



Texas Service Sector Outlook Survey

DALLAS FED

September 25, 2012

TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS

Texas service sector activity picked up pace in September, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, rose from 10 to 15, its highest reading since March, with 33 percent of respondents noting revenues increased from August.

Labor market indicators reflected stronger labor demand growth and slightly longer workweeks. Employment grew at a faster pace in September, with the index increasing from 6.3 to 9.8. The hours worked index edged up from 0.8 to 2.6.

Perceptions of general business conditions improved in September. The general business activity index rose from 8.4 to 10.1. The company outlook index moved up from 4.7 to 9.1, with 20 percent of respondents reporting their outlooks improved from last month and 11 percent noting they worsened.

Selling prices and wages rose slightly faster in September. The selling prices index edged up from 6 to 8.3, its highest reading in five months. The wages and benefits index moved up from 9.4 to 13.6.

Indexes of future service sector activity rose in September. The future revenue index increased 3 points to 36.4. Expectations regarding future business conditions were more optimistic. The index of future general business activity advanced to a reading of 14.3, and the index of future company outlook moved up from 12 to 17.7.



RETAIL SALES CLIMB FURTHER

Retail sales increased in September, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose from 17.7 to 22.3, its highest reading in 12 months. Inventories rose.

Labor market indicators reflected continued hiring and longer workweeks. The employment index moved up from 8.1 to 11.9 in September. The hours worked index rose from 3.4 to 7.5.

Perceptions of general business conditions improved notably in September. The general business activity index advanced from 15.2 to 21.7, its best reading since February. The company outlook index rose sharply from 3.7 to 15.7 in September. Twenty-five percent of respondents noted their company's outlook had improved from the prior month, compared with 9 percent who reported their outlook had worsened.

Retail price and wage pressures were not much changed in September. The selling prices index remained high but dipped to 20.9 from 22.4. The wages and benefits index edged up from 5.5 to 7.1, although the great majority of respondents noted no change in labor costs.

Indexes of future retail sector activity remained in positive territory, and most of them increased in September. Perceptions of future economic conditions also improved. The index of future general business activity moved up nearly 10 points to 23.4, while the index of future company outlook climbed from 21.1 to 29.9.

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 Sept. 11–19, and 245 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: October 30, 2012

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	15.0	10.0	+5.0	Increasing	35	32.5	50.0	17.5
Employment	9.8	6.3	+3.5	Increasing	31	18.5	72.8	8.7
Part-time employment	2.2	2.2	0.0	Increasing	13	9.3	83.6	7.1
Hours worked	2.6	0.8	+1.8	Increasing	19	10.5	81.6	7.9
Wages and benefits	13.6	9.4	+4.2	Increasing	38	16.5	80.6	2.9
Input prices	27.9	30.6	-2.7	Increasing	41	30.8	66.3	2.9
Selling prices	8.3	6.0	+2.3	Increasing	21	17.5	73.3	9.2
Capital expenditures	14.5	8.8	+5.7	Increasing	37	19.5	75.5	5.0

General Business Conditions Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	9.1	4.7	+4.4	Improving	13	20.0	69.1	10.9
General business activity	10.1	8.4	+1.7	Improving	11	23.1	63.9	13.0

Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	36.4	33.1	+3.3	Increasing	43	50.0	36.4	13.6
Employment	25.8	21.8	+4.0	Increasing	42	36.9	52.0	11.1
Part-time employment	6.4	4.9	+1.5	Increasing	3	15.0	76.4	8.6
Hours worked	7.1	2.9	+4.2	Increasing	37	14.0	79.1	6.9
Wages and benefits	39.4	35.6	+3.8	Increasing	69	42.0	55.4	2.6
Input prices	48.3	45.7	+2.6	Increasing	69	51.7	44.9	3.4
Selling prices	29.1	21.4	+7.7	Increasing	38	37.4	54.3	8.3
Capital expenditures	27.8	20.3	+7.5	Increasing	42	37.1	53.6	9.3

General Business Conditions Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	17.7	12.0	+5.7	Improving	13	30.5	56.7	12.8
General business activity	14.3	10.9	+3.4	Improving	12	27.5	59.3	13.2

*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.

