



Texas Service Sector Outlook Survey

DALLAS FED

July 1, 2014

TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS

Texas service sector activity picked up pace in June, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, rose from 13.1 to 16.9.

Labor market indicators improved this month. The employment index edged up from 13.8 to 16.5 in June, indicating employment rose at a slightly faster pace than in May. The hours worked index rose slightly from 4.9 to 7.3.

Perceptions of broader economic conditions reflected more optimism in June. The general business activity index surged more than 10 points to 21.1. The company outlook index advanced from 8.7 to 17, with 23 percent of respondents reporting that their outlook improved from last month and 6 percent noting it worsened.

Price and wage pressures increased this month. The selling prices index rose from 8 to 11.7, indicating prices increased at a faster pace than in May. The wages and benefits index moved up from 17 to 20.8, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in June. The index of future general business activity moved up almost 5 points to 28.7. The index of future company outlook rose from 22.9 to 29.1. Indexes of future service sector activity, such as future revenue and employment, also reflected more optimism this month.



RETAIL ACTIVITY EXPANDS AND BUSINESS CONDITIONS IMPROVE

Retail sales increased for the 12th consecutive month in June, according to business executives responding to the Texas Retail Outlook Survey. The sales index held steady at 16, indicating sales rose at the same pace as in May. Inventories rose at a slower pace than last month.

Labor market indicators improved this month. The employment index jumped 11 points to 19.5, indicating retail jobs grew at a faster pace than in May. After dipping into negative territory last month, the hours worked index advanced to 4.5, suggesting longer workweeks, although the great majority of firms continued to note no change.

Retailers' perceptions of broader economic conditions reflected more optimism in June. The general business activity index surged to a nine-month high of 30.3. The company outlook index climbed 19 points to a multiyear high of 30.3, with 35 percent of respondents noting an improved company outlook over the prior month, compared with 5 percent reporting their outlook had worsened.

Retail price pressures eased, while wage pressures increased this month. The selling prices index ticked down from 19.6 to 17.8. The wages and benefits index edged up from 12 to 14.3, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions reflected more optimism in June. The future general business activity index moved up 7 points to 32.7. The index of future company outlook rose from 29.4 to 35.8. Indexes of future retail sector activity also reflected more optimism 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 June 17–25, and 244 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: July 29, 2014

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	16.9	13.1	+3.8	Increasing	56	31.6	53.7	14.7
Employment	16.5	13.8	+2.7	Increasing	52	23.6	69.3	7.1
Part-time employment	6.1	3.4	+2.7	Increasing	8	10.4	85.3	4.3
Hours worked	7.3	4.9	+2.4	Increasing	5	11.1	85.1	3.8
Wages and benefits	20.8	17.0	+3.8	Increasing	61	22.7	75.4	1.9
Input prices	24.0	29.6	-5.6	Increasing	62	26.3	71.4	2.3
Selling prices	11.7	8.0	+3.7	Increasing	43	16.0	79.7	4.3
Capital expenditures	14.1	16.3	-2.2	Increasing	58	20.4	73.4	6.3
General Business Conditions								
Current (versus previous month)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	17.0	8.7	+8.3	Improving	34	23.2	70.6	6.2
General business activity	21.1	10.3	+10.8	Improving	32	28.6	63.9	7.5
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	50.6	44.7	+5.9	Increasing	64	57.3	36.0	6.7
Employment	34.5	33.5	+1.0	Increasing	63	37.6	59.4	3.1
Part-time employment	13.4	12.0	+1.4	Increasing	24	18.7	76.0	5.3
Hours worked	8.4	9.3	-0.9	Increasing	7	13.2	82.0	4.8
Wages and benefits	42.9	38.7	+4.2	Increasing	90	43.9	55.1	1.0
Input prices	46.5	43.8	+2.7	Increasing	90	48.2	50.0	1.7
Selling prices	28.8	23.4	+5.4	Increasing	62	34.3	60.2	5.5
Capital expenditures	32.3	27.9	+4.4	Increasing	63	38.8	54.8	6.5
General Business Conditions								
Future (six months ahead)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	29.1	22.9	+6.2	Improving	34	34.1	60.9	5.0
General business activity	28.7	24.2	+4.5	Improving	33	35.5	57.7	6.8

*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.

