



Texas Service Sector Outlook Survey

F E D E R A L R E S E R V E B A N K O F D A L L A S

July 26, 2011

TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS

Texas service sector activity increased 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, climbed from 6.4 to 8.8, with 31 percent of respondents noting revenue increased from June.

Labor market indicators continued to reflect some hiring and slightly longer workweeks. The July employment index edged up from 2.8 to 3.7, although two-thirds of respondents noted no change in employment. The hours worked index ticked up to 3.7, suggesting hours worked rose again in July.

Indexes reflecting general business conditions improved this month. After two consecutive months of negative readings, the general business activity index jumped from -12 in June to zero in July, suggesting perceptions of general business activity stabilized. The company outlook index moved back into positive territory, rising from -5.9 to 1.7, with one-fifth of respondents reporting their outlooks had improved from last month.

Changes in price and wage pressures were mixed in July. The selling prices index came in at 6.4, down from a reading of 7.2 last month. The wages and benefits index rose to 15.6 from 12.7, although the great majority of respondents continued to indicate there had been no change in compensation costs.

Indexes of future service sector activity generally increased from June and remained in solid positive territory.



RETAIL SALES FLAT

Retail sales held steady in July, according to business executives responding to the Texas Retail Outlook Survey. After rebounding last month, the volatile sales index came in at zero, suggesting retail sales were unchanged from June. Inventories rose in July.

Employment and hours worked fell in July. The employment index declined from 9.5 to -5.6, its first negative reading since August 2010, although most respondents continued to note no change. The hours worked index dipped from 3 in June to -1.6 in July, after posting four consecutive months of positive readings.

Retailers were more pessimistic about the direction of the broader economy this month. The general business activity index posted its fourth consecutive negative reading, falling to -16.4. The company outlook index came in at -6.9, its first negative reading since August 2010. A quarter of respondents said their outlook had worsened from the prior month compared with 18 percent who noted their outlook had improved.

Retail prices and wages continued to climb in July albeit at a diminished pace. The selling prices index fell from 24.5 to 20.8, suggesting prices rose at a slower pace than in June. The wages and benefits index edged down from 12.2 to 10.8, although 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 with the exception of part-time employment, inventories and companywide catalog sales.

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 12–20, and 215 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: August 30, 2011

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	8.8	6.4	+2.4	Increasing	21	31.1	46.7	22.3
Employment	3.7	2.8	+0.9	Increasing	17	18.3	67.1	14.6
Part-time employment	1.2	0.1	+1.1	Increasing	5	10.5	80.2	9.3
Hours worked	3.7	2.7	+1.0	Increasing	5	11.4	80.9	7.7
Wages and benefits	15.6	12.7	+2.9	Increasing	22	17.9	79.8	2.3
Input prices	29.4	34.6	-5.2	Increasing	27	33.2	63.0	3.8
Selling prices	6.4	7.2	-0.8	Increasing	7	16.9	72.6	10.5
Capital expenditures	11.1	11.9	-0.8	Increasing	23	23.4	64.3	12.3
General Business Conditions								
Current								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	1.7	-5.9	+7.6	Improving	1	20.9	59.9	19.2
General business activity	-0.2	-12.0	+11.8	Worsening	3	19.6	60.6	19.8
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	33.8	27.5	+6.3	Increasing	29	50.6	32.6	16.8
Employment	13.4	13.6	-0.2	Increasing	28	29.2	55.0	15.8
Part-time employment	2.9	-0.2	+3.1	Increasing	1	15.4	72.1	12.5
Hours worked	4.2	1.6	+2.6	Increasing	23	12.3	79.6	8.1
Wages and benefits	31.4	32.6	-1.2	Increasing	55	35.5	60.4	4.1
Input prices	47.9	48.1	-0.2	Increasing	55	52.2	43.5	4.3
Selling prices	16.3	19.7	-3.4	Increasing	24	29.4	57.5	13.1
Capital expenditures	21.4	15.0	+6.4	Increasing	28	32.6	56.2	11.2
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	15.0	6.5	+8.5	Improving	28	32.6	49.9	17.6
General business activity	10.1	-1.5	+11.6	Improving	1	27.8	54.5	17.7

*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.