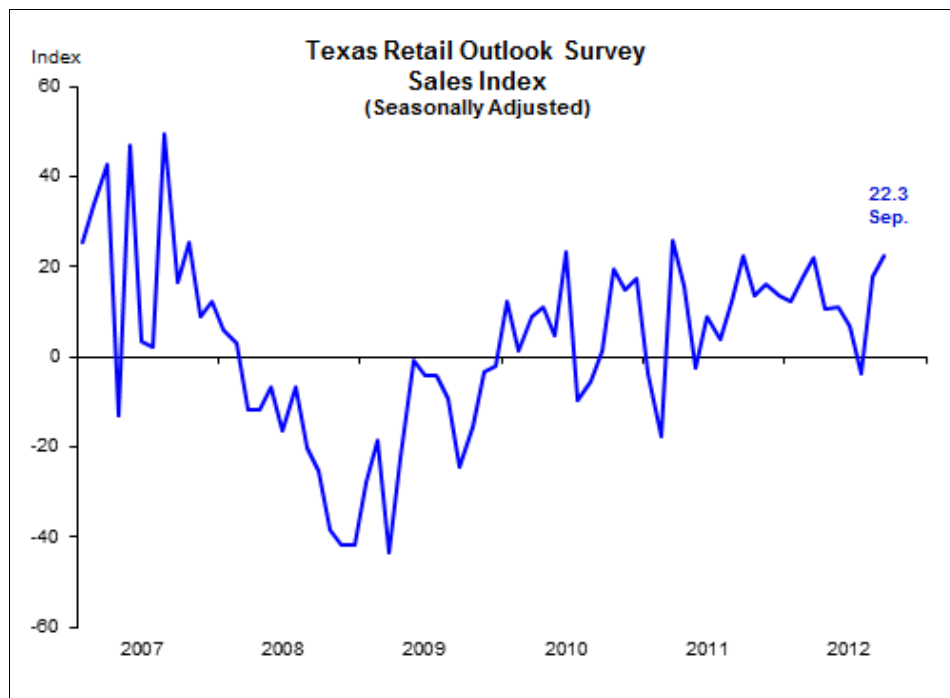
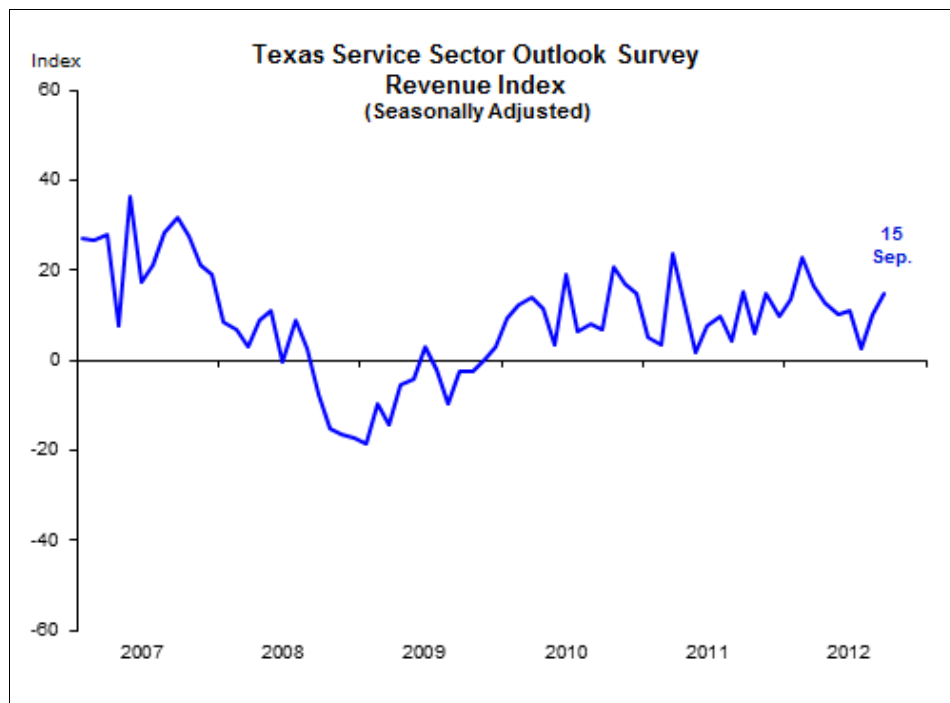
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	22.3	17.7	+4.6	Increasing	2	34.8	52.7	12.5
Employment	11.9	8.1	+3.8	Increasing	14	17.0	77.9	5.1
Part-time employment	-1.6	4.7	-6.3	Decreasing	1	9.5	79.4	11.1
Hours worked	7.5	3.4	+4.1	Increasing	3	14.1	79.3	6.6
Wages and benefits	7.1	5.5	+1.6	Increasing	25	9.3	88.5	2.2
Input prices	13.6	30.4	-16.8	Increasing	26	19.2	75.2	5.6
Selling prices	20.9	22.4	-1.5	Increasing	2	24.5	71.9	3.6
Capital expenditures	13.7	13.5	+0.2	Increasing	18	16.7	80.3	3.0
Inventories	22.9	13.6	+9.3	Increasing	15	30.8	61.3	7.9
Companywide Retail Activity								
Sales	29.6	26.3	+3.3	Increasing	16	38.5	52.6	8.9
Internet sales	10.4	21.8	-11.4	Increasing	2	16.7	77.1	6.3
Catalog sales	4.8	4.9	-0.1	Increasing	4	11.9	81.0	7.1
General Business Conditions, Retail Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	15.7	3.7	+12.0	Improving	2	24.7	66.3	9.0
General business activity	21.7	15.2	+6.5	Improving	2	30.7	60.3	9.0
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	51.7	44.5	+7.2	Increasing	43	59.5	32.7	7.8
Employment	30.6	20.6	+10.0	Increasing	33	38.7	53.2	8.1
Part-time employment	6.1	7.8	-1.7	Increasing	12	17.1	71.9	11.0
Hours worked	6.7	8.9	-2.2	Increasing	36	13.5	79.7	6.8
Wages and benefits	28.7	29.9	-1.2	Increasing	45	32.6	63.5	3.9
Input prices	41.0	28.6	+12.4	Increasing	41	45.9	49.2	4.9
Selling prices	46.8	30.2	+16.6	Increasing	41	48.4	50.0	1.6
Capital expenditures	19.7	15.9	+3.8	Increasing	18	29.5	60.7	9.8
Inventories	21.2	18.0	+3.2	Increasing	34	33.7	53.8	12.5
Companywide Retail Activity								
Sales	47.0	54.1	-7.1	Increasing	42	54.5	38.0	7.5
Internet sales	22.2	33.4	-11.2	Increasing	42	31.1	60.0	8.9
Catalog sales	0.0	10.2	-10.2	No Change	1	7.9	84.2	7.9
General Business Conditions, Retail Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	29.9	21.1	+8.8	Improving	41	35.5	58.9	5.6
General business activity	23.4	13.7	+9.7	Improving	12	33.6	56.2	10.2

