



Texas Service Sector Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

July 31, 2012

TEXAS SERVICE SECTOR GROWTH SLOWS

Texas service sector activity expanded, albeit at a slower pace in July, 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 10.9 to 2.4, its lowest reading since May 2011.

Labor market indicators reflected some labor demand growth and slightly longer workweeks. The employment index edged up from 7.8 to 8.6 in July, and the hours worked index rose from 1 to 3.5.

Perceptions of broader economic conditions didn't change much in July. The general business activity index moved up from 7.3 to a reading of 8. The company outlook index held steady at 2, with 20 percent of respondents reporting their outlooks improved from last month and 18 percent noting they worsened.

Upward pressure on selling prices eased, and wage growth slowed in July. The selling prices index came in at 1.1, its lowest reading since December 2010, while the wages and benefits index fell to 14.2 from 16.4.

Indexes of future service sector activity were flat or slightly up in July. The future revenue index edged up less than one point to 28.1. Broader measures of economic activity stayed positive. The index of future general business activity rose from 5.8 to 10.1, and the index of future company outlook moved down from 11.3 to 8.9, its lowest reading in 10 months.



RETAIL SALES WEAKEN

Retail sales fell in July, according to business executives responding to the Texas Retail Outlook Survey. The sales index moved down from 7 to -3.6, its first negative reading since May 2011. Inventories rose.

Labor market indicators reflected slightly less hiring and longer workweeks. The employment index edged down from 13.3 in June to 12.3 in July. The hours worked index climbed to 4.5 after being negative last month.

Perceptions of general business conditions worsened in July. The general business activity index turned negative for the first time in 10 months, falling 10 points to -6.5. The company outlook index also fell into negative territory, slipping to -5.6 after a reading of 0.7 last month. Thirteen percent of respondents noted their company's outlook had improved from the prior month, compared with 18 percent who reported their outlook had worsened.

Retail prices fell, but wage growth held steady. The selling prices index declined from 6.5 to -0.7, its first negative reading since July 2010. The wages and benefits index came in at a reading of 5.8, similar to June. The great majority of respondents continued to note no change in labor costs.

Indexes of future retail sector activity remained in positive territory in July. Perceptions of future economic conditions stayed positive and have been stable for the last three months. The index of future general business activity moved down about two points, 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 July 17-25, and 221 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.

Next release: August 28, 2012

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas									
Current									
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	2.4	10.9	-8.5	Increasing	33	26.7	48.9	24.3	
Employment	8.6	7.8	+0.8	Increasing	29	18.8	71.0	10.2	
Part-time employment	2.4	3.1	-0.7	Increasing	11	10.3	81.8	7.9	
Hours worked	3.5	1.0	+2.5	Increasing	17	11.0	81.5	7.5	
Wages and benefits	14.2	16.4	-2.2	Increasing	36	16.8	80.6	2.6	
Input prices	21.5	18.8	+2.7	Increasing	39	26.1	69.3	4.6	
Selling prices	1.1	4.6	-3.5	Increasing	19	11.9	77.3	10.8	
Capital expenditures	14.4	16.7	-2.3	Increasing	35	22.7	69.0	8.3	
General Business Conditions									
Current									
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	2.0	2.6	-0.6	Improving	11	20.0	62.0	18.0	
General business activity	8.0	7.3	+0.7	Improving	9	24.9	58.1	16.9	
Business Indicators Relating to Facilities and Products in Texas									
Six Months Ahead									
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	28.1	27.2	+0.9	Increasing	41	47.2	33.7	19.1	
Employment	21.4	17.6	+3.8	Increasing	40	35.2	51.0	13.8	
Part-time employment	10.0	-0.9	+10.9	Increasing	1	18.7	72.6	8.7	
Hours worked	6.9	6.8	+0.1	Increasing	35	12.8	81.3	5.9	
Wages and benefits	30.5	34.4	-3.9	Increasing	67	34.4	61.7	3.9	
Input prices	44.4	40.2	+4.2	Increasing	67	47.2	49.9	2.8	
Selling prices	14.4	18.2	-3.8	Increasing	36	26.0	62.4	11.6	
Capital expenditures	19.4	17.8	+1.6	Increasing	40	32.0	55.5	12.6	
General Business Conditions									
Six Months Ahead									
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	8.9	11.3	-2.4	Improving	11	26.7	55.5	17.8	
General business activity	10.1	5.8	+4.3	Improving	10	26.4	57.3	16.3	

*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.

