



# Texas Service Sector Outlook Survey

DALLAS FED

January 28, 2014

## TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS FURTHER

### What's New This Month

This month's survey data include annual seasonal factor revisions. In January of each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Service Sector Outlook Survey after calculating new seasonal adjustment factors. Annual seasonal revisions result in slight changes in the seasonally adjusted series. Read more information on seasonal adjustment at [www.dallasfed.org/microsites/research/surveys/tssos/seasonal.cfm](http://www.dallasfed.org/microsites/research/surveys/tssos/seasonal.cfm).

Texas service sector growth picked up in January, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, rose slightly from 16.8 to 18.1, its highest reading since February 2012.

Labor market indicators were mixed this month. The employment index edged up from 9.8 to 11.9, indicating net hiring picked up in January. The hours worked index ticked down into negative territory to -1.4, suggesting shorter workweeks.

Perceptions of broader economic conditions reflected more optimism in January. The general business activity index rose from 13.3 to 16.8. The company outlook index inched up from 10.4 to 13.3, with 20 percent of respondents reporting that their outlook improved from last month and 7 percent noting it worsened.

Price pressures increased, while wage pressures eased this month. The selling prices index edged up from 10.8 to 12.4. The wages and benefits index dipped from 18.9 to 16.9, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism this month. The index of future general business activity moved up 6 points to 29.8. The index of future company outlook rose slightly to 24. Indexes of future service sector activity, such as future revenue and employment, remained in solid positive territory in January.



## RETAIL SALES GROWTH PICKS UP

Retail sales climbed again in January, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose from 17.4 to 20.7, signaling stronger growth. Inventories rose at a slower pace than in December.

Labor market indicators improved this month. The employment index moved up from 12.9 to 16.2. The hours worked index was similar to December at 2.6, suggesting slightly longer workweeks.

Retailers' perceptions of broader economic conditions continued to reflect optimism in January. The general business activity index rose from 17.9 to 21. The company outlook index remained positive but fell 6 points to 21.1, with 25 percent of respondents noting an improved company outlook over the prior month, compared with 4 percent reporting their outlook had worsened.

Retail price pressures eased, while wage pressures were largely unchanged in January. The selling prices index declined from 20.8 to 17.6. The wages and benefits index was similar to December at 18.6, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions continued to reflect optimism this month. The future general business activity index rose 4 points to 28.9. The index of future company outlook was unchanged at 33.7. Indexes of future retail sector activity remained in solid positive territory in January.

**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 Jan. 14–22, and 219 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:** February 25, 2014

## TEXAS SERVICE SECTOR OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas</b>									
<b>Current (versus previous month)</b>									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	18.1	16.8	+1.3	Increasing	51	36.4	45.4	18.3	
Employment	11.9	9.8	+2.1	Increasing	47	19.6	72.6	7.7	
Part-time employment	5.5	5.4	+0.1	Increasing	3	9.8	85.9	4.3	
Hours worked	-1.4	0.8	-2.2	Decreasing	1	5.7	87.1	7.1	
Wages and benefits	16.9	18.9	-2.0	Increasing	56	19.9	77.0	3.0	
Input prices	27.2	28.8	-1.6	Increasing	57	28.8	69.6	1.6	
Selling prices	12.4	10.8	+1.6	Increasing	38	16.8	78.8	4.4	
Capital expenditures	12.0	16.9	-4.9	Increasing	53	19.5	73.0	7.5	
<b>General Business Conditions</b>									
<b>Current (versus previous month)</b>									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	13.3	10.4	+2.9	Improving	29	19.9	73.4	6.6	
General business activity	16.8	13.3	+3.5	Improving	27	24.4	68.1	7.6	
<b>Business Indicators Relating to Facilities and Products in Texas</b>									
<b>Future (six months ahead)</b>									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	46.8	46.8	0.0	Increasing	59	53.5	39.8	6.7	
Employment	29.9	27.1	+2.8	Increasing	58	35.5	58.9	5.6	
Part-time employment	14.4	14.7	-0.3	Increasing	19	19.8	74.8	5.4	
Hours worked	8.4	8.1	+0.3	Increasing	2	12.7	83.0	4.3	
Wages and benefits	41.2	44.6	-3.4	Increasing	85	42.1	57.0	0.9	
Input prices	42.8	50.8	-8.0	Increasing	85	44.7	53.3	1.9	
Selling prices	30.3	28.6	+1.7	Increasing	57	36.9	56.4	6.6	
Capital expenditures	27.9	34.2	-6.3	Increasing	58	34.8	58.4	6.9	
<b>General Business Conditions</b>									
<b>Future (six months ahead)</b>									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	24.0	21.7	+2.3	Improving	29	30.4	63.2	6.4	
General business activity	29.8	23.6	+6.2	Improving	28	36.4	57.1	6.6	

