



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

August 30, 2011

TEXAS SERVICE SECTOR ACTIVITY EXPANDS AT A SLOWER 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, fell from 8.8 to 3.2, which is indicative of slower revenue growth.

Most labor market indicators remained positive and suggested continued hiring and slightly longer workweeks. The August employment index edged down from 3.7 to 2.1, although two-thirds of respondents noted no change in employment. The hours worked index ticked up to 5.2 in August, suggesting hours worked rose for the sixth consecutive month. The part-time employment index turned negative, indicating part-time employment fell.

Perceptions of general business conditions worsened markedly this month. The general business activity index fell sharply from -0.2 to -18.1 in August, its lowest level since March 2009. The company outlook index moved back into negative territory, falling from 1.7 to -4.5, with 23 percent of respondents reporting their outlooks had deteriorated from last month.

Selling prices and wages rose but at a slower pace than last month. The selling prices index came in at 4.1, down from a reading of 6.4 in July. The wages and benefits index moved down to 10.4 from 15.6, although the great majority of respondents continued to indicate there had been no change in compensation costs.

Indexes of future service sector activity remained in positive territory in August, but indexes of future company outlook and general business activity turned negative, posting their lowest numbers since early 2009.



RETAIL SALES RISE

Retail sales increased in August, according to business executives responding to the Texas Retail Outlook Survey. After falling to zero last month, the volatile sales index rose to 9.2. Inventories increased.

Employment and hours worked bounced back in August. The employment index moved up from -5.6 to 9.7, with 23 percent of respondents noting employment increased from July. The hours worked index came in at 1.6, after posting a negative reading last month.

Retailers noted continued pessimism about the direction of the broader economy this month. The general business activity index came in at -14.0 in August, its fifth consecutive negative reading, and the company outlook index ticked down from -6.9 to -7.7. A quarter of respondents said their outlook had worsened from the prior month, compared with 17 percent who noted their outlook had improved.

The pace of retail price and wage increases was largely unchanged in August. The selling prices index rose slightly from 20.8 to 21.8. The wages and benefits index edged down from 10.8 to 9.9, 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 August with the exception of part-time employment. Expectations regarding broader economic activity worsened, and the index of future general business activity fell to -6.0, posting its lowest number since February 2009.

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 August 16–24, and 208 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: September 27, 2011

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas									
Current									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	3.2	8.8	-5.6	Increasing	22	27.3	48.6	24.1	
Employment	2.1	3.7	-1.6	Increasing	18	17.5	67.2	15.4	
Part-time employment	-1.9	1.2	-3.1	Decreasing	1	7.4	83.3	9.3	
Hours worked	5.2	3.7	+1.5	Increasing	6	13.4	78.3	8.2	
Wages and benefits	10.4	15.6	-5.2	Increasing	23	14.0	82.4	3.6	
Input prices	30.5	29.4	+1.1	Increasing	28	33.8	62.9	3.3	
Selling prices	4.1	6.4	-2.3	Increasing	8	15.3	73.5	11.2	
Capital expenditures	4.9	11.1	-6.2	Increasing	24	18.5	67.9	13.6	
General Business Conditions									
Current									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	-4.5	1.7	-6.2	Worsening	1	18.2	59.1	22.7	
General business activity	-18.1	-0.2	-17.9	Worsening	4	11.9	58.1	30.0	
Business Indicators Relating to Facilities and Products in Texas									
Six Months Ahead									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	22.6	33.8	-11.2	Increasing	30	40.6	41.5	18.0	
Employment	11.7	13.4	-1.7	Increasing	29	26.3	59.1	14.6	
Part-time employment	1.5	2.9	-1.4	Increasing	2	11.5	78.5	10.0	
Hours worked	4.0	4.2	-0.2	Increasing	24	10.1	83.8	6.1	
Wages and benefits	31.0	31.4	-0.4	Increasing	56	33.4	64.2	2.4	
Input prices	44.8	47.9	-3.1	Increasing	56	48.6	47.5	3.8	
Selling prices	10.4	16.3	-5.9	Increasing	25	21.9	66.6	11.5	
Capital expenditures	10.4	21.4	-11.0	Increasing	29	26.9	56.7	16.5	
General Business Conditions									
Six Months Ahead									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	-1.7	15.0	-16.7	Worsening	1	21.0	56.3	22.7	
General business activity	-11.6	10.1	-21.7	Worsening	1	17.0	54.4	28.6	

*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.