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

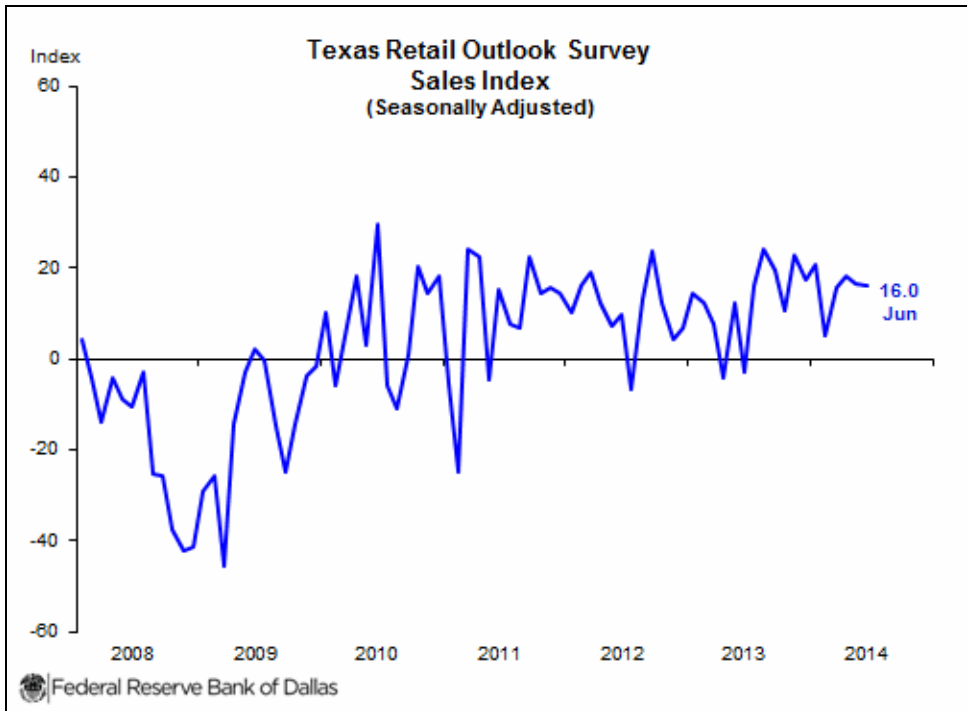
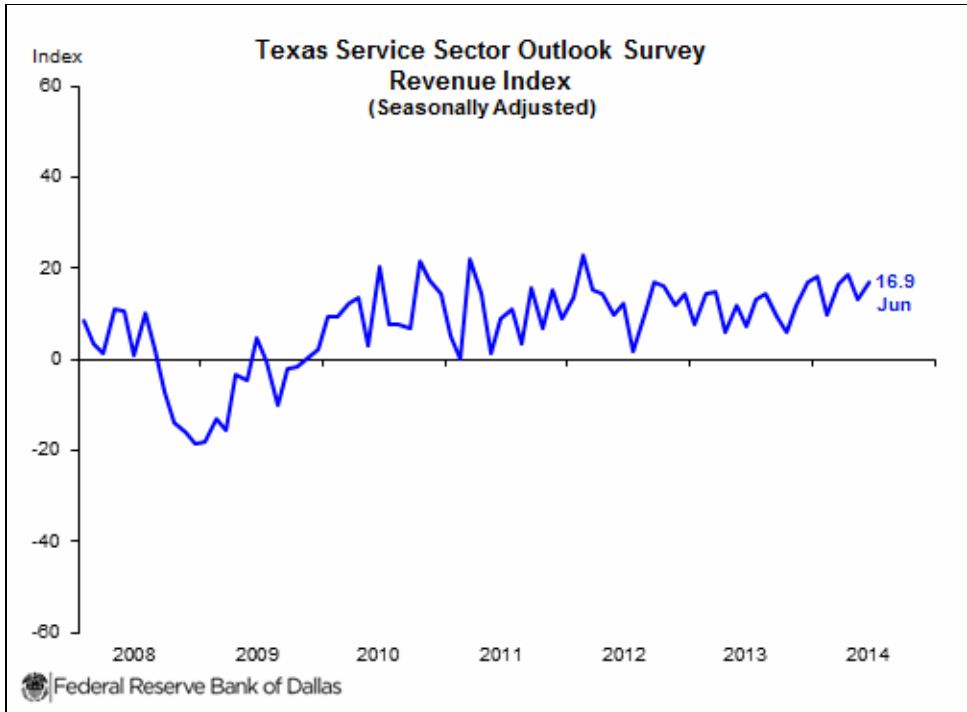
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	16.0	16.4	-0.4	Increasing	12	33.1	49.7	17.1
Employment	19.5	8.2	+11.3	Increasing	35	25.1	69.3	5.6
Part-time employment	1.8	4.1	-2.3	Increasing	7	7.5	86.8	5.7
Hours worked	4.5	-5.4	+9.9	Increasing	1	10.1	84.3	5.6
Wages and benefits	14.3	12.0	+2.3	Increasing	40	17.6	79.1	3.3
Input prices	13.2	24.8	-11.6	Increasing	47	16.9	79.4	3.7
Selling prices	17.8	19.6	-1.8	Increasing	23	19.9	78.0	2.1
Capital expenditures	3.6	15.7	-12.1	Increasing	8	10.7	82.1	7.1
Inventories	16.1	19.8	-3.7	Increasing	29	26.5	63.1	10.4
Companywide Retail Activity								
Sales	20.0	11.5	+8.5	Increasing	37	35.2	49.6	15.2
Internet sales	5.0	7.9	-2.9	Increasing	5	10.0	85.0	5.0
Catalog sales	0.0	-6.3	+6.3	No Change	1	6.1	87.9	6.1
General Business Conditions, Retail Current (versus previous month)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	30.3	11.3	+19.0	Improving	14	35.1	60.1	4.8
General business activity	30.3	10.7	+19.6	Improving	14	39.3	51.7	9.0
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	42.9	41.2	+1.7	Increasing	64	53.1	36.7	10.2
Employment	26.3	10.9	+15.4	Increasing	54	37.3	51.7	11.0
Part-time employment	2.0	10.2	-8.2	Increasing	12	18.3	65.4	16.3
Hours worked	4.2	11.3	-7.1	Increasing	27	13.1	78.0	8.9
Wages and benefits	40.7	34.2	+6.5	Increasing	66	44.5	51.7	3.8
Input prices	37.7	34.1	+3.6	Increasing	62	41.5	54.7	3.8
Selling prices	39.6	34.8	+4.8	Increasing	62	43.4	52.8	3.8
Capital expenditures	24.6	24.0	+0.6	Increasing	39	34.0	56.6	9.4
Inventories	25.0	15.8	+9.2	Increasing	55	37.8	49.4	12.8
Companywide Retail Activity								
Sales	38.7	37.2	+1.5	Increasing	63	49.8	39.1	11.1
Internet sales	34.2	28.5	+5.7	Increasing	63	34.2	65.8	0.0
Catalog sales	7.6	21.1	-13.5	Increasing	8	8.8	90.0	1.2
