



Texas Service Sector Outlook Survey

DALLAS FED

February 25, 2014

TEXAS SERVICE SECTOR ACTIVITY EXPANDS BUT AT A SLOWER PACE

Texas service sector activity continued to reflect expansion in February, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, remained positive but fell from 18.1 to 9.8.

Labor market indicators improved this month. The employment index was largely unchanged at 11.1 in February, indicating employment rose at the same pace as in January. The hours worked index rose back into positive territory to 2.8, suggesting longer workweeks.

Perceptions of broader economic conditions reflected less optimism in February. The general business activity index dropped 10 points to 6.8. The company outlook index dipped from 13.3 to 10.7, with 19 percent of respondents reporting that their outlook improved from last month and 8 percent noting it worsened.

Price pressures eased, while wage pressures were unchanged this month. The selling prices index fell slightly from 12.4 to 9.7. The wages and benefits index remained at 16.7, indicating wages rose at the same pace as in January, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism this month. The index of future general business activity dropped from 29.8 to 21.3. The index of future company outlook ticked down to 21.7. Indexes of future service sector activity, such as future revenue and employment, remained in solid positive territory in February.



RETAIL SALES GROWTH SLOWS

Retail sales signaled continued growth in February, albeit at a slower pace, according to business executives responding to the Texas Retail Outlook Survey. The sales index remained in positive territory but plunged from 20.7 to 5, its lowest reading in seven months. Inventories rose at a slower pace than in January.

Labor market indicators improved again this month. The employment index held steady at 16.3, indicating retail jobs grew at the same pace as last month. The hours worked index was largely unchanged at 2.3, suggesting longer workweeks.

Retailers' perceptions of broader economic conditions reflected less optimism in February. The general business activity index remained positive but fell from 21 to 15.7. The company outlook index retreated 6 points to 14.9, with 22 percent of respondents noting an improved company outlook over the prior month, compared with 7 percent reporting their outlook had worsened.

Retail price pressures eased, while wage pressures were unchanged this month. The selling prices index declined from 17.6 to 12. The wages and benefits index was similar to January at 19.2, indicating wages rose at the same pace as last month, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions reflected less optimism this month. The future general business activity index ticked down to 27.2. The index of future company outlook fell slightly to 32.4. Indexes of future retail sector activity remained in solid positive territory in February.

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 Feb. 11–19, and 236 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: April 1, 2014

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	9.8	18.1	-8.3	Increasing	52	25.9	58.0	16.1
Employment	11.1	11.9	-0.8	Increasing	48	17.1	76.9	6.0
Part-time employment	4.2	5.5	-1.3	Increasing	4	9.5	85.2	5.3
Hours worked	2.8	-1.4	+4.2	Increasing	1	6.9	89.0	4.1
Wages and benefits	16.7	16.9	-0.2	Increasing	57	18.1	80.5	1.4
Input prices	26.4	27.2	-0.8	Increasing	58	28.4	69.6	2.0
Selling prices	9.7	12.4	-2.7	Increasing	39	15.3	79.1	5.6
Capital expenditures	12.4	12.0	+0.4	Increasing	54	18.8	74.8	6.4
General Business Conditions Current (versus previous month)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	10.7	13.3	-2.6	Improving	30	18.7	73.3	8.0
General business activity	6.8	16.8	-10.0	Improving	28	18.5	69.8	11.7
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	43.6	46.8	-3.2	Increasing	60	54.1	35.4	10.5
Employment	30.2	29.9	+0.3	Increasing	59	37.0	56.2	6.8
Part-time employment	13.0	14.4	-1.4	Increasing	20	19.1	74.8	6.1
Hours worked	7.7	8.4	-0.7	Increasing	3	12.6	82.5	4.9
Wages and benefits	41.8	41.2	+0.6	Increasing	86	43.3	55.2	1.5
Input prices	46.8	42.8	+4.0	Increasing	86	48.6	49.5	1.8
Selling prices	31.3	30.3	+1.0	Increasing	58	36.7	57.9	5.4
Capital expenditures	28.2	27.9	+0.3	Increasing	59	35.4	57.5	7.2
General Business Conditions Future (six months ahead)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	21.7	24.0	-2.3	Improving	30	30.9	59.9	9.2
General business activity	21.3	29.8	-8.5	Improving	29	29.6	62.1	8.3

*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.

