



Texas Service Sector Outlook Survey

DALLAS FED

April 1, 2014

TEXAS SERVICE SECTOR GROWTH PICKS UP

Texas service sector activity climbed 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, advanced from 9.8 to 16.5.

Labor market indicators improved this month. The employment index held steady at 11.2 in March, indicating employment rose at the same pace as in February. The hours worked index rose 4 points to 6.6, suggesting longer workweeks.

Perceptions of broader economic conditions continued to reflect optimism in March. The general business activity index rose slightly from 6.8 to 10.1. The company outlook index remained positive but dipped from 10.7 to 8.2, with 19 percent of respondents reporting that their outlook improved from last month and 11 percent noting it worsened.

Price and wage pressures increased this month. The selling prices index ticked up from 9.7 to 11.5. The wages and benefits index moved up 5 points to 21.5, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in March. The index of future general business activity edged up to 24.1. The index of future company outlook rose 3 points to 24.8. Indexes of future service sector activity, such as future revenue and employment, also reflected more optimism this month.



RETAIL ACTIVITY STRENGTHENS

Retail sales increased for the ninth consecutive month in March, according to business executives responding to the Texas Retail Outlook Survey. The sales index jumped more than 10 points to 15.6, indicating sales grew at a stronger pace than in February. Inventories rose.

Labor market indicators suggest continued positive but somewhat slower growth. The employment index remained positive but dipped 3 points to 13.4, indicating retail jobs grew at a slower pace than in February. The hours worked index also ticked down from 2.3 to 1.2.

Retailers' perceptions of broader economic conditions continued to reflect optimism in March. The general business activity index moved up from 15.7 to 19.9. The company outlook index was relatively unchanged at 14.1, with 23 percent of respondents noting an improved company outlook over the prior month, compared with 9 percent reporting their outlook had worsened.

Retail price pressures increased, while wage pressures eased this month. The selling prices index rose 5 points to 17. The wages and benefits index fell slightly from 19.2 to 15.3, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions continued to reflect optimism in March. The future general business activity index edged up from 27.2 to 31. The index of future company outlook ticked down to 30. Indexes of future retail sector activity reflected less optimism but remained in solid positive territory this month.

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. 18–26, and 233 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: May 28, 2014

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	16.5	9.8	+6.7	Increasing	53	34.7	47.1	18.2
Employment	11.2	11.1	+0.1	Increasing	49	22.1	66.9	10.9
Part-time employment	8.8	4.2	+4.6	Increasing	5	13.0	82.8	4.2
Hours worked	6.6	2.8	+3.8	Increasing	2	11.6	83.4	5.0
Wages and benefits	21.5	16.7	+4.8	Increasing	58	23.4	74.7	1.9
Input prices	30.8	26.4	+4.4	Increasing	59	32.9	65.0	2.1
Selling prices	11.5	9.7	+1.8	Increasing	40	17.4	76.7	5.9
Capital expenditures	15.0	12.4	+2.6	Increasing	55	23.3	68.4	8.3

General Business Conditions Current (versus previous month)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	8.2	10.7	-2.5	Improving	31	18.8	70.6	10.6
General business activity	10.1	6.8	+3.3	Improving	29	20.8	68.5	10.7

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	46.2	43.6	+2.6	Increasing	61	53.5	39.2	7.3
Employment	33.5	30.2	+3.3	Increasing	60	37.1	59.3	3.6
Part-time employment	12.8	13.0	-0.2	Increasing	21	18.4	76.0	5.6
Hours worked	10.8	7.7	+3.1	Increasing	4	15.7	79.4	4.9
Wages and benefits	41.0	41.8	-0.8	Increasing	87	42.9	55.2	1.9
Input prices	51.2	46.8	+4.4	Increasing	87	52.0	47.2	0.8
Selling prices	29.3	31.3	-2.0	Increasing	59	34.9	59.5	5.6
Capital expenditures	31.5	28.2	+3.3	Increasing	60	38.3	55.0	6.8

General Business Conditions Future (six months ahead)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	24.8	21.7	+3.1	Improving	31	32.9	59.0	8.1
General business activity	24.1	21.3	+2.8	Improving	30	32.7	58.7	8.6

