



Texas Service Sector Outlook Survey

DALLAS **FED**

April 29, 2014

TEXAS SERVICE SECTOR ACTIVITY EXPANDS AND BUSINESS CONDITIONS IMPROVE

Texas service sector activity climbed again in April, 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 16.5 to 18.5.

Labor market indicators improved this month. The employment index moved up 5 points to 16.4 in April, indicating employment rose at a faster pace than in March. The hours worked index held steady at 6, suggesting longer workweeks.

Perceptions of broader economic conditions reflected more optimism in April. The general business activity index edged up from 10.1 to 11.3. The company outlook index ticked up to 8.8, with 19 percent of respondents reporting that their outlook improved from last month and 10 percent noting it worsened.

Price pressures eased, while wage pressures remained the same this month. The selling prices index fell from 11.5 to 7.1. The wages and benefits index was similar to last month at 22.1, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected slightly less optimism in April. The index of future general business activity was unchanged at 24. The index of future company outlook inched down to 23.3. Indexes of future service sector activity, such as future revenue and employment, also reflected less optimism this month.



RETAIL SALES CONTINUE RISING

Retail sales increased for the tenth consecutive month in April, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose slightly from 15.6 to 18.3, indicating sales grew at a stronger pace than in March. Inventories rose at a slower pace than last month.

Labor market indicators improved this month. The employment index moved up from 13.4 to 18.5, indicating retail jobs grew at a faster pace than last month. The hours worked index jumped 11 points to 12.2.

Retailers' perceptions of broader economic conditions continued to reflect optimism in April. The general business activity index remained positive but fell from 19.9 to 13.5. The company outlook index was relatively unchanged at 14.5, with 24 percent of respondents noting an improved company outlook over the prior month, compared with 9 percent reporting their outlook had worsened.

Retail price pressures eased, while wage pressures increased this month. The selling prices index dropped from 17 to 7.5. The wages and benefits index rose almost 7 points to 22, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions reflected less optimism in April. The future general business activity index fell 4 points to 27. The index of future company outlook ticked down to 27.1. Indexes of future retail sector activity 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 April 15–23, and 229 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	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	18.5	16.5	+2.0	Increasing	54	35.4	47.8	16.9
Employment	16.4	11.2	+5.2	Increasing	50	22.8	70.8	6.4
Part-time employment	6.9	8.8	-1.9	Increasing	6	11.5	83.9	4.6
Hours worked	6.0	6.6	-0.6	Increasing	3	10.4	85.2	4.4
Wages and benefits	22.1	21.5	+0.6	Increasing	59	23.4	75.3	1.3
Input prices	25.2	30.8	-5.6	Increasing	60	27.0	71.2	1.8
Selling prices	7.1	11.5	-4.4	Increasing	41	13.4	80.3	6.3
Capital expenditures	15.7	15.0	+0.7	Increasing	56	23.7	68.3	8.0
General Business Conditions Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	8.8	8.2	+0.6	Improving	32	18.9	71.0	10.1
General business activity	11.3	10.1	+1.2	Improving	30	20.7	69.9	9.4
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	46.0	46.2	-0.2	Increasing	62	55.8	34.4	9.8
Employment	27.7	33.5	-5.8	Increasing	61	34.2	59.2	6.5
Part-time employment	14.8	12.8	+2.0	Increasing	22	18.8	77.2	4.0
Hours worked	9.5	10.8	-1.3	Increasing	5	12.5	84.5	3.0
Wages and benefits	41.1	41.0	+0.1	Increasing	88	43.0	55.1	1.9
Input prices	44.8	51.2	-6.4	Increasing	88	45.7	53.4	0.9
Selling prices	29.4	29.3	+0.1	Increasing	60	34.3	60.8	4.9
Capital expenditures	28.3	31.5	-3.2	Increasing	61	36.0	56.3	7.7
General Business Conditions Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	23.3	24.8	-1.5	Improving	32	34.6	54.1	11.3
General business activity	24.0	24.1	-0.1	Improving	31	32.7	58.6	8.7

*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.