\*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 in Texas, Retail Current (versus previous month)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	20.7	17.4	+3.3	Increasing	7	42.3	36.1	21.6
Employment	16.2	12.9	+3.3	Increasing	30	20.5	75.2	4.3
Part-time employment	3.6	9.6	-6.0	Increasing	2	12.7	78.2	9.1
Hours worked	2.6	3.4	-0.8	Increasing	2	7.6	87.4	5.0
Wages and benefits	18.6	19.4	-0.8	Increasing	35	22.9	72.8	4.3
Input prices	18.7	22.1	-3.4	Increasing	42	20.0	78.7	1.3
Selling prices	17.6	20.8	-3.2	Increasing	18	19.3	79.0	1.7
Capital expenditures	6.9	19.3	-12.4	Increasing	3	15.5	75.9	8.6
Inventories	8.2	24.0	-15.8	Increasing	24	31.9	44.4	23.7
Companywide Retail Activity								
Sales	18.1	20.4	-2.3	Increasing	32	34.4	49.3	16.3
Internet sales	-2.4	4.8	-7.2	Decreasing	1	11.9	73.8	14.3
Catalog sales	0.0	0.0	0.0	No Change	2	11.4	77.1	11.4

### General Business Conditions, Retail Current (versus previous month)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	21.1	27.0	-5.9	Improving	9	25.4	70.2	4.3
General business activity	21.0	17.9	+3.1	Improving	9	26.1	68.8	5.1

### Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	52.9	52.7	+0.2	Increasing	59	58.7	35.5	5.8
Employment	23.7	28.6	-4.9	Increasing	49	27.6	68.5	3.9
Part-time employment	7.8	10.7	-2.9	Increasing	7	15.2	77.4	7.4
Hours worked	7.2	11.1	-3.9	Increasing	22	14.3	78.6	7.1
Wages and benefits	35.6	42.6	-7.0	Increasing	61	37.7	60.2	2.1
Input prices	32.7	40.7	-8.0	Increasing	57	34.5	63.6	1.8
Selling prices	42.5	38.9	+3.6	Increasing	57	44.4	53.7	1.9
Capital expenditures	29.1	27.8	+1.3	Increasing	34	36.4	56.4	7.3
Inventories	23.0	16.0	+7.0	Increasing	50	34.8	53.3	11.8
Companywide Retail Activity								
Sales	44.8	54.5	-9.7	Increasing	58	49.5	45.8	4.7
Internet sales	34.2	25.0	+9.2	Increasing	58	34.2	65.8	0.0
Catalog sales	7.2	8.7	-1.5	Increasing	3	11.1	85.0	3.9