*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	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	15.6	5.0	+10.6	Increasing	9	35.3	45.1	19.7
Employment	13.4	16.3	-2.9	Increasing	32	21.9	69.6	8.5
Part-time employment	10.9	3.6	+7.3	Increasing	4	16.4	78.2	5.5
Hours worked	1.2	2.3	-1.1	Increasing	4	9.0	83.2	7.8
Wages and benefits	15.3	19.2	-3.9	Increasing	37	18.3	78.7	3.0
Input prices	23.5	20.7	+2.8	Increasing	44	25.7	72.1	2.2
Selling prices	17.0	12.0	+5.0	Increasing	20	23.9	69.2	6.9
Capital expenditures	12.0	8.6	+3.4	Increasing	5	24.1	63.8	12.1
Inventories	22.5	5.6	+16.9	Increasing	26	36.1	50.3	13.6
Companywide Retail Activity								
Sales	20.4	9.6	+10.8	Increasing	34	38.4	43.6	18.0
Internet sales	28.2	4.9	+23.3	Increasing	2	28.2	71.8	0.0
Catalog sales	14.3	8.6	+5.7	Increasing	2	14.3	85.7	0.0

General Business Conditions, Retail Current (versus previous month)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	14.1	14.9	-0.8	Improving	11	23.2	67.7	9.1
General business activity	19.9	15.7	+4.2	Improving	11	30.0	59.9	10.1

Business Indicators Relating to Facilities and Products in Texas, Retail Future (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	38.6	47.6	-9.0	Increasing	61	49.2	40.3	10.6
Employment	22.0	32.8	-10.8	Increasing	51	29.0	64.0	7.0
Part-time employment	7.0	18.6	-11.6	Increasing	9	14.5	78.0	7.5
Hours worked	13.5	14.2	-0.7	Increasing	24	22.0	69.5	8.5
Wages and benefits	34.9	39.9	-5.0	Increasing	63	37.2	60.5	2.3
Input prices	39.3	49.1	-9.8	Increasing	59	42.9	53.6	3.6
Selling prices	38.2	45.5	-7.3	Increasing	59	40.0	58.2	1.8
Capital expenditures	19.7	36.4	-16.7	Increasing	36	28.6	62.5	8.9
Inventories	18.4	22.9	-4.5	Increasing	52	37.0	44.3	18.6
Companywide Retail Activity								
Sales	37.4	42.9	-5.5	Increasing	60	47.6	42.3	10.2
Internet sales	27.0	21.1	+5.9	Increasing	60	29.7	67.6	2.7
Catalog sales	11.8	2.1	+9.7	Increasing	5	14.9	82.0	3.1