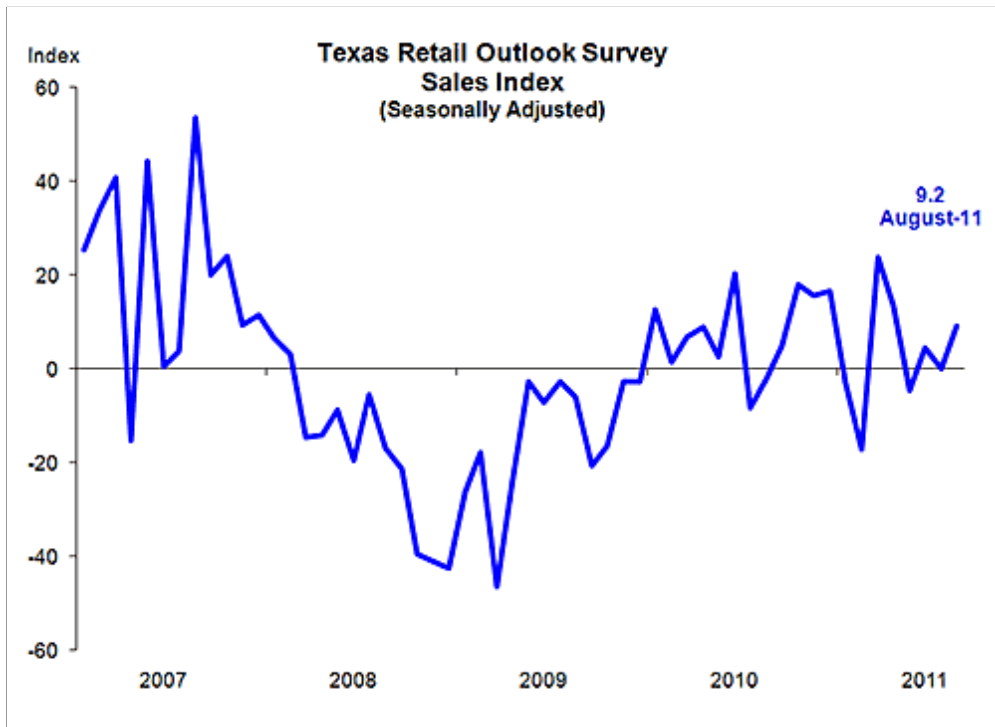
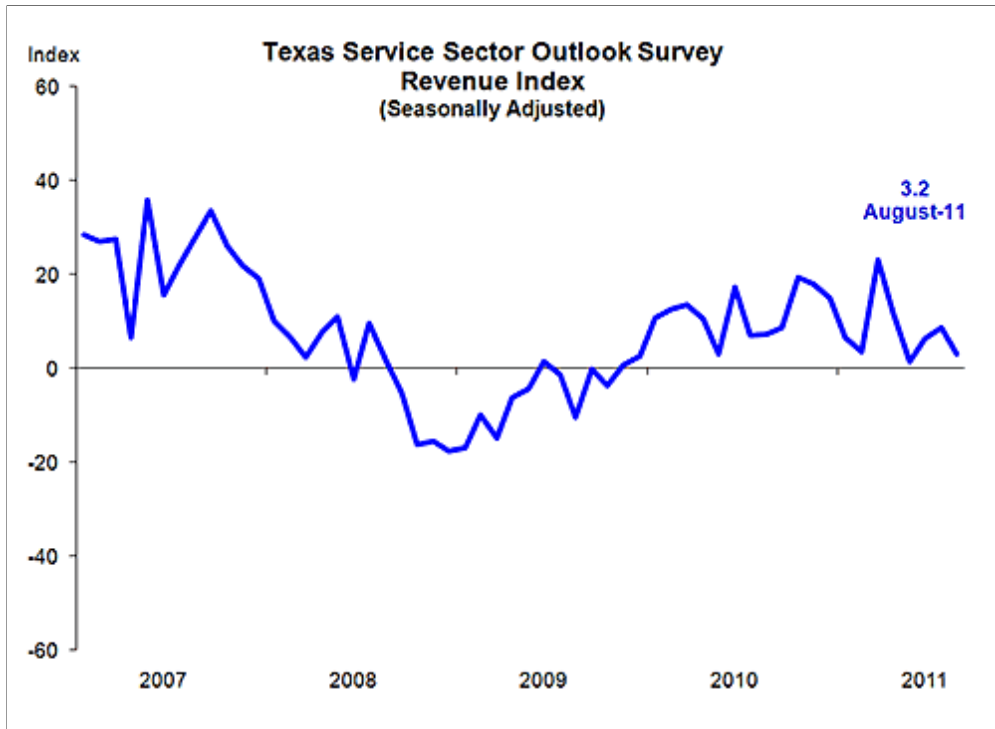
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products, Retail Current									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Retail Activity in Texas									
Sales	9.2	0.0	+9.2	Increasing	1	33.4	42.5	24.2	
Employment	9.7	-5.6	+15.3	Increasing	1	22.5	64.7	12.8	
Part-time employment	-5.1	1.6	-6.7	Decreasing	1	8.5	78.0	13.6	
Hours worked	1.6	-1.6	+3.2	Increasing	1	14.5	72.6	12.9	
Wages and benefits	9.9	10.8	-0.9	Increasing	6	11.5	86.9	1.6	
Input prices	33.6	33.1	+0.5	Increasing	13	43.3	47.1	9.7	
Selling prices	21.8	20.8	+1.0	Increasing	13	31.8	58.2	10.0	
Capital expenditures	3.2	6.3	-3.1	Increasing	5	16.1	71.0	12.9	
Inventories	9.3	12.0	-2.7	Increasing	2	30.0	49.3	20.7	
Companywide Retail Activity									
Sales	7.4	5.7	+1.7	Increasing	3	33.2	41.1	25.8	
Internet sales	18.4	14.5	+3.9	Increasing	2	24.5	69.4	6.1	
Catalog sales	13.2	-2.5	+15.7	Increasing	1	15.8	81.6	2.6	
General Business Conditions, Retail Current									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	-7.7	-6.9	-0.8	Worsening	2	17.2	57.9	24.9	
General business activity	-14.0	-16.4	+2.4	Worsening	5	16.7	52.6	30.7	