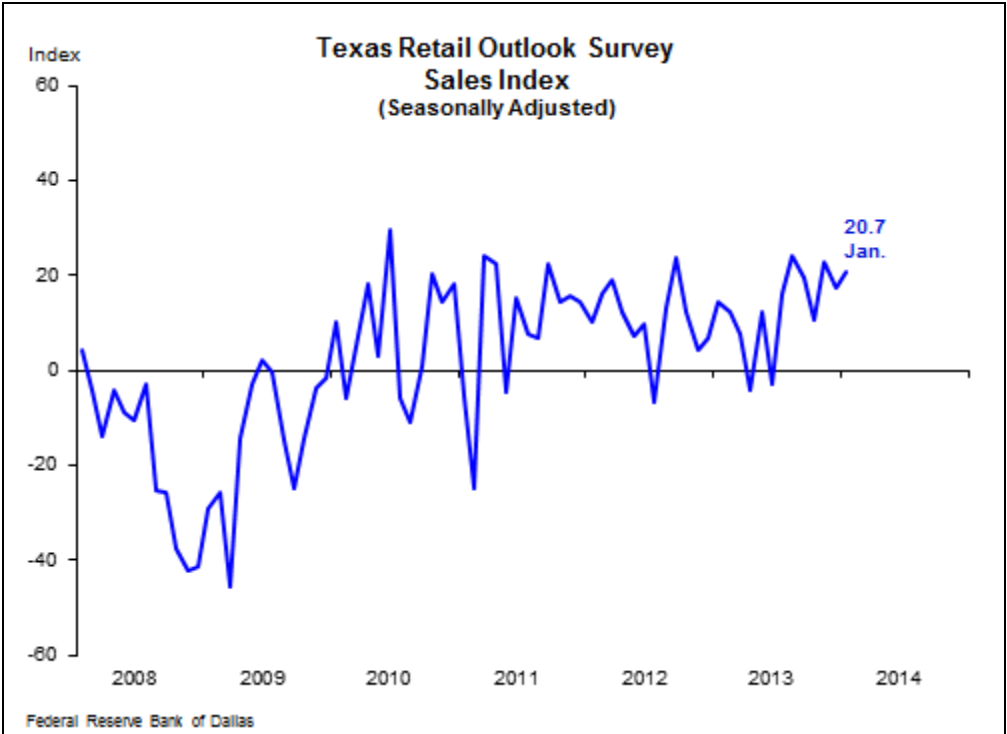
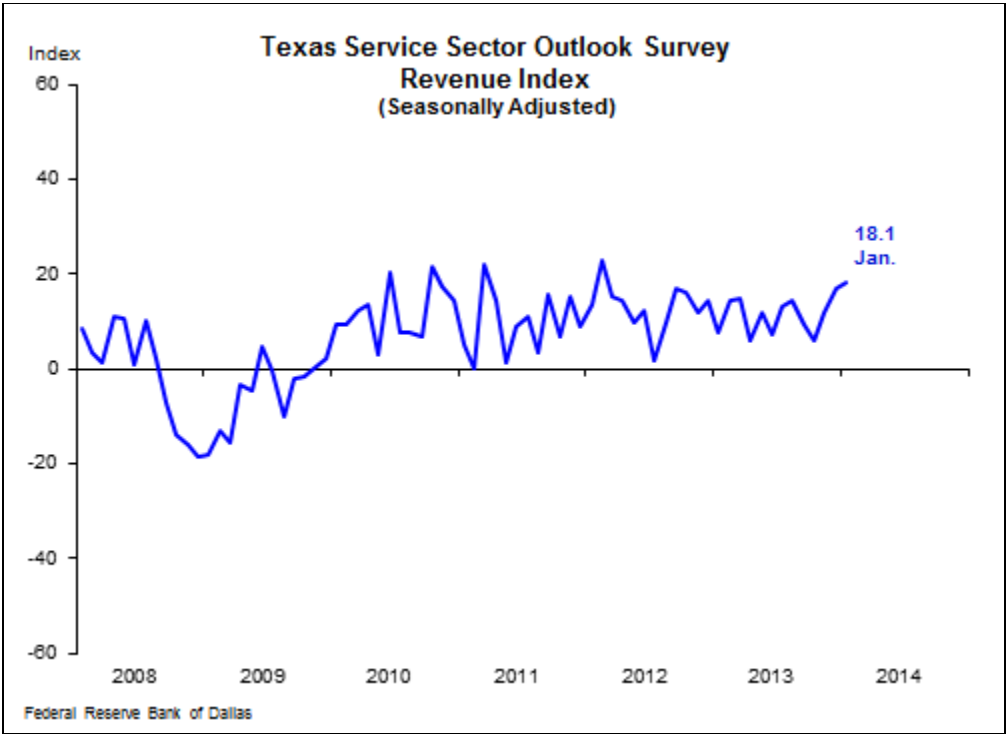
### General Business Conditions, Retail Future (six months ahead)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	33.7	33.7	0.0	Improving	58	38.7	56.2	5.0
General business activity	28.9	24.9	+4.0	Improving	28	36.7	55.5	7.8

\*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.