*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.

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COMMENTS FROM SURVEY RESPONDENTS

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

Water Transportation

- > Drought and hurricanes have had a minimal effect on our business over the last 30 days.

Credit Intermediation and Related Activities

- > We have experienced some loan growth each of the last three months. This is a positive, but consumer demand is still very tepid. There are too many economic uncertainties to forecast six months with any degree of confidence.

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

- > Hopefully, in the next six months, we'll have less pressures from regulators along with a firmer and better set of business policies,

e.g., federal taxes, immigration, health care, to name a few. We won't do much in the way of credit for expansion in facilities, equipment expenditures and employment until we are more confident in the business environment.

Real Estate

- > Local shortage in inventory of homes for sale is resulting in higher prices. Lack of developed single-family lots is delaying new home construction, adding to the inventory shortages. Tight underwriting criteria and regulatory uncertainty tied to Dodd–Frank continue to throttle demand somewhat. We're afraid we'll see a slowdown in activity as the elections approach and people begin to focus on the stark differences in the two parties' visions for America.

Rental and Leasing Services

- > Our markets, including the oilfield, have cooled drastically in the last six months. We are currently looking at a large acquisition, and one of our major concerns is the high cost of government regulation.

Professional, Scientific and Technical Services

- > Both residential and commercial real estate transactions have been increasing and so have prices. Our revenues in August were a record for that month over our 21-year history. Price increases are not dramatic, but there is pressure, especially on higher-priced homes. As previously reported, we cannot predict six months from now as we still cannot predict or even anticipate fiscal or spending policy in this election year.
- > The upstream drilling and production sector is providing the increase in demand for our services. The rest of the general business sector seems to be lagging.
- > We plan for slight growth in billings and small salary increases. Things feel stable, but our clients are still cautious, careful spenders of their marketing budgets. The television/cable business seems to be doing very well, driven by automobile, health care and technology (telephony) marketing spending.