Business Indicators Relating to Facilities and Products, Retail Six Months Ahead									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Retail Activity in Texas									
Sales	27.1	29.1	-2.0	Increasing	30	42.3	42.5	15.2	
Employment	1.7	3.0	-1.3	Increasing	20	19.7	62.3	18.0	
Part-time employment	-2.0	-8.1	+6.1	Decreasing	4	12.6	72.8	14.6	
Hours worked	10.2	2.2	+8.0	Increasing	13	16.0	78.2	5.8	
Wages and benefits	23.6	28.4	-4.8	Increasing	32	28.7	66.2	5.1	
Input prices	36.1	42.2	-6.1	Increasing	28	41.0	54.1	4.9	
Selling prices	26.2	34.9	-8.7	Increasing	28	32.8	60.7	6.6	
Capital expenditures	14.7	14.3	+0.4	Increasing	5.0	26.2	62.3	11.5	
Inventories	4.9	-1.6	+6.5	Increasing	1	27.9	49.2	23.0	
Companywide Retail Activity									
Sales	33.9	26.4	+7.5	Increasing	29	45.8	42.3	11.9	
Internet sales	22.4	19.2	+3.2	Increasing	29	30.6	61.2	8.2	
Catalog sales	5.6	-2.5	+8.1	Increasing	1	13.9	77.8	8.3	
General Business Conditions, Retail Six Months Ahead									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	7.7	11.3	-3.6	Improving	28	28.8	50.1	21.1	
General business activity	-6.0	10.9	-16.9	Worsening	1	25.2	43.6	31.2	