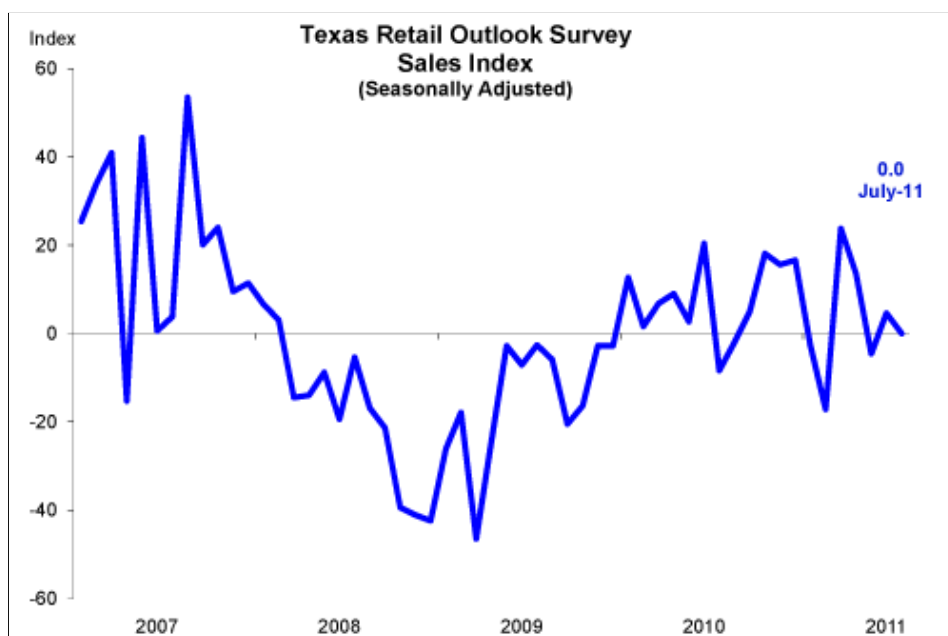
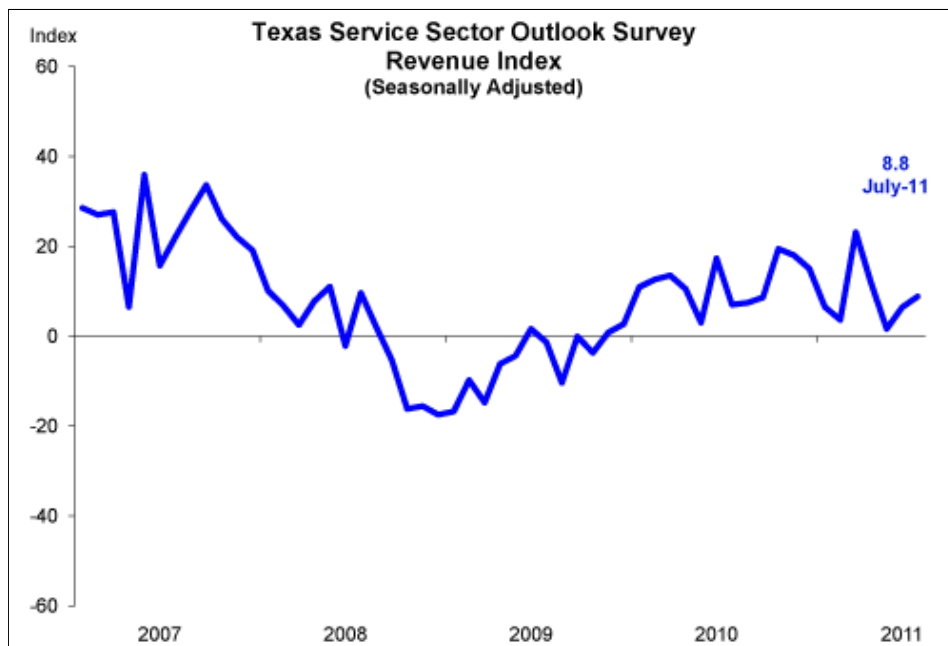
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products, Retail Current								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	0.0	4.6	-4.6	No Change	1	29.4	41.3	29.4
Employment	-5.6	9.5	-15.1	Decreasing	1	10.0	74.4	15.6
Part-time employment	1.6	1.6	0.0	Increasing	2	11.3	79.0	9.7
Hours worked	-1.6	3.0	-4.6	Decreasing	1	9.2	80.0	10.8
Wages and benefits	10.8	12.2	-1.4	Increasing	5	15.4	80.0	4.6
Input prices	33.1	36.6	-3.5	Increasing	12	39.0	55.1	5.9
Selling prices	20.8	24.5	-3.7	Increasing	12	33.1	54.6	12.3
Capital expenditures	6.3	12.1	-5.8	Increasing	4	17.2	71.9	10.9
Inventories	12.0	-2.3	+14.3	Increasing	1	29.8	52.4	17.8
Companywide Retail Activity								
Sales	5.7	12.9	-7.2	Increasing	2	33.9	37.8	28.2
Internet sales	14.5	-2.1	+16.6	Increasing	1	20.8	72.9	6.3
Catalog sales	-2.5	2.3	-4.8	Decreasing	1	7.3	82.9	9.8
General Business Conditions, Retail Current								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-6.9	0.0	-6.9	Worsening	1	18.3	56.5	25.2
General business activity	-16.4	-5.8	-10.6	Worsening	4	14.7	54.2	31.1
Business Indicators Relating to Facilities and Products, 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	29.1	36.7	-7.6	Increasing	29	46.0	37.1	16.9
Employment	3.0	12.5	-9.5	Increasing	19	21.5	60.0	18.5
Part-time employment	-8.1	-10.4	+2.3	Decreasing	3	8.7	74.5	16.8
Hours worked	2.2	2.3	-0.1	Increasing	12	12.5	77.2	10.3
Wages and benefits	28.4	24.4	+4.0	Increasing	31	33.6	61.2	5.2
Input prices	42.2	48.4	-6.2	Increasing	27	51.6	39.1	9.4
Selling prices	34.9	33.4	+1.5	Increasing	27	47.6	39.7	12.7
Capital expenditures	14.3	12.5	+1.8	Increasing	4.0	28.6	57.1	14.3
Inventories	-1.6	3.1	-4.7	Decreasing	1	23.8	50.8	25.4
Companywide Retail Activity								
Sales	26.4	36.2	-9.8	Increasing	28	45.1	36.3	18.7
Internet sales	19.2	19.1	+0.1	Increasing	28	27.7	63.8	8.5
Catalog sales	-2.5	4.6	-7.1	Decreasing	1	10.0	77.5	12.5
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	11.3	24.2	-12.9	Improving	27	30.3	50.7	19.0
General business activity	10.9	17.7	-6.8	Improving	27	25.6	59.7	14.7