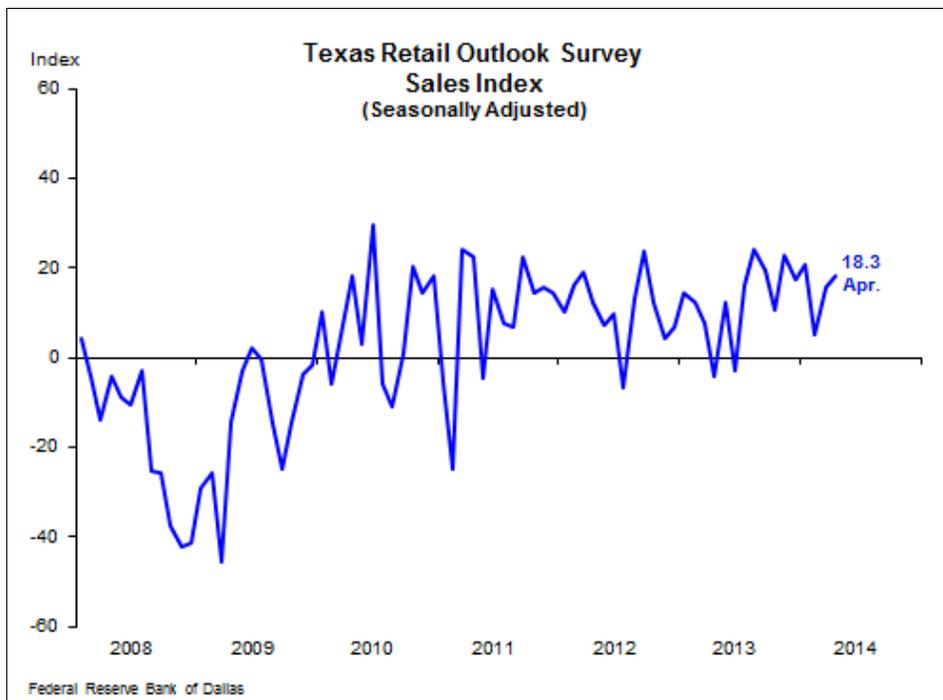
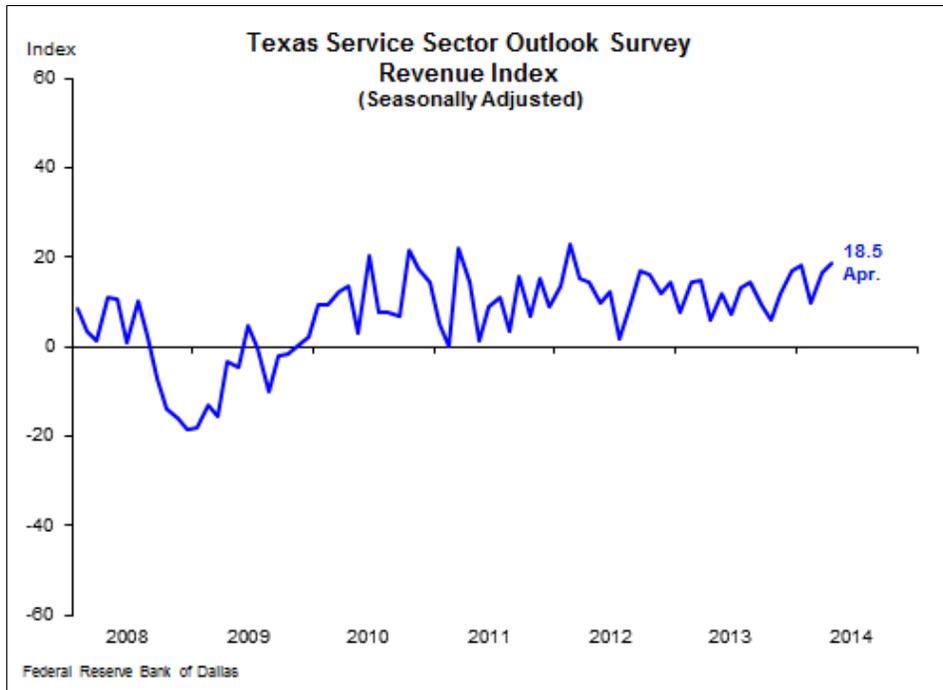
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	18.3	15.6	+2.7	Increasing	10	37.7	43.0	19.4
Employment	18.5	13.4	+5.1	Increasing	33	21.4	75.7	2.9
Part-time employment	5.6	10.9	-5.3	Increasing	5	11.3	83.0	5.7
Hours worked	12.2	1.2	+11.0	Increasing	5	17.2	77.8	5.0
Wages and benefits	22.0	15.3	+6.7	Increasing	38	22.9	76.2	0.9
Input prices	15.6	23.5	-7.9	Increasing	45	17.9	79.8	2.3
Selling prices	7.5	17.0	-9.5	Increasing	21	13.4	80.7	5.9
Capital expenditures	14.3	12.0	+2.3	Increasing	6	21.4	71.4	7.1
Inventories	20.0	22.5	-2.5	Increasing	27	31.9	56.2	11.9
Companywide Retail Activity								
Sales	29.1	20.4	+8.7	Increasing	35	42.7	43.7	13.6
Internet sales	10.0	28.2	-18.2	Increasing	3	12.5	85.0	2.5
Catalog sales	2.8	14.3	-11.5	Increasing	3	5.7	91.4	2.9
General Business Conditions, Retail Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	14.5	14.1	+0.4	Improving	12	23.9	66.7	9.4
General business activity	13.5	19.9	-6.4	Improving	12	23.8	65.9	10.3
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	39.6	38.6	+1.0	Increasing	62	49.4	40.9	9.8
Employment	14.1	22.0	-7.9	Increasing	52	24.9	64.4	10.8
Part-time employment	10.3	7.0	+3.3	Increasing	10	15.9	78.5	5.6
Hours worked	13.4	13.5	-0.1	Increasing	25	18.0	77.4	4.6
Wages and benefits	38.4	34.9	+3.5	Increasing	64	40.8	56.8	2.4
Input prices	40.7	39.3	+1.4	Increasing	60	42.6	55.6	1.9
Selling prices	43.4	38.2	+5.2	Increasing	60	45.3	52.8	1.9
Capital expenditures	22.2	19.7	+2.5	Increasing	37	29.6	63.0	7.4
Inventories	22.7	18.4	+4.3	Increasing	53	34.2	54.3	11.5
Companywide Retail Activity								
Sales	40.6	37.4	+3.2	Increasing	61	46.5	47.6	5.9
Internet sales	21.6	27.0	-5.4	Increasing	61	24.3	73.0	2.7
Catalog sales	11.6	11.8	-0.2	Increasing	6	12.6	86.4	1.0
General Business Conditions, Retail Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	27.1	30.0	-2.9	Improving	61	33.2	60.7	6.1
General business activity	27.0	31.0	-4.0	Improving	31	33.4	60.2	6.4