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

Publishing Industries (except Internet)

Other than the resumption of school classes, there is little excitement in the community or on Main Street.

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

The Panhandle was doing great until this summer. The drought is worse than people realize, hurting attitudes and confidence and dragging down retail sales since farmers have no excess disposable income.

Insurance Carriers and Related Activities

The pervasive drought in Texas and neighboring states continues to apply downward pressure to companies' earnings and the overall economy in general in this region.

Real Estate

Buyers are remaining cautious because of uncertainty about the economy, deficit spending, debt levels, employment and healthcare mandates. Maybe the 2012 elections will provide clear guidance as to where this country is headed.

Rental and Leasing Services

We have no confidence in the leaders' abilities to address the economic problems of our country. We are not going to spend, hire, innovate or create new jobs in this antibusiness regulatory environment.

Professional, Scientific and Technical Services

With a reduction in government investment projects and commercial lending at a standstill, we think that there is a possibility that the architectural profession may experience a double-dip recession.

It is hard to make future business plans when Congress is deadlocked on economic policy and our debt burden continues to grow. Interest rates in the residential sector are at record lows, but for several reasons few are buying: First, they do not qualify; second, appraisals of arms-length negotiations to arrive at a price are discounted by foreclosure comps; and third, they can't sell their previous house. The lending pendulum has swung too far in the other direction from the excesses of the early and mid-2000s. We need to get back to reasonable down payments, real due diligence on credit analysis and a reasonable belief that qualified borrowers will make every effort to pay back these kinds of home loans.

Management of Companies and Enterprises

The regulatory burden continues to increase our cost of doing business and impedes our ability to grow and create jobs.

Accommodation

We have completed a \$500,000 remodel of our restaurant, and our working force is at desired levels. There could be some major capital expenditures in the near future if negotiations go well with our partners.

Food Services and Drinking Places

We think the heat is hurting our restaurant business.

Merchant Wholesalers, Durable Goods

We believe a dip in business is coming, not a recession. We believe our business should stay generally solid for approximately 12 months before beginning a potentially mild downturn.

Texas has reduced the number of major glass fabricators from seven to five, and all fabricators have probably lost a net of 40 percent of the 2008 employees in this field. We are one of the survivors and so expect sales to improve despite the weak commercial and residential construction market in Texas. It is also important to understand that the higher selling prices for glass and certain other construction products are indicative of recent code changes that mandate higher performing, energy-efficient products designed to save energy.

Merchant Wholesalers, Nondurable Goods

The severe drought has created a sell-off in the agricultural industry. It will take a few years to come back to previous activity levels. Until then, we are fighting for a smaller piece of the pie. Many agricultural industry suppliers in Texas may have a difficult time holding on.

We spent several days in the field last month seeing customers with our reps. Our customers are frustrated with all the uncertainty Washington is causing. They indicated that they do not see any pickup in business until after the 2012 elections.

Motor Vehicle and Parts Dealers

We attributed most of our decrease to the effects of the tsunami in Japan. However, we have seen a decrease in customer traffic lately.

Building Material and Garden Equipment and Supplies Dealers

July was our busiest month in 55 years. We have turned away or delayed some work because we can't find enough good people to hire.

We are doing everything we can to break even or have a positive cash flow. We have been in business for 35 years, and this is the toughest time we've ever had to manage.

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.