*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 were selected from respondents' completed surveys and have been edited for publication.

Publishing Industries (except Internet)

We have a really good outlook on business. We are extremely busy and are putting together programs that will be more recession-proof than the work that we have now. We wish the government would cut spending and decrease regulations on business, especially energy.

Credit Intermediation and Related Activities

The retail financial services marketplace has continued to slow its pace of consumer lending and mortgage activities.

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

We are being cautious at every turn. Expenses, regulations and all kinds of taxes are increasing.

Insurance Carriers and Related Activities

The severe drought throughout southern U.S. is causing increased workload and sharply lower revenues for agriculture insurers in the region.

Rental and Leasing Services

Our business attitude has turned decidedly negative. The amount of time and money we are spending complying with government regulation has increased significantly.

Professional, Scientific and Technical Services

We have seen some revenue increase this month. In terms of employment part-time interns will have to return school by the end of the summer. Business activity and attitudes have improved. There is a lot going on in energy and finance.

The current political climate for business is negative.

What is full employment today with so many jobs being exported overseas and the continued growth of technology that makes the service sector more efficient and requires fewer workers? In 1986, we generated \$26 million in premium revenue with over 525 employees. Today, we can easily generate \$100 million in premium revenue with 450 employees. At the peak of our business in 2006–07 we generated \$127 million in revenue with 525 employees and have grown more efficient since then. This is still a person-to-person business in many respects, so talented employees who can deal with people will always be in demand.

Management of Companies and Enterprises

Regulatory burden continues to deflate the business activity of our bank. We have several business customers who need to plan for expanding facilities and adding staff but have continued to postpone these efforts until they have a better understanding of health insurance costs and EPA regulations.

Animal Production

Raw milk input costs continue to escalate, creating more pressure on sales and testing the consumer's propensity to spend on dairy products. Our ability to compete with all the choices of drinks available to the consumer is definitely under pressure.

Merchant Wholesalers, Durable Goods

Our outlook didn't improve from the previous month, and we might change it to pessimistic next month for the first time if Congress and the administration do not reach an acceptable spending plan.

Merchant Wholesalers, Nondurable Goods

Aquaculture has been adversely affected by the high price of commodities. It is definitely a seller's market as input cost (live fish) are currently 50 percent higher than ever before, and the short-term outlook points to even higher prices.

Building Material and Garden Equipment and Supplies Dealers

The first half of 2011 is almost identical to the first six months of 2010. We have made many cuts and still either break even or experience a small loss. We are not seeing much progress in positive attitudes with people in construction, and we are not sure how much longer many can hold on before the market starts to improve.

Business was steadily building until mid-May, but it rapidly slowed and has remained slow. The quantity of estimates and contracts per month that we currently have is similar to what we had at the end of 2010.

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/research/surveys/tssos.
