



# Texas Service Sector Outlook Survey

DALLAS FED

August 28, 2012

## TEXAS SERVICE SECTOR ACTIVITY PICKS UP PACE

Texas service sector activity increased in August, 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 2.4 to 10, with 30 percent of respondents noting revenues increased from July.

Labor market indicators reflected modest labor demand growth, but no change in the workweek. Employment grew at a slower pace in August, with the index falling from 8.6 to 6.3. The hours worked index was 0.8, suggesting little change in workweek length.

Perceptions of general business conditions improved in August. The general business activity index held steady at 8.4. The company outlook index moved up from 2 to 4.7, with 18 percent of respondents reporting their outlooks improved from last month and 13 percent noting they worsened.

Selling prices rose at a faster pace, while wage pressures moderated in August. The selling prices index advanced from 1.1 to 6, while the wages and benefits index fell from 14.2 to 9.4.

Most indexes of future service sector activity rose in August. The future revenue index increased 5 points to 33.1. Expectations regarding future business conditions were slightly more optimistic this month. The index of future general business activity edged up to a reading of 10.9, and the index of future company outlook moved up from 8.9 to 12.



## RETAIL SALES REBOUND

Retail sales increased in August, according to business executives responding to the Texas Retail Outlook Survey. After posting a negative July reading, the sales index rose sharply from -3.6 to 17.7, its highest reading in five months. Inventories rose.

Labor market indicators reflected a slower pace of employment growth and smaller increases in the length of the workweek. The employment index fell from 12.3 in July to 8.1 in August. The hours worked index edged down from 4.5 to 3.4.

Perceptions of general business conditions improved markedly in August. The general business activity index rose sharply from -6.5 to 15.2, its best reading since March. The company outlook index climbed out of negative territory to 3.7. Seventeen percent of respondents noted their company's outlook had improved from the prior month, compared with 13 percent who reported their outlook had worsened.

Retail prices spiked, while wage growth held steady in August. The selling prices index climbed from -0.7 to 22.4, its highest reading since March. The wages and benefits index was practically unchanged at 5.5, with the great majority of respondents noting no change in labor costs.

Indexes of future retail sector activity generally increased and remained in positive territory in August. Perceptions of future economic conditions also improved. The index of future general business activity was positive and moved up 5 points, while the index of future company outlook rose slightly from 18.7 to 21.1.

**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 Aug. 14–22, and 235 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. Data have been seasonally adjusted as necessary.

**Next release:** September 25, 2012

## TEXAS SERVICE SECTOR OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)</b>								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	10.0	2.4	+7.6	Increasing	34	30.4	49.1	20.4
Employment	6.3	8.6	-2.3	Increasing	30	18.1	70.1	11.8
Part-time employment	2.2	2.4	-0.2	Increasing	12	10.8	80.6	8.6
Hours worked	0.8	3.5	-2.7	Increasing	18	10.4	80.0	9.6
Wages and benefits	9.4	14.2	-4.8	Increasing	37	14.0	81.4	4.6
Input prices	30.6	21.5	+9.1	Increasing	40	33.4	63.8	2.8
Selling prices	6.0	1.1	+4.9	Increasing	20	14.3	77.4	8.3
Capital expenditures	8.8	14.4	-5.6	Increasing	36	18.3	72.2	9.5

<b>General Business Conditions Current (versus previous month)</b>								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	4.7	2.0	+2.7	Improving	12	18.1	68.5	13.4
General business activity	8.4	8.0	+0.4	Improving	10	23.2	62.0	14.8

<b>Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)</b>								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	33.1	28.1	+5.0	Increasing	42	47.6	37.9	14.5
Employment	21.8	21.4	+0.4	Increasing	41	35.5	50.8	13.7
Part-time employment	4.9	10.0	-5.1	Increasing	2	14.0	76.9	9.1
Hours worked	2.9	6.9	-4.0	Increasing	36	10.7	81.5	7.8
Wages and benefits	35.6	30.5	+5.1	Increasing	68	39.6	56.4	4.0
Input prices	45.7	44.4	+1.3	Increasing	68	49.8	46.1	4.1
Selling prices	21.4	14.4	+7.0	Increasing	37	30.0	61.4	8.6
Capital expenditures	20.3	19.4	+0.9	Increasing	41	33.2	54.0	12.9

<b>General Business Conditions Future (six months ahead)</b>								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	12.0	8.9	+3.1	Improving	12	26.4	59.2	14.4
General business activity	10.9	10.1	+0.8	Improving	11	26.1	58.7	15.2

\*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.

