March 27, 2012

Texas Service Sector Activity Expands Further

What's New This Month

For this month's survey, business executives were asked supplemental questions on hiring plans. Nearly half of respondents expect their firm to increase employment over the next six to twelve months.

Texas service sector activity increased in March, 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 22.8 to 16.5, which suggests revenue growth slowed slightly.

Labor market indicators also reflected slower growth. The employment index fell to 7.7, its lowest reading in four months. The hours worked index edged down from 12.4 in February to 9 in March.

Respondents noted continued improvement in the broader economy as indexes reflecting general business conditions remained strong but declined slightly. The general business activity index moved down to 18.9, its fifth consecutive positive reading. The company outlook index fell to 11.5, its seventh consecutive month in positive territory, with 22 percent of respondents reporting their outlooks improved from last month.

Upward pressure on selling prices and wages moderated in March. The selling prices index was largely unchanged at a reading of 12.4, and the wages and benefits index edged down from 17.4 to 13.8.

Indexes of future service sector activity remained in positive territory. The index of future general business activity held steady at a reading of 27.5 in March, and the index of future company outlook moved down from 31.8 to 26.

Retail Sales Growth Remains Solid

Retail sales increased in March, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose from 17.5 to 22, marking 10 consecutive months of sales increases. Inventories rose.

Labor market indicators reflected continued hiring and slightly longer workweeks. The employment index increased from 8.6 in February to 13.1 in March. The hours worked index edged down from 10.9 to 8.2 this month, suggesting average workweeks rose at a slower pace.

Perceptions of general business conditions improved again in March. The general business activity index came in at 21.5, its sixth consecutive reading in positive territory. The company outlook index was positive for the seventh month in a row; it came in at 26.5, with 37 percent of respondents noting their company's outlook had improved from the prior month, compared with 10 percent who reported their outlook had worsened.

Retail prices and wages increased in March. The selling prices index moved up from 17 to 23, suggesting retail price increases were more widespread this month. In contrast, the wages and benefits index fell slightly from 12.1 to 10.7, although the great majority of respondents continued to note no change in labor costs.

Indexes of future retail sector activity generally remained in solid positive territory in March, while both the index of future general business activity and 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 Mar. 13–21, 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: May 1, 2012

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas
Current

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	16.5	22.8	-6.3	Increasing	29	32.6	51.3	16.1
Employment	7.7	15.5	-7.8	Increasing	25	17.4	72.9	9.7
Part-time employment	6.8	0.5	+6.3	Increasing	7	10.0	86.8	3.2
Hours worked	9.0	12.4	-3.4	Increasing	13	12.8	83.4	3.8
Wages and benefits	13.8	17.4	-3.6	Increasing	32	14.5	84.8	0.7
Input prices	33.8	31.5	+2.3	Increasing	35	36.1	61.6	2.3
Selling prices	12.4	12.7	-0.3	Increasing	15	18.4	75.6	6.0
Capital expenditures	15.3	15.3	0.0	Increasing	31	21.1	73.1	5.8

General Business Conditions
Current

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	11.5	22.5	-11.0	Improving	7	21.5	68.5	10.0
General business activity	18.9	24.6	-5.7	Improving	5	26.8	65.3	7.9

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	35.2	44.6	-9.4	Increasing	37	45.6	43.9	10.4
Employment	20.9	32.5	-11.6	Increasing	38	32.7	55.5	11.8
Part-time employment	8.8	8.9	-0.1	Increasing	9	14.3	80.2	5.5
Hours worked	5.1	8.3	-3.2	Increasing	31	10.4	84.3	5.3
Wages and benefits	33.2	36.1	-2.9	Increasing	63	35.2	62.8	2.0
Input prices	48.2	47.0	+1.2	Increasing	63	49.5	49.1	1.3
Selling prices	30.7	31.1	-0.4	Increasing	32	34.8	61.1	4.1
Capital expenditures	25.9	28.1	-2.2	Increasing	36	32.3	61.4	6.4