Management of Companies and Enterprises

- > Overregulation is running up the cost of doing business. We are spending too much time trying to stay in compliance with too many rules that accomplish nothing. Our company suffers and our customers suffer. It seems like no one is listening. Everyone we talk to (it does not matter what industry) says that overregulation is hurting them. In the long run, this hurts everyone in some way or another. Every business news station is talking about the overregulation burden on businesses, and still no one does anything about it.

Administrative and Support Services

- > There is a general weakness in both the ability to raise prices to offset increased costs and the expectation of improvement in business by customers.
- > Election uncertainty is resulting in deferred customer expenditures for capital projects. Government regulations remain at an elevated level.
- > We have a high level of concern about world conditions; however, luxury level of travel is still in demand.

Ambulatory Health Care Services

- > We are seeing a drop in referrals on our outpatient diagnostic services to a greater degree than last year. This will ultimately cause a decrease in revenue, likely beginning in mid-October.
- > Uncertainty on taxes and health care costs for medium size businesses is preventing them from investment in expansion projects and adding employees. Potential increase in taxes due to the elimination of Bush tax cuts implies an increase in tax cost. Compliance with the increasing cost in health care insurance for employees is putting a damper on investment and hiring at our organizational level.
- > The impact of new health care regulations plus a 30 percent cut in Medicare reimbursement will require adjustments in payroll, staffing and benefits.

Food Services and Drinking Places

- > We expect that taxes will increase dramatically after Jan. 1, 2013, and the costs of doing business will increase significantly (from cost of goods to wages). We anticipate major uncertainty in every area, and we are watching spending carefully and preparing for the worst. After 26 years of running a very successful high-end restaurant, we are researching whether we should consider selling our business as a result of the tax and regulatory burdens we are about to be faced with.
- > As a restaurant with over 50 employees (75 currently), our biggest concern is health care reform. The rising cost of food and increasing health care costs could drive a lot of restaurants out of business. Raising the selling price would drive our customers to eating more at home. Restaurants are probably the largest small-business employers in the U.S., and the future under the current projected structure does not look bright.
- > Cost of goods is higher due to agricultural problems.
- > We have definitely seen a rebound in sales in September over August. Hours worked went up somewhat for both full- and part-time employees because our sales increased. Our cost of goods reflected about 0.2 percent increase between the two months. We already know that there is a major increase coming for our health insurance. We just don't know how large it is. We are still seeing very little increase in our actual rates of pay for the hourly positions. We just granted a 2 percent increase across the board to salaried personnel. They got no increase last year so, spread over the two years, there has actually only been a 1 percent per year increase. With regard to the six-month horizon, we are moving to a little more optimistic position on sales, after seeing sales dive in the last couple of months. We know the cost of benefits is going up and expect the cost of goods to rise. We already have a

preliminary price increase scheduled within the six months.

Merchant Wholesalers, Durable Goods

- > We are going into another water shortage, which puts everyone on a spending hold for the time being and slows down the agricultural business.
- > The election seems to be slowing things down.

Merchant Wholesalers, Nondurable Goods

- > There is still way too much apprehension about which way things are going. Our customers are very wary of spending any more than they absolutely have to. We hope things become clearer after November.
- > We think increasing grain prices are going to cause retail prices for fish to be at record highs next year.

Motor Vehicle and Parts Dealers

- > We think September being the same as August is good; our auto business is good and the stock market performance is helpful. Elections are still uncertain, and world events are not helpful. We as a country face significant challenges moving forward. Leadership and some sort of political catharsis would be helpful, but I'm not holding my breath.
- > Growth potential is limited by the non-availability of qualified employees. We see this improving as the Eagle Shale oil find satisfies its employee needs.
- > We think that if uncertainties about taxes and health care can be solidified for the long term, future risk could be easier to manage.
- > It is really too early in the month to get a good look. We had a great Labor Day weekend, but business has slowed down.

Furniture and Home Furnishings Stores

- > Typically, we experience a downturn in sales in September. So far, through the 10th, we are tracking with August sales. This is very positive!

Building Material and Garden Equipment and Supplies Dealers

- > Business demand remains poor. Hopefully, once the November election is over, businesses will begin to move forward with growth plans. We do not expect much change until then.
- > We need less college-educated help and more skilled labor.

General Merchandise Stores

- > Uncertainty is still the word of the day for both our customers and us as a corporation.

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/.