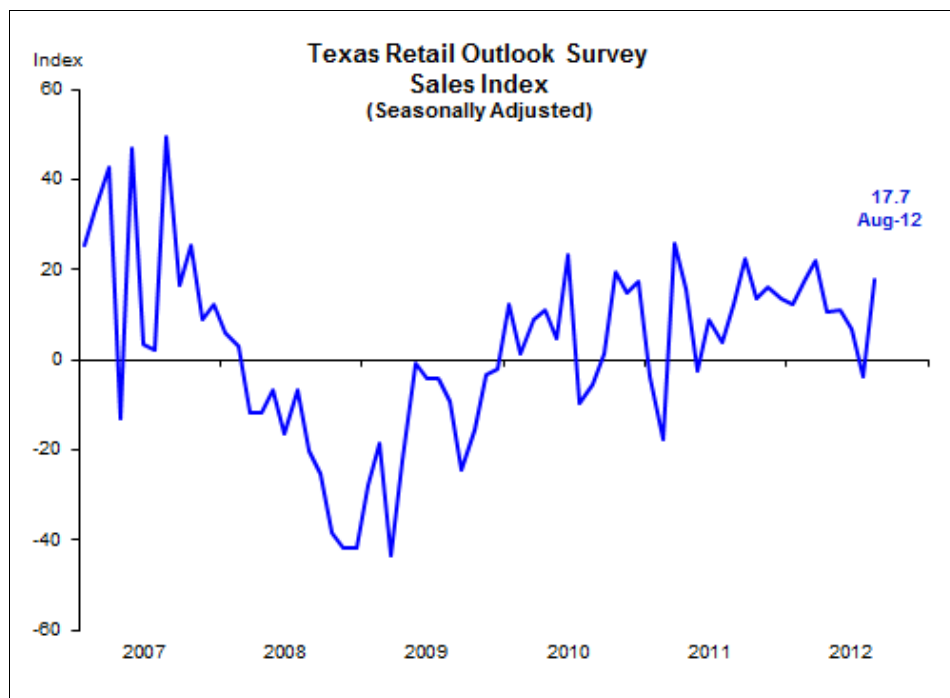
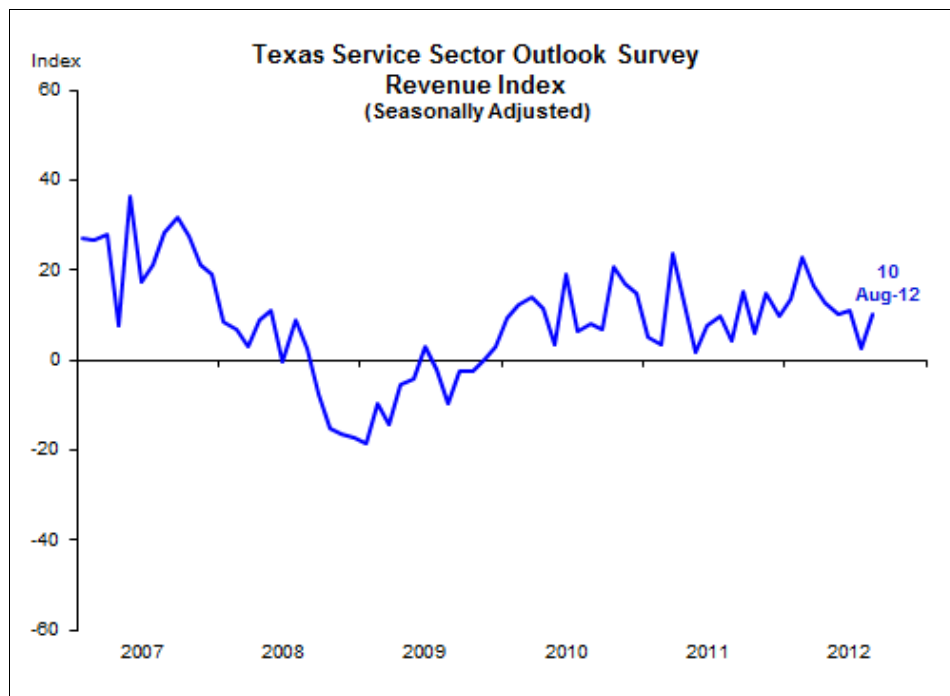
## TEXAS RETAIL OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)</b>								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	17.7	-3.6	+21.3	Increasing	1	38.5	40.6	20.8
Employment	8.1	12.3	-4.2	Increasing	13	15.3	77.5	7.2
Part-time employment	4.7	3.4	+1.3	Increasing	7	14.1	76.6	9.4
Hours worked	3.4	4.5	-1.1	Increasing	2	17.5	68.4	14.1
Wages and benefits	5.5	5.8	-0.3	Increasing	24	10.7	84.1	5.2
Input prices	30.4	5.2	+25.2	Increasing	25	36.6	57.2	6.2
Selling prices	22.4	-0.7	+23.1	Increasing	1	25.2	72.0	2.8
Capital expenditures	13.5	11.3	+2.2	Increasing	17	28.4	56.7	14.9
Inventories	13.6	14.9	-1.3	Increasing	14	29.8	54.0	16.2
<b>Companywide Retail Activity</b>								
Sales	26.3	10.6	+15.7	Increasing	15	39.4	47.6	13.1
Internet sales	21.8	-2.1	+23.9	Increasing	1	26.1	69.6	4.3
Catalog sales	4.9	2.6	+2.3	Increasing	3	12.2	80.5	7.3
<b>General Business Conditions, Retail Current (versus previous month)</b>								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	3.7	-5.6	+9.3	Improving	1	17.1	69.5	13.4
General business activity	15.2	-6.5	+21.7	Improving	1	29.9	55.4	14.7
<b>Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)</b>								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	44.5	41.2	+3.3	Increasing	42	58.9	26.7	14.4
Employment	20.6	10.1	+10.5	Increasing	32	33.3	54.0	12.7
Part-time employment	7.8	9.3	-1.5	Increasing	11	14.1	79.6	6.3
Hours worked	8.9	6.1	+2.8	Increasing	35	17.9	73.1	9.0
Wages and benefits	29.9	26.6	+3.3	Increasing	44	35.0	59.9	5.1
Input prices	28.6	33.9	-5.3	Increasing	40	38.1	52.4	9.5
Selling prices	30.2	23.7	+6.5	Increasing	40	36.5	57.1	6.3
Capital expenditures	15.9	11.8	+4.1	Increasing	17	28.6	58.7	12.7
Inventories	18.0	20.5	-2.5	Increasing	33	31.8	54.4	13.8
<b>Companywide Retail Activity</b>								
Sales	54.1	41.7	+12.4	Increasing	41	58.3	37.5	4.2
Internet sales	33.4	22.8	+10.6	Increasing	41	37.8	57.8	4.4
Catalog sales	10.2	8.1	+2.1	Increasing	3	17.9	74.4	7.7
<b>General Business Conditions, Retail Future (six months ahead)</b>								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	21.1	18.7	+2.4	Improving	40	32.3	56.5	11.2
General business activity	13.7	8.7	+5.0	Improving	11	29.6	54.5	15.9