General Business Conditions
Six Months Ahead

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	26.0	31.8	-5.8	Improving	7	34.5	57.0	8.5
General business activity	27.5	27.1	+0.4	Improving	6	32.6	62.3	5.1

*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.
**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	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	22.0	17.5	+4.5	Increasing	10	41.6	38.9	19.6
Employment	13.1	8.6	+4.5	Increasing	8	21.9	69.3	8.8
Part-time employment	4.6	3.3	+1.3	Increasing	2	9.1	86.4	4.5
Hours worked	8.2	10.9	-2.7	Increasing	6	16.0	76.2	7.8
Wages and benefits	10.7	12.1	-1.4	Increasing	19	13.4	83.9	2.7
Input prices	34.9	27.8	+7.1	Increasing	20	41.0	52.9	6.1
Selling prices	23.0	17.0	+6.0	Increasing	20	31.9	59.2	8.9
Capital expenditures	18.9	14.3	+4.6	Increasing	12	29.0	60.9	10.1
Inventories	12.8	22.2	-9.4	Increasing	9	27.5	57.8	14.7
Companywide Retail Activity								
Sales	29.3	13.9	+15.4	Increasing	10	44.1	41.1	14.8
Internet sales	15.1	6.2	+8.9	Increasing	2	22.6	69.8	7.5
Catalog sales	7.1	2.4	+4.7	Increasing	2	11.9	83.3	4.8

General Business Conditions, Retail Current								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	26.5	27.6	-1.1	Improving	7	36.6	53.3	10.1
General business activity	21.5	36.9	-15.4	Improving	6	34.5	52.5	13.0

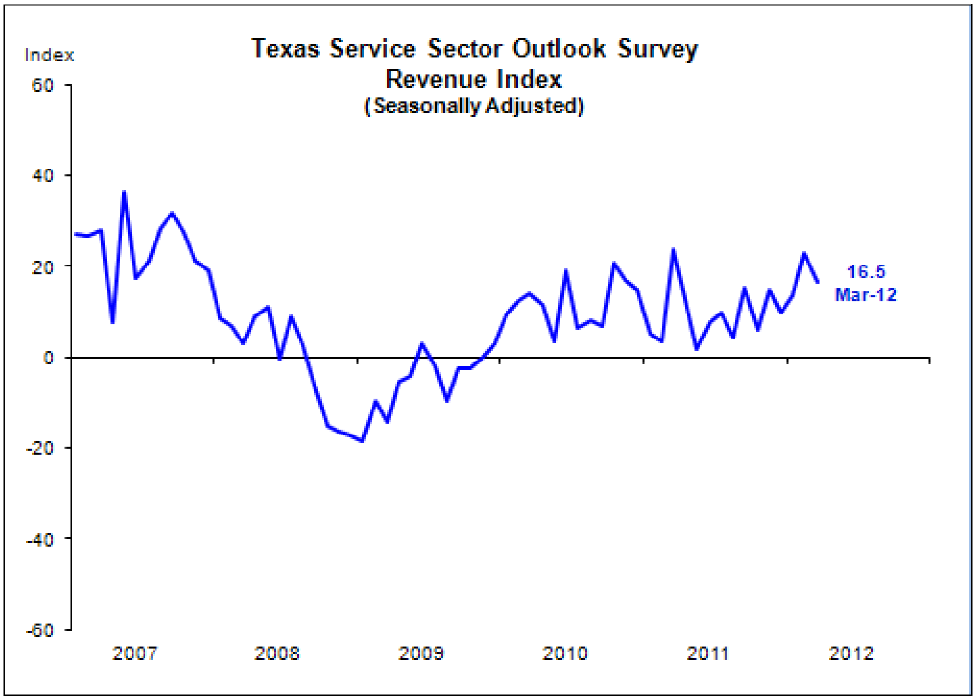
Business Indicators Relating to Facilities and Products in Texas, Retail Six Months Ahead								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	41.5	42.8	-1.3	Increasing	37	49.5	42.6	8.0
Employment	24.6	32.8	-8.2	Increasing	27	32.3	60.0	7.7
Part-time employment	6.0	8.3	-2.3	Increasing	6	9.9	86.2	3.9
Hours worked	0.3	11.7	-11.4	Increasing	30	9.9	80.5	9.6
Wages and benefits	30.5	28.2	+2.3	Increasing	39	33.0	64.5	2.5
Input prices	48.5	46.6	+1.9	Increasing	35	50.0	48.5	1.5
Selling prices	41.2	40.0	+1.2	Increasing	35	41.2	58.8	0.0
Capital expenditures	35.8	38.4	-2.6	Increasing	12	43.3	49.3	7.5
Inventories	8.8	16.9	-8.1	Increasing	28	23.2	62.4	14.4
Companywide Retail Activity								
Sales	40.4	46.5	-6.1	Increasing	36	46.9	46.6	6.5
Internet sales	15.4	31.1	-15.7	Increasing	36	21.2	73.1	5.8
Catalog sales	2.5	17.9	-15.4	Increasing	8	9.8	82.9	7.3