*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

- > Plans for a new facility are moving forward.
- > The economy is soaring in our part of the country, and in the areas in which we are located, largely due to the energy boom. The banking environment for smaller rural banks is the same, with continued deposit growth but slow loan demand. We have actually begun to expand into markets where there is loan demand to compete for some market share in other cities. In addition, the decision by Citibank to close branches in smaller markets in Texas has brought in new customers to the local community banks that continue to support the communities we serve. The continued drought will play a big role in the future rate of economic activity.

Insurance Carriers and Related Activities

- > We are seeing mortgage lending contracting and tougher loan standards, with rising rates.

Real Estate

- > First quarter residential sales in Amarillo were slightly up. It appears pending contract activity was up considerably. We'll see if that translates to increased closed sales at the end of the second quarter. Increased underwriting requirements have resulted in delayed closings.

Rental and Leasing Services

- > We have been flat in same-store sales for 16 months now. It is time to realize this economy is not well and there is no indication it is improving. We see evidence that costs to comply with government regulations are increasing at every turn. We need to build three or four new facilities across Texas right now, and every project is on hold waiting for government approval.

Professional, Scientific and Technical Services

- > Business seems to be getting much better; however, the costs associated with the Affordable Care Act will keep employment down and drive costs up; we are afraid way up.
- > We are having trouble finding trained and qualified people to hire. We see design- and construction-related business improving through the end of year.
- > One real estate exec recently predicted that the market in the Houston area will remain strong for the next 10 years. This gives us confidence for a sustained real estate economy through at least 2015.
- > The general mood of the real estate market continues to improve in 2014. Orders for commercial transactions continue to outpace 2013 orders, and our commercial revenue is up 67 percent over 2013. Our residential division's orders and revenue are slightly lower than in 2013 due to a decrease in refinance transactions. Our residential resale orders remain strong, even with a lack of inventory in the marketplace. We are still holding the line on hiring additional employees, but our outlook for the remainder of 2014 is very positive.

Management of Companies and Enterprises

- > There is too much government regulation. The excess regulation increases our cost of doing business, which ultimately costs the consumer. Some regulation is good, but a lot of it is a waste of time and does not accomplish anything.
- > Our increasing costs are primarily associated with increasing federal compliance mandates. We estimate that a good third of our staff time is spent on compliance matters, whether it is directly employed compliance personnel or other staff that spend a large part of every day trying to comply with the constant barrage of new regulations.

Administrative and Support Services

- > Companies are looking for value that equates to both performance and price. To gain business, you must be aggressive on the quality of your product and your service.

Ambulatory Health Care Services

- > There is hope that the draw down on quantitative easing will incentivize banks to offer the much needed financing for new projects.
- > As medical care providers, we have contracted amounts we can charge. We are beginning to see slight increases in costs from suppliers and our own insurance. Plus, payments for some services are being combined into "bundles," resulting in declining revenue per patient.
- > Capital purchases include a new digital mammogram unit and an ultrasound machine.

Hospitals

- > The health care industry continues to worsen, especially for rural hospitals. Government regulations relating to "meaningful use" and ICD-10—a more detailed code for recording and identifying health conditions—continue to burden smaller hospitals. Reductions in reimbursement continue as we shift from inpatient infrastructure to an outpatient environment. The Affordable Care Act has had a negative impact on the rural hospitals, as the uninsured rate has not changed while regulatory requirements related to the act have increased overall costs.

- > A superheated economy with record low unemployment has increased hiring challenges and turnover, while at the same time demand has increased. These issues are most acute in service jobs, including housekeepers and food service workers.

Nursing and Residential Care Facilities

- > Macroeconomic forces are adversely impacting health care organizations like ours, with high Medicare utilization and high levels of uninsured patients. Without Medicaid expansion in the state of Texas, hospitals will face increasing financial pressure.

Food Services and Drinking Places

- > We opened one new location in Dallas the first week of April. A second location will open in Arlington in June 2014. These new locations are driving our increases. We are taking a small price increase in April to offset the current high cheese prices. Hopefully that will be the last increase needed this year.

Merchant Wholesalers, Durable Goods

- > Our increases and decreases are expected seasonal changes.

Motor Vehicle and Parts Dealers

- > Our primary franchisor continues to struggle. We cannot prosper when the manufacturer is struggling. The overall business climate is improving; we simply do not have the product to sell.

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/.

