



# Texas Service Sector Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

November 29, 2011

## TEXAS SERVICE SECTOR ACTIVITY CONTINUES TO GROW

Texas service sector activity increased in November, 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 4.7 to 14, with 31 percent of respondents noting revenue increased from October.

Labor market indicators reflect modest hiring and slightly longer workweeks. The employment index edged up from 4.7 to 5.5, its best reading in seven months, although the great majority of respondents noted no change in employment. The hours worked index dipped to 2.7 in November, which is consistent with slightly longer workweeks.

Perceptions of general business conditions improved markedly in November. The general business activity index jumped to 7.4, its first positive reading in seven months. The company outlook index moved up to 10.3 in November, its second consecutive month in positive territory, with 21 percent of respondents reporting their outlooks improved from last month.

Price and wage pressures changed little in November. The selling prices index edged up from 6.3 to 8.8. The wages and benefits index rose slightly from 12.1 to 13.3, although the great majority of respondents noted no change in labor costs.

Indexes of future service sector activity were not much changed from last month, although expectations regarding future business conditions were more optimistic. The index of future general business activity advanced from 6 to 15.5 in November, its best reading since April, and the index of future company outlook moved further into positive territory from 16.9 to 19.9.



## RETAIL SALES PICK UP

Retail sales increased in November, according to business executives responding to the Texas Retail Outlook Survey. The volatile sales index rose from 9.2 to 12.8, marking four consecutive months of sales increases. Inventories rose sharply.

Labor market indicators reflected continued hiring, albeit at a slower pace, and longer workweeks. The employment index fell from 16 to 8.2, which is indicative of slower employment growth. The hours worked index rose from 1.6 to 7.5.

Perceptions of general business conditions improved again in November. The general business activity index came in at 5.2, its second consecutive reading in positive territory. The company outlook index was positive for the third month in a row, with a reading of 13.2. Nearly a quarter of respondents said their company's outlook had improved from the prior month, compared with 10 percent who noted their outlook had worsened.

Retail prices and wages continued to climb in November. The selling prices index rose from 19.9 to 26.4. The wages and benefits index was not much changed, ticking down from 15.6 to 14.9, although the majority of respondents continued to note no change in labor costs.

Indexes of future retail sector activity remained in solid positive territory in November, while the future general business activity index improved sharply.

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 Nov. 15–22, and 224 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: December 28, 2011

## TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	14.0	4.7	+9.3	Increasing	25	30.8	52.4	16.8
Employment	5.5	4.7	+0.8	Increasing	21	17.2	71.1	11.7
Part-time employment	0.2	0.5	-0.3	Increasing	3	7.9	84.4	7.7
Hours worked	2.7	5.2	-2.5	Increasing	9	10.6	81.5	7.9
Wages and benefits	13.3	12.1	+1.2	Increasing	26	16.1	81.1	2.8
Input prices	32.7	29.2	+3.5	Increasing	31	34.6	63.5	1.9
Selling prices	8.8	6.3	+2.5	Increasing	11	16.5	75.8	7.7
Capital expenditures	11.8	12.4	-0.6	Increasing	27	17.8	76.2	6.0
General Business Conditions								
Current								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	10.3	5.7	+4.6	Improving	2	21.1	68.1	10.8
General business activity	7.4	-5.1	+12.5	Improving	1	18.4	70.6	11.0
Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	36.6	36.5	+0.1	Increasing	33	46.6	43.5	10.0
Employment	16.2	21.4	-5.2	Increasing	32	28.3	59.6	12.1
Part-time employment	7.7	11.2	-3.5	Increasing	5	13.4	80.9	5.7
Hours worked	9.3	3.6	+5.7	Increasing	27	13.1	83.1	3.8
Wages and benefits	32.9	30.2	+2.7	Increasing	59	34.9	63.1	2.0
Input prices	46.7	45.8	+0.9	Increasing	59	49.0	48.7	2.3
Selling prices	26.4	25.3	+1.1	Increasing	28	33.0	60.4	6.6
Capital expenditures	25.6	17.9	+7.7	Increasing	32	32.1	61.6	6.5
General Business Conditions								
Six Months Ahead								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	19.9	16.9	+3.0	Improving	3	29.9	60.1	10.0
General business activity	15.5	6.0	+9.5	Improving	2	25.2	65.1	9.7

\*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.