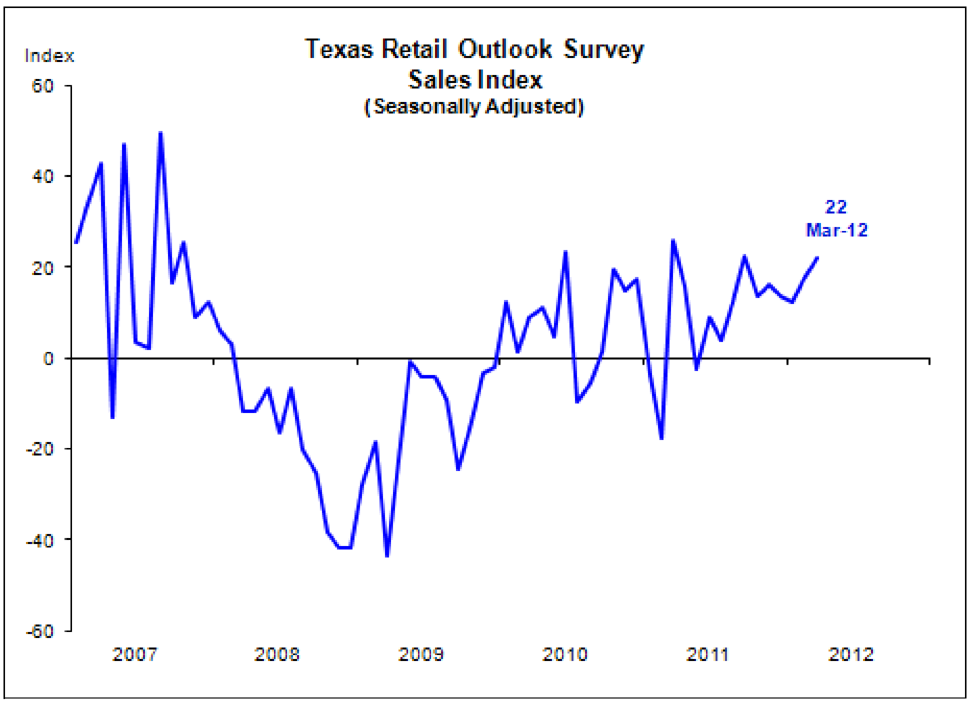
General Business Conditions, Retail Six Months Ahead								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	36.6	36.4	+0.2	Improving	35	40.2	56.2	3.6
General business activity	29.6	29.0	+0.6	Improving	6	36.1	57.4	6.5

*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)

We are seeing a general up-tick in advertising and marketing expenditures. This appears to be driven by the realization that retail and service-based businesses are operating under a new norm, as opposed to substantive growth in sales.

Credit Intermediation and Related Activities

Our cost will continue to increase because of regulatory requirements. If and when the regulatory agencies get some common sense, we may begin to see some decrease in cost.

Regulatory burden continues to increase on community banks.

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

Lower crop, cattle, and natural gas prices have reduced optimism. Job growth and retail sales remain good.

We are beginning to feel the impact of inspections from EPA and OSHA, with more regulations from all agencies, it seems, and stiff fines for even minor infractions.