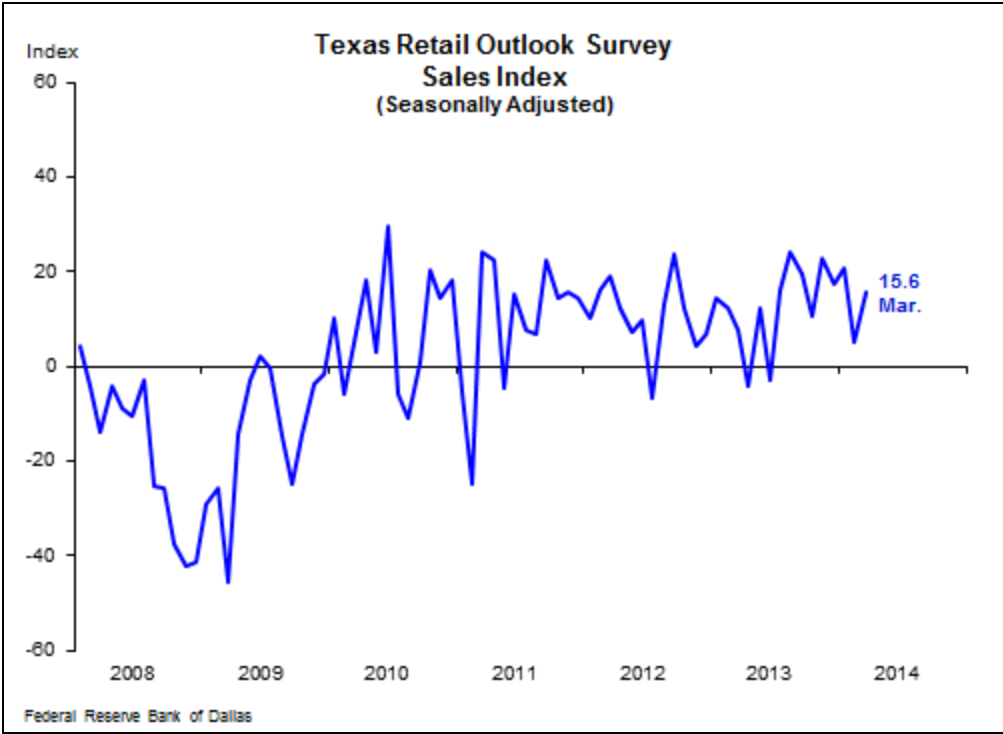
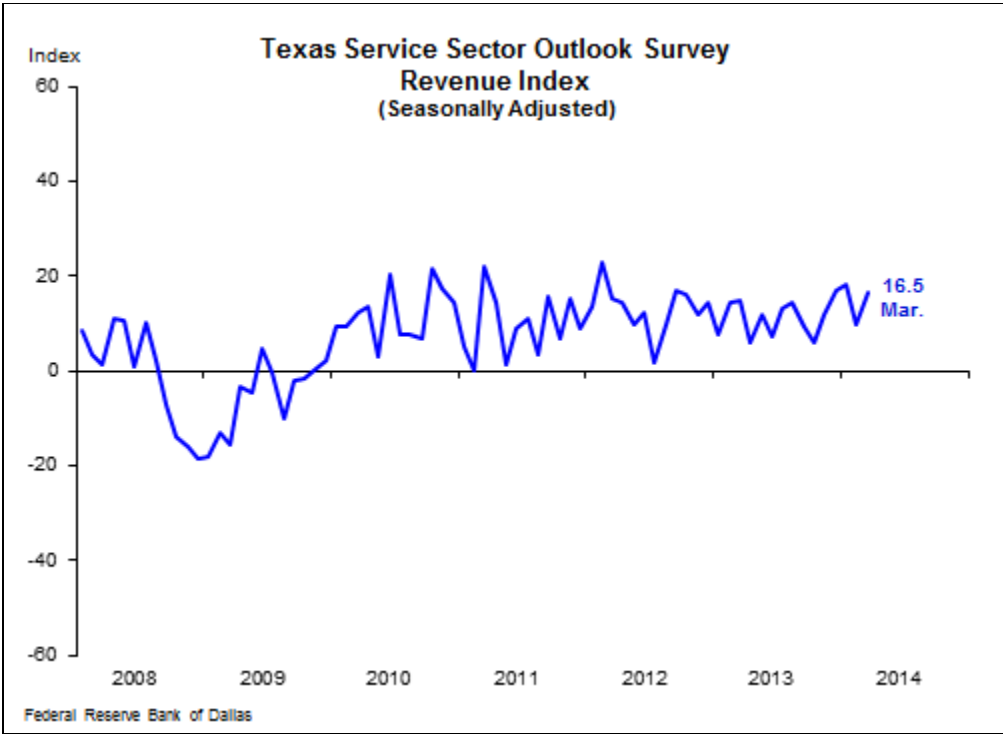
General Business Conditions, Retail Future (six months ahead)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	30.0	32.4	-2.4	Improving	60	34.4	61.2	4.4
General business activity	31.0	27.2	+3.8	Improving	30	36.2	58.6	5.2

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

Credit Intermediation and Related Services

- > The increase in cost is related to technology updates and the cost of trying to comply with new banking regulations. The compounding of regulations creates additional burdens for banks to operate in a rural market effectively and to meet the needs of a community. The mega banks are making a large profit by working around the less stringent application of the new regulations and creating additional risk to the economic recovery. Complication of regulations creates inefficiency and hesitancy on the part of small businesses.
- > After several months of brisk activity in consumer lending, the pace seems to have slowed somewhat. While it is too early to tell if this is a trend, it will be interesting to see what happens over the next quarter.
- > Federal regulatory burdens continue to increase for community banks.

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

- > There are too many uncertainties. The main concern right now is the possible nonrenewal of Section 179 and Section 166 of the tax code dealing with the expensing of capital equipment. This will be a major tax increase for a business our size. All of the other uncertainties continue, so we are backing up and just trying to hold on for now.