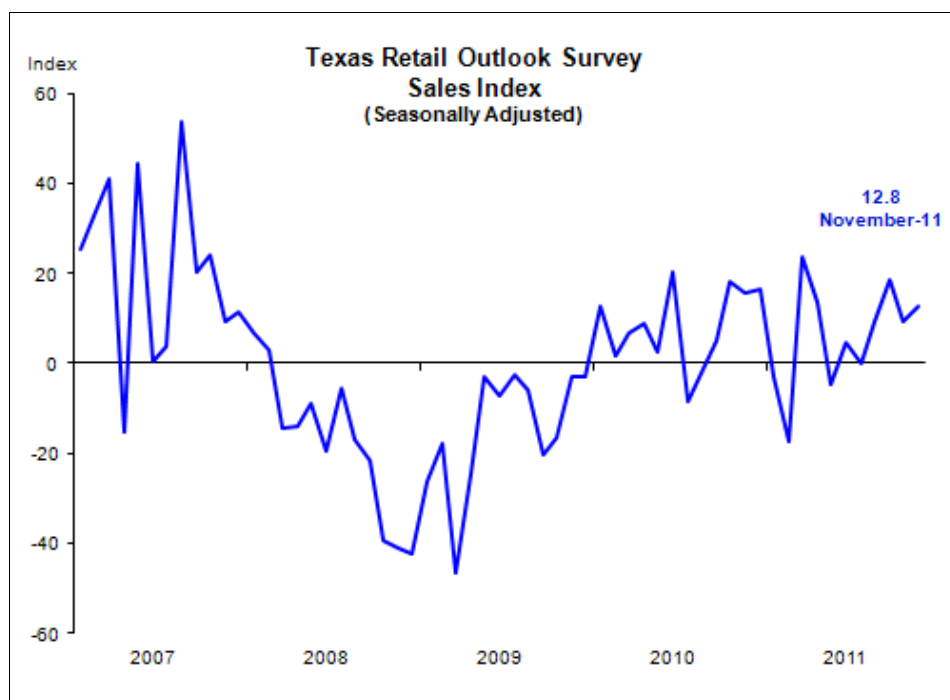
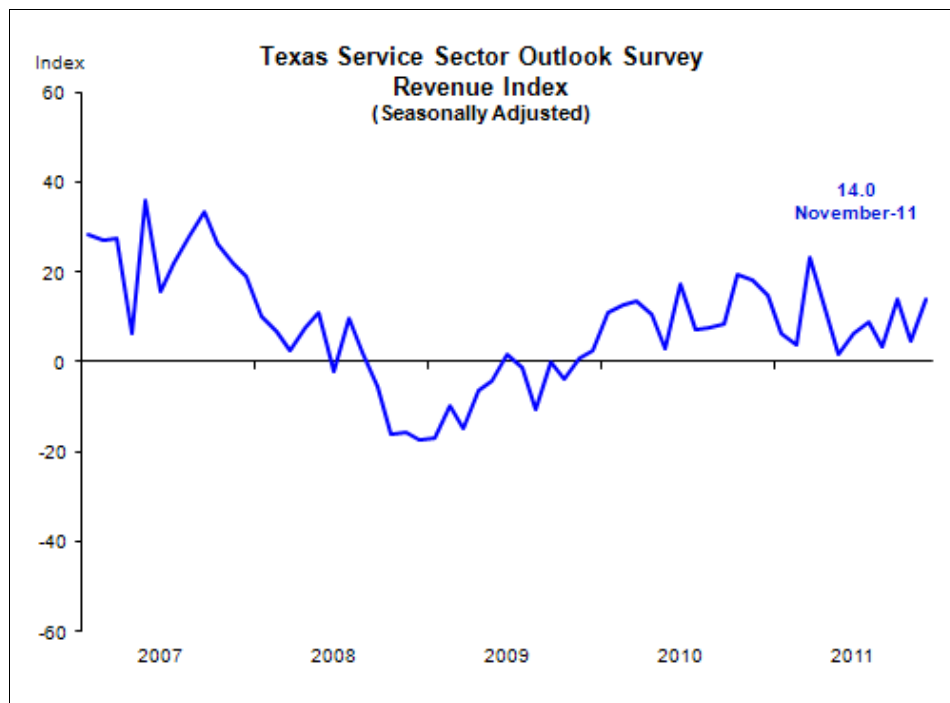
# TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products, Retail Current								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	12.8	9.2	+3.6	Increasing	4	33.2	46.4	20.4
Employment	8.2	16.0	-7.8	Increasing	4	20.4	67.4	12.2
Part-time employment	-6.2	-1.6	-4.6	Decreasing	4	6.3	81.3	12.5
Hours worked	7.5	1.6	+5.9	Increasing	2	17.9	71.6	10.4
Wages and benefits	14.9	15.6	-0.7	Increasing	9	17.9	79.1	3.0
Input prices	36.6	30.0	+6.6	Increasing	16	40.6	55.4	4.0
Selling prices	26.4	19.9	+6.5	Increasing	16	32.9	60.6	6.5
Capital expenditures	12.1	17.2	-5.1	Increasing	8	21.2	69.7	9.1
Inventories	22.8	12.9	+9.9	Increasing	5	30.7	61.4	7.9
<b>Companywide Retail Activity</b>								
Sales	11.5	9.9	+1.6	Increasing	6	32.9	45.8	21.4
Internet sales	2.1	2.4	-0.3	Increasing	5	14.6	72.9	12.5
Catalog sales	-9.3	-2.6	-6.7	Decreasing	3	9.3	72.1	18.6
<b>General Business Conditions, Retail Current</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	13.2	16.9	-3.7	Improving	3	22.7	67.8	9.5