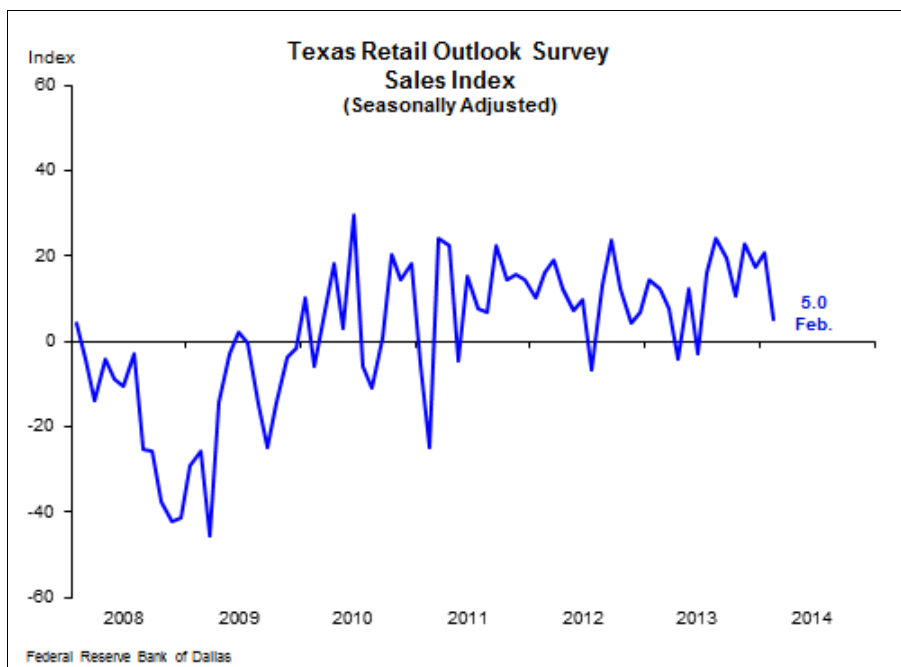
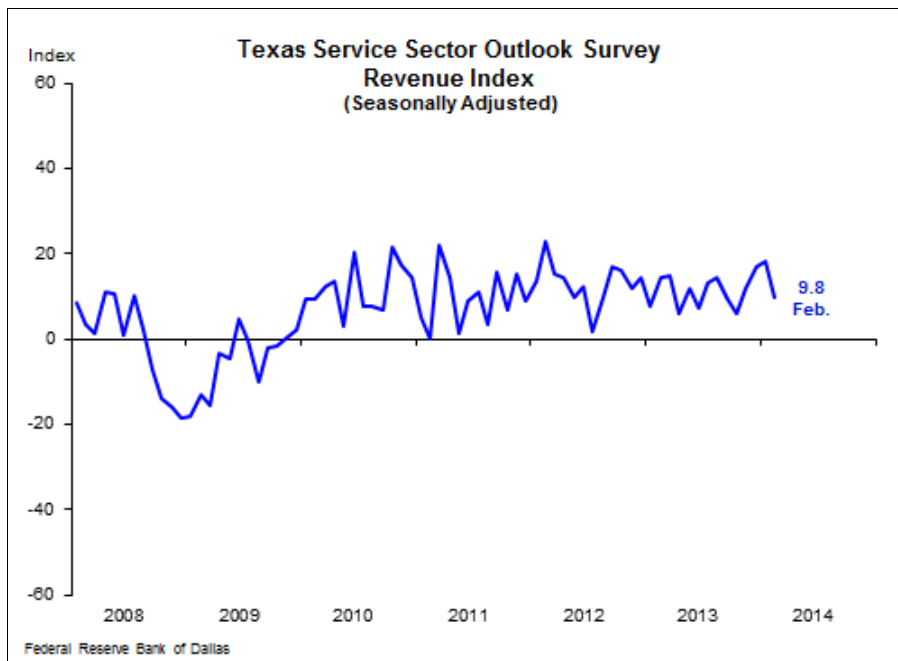
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	5.0	20.7	-15.7	Increasing	8	26.5	52.0	21.5
Employment	16.3	16.2	+0.1	Increasing	31	16.7	82.9	0.4
Part-time employment	3.6	3.6	0.0	Increasing	3	10.9	81.8	7.3
Hours worked	2.3	2.6	-0.3	Increasing	3	8.5	85.3	6.2
Wages and benefits	19.2	18.6	+0.6	Increasing	36	23.7	71.8	4.5
Input prices	20.7	18.7	+2.0	Increasing	43	24.3	72.1	3.6
Selling prices	12.0	17.6	-5.6	Increasing	19	17.7	76.6	5.7
Capital expenditures	8.6	6.9	+1.7	Increasing	4	13.8	81.0	5.2
Inventories	5.6	8.2	-2.6	Increasing	25	19.8	66.0	14.2
Companywide Retail Activity								
Sales	9.6	18.1	-8.5	Increasing	33	28.3	53.0	18.7
Internet sales	4.9	-2.4	+7.3	Increasing	1	9.8	85.4	4.9
Catalog sales	8.6	0.0	+8.6	Increasing	1	8.6	91.4	0.0
General Business Conditions, Retail Current (versus previous month)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	14.9	21.1	-6.2	Improving	10	21.8	71.2	6.9