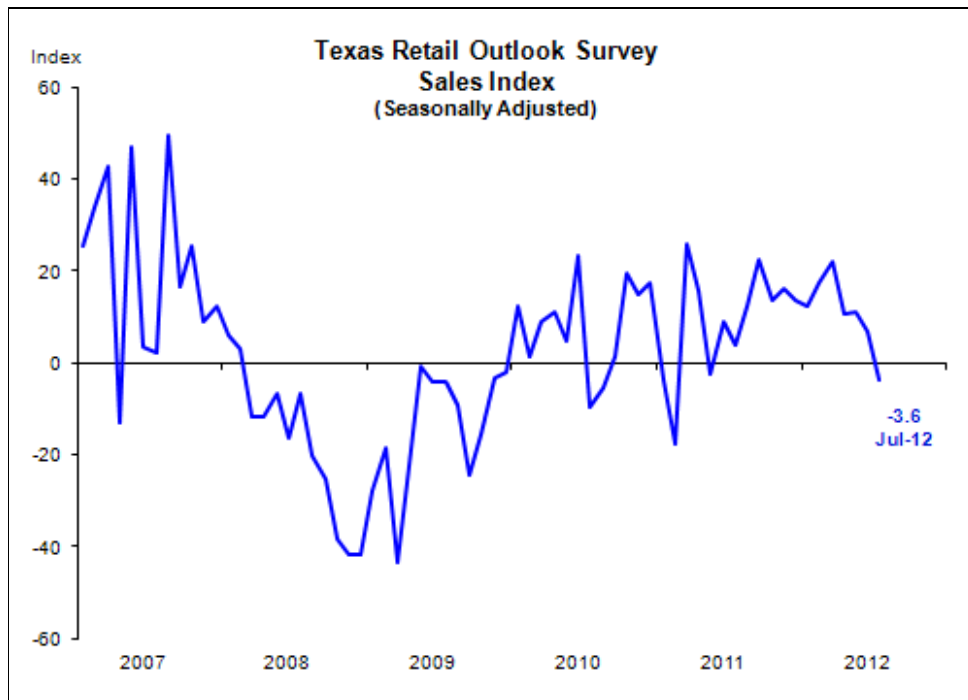
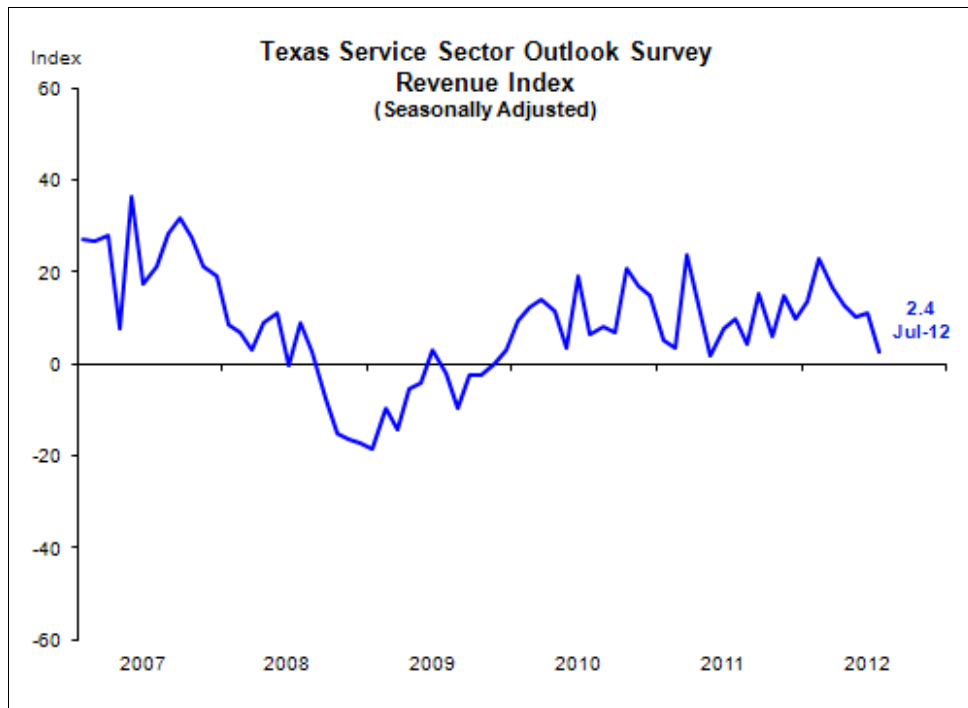
Data have been seasonally adjusted as necessary.

TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail								
Current								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	-3.6	7.0	-10.6	Decreasing	1	25.7	45.0	29.3
Employment	12.3	13.3	-1.0	Increasing	12	17.7	76.9	5.4
Part-time employment	3.4	4.9	-1.5	Increasing	6	6.7	90.0	3.3
Hours worked	4.5	-8.2	+12.7	Increasing	1	14.1	76.3	9.6
Wages and benefits	5.8	5.0	+0.8	Increasing	23	8.4	89.0	2.6
Input prices	5.2	8.2	-3.0	Increasing	24	16.6	72.0	11.4
Selling prices	-0.7	6.5	-7.2	Decreasing	1	13.2	72.9	13.9
Capital expenditures	11.3	15.6	-4.3	Increasing	16	19.4	72.6	8.1
Inventories	14.9	8.6	+6.3	Increasing	13	26.1	62.7	11.2
Companywide Retail Activity								
Sales	10.6	16.0	-5.4	Increasing	14	29.4	51.8	18.8
Internet sales	-2.1	11.3	-13.4	Decreasing	1	8.5	80.9	10.6
Catalog sales	2.6	5.1	-2.5	Increasing	2	7.7	87.2	5.1
General Business Conditions, Retail								
Current								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-5.6	0.7	-6.3	Worsening	1	12.6	69.2	18.2
General business activity	-6.5	4.6	-11.1	Worsening	1	19.3	54.9	25.8
Business Indicators Relating to Facilities and Products in Texas, Retail								
Six Months Ahead								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	41.2	33.4	+7.8	Increasing	41	53.7	33.8	12.5
Employment	10.1	17.7	-7.6	Increasing	31	23.7	62.7	13.6
Part-time employment	9.3	4.8	+4.5	Increasing	10	16.3	76.7	7.0
Hours worked	6.1	8.2	-2.1	Increasing	34	11.9	82.3	5.8
Wages and benefits	26.6	22.3	+4.3	Increasing	43	29.5	67.6	2.9
Input prices	33.9	29.0	+4.9	Increasing	39	37.3	59.3	3.4
Selling prices	23.7	27.4	-3.7	Increasing	39	33.9	55.9	10.2
Capital expenditures	11.8	16.4	-4.6	Increasing	16	23.7	64.4	11.9
Inventories	20.5	16.8	+3.7	Increasing	32	31.5	57.5	11.0
Companywide Retail Activity								
Sales	41.7	34.2	+7.5	Increasing	40	51.9	37.9	10.2
Internet sales	22.8	31.9	-9.1	Increasing	40	27.3	68.2	4.5
Catalog sales	8.1	7.9	+0.2	Increasing	2	13.5	81.1	5.4
General Business Conditions, Retail								
Six Months Ahead								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	18.7	18.6	+0.1	Improving	39	27.9	62.9	9.2
General business activity	8.7	10.5	-1.8	Improving	10	25.4	57.9	16.7

*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.



COMMENTS FROM SURVEY RESPONDENTS

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

PUBLISHING INDUSTRIES (EXCEPT INTERNET)

- Because we're a small company with fewer than 49 employees, the insurance issue hasn't had a big impact yet. We suspect that once insurance companies are hit hard that insurance cost is

going to go way up. We are going to work as hard and fast as we can to be prepared for the chaos that we feel is coming.