General business activity	5.2	0.8	+4.4	Improving	2	19.9	65.4	14.7
<b>Business Indicators Relating to Facilities and Products, Retail Six Months Ahead</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	45.9	46.7	-0.8	Increasing	33	50.7	44.5	4.8
Employment	15.1	15.9	-0.8	Increasing	23	24.2	66.7	9.1
Part-time employment	6.4	17.7	-11.3	Increasing	2	13.0	80.4	6.6
Hours worked	6.3	0.6	+5.7	Increasing	2	13.7	78.9	7.4
Wages and benefits	37.8	24.6	+13.2	Increasing	35	37.8	62.2	0.0
Input prices	46.2	39.6	+6.6	Increasing	31	47.7	50.8	1.5
Selling prices	41.0	34.9	+6.1	Increasing	31	45.5	50.0	4.5
Capital expenditures	25.0	25.4	-0.4	Increasing	8	31.3	62.5	6.3
Inventories	13.8	6.3	+7.5	Increasing	2	29.2	55.4	15.4
<b>Companywide Retail Activity</b>								
Sales	50.5	47.0	+3.5	Increasing	32	55.5	39.5	5.0
Internet sales	30.4	28.2	+2.2	Increasing	32	32.6	65.2	2.2
Catalog sales	15.0	11.7	+3.3	Increasing	4	22.5	70.0	7.5
<b>General Business Conditions, Retail Six Months Ahead</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	28.5	28.7	-0.2	Improving	31	36.9	54.7	8.4
General business activity	25.4	11.1	+14.3	Improving	2	34.1	57.2	8.7