Professional, Scientific and Technical Services

We are working with two new startups that are well funded and aggressive. Startups are a positive sign in the marketplace. We will have about 15 interns this summer from various colleges and universities. That will swell our ranks through the summer. Our permanent hiring is for high-level positions.

There is too much uncertainty in the business environment today to invest. Increasing government regulation and related compliance costs, higher energy costs and higher taxes increase the risks of investment.

We are hiring again and have two new positions to be filled in addition to the three that are pending. This is against a backdrop of an employee base of over 450 employees. Residential orders have moderated but are still running higher than the same period last year. We believe this is industry wide throughout this region. Our national office confirms the same story. We had mandatory overtime in February for several days to handle the dramatic increase in residential orders (88 percent) over the same period last year. Commercial orders are good but do not show the same jump as the residential side of the business. We have initiated a large change in our computer systems that requires a capital expenditure for additional terminals. We have opened two new offices in new locations to replace a single office that we closed, but no new staffing was required. We are anticipating better business volumes with this move. Overall, we continue to be cautiously optimistic for the short term but remain concerned for the longer term as the uncertainty related to state, local and national government debt continues to be a drag on a concentrated business expansion on our part.

Management of Companies and Enterprises

The level of regulatory changes makes it difficult to predict the future. Things like interest rates, cost of expenses and the level of employees etc. are making it more difficult. We do not need any more regulations. We need a break to catch up.

Administrative and Support Services

Fuel pricing is causing a negative impact to otherwise positive sales results. The increase in cost of goods sold—without the ability (due to market pressures) to increase consumer pricing—is beginning to have an impact on bottom line, so while top line revenues are increasing, the productivity machine is having to create more to stand still.

Nursing and Residential Care Facilities

The cuts to Medicaid and Medicare spending are affecting our revenues and therefore our ability to serve others.

Accommodation

Possible new EPA emission standards could be in place in April. This could create a big what if.

Food Services and Drinking Places

We have experienced an up-tick on top-line sales at the same time we are experiencing margin pressure due to the rising cost of gasoline and commodity prices.

Very little has changed over the last month in our results or our outlook. We continue to run up in sales but by less than the percentage of price increases we have taken. Our costs have been quite stable in both the cost of goods and labor. We don't see anything significant that warrants changing our outlook for the next six months.

Merchant Wholesalers, Durable Goods

We have tried to get additional funding but have been turned down by two banks. We have one last option that should help us pull through. We currently have a Department of Labor audit. Let's hope the Department of Labor doesn't put the final nail in our coffin.

Input prices are now at a level low enough to sustain growth.

Motor Vehicle and Parts Dealers

Sales traffic is improving on new and used vehicles. Margins are declining on new and holding on used.

While our business has improved slightly it is nothing to write home about. Margins continue to be under pressure, limiting what we are willing to do in the way of additional employee commitment.

Building Material and Garden Equipment and Supplies Dealers

Still getting mixed signals in our sector (construction) as we are a building materials supplier. Sales are still about the same as last year, although we are doing better just because of cuts made. It seems to me the economy is moving in the right direction but just very slowly.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Jesus Cañas at jesus.canas@dal.frb.org.

Sign up for our free e-mail alert to be automatically notified as soon as the latest Texas Service Sector Outlook Survey is released on the web.

The Texas Service Sector Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tssos/.

March 27, 2012

SPECIAL QUESTIONS

1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to twelve months?

	Mar. '12 (percent)	Jan. '11 (percent)
Increase	49.0	47.7
Leave Unchanged	40.7	44.4
Decrease	10.3	7.9

2. If your firm is planning to increase employment, what are the three most important factors behind this decision? Please rank the three factors in order from most important to third most important.

	Most important (percent)	Second most important (percent)	Third most important (percent)
Expected growth of sales or revenue is high	59.8	15.6	12.9
Current staff are overworked	9.3	26.7	23.5
Need skills not possessed by current staff	10.3	21.1	16.5
Labor costs have fallen	0.0	0.0	1.2
Decreased economic or financial uncertainity	2.1	12.2	23.5
Firm's financial position has improved	2.1	20.0	12.9
Other factors	16.5	4.4	9.4

3. What are the three most important factors, if any, restraining your hiring plans? Please rank the three factors in order from most important to third most important.