Professional, Scientific and Technical Services

- > Government spending cuts and confusion continue to be major issues in getting committed contracts.
- > The real estate market continues to improve through the first quarter of 2014. Our gross revenue is up 22.7 percent over last year, and we expect this trend to continue throughout the year. The volume and dollar amount of the transactions that we are seeing continue to increase, which should increase our gross revenue significantly over 2013. The real estate industry has finally improved to a point where we feel comfortable hiring additional staff.
- > Business activity has remained fairly flat, with a slight drop off starting at the beginning of year. The biggest killer to our business is the increase in taxes.
- > Business is improving, and barring increased government involvement, the economy should improve.
- > Insufficient availability of qualified labor is slowing expansion. The construction market is very hot and expanding rapidly.

Management of Companies and Enterprises

- > Too much government regulation is hurting our ability to help our customers and driving up our cost of doing business.
- > Margins continue to be tight in the banking industry; however, we are seeing an uptick in demand. There is still no relief in pricing; the upward interest rate movement we saw in late 2013 and early 2014 has moderated on the volatility in the markets with Ukraine and slowing in China.
- > The extremely large cost of federal regulatory compliance and enhanced operation costs are greatly impacting our return on assets.

Administrative and Support Services

- > There has been a noticeable increase in demand for and hiring of full-time positions and a decrease in demand for contract staff during the last 60 days.
- > The outlook for our company comes from the credibility and reputation we work hard to maintain, which is allowing us to bid for new types of work and maintain our current customers. It is not a result of the economy or any government intervention.
- > There has been a slow acceleration in confidence growing from the third quarter of last year, and it seems to indicate a cautious but sustainable momentum in business growth in the financial sector.

Ambulatory Health Care Services

- > We are facing decreased working capital and increased taxes.
- > The shift to statewide managed care has been touted as a cost savings; however, that is not necessarily playing out to be true. The reality is that the cost savings are to the state, which is able to offload risk by paying a set fee per member per month. The impact on the health care system is that providers actually bear the burden. The demand for health care services is increasing, and the funding available to the system to serve those needs is diminishing. Add to this the increased administrative burden placed on the provider for having to bill multiple payers and it quickly becomes evident that provider sustainability is at risk.
- > Gross revenues in March decreased from February as a business unit under the company umbrella was discontinued. As a result, net revenue and assets have increased.
- > We are medical providers with a large percentage of Medicare patients, so our revenue will be severely impacted if federal legislation to stop the 24 percent cut in Medicare fees is not enacted by April 1. This failure will be catastrophic across the medical field, forcing a reduction in workforce, lowering patients' opportunities to receive

medical care and possibly impacting research and development by drug and medical durable goods manufacturers. This will create a cascading effect of lost revenues and jobs nationwide. If it stays in place, it is likely a large number of doctors will either retire or stop seeing Medicare patients.

Food Services and Drinking Places

- > This has been a wild month. We had an extremely good spring break—up more than 5 percent in one week—but settled right back down to virtually flat with last year after it. It is a good sign that people seemed to feel free to spend money for the holiday-like period of spring break, and that might bode well for the summer. However, the sharp drop back to flat sales throws in a large word of caution. We have the same number of employees (full and part time) despite sales increases in the six-month horizon because we can handle more sales with the people we already have working. During the heart of the spring break, we actually had to add hours to the schedule but, at this point, that looks like an anomaly, not a new normal.
- > Commodity prices are extremely high right now. Cheese prices have soared to an all-time high. We will most likely have to raise prices again to cover this cost. The Affordable Care Act and newly proposed overtime rules are going to raise costs as well. All of these items spell higher prices, but we aren't sure if the market will bear the higher prices. Of course, everyone in our industry is going to be in the same boat.

Merchant Wholesalers, Durable Goods

- > We increased our inventories in March in anticipation of price increases and to prepare for the seasonal increases in the summer months.

Motor Vehicle and Parts Dealers

- > Our sales have improved. Input prices increased. We are now in discussions with our managers to determine how we can reduce inventories this year without compromising net profits. These decisions are being made in an effort to prepare managers for the effect of the inevitable higher interest rates.
- > Our experience does not reflect the general market, which is up although we are down. Our situation is the result of our particular franchisor's issues. Overall the business situation in our market is very strong.
- > The future of medical benefits is still unknown, which is a potential problem.

Food and Beverage Stores

- > The competitive retail climate is very aggressive. The weather has negatively impacted sales.

General Merchandise Stores

- > The disruption to our business due to weather this year has made it difficult to gauge the mood of our customers. This has made us think cautiously until we can understand better the mood of our customers.

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/.