\*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.

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## COMMENTS FROM SURVEY RESPONDENTS

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

### Animal Production

Raw milk costs have declined slightly and seem to be leveling off. Other supplies and ingredients have leveled off as well.

### Publishing Industries (except Internet)

We have a business venture that will start within the next six months; we expect business to grow.

### Accommodation

Demand is low due to the holiday season. However, we are in the process of completing our RV park and will add

28 rooms to our hotels over the next five months.

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

Retail sales remain strong. Employment is up slightly. Drought continues to hurt agribusiness.

We continue to see cost increases coming from every direction, with employee benefits (insurance) and regulatory type cost increases leading the groups. We managed small price increases, although our pricing has not significantly increased over several years.

### **Insurance Carriers and Related Activities**

A large variable for our business is the new Home Affordable Refinance Program (HARP) being discussed. If that program works as intended, the mortgage lending and real estate market in general will improve.

### **Real Estate**

Local real estate market is holding steady, with little or no improvement, but likewise little or no deterioration. We are just treading water until taxation policy certainty, spending restraint and the November elections. We are looking forward to 2013.

### **Rental and Leasing Services**

Access to capital is no problem. However, overregulation by government has become ridiculous.

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

We are using interns for part-time employees. Employment is increasing slightly but growing nonetheless. We have not initiated an across-the-board salary increase in three years, but we anticipate doing that for 2012. We expect the economic activity to improve slightly next year.

We continue to see a dysfunctional government with the latest failure of the supercommittee.

We finally are seeing the seasonal downturn in closing volume and orders and expect that the revenue this month will decline and continue to decline through the end of the year for residential transactions. Although the decline is seasonal, it makes us all nervous. The good news is that the residential seasonal decline, which usually starts in August, was late this year. Commercial activity remains strong and is much better than 2010. Overall, we expect residential volume to match 2010.

The contagion from Europe, when combined with more domestic economic concerns, has completely shut down commercial real estate capital market activities.

Health insurance renewal came in. We had a 24 percent increase for the same plan compared with last year. Ouch.

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

Fees from the Federal Deposit Insurance Corporation (FDIC) and Texas banks have taken a toll on our income.

### **Administrative and Support Services**

As long as interest rates stay low, we believe our consumers will continue to purchase.

The uncertain political and economic climate continues to dampen hiring full-time employees. There has been what appears to be a temporary increase in contract hiring to move forward on projects that just couldn't wait any longer, but it appears that period has passed.

### **Ambulatory Health Care Services**

The failure of the supercommittee will severely impact the medical services community. If Congress does not act to stop the 30 percent Medicare cut due on Jan. 1, 2012, doctors may cut back services to Medicare enrollees, resulting in a significant drop in revenues and probable staff layoffs. The drop in doctors accepting Medicare will drive patients to emergency rooms, driving up costs to a point that will likely exceed the savings from the 30 percent fee cut.

### **Nursing and Residential Care Facilities**

Reductions in Medicaid and Medicare reimbursements affect revenue in all health care related businesses.

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

We took a price increase of 1.85 percent last week, which we expect to net us about 1.35 percent after menu shifting. Our cost of goods has gone up so much that we were forced to take last week's price increase. We wanted to wait at least six months after the June increase but could not do so. We were also forced to lay off a few people last month. Our issue now is how much sales will react to the new price increase. The customer counts have declined steadily and went negative two periods ago. Bottom line, we are still not seeing any real recovery in sales. However, we see some indications that the economy, particularly for our city—San Antonio—is on the verge of improving, so we still have an optimistic view of six months from now. We already know that we have a huge increase in the cost of medical insurance facing us Jan. 1. It will take back a major chunk of what we have just gained with the lay-offs and price increase. The increase in cost of goods has not come to a stop but has significantly slowed down in the last few weeks. Overall, our business is still up but at a much slower pace.

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

A few segments of our business show strength, and therefore, capital spending will increase in the next six months. We also will increase temporary employment. Construction still lags.

Very dry conditions continue in our market area indicating water shortages for 2012. There is a lot of uncertainty in buying processes currently

Input prices have quadrupled since the beginning of the year. Additionally, available raw goods have become scarce. Things are looking very bleak. We hope we can hold on.

General business is in a malaise, but our firm is moving forward. We feel commercial activity will be poor in 2012, but residential activity will improve in 2012. We have decided that if the new health care law takes effect in 2014, our firm will no longer offer medical insurance. We will start informing our employees in second quarter 2012. In addition we will no longer match 401(k) contributions in the future.

Our sales are down 3 percent compared with a year ago. We will need to continue to reduce costs and improve efficiency to keep the bottom line in the proper place. We are spending money on technology to increase service level to our customers as well as reduce overall labor cost.

Retail activity has increased, though most has been driven by the drought; ranchers have been forced to purchase feed instead of relying on natural forage. Could this spell trouble in the future? Those who remain in business will reap better prices.

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

The shale oil find in Texas has positively impacted our business.

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Questions regarding the Texas Service Sector Outlook Survey can be addressed to Jesus Cañas at [jesus.canas@dal.frb.org](mailto:jesus.canas@dal.frb.org).

The Texas Service Sector Outlook Survey can be found online at [www.dallasfed.org/research/surveys/tssos](http://www.dallasfed.org/research/surveys/tssos).

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