### Credit Intermediation and Related Services

- > Retail financial activity continues to improve as consumers open new credit relationships for autos and other big ticket items. Home improvement activity is picking up as well. Purchase activity on the mortgage side is up, while refinances have bottomed out for the past several months.
- > Piling up cash is becoming less popular. Capital expenditures are trendier.
- > We completed a merger and are planning new branches.
- > The volume of new regulations has consumed community banks to the point where we are guessing how to conform and hoping that we are in compliance. This is certainly not an effective way to try to implement so many changes, making the benefit of the regulation lost in confusion.

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

- > Uncertainty is the mood right now. January started off slow just as December ended slowing down. Our research says this is temporary, but we are waiting for some of the unknowns to be clarified.

### Rental and Leasing Services

- > We believe costs to provide services will go up due to regulations.

### Professional, Scientific and Technical Services

- > The real estate market seems to be picking up steam entering the new year, and the general consensus is that the market is strong. Typically, the first quarter of the year is a cooling-off period, but our order count shows this is not the case. As a company, our profits were up 15 percent for 2013, and we expect growth to increase in 2014.
- > This economy remains unstable.

### Management of Companies and Enterprises

- > There is too much government regulation.
- > Regulatory compliance for our business and our customers' business interests continues to be the primary drag on business growth.

### Administrative and Support Services

- > We have seen a reduced level of both contract and full-time hiring over the last two months.
- > The economy in the Dallas–Fort Worth market should benefit from new companies entering the market.
- > End of December sales activity was very slow due to seasonality and weather.

### Ambulatory Health Care Services

- > The seasonal slowdown was accentuated by new high-deductible insurance plans, greater patient responsibility and a larger percentage of no-show patients due to inability or unwillingness to pay.
- > As health reform unfolds, there is a general understanding that there will be no drastic changes in the health insurance industry market. Overall, there is a price squeeze in health care that requires increased revenue to offset the very rapid profit margin decline.

### Nursing and Residential Care Facilities

- > Continuing uncertainty about implementation of the Affordable Care Act has softened demand for health care services. In addition, implementation strategies associated with health care exchange insurance products have, at best, left out and, at worst, alienated many physicians. The growing financial burden of Medicare on the federal budget provides increasing market pressures on health care providers.

### Food Services and Drinking Places

- > Sales have been improving ever so slightly. Over the last three fiscal periods, we were up more than we have been for some time, but still nothing to get excited about. Everything is pretty static except cost of goods, which has been moving up and down from period to period. Currently, cost of goods is running up significantly, primarily because of large increases in the price of beef. The changes are netting out to a very slow rate of increase, which is good, but the cost from period to period is bouncing quite a bit. We have had too many years in a row of halfway decent results in late winter to early spring to get excited about the coming summer, which is why we are reporting no change for the six-month horizon.
- > We would like to hire more employees, but the Affordable Care Act will prevent us from doing so. The added regulations will be a serious burden going forward.
- > We opened one new restaurant in Houston in December and will be opening two more in Dallas in the next six months. We made a small price increase in January, and input prices are up right now. Cheese is up considerably over the prior year, which will impact profitability if it stays up.

## Merchant Wholesalers, Durable Goods

- > The increases are normal increases related to the start of a new year. The decreases in inventory are related to improved systems and processes related to inventory control and purchasing that have been implemented or are in the process of being implemented.
- > We believe that Texas new construction will be fairly strong in the first six months of the year but slowing in the second half of the year for various reasons.
- > The agriculture market is mostly positive due to an increase in moisture in our market area, but possibly somewhat negative due to agricultural commodity prices and loss of tax incentives on purchases.

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Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at [amy.jordan@dal.frb.org](mailto:amy.jordan@dal.frb.org). The Texas Service Sector Outlook Survey can be found online at [www.dallasfed.org/microsites/research/surveys/tssos/](http://www.dallasfed.org/microsites/research/surveys/tssos/).

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