\*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)

- > In our 11 markets, we are seeing inconsistent results. Some markets are showing spotty general improvement in business activity, while others have declined slightly after showing a small uptick earlier in the year.

### Credit Intermediation and Related Activities

- > We note improvement, but it is slight.

### Insurance Carriers and Related Activities

- > We are in a cyclical business, and the six-month projection will be at the low point in the annual cycle.

- > We are insurance brokers, so we are seeing the prices from our insurers going up; therefore, our proposals to our clients and prospects are somewhat higher. Our capital expenditure will be a new air handler for our office that must be replaced.

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

- > Our business is good and active. Improvements are small but steady. We're guardedly optimistic. Clients and prospects seem cautious but aggressive. Part-time help is down because the interns have left.
- > We see the unknowns about the medical plan as hurting our recovery.
- > Currently, we are continuing to see excellent business activity in both commercial and residential real estate in the Dallas–Fort Worth market. Our income is approaching record levels achieved in 2006, and we continue to hire at a reduced pace. We have had about 20 new hires in recent months, but overall employment growth from the same time last year is up only by 10 employees due to retirements and turnover. We cannot predict the next six months and are showing a negative outlook since there is nothing on the horizon that looks encouraging from either Congress or the executive branch regarding taxes, health insurance and other employee costs.

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

- > The regulatory and compliance environment continues to place a heavy burden on our business. Some top-down guidance to field personnel would be helpful.
- > Overregulation is hurting us and our customers.
- > The current regulatory environment is causing increased expenses with no offsetting income.

### **Ambulatory Health Care Services**

- > Uncertainty over health care reform and Medicare is halting any plans to increase business hiring. We believe the same uncertainty is making our patients delay care.

### **Accommodation**

- > We are considering investing around \$1 million in the Pecos area. We plan to add hotel rooms and spots to our RV parks.

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

- > For a restaurant, the profit margins are small and the fixed costs remain the same, so profits are dependent on volume. We think the new health care reform will have a very negative effect on our small business (we have 75 employees). We have decisions to make: Do we reduce the size of the restaurant and keep our staff under 50? Or do we just get out of the business? All other costs are going up as well—cost of food, transportation, utilities, etc.

### **Animal Production**

- > Raw milk prices continue to increase as feed prices rise. The price elasticity of milk demand may soon be tested again by consumers.

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

- > All "improved" comments are seriously contingent on the November 2012 election.

### **Merchant Wholesalers, Nondurable Goods**

- > We are thinking that six months from now we will have a better handle on how the health care reform and all of its taxes will affect our customers and, therefore, ourselves. Until then, we plan on continuing to aggressively take costs out of our systems so we can determine what we will be able to afford for our employees.
- > We can't find employees. We have been trying to increase staff by 20 percent but can't find the manpower.

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

- > Uncertainty regarding federal taxes, spending and the national debt is holding our whole economy hostage. Why would we even consider expanding or investing in new capital assets in this economic environment? We are holding onto every dollar we can.
- > High gas prices are very negative for our business.
- > The auto market remains solid, if not spectacular. The August manufacturer incentives and advertising always create a good month, and this year was no different. We see a highly competitive market for the remainder of the year, with lots of marketing and stimulus programs, and we anticipate 14 million new vehicle sales for the year. Preowned sales are good, but the lack of supply is somewhat constraining. Fixed operations are strong for all dealers as customers lengthen trading cycles, thus, requiring more maintenance.

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

- > We are still having problems finding employees with adequate skills.

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