General business activity	15.7	21.0	-5.3	Improving	10	26.8	62.1	11.1
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	47.6	52.9	-5.3	Increasing	60	57.4	32.8	9.8
Employment	32.8	23.7	+9.1	Increasing	50	34.0	64.8	1.2
Part-time employment	18.6	7.8	+10.8	Increasing	8	23.2	72.2	4.6
Hours worked	14.2	7.2	+7.0	Increasing	23	17.6	79.0	3.4
Wages and benefits	39.9	35.6	+4.3	Increasing	62	41.1	57.7	1.2
Input prices	49.1	32.7	+16.4	Increasing	58	49.1	50.9	0.0
Selling prices	45.5	42.5	+3.0	Increasing	58	45.5	54.5	0.0
Capital expenditures	36.4	29.1	+7.3	Increasing	35	38.2	60.0	1.8
Inventories	22.9	23.0	-0.1	Increasing	51	37.4	48.0	14.5
Companywide Retail Activity								
Sales	42.9	44.8	-1.9	Increasing	59	52.4	38.1	9.5
Internet sales	21.1	34.2	-13.1	Increasing	59	23.7	73.7	2.6
Catalog sales	2.1	7.2	-5.1	Increasing	4	9.3	83.5	7.2
General Business Conditions, Retail Future (six months ahead)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	32.4	33.7	-1.3	Improving	59	36.8	58.8	4.4
General business activity	27.2	28.9	-1.7	Improving	29	33.3	60.6	6.1

