief for the short term. We recently took a price increase of 0.55 percent and have tentatively planned for a 1 percent increase six months from now.

RELIGIOUS, GRANTMAKING, CIVIC, PROFESSIONAL AND SIMILAR ORGANIZATIONS

- We provide services to the global oil industry. Lower crude oil prices now and in the future due to a slowing of the global economy cause great concern.

MERCHANT WHOLESALERS, DURABLE GOODS

- Banks are out to carve every dollar they can out of small business, raising fees, audits, etc. Thank goodness for insurance companies that are stepping in to refinance real estate.
- Due to the hailstorm that recently struck North Texas (primarily Dallas-Fort Worth area), our sales will dramatically increase. Our estimate at this very initial stage is that there should be a 25 percent increase in total sales over the next 12 months due to storm repair products. We sell roofing and plywood used to repair roofs, among other things. This will skew our numbers considerably. Without the hailstorm impact, we predict 6-8 percent growth this year.
- The South Texas drought continues to slow the growth in our business.

MERCHANT WHOLESALERS, NONDURABLE GOODS

- We are still reeling from the drought last year. It will take a couple of years to rebuild cow numbers in this part of Texas. Input costs have retreated slightly from recent highs. Farmers have good opportunities in front of them if the weather allows them to make a crop.
- Late payments and bad debt are on the rise.

MOTOR VEHICLE AND PARTS DEALERS

- We see low sales until after the election in November.
- We need to be ready for a significant number of conflicting economic forces.

BUILDING MATERIAL AND GARDEN EQUIPMENT AND SUPPLIES DEALERS

- Business is still very sporadic as you have one good month, then one bad month. We see more in the pipeline and talking stage but not hitting the bottom line for now. Sales are still slower than they should be.

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/.