	Most important (percent)	Second most important (percent)	Third most important (percent)
Expected growth of sales is low	27.7	15.5	10.5
Current staff are underutilized/working reduced hours	8.1	9.3	7.9
Cannot find qualified workers	14.9	9.3	10.5

Labor costs are high	4.1	16.3	13.2
Uncertainity about the cost of health insurance	10.1	17.1	22.8
Uncertainity about other regulations or gov't policies	20.9	20.2	16.7
Firm's financial position has deteriorated	2.7	4.7	9.6
Other factors	11.5	7.8	8.8

Texas Retail Outlook Survey

1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to twelve months?

	March '12 (percent)	Jan. '11 (percent)
Increase	50.9	49.2
Leave Unchanged	43.9	44.4
Decrease	5.3	6.3

2. If your firm is planning to increase employment, what are the three most important factors behind this decision? Please rank the three factors in order from most important to third most important.

	Most important (percent)	Second most important (percent)	Third most important (percent)
Expected growth of sales or revenue is high	70.0	8.0	16.7
Current staff are overworked	0.0	40.0	20.8
Need skills not possessed by current staff	13.3	32.0	12.5
Labor costs have fallen	0.0	0.0	0.0
Decreased economic or financial uncertainity	0.0	16.0	25.0
Firm's financial position has improved	0.0	4.0	12.5
Other factors	16.7	0.0	12.5

3. What are the three most important factors, if any, restraining your hiring plans? Please rank the three factors in order from most important to third most important.

	Most important (percent)	Second most important (percent)	Third most important (percent)
Expected growth of sales is low	31.7	14.7	15.6
Current staff are underutilized/working reduced hours	12.2	2.9	9.4
Cannot find qualified workers	19.5	14.7	12.5
Labor costs are high	0.0	11.8	9.4

Uncertainity about the cost of health insurance	12.2	17.6	31.3
Uncertainity about other regulations or gov't policies	7.3	26.5	21.9
Firm's financial position has deteriorated	0.0	5.9	0.0
Other factors	17.1	5.9	0.0

Survey Collection period : 03/06/2012–03/09/2012

Special Questions Comments

These comments have been edited for publication.

Truck Transportation

Our continuing concern is that the uncertainty of the political season, the unsettled issues in Europe, a pending bursting bubble in China, and a general unwillingness to significantly invest in Americans lies between a robust and growing economy.

Broadcasting (except Internet)

We are very slow to add staff, wanting to be certain we can sustain each added position. We are located in West Texas, and there is a lot of business activity right now; however, we believe this boom may only last two to four more years. While the best opportunity to prosper is right now, we somewhat restrict our capital investment and employment growth with the thought of what happens if the drilling boom ends in 12 months.

Credit Intermediation and Related Activities

Loan demand is weak. Current lenders and lending assistants are carrying lighter loads than normal. We direct more time to addressing the increased government regulations than to seeking additional business.

Insurance Carriers and Related Activities

Our business is largely affected by the construction industry, and the lack of a robust construction industry has affected our revenue growth the past three years.

Uncertainty in the economic environment will continue to play a role in business decisions. However, we are committed to move forward with our growth plans.

Funds, Trusts, and Other Financial Vehicles

The continued stability of the financial markets along with improving economic conditions drives our desire to increase investments, which lead to expanding employment.

Real Estate

Uncertainty about federal tax and regulatory policies is the factor most disrupting the local real estate markets, both commercial and residential. Recently we've seen increased confidence on the part of buyers, only to face an increasingly unrealistic financial qualification environment. It appears to be bureaucracy run amok.

Rental and Leasing Services

We do not see us hiring any more people and we suspect significant layoffs are within the year.

Professional, Scientific, and Technical Services

We see more positive energy in our client group. Several major business startups have retained us for brand development and launch marketing. One of these is high tech, the other oil field and business services. Both have major potential, adequate funding and class A management teams. We are cautiously optimistic.