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

- There is an uneasy feeling about most business conditions at the moment, with the continuing issues of EPA and OSHA rules and regulations.
- We are experiencing cost pressures on commodity inputs. Retail sales remain good, and income levels are up slightly.

CREDIT INTERMEDIATION AND RELATED ACTIVITIES

- Borrowing appetites have increased marginally. Savings rate seems to have diminished somewhat.
- We see some small improvement in the local economy as employment increases and unemployment declines slightly.

PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES

- Business is steady, but clients are cautious. We're guardedly optimistic about six months out. Obviously the elections will defer a lot of decisions. We currently have 15 summer part-time interns.
- The housing market in the Dallas–Fort Worth area is making a strong comeback.
- Tax increases will be brutal and will have extreme negative impact on hiring and consumption.
- We are continuing to add employees and reassign employees from back office to front office work. Both residential and commercial real estate transactions continue strong. Company income is up, and bonuses are now being paid regularly. Residential real estate orders are continuing to increase, and the size of the commercial transactions is also increasing significantly. However, we no longer feel we can predict into next year until after the elections and the upcoming tax increases with the expiration of the Bush tax cuts. With almost 450 employees, we are concerned about health care costs and the impact of the Affordable Care Act and how this will affect profits and employee costs.

MANAGEMENT OF COMPANIES AND ENTERPRISES

- Loan demand is starting to pick up in south central Texas. Eagle Ford Shale and the easing of the drought are improving both the oil service and agricultural sectors. We are also noticing some cautious capital expenditures.
- Overregulation is definitely hurting our ability to help our customers.

ADMINISTRATIVE AND SUPPORT SERVICES

- Uncertainty relating to the elections and general economic policy clouds our optimism. The Affordable Care Act portends increasing costs unless it is overturned or we elect to opt out of our existing health care coverage. Real estate recovery remains slow despite cheerful statistics. By this we mean existing home values seem to be increasing, but demand for our services throughout Texas, Georgia, Florida and the Carolinas remains at a depressed level for

design/build, and maintenance pricing remains under margin pressure. The Texas situation does not display hoped-for improvements.

AMBULATORY HEALTH CARE SERVICES

- Rainy weather in Houston in mid-July impacted patient volumes by 10–15 percent.

HOSPITALS

- We anticipate a decrease in capital spending in the next six months as a major capital project is in final completion stage.

FOOD SERVICES AND DRINKING PLACES

- We are getting squeezed out of business by the affordable health care tax.
- Our sales are down, resulting in a drop in employment. We have fewer employees now than we had a couple of months ago despite the fact that the seasonal pattern would call for an increase. For the six-month outlook, we hope things are going to stabilize in terms of both sales and employment. We are already expecting a large increase in the cost of benefits—primarily health care—by Jan. 1. We are planning to raise prices by 1 percent late in the year to compensate for steady growth in wages and cost of goods; however, this increase will not help to mitigate expected increases in health care.

ANIMAL PRODUCTION

- The cost for raw milk will continue to rise until drought and commodity feed prices indicate relief.

MERCHANT WHOLESALERS, DURABLE GOODS

- The decline in sales and inventory in Texas and companywide is due to seasonality.
- We are slowing down again, but we are already committed to growth and are staying on that track. If by year end, it looks like the same malaise, we will slow it down.
- The bloom is off the rose in the oilfield, and commodity prices continue to decrease.

MERCHANT WHOLESALERS, NONDURABLE GOODS

- Demand is very tepid as we witness great concern about pending regulations and health care costs among our customer base. We do not expect much change until the election cycle is over.

MOTOR VEHICLE AND PARTS DEALERS

- Economic uncertainties are beginning to weigh on customers' decision to buy. All the negative press about Europe and the potential impact have caused several of our customers to reduce their purchases.

FOOD AND BEVERAGE STORES

- We are concerned about some anecdotal evidence of a slowdown in Eagle Ford employment and activity. We see very modest but steady improvement in residential real estate. Tourism seems

to be much stronger in 2012 than 2011. We are very concerned about the election and the impact of substantially tougher regulations on heavy industry.

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/.