*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.

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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

- Interest margins continue to shrink, and the most likely alternative to offset this trend is to increase loans. One way to accomplish this is to migrate to different marketplaces like metropolitan areas, instead of depending on the rural community markets as we have for many years.
- Consumer lending has slowed and, hopefully, it is seasonal and not indicative of diminished demand. March will be an indicator as to where we go from here. Small business lending is holding at a steady level, and more banks are getting aggressive in pricing and terms, making the market more competitive.

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

- Retail sales are good, but job growth is flattening. Lack of moisture is dampening agribusiness expectations.
- There are too many negative regulations coming from the Affordable Care Act and the EPA. There is a lot of uncertainty out there right now, especially control of hiring and firing. There are just too many unknowns right now to have a lot of confidence in our markets.

Rental and Leasing Services

- December was a record month; then January was significantly slower. February is equally slower.

Professional, Scientific and Technical Services

- We made an employment change due to the loss of several active contracts.
- The real estate industry seems to be picking up steam in 2014. If our first month is any indication of what 2014 holds, we will see a significant increase in reviews over 2013. The dollar amount of our commercial orders has increased significantly, and the order count for January increased by 35 percent. The residential division experienced a better than average January, and the order count for resale transactions increased by 15 percent over 2013. We are still concerned about the lack of inventory in the residential market but continue to pick up market share. All in all, the mood in the marketplace is still very strong for both commercial and residential.
- Our business is growing along with the oil and gas industry. We are dependent on new pipelines being built.
- Growth of the company is being restricted by the ability to hire qualified employees. We are now turning down work because we cannot handle what we have. I do not see any change in demand for the next six to nine months.

Management of Companies and Enterprises

- The economic boost from Eagle Ford Shale drilling seems to be slowing down.
- Too much government regulation hurts our ability to help our customers and is hurting the smaller businesses.
- It is increasingly harder to qualify self-employed customers for qualified mortgages under the verification of income rules because we cannot use their internal company statements as they are not verified. Accountants must review for qualified mortgages under Dodd-Frank.
- Overregulation is the single biggest problem affecting us right now other than Fed monetary policy.
- Regulation continues to be the biggest obstacle our company and our customers have in today's business. It puts a total damper on all activity and expansion.

Administrative and Support Services

- We are not seeing any increased demand for full-time employees. Companies are still reluctant to add full-time staff with the uncertainty around federal regulation costs. Contract employee demand has been steady for the last six months, except for December, but that significant reduction was mostly due to weather and holidays.
- As a company, we are trying to be more aggressive in our sales. We see continued level growth in our Texas business, but outside of Texas the growth is moderate to flat.
- Most of our numbers have improved because of a new contract we were able to win.

Ambulatory Health Care Services

- We have not encountered any patients from the Affordable Care Act patient exchanges to date; we doubt this will have a material effect on us this year. We are gearing up for the ICD-10—a more detailed code for recording and identifying health conditions—mandate, effective Oct. 1, 2014. This is a frighteningly impactful mandate that may result in substantial claim denials and processing delays. We are cutting capital outlays in order to create a cash cushion in preparation for this implementation.
- We expect future increases in the cost of health coverage of about 5 percent. Our local economy saw a significant increase in 2013 due to an influx of \$500 million in storm damage claims. Now that the main part of that is over, 2014 appears to be a flat year or to possibly decline if the drought persists.

Food Services and Drinking Places

- The Affordable Care Act has tied our hands. We need to hire more people, but we can't because our company cannot afford to bear the cost of insurance for the entire company. It would put us out of business, because we cannot raise prices enough to cover these costs.
- We will have two new restaurants opening in March and May. Our same store sales are flat to down, and commodity prices have been higher in the first two periods of 2014.
- Revenue in the first two weeks of our current four-week period showed improvement. However, over the last few periods we have been going the wrong direction. Things have been quite soft. Hopefully, the current upturn will last and become a trend, but it is simply too soon to be sure. We changed distributors and signed a new multiyear contract, successfully lowering our food cost by

about 0.25 to 0.5 percent, which we will benefit from for at least the next six months. The upturn is just too recent to justify saying things are better, but by next month's report we will, hopefully, see a clear pattern. This makes the fourth year in a row where things seemed to be getting better in the winter and early spring only to have them get very soft in the summer. In fact, this softness came sooner this year than in the last couple of years. Right now we just can't see any clear pattern indicating how the year is going to turn out.

Merchant Wholesalers, Durable Goods

- > Increases six months from now are seasonal.

Food and Beverage Stores

- > We have been hammered by snow and sleet throughout our markets. In the convenience store business, that kills sales, and they don't come back later. February has been an ugly month due to weather. January was ahead of 2013.

General Merchandise Stores

- > Weather throughout the country continues to make store-based retailing a challenge.

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