We are currently looking for three new positions as well as replacements for turnover. We did not replace in 2010, but did so throughout 2011. Workload has increased beyond our capacity, thus new hiring. Three new employees is not a big percentage of our overall number of employees, which is currently over 460, down from a peak in 2008 of 530. We did not lay off, but stopped replacing, and retirement and turnover did the rest over the last three years to reduce total employment.

Main potential for slowing our growth is media/public speculation about more or longer recession.

Excessive government regulation, fees and red tape are weights too heavy for business expansion.

Management of Companies and Enterprises
With increased focus on fair lending compliance and other regulations, the negative effects on revenue (fee income) and increased cost to be compliant has and will continue to negatively affect additional hiring.

Ambulatory Health Care Services
We are medical providers, and the ongoing issues with implementing the health care act along with the continuing question of Medicare reimbursement is preventing expansion. Also, we expect large increases in Medicaid enrollment combined with reductions in payments from Medicaid.

We are managing our resources with the demands we are seeing in the market place. With those resources, we want to be as diligent as possible.

Nursing and Residential Care Facilities
Our sales are cratering, and usually we see sales increases in a recovery before other businesses. Our customers are spending less and using us less frequently.

Food Services and Drinking Places
We will have more employees this summer because our volume is always up in the summer, but we do not expect to increase permanent employment this year. We just aren't making any moves to add positions, new programs, etc. until we see what happens with the health insurance. We are considering the possibility that we might have to go to a dramatically different business format if the health insurance mandate comes into effect. We cannot afford either the cost of the coverage that will be required or the penalties involved. The most obvious thing we could do is move away from traditional table service—eliminate all the tipped positions—and thereby reduce our staff to about 60 percent of our current level (1,000 dropping to about 600). This would move us away from the traditional family restaurant format to the newer (and growing very fast) fast casual service segment of the industry where the customer places his/her own order and picks it up. We would have a few people to refill drinks, bus tables, etc. but nothing like our current staff. We currently offer traditional health insurance for about 300 of our 1,000 employees, but only a little over 100 of them sign up for it. The remainder is eligible for a mini-med plan. The employees pay the premium. Switching to having to pay the cost of traditional insurance for the remaining 900 employees would totally swamp the company. I think you will see thousands of restaurants having to consider similar approaches if the health mandate is upheld. The unemployment caused in our industry will be immense.

Animal Production
Reduction of work force is partially due to greater equipment efficiency as a result of equipment installations over the next several months. However, the most important ranked reason for not hiring permanent employees is increasing government regulation.

Merchant Wholesalers, Durable Goods
The cloud of the European sovereign debt crisis hangs over the world economy; the failure of U.S. policymakers to take any meaningful action to reduce spending and debt continues to erode chances for a stronger U.S. recovery; and our country has too many people on welfare and/or no longer looking for work. Lastly, banks are restricted to convenience lending—to businesses that don't need money. Businesses that do need continued lending support are faced with growing "reserves" that banks create in attempts to restrict availability. These actions are evidenced by lengthening accounts receivable days-outstanding, from a trickle-down of responsible customers who have paid more promptly in decades past. These actions restrict both the recovery and job creation.

We have a difficult time finding and keeping employees who pass our required drug test.

Our business would greatly prosper if construction recovers; it is the one leg of our business plan not currently expanding. National steel manufacturing is doing well, and international oil is better than it has ever been.

Motor Vehicle and Parts Dealers
Our number one concern is uncertainty about how the regulations of the new Consumer Financial Protection Bureau of the Dodd–Frank Act will impact the ability of banks and financial firms to buy our retail installment sales contracts.

There is still uncertainty about the economy. We are agriculture and the drought has hurt us. The rise in fuel has been a real problem.

It is still difficult to predict the direction of the overall economy. Accordingly, we are operating on a status quo mode.

Sporting Goods, Hobby, Book, and Music Stores
We continue to have increased sales but will not be adding headcount but rather doing more with less.