General Business Conditions, Retail Future (six months ahead)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	35.8	29.4	+6.4	Improving	63	39.0	57.8	3.2
General business activity	32.7	25.6	+7.1	Improving	33	35.1	62.5	2.4

*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.

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

- Recent rains have improved the outlook for agriculture and cattle. Employment and construction are steady, while housing starts and average sale prices are down slightly.

Broadcasting (except Internet)

- We are a media company that owns TV and radio in a midsized market. We were surprised by soft demand for TV advertising in June; it looks like July will recover a little of that loss, but we expect high demand throughout the rest of the year. In radio, we had high demand for June, and we expect continued high demand through the rest of the year.

Rental and Leasing Services

- It would certainly help business planning if accounting and tax rules that will apply to us for 2014 were determined now, such as bonus depreciation.

Professional, Scientific and Technical Services

- The DFW real estate market continues to outpace 2013. This growth is being fueled by the influx of people moving into our area. Home builders and apartment developers are having a difficult time keeping up with the demand for housing, and this is causing prices and rents to rise quickly. Commercially, new office buildings are being developed to keep up with the demand for office space. As long as interest rates stay at these levels, we feel this market will continue to improve.
- Energy costs could change everything.
- Our part-time workers are all interns. Business feels stronger this month, and we hope it sticks.
- We are becoming more concerned in a macroeconomic sense watching developments abroad. While this could help our North American energy business, activities that stall GDP growth could have negative implications no doubt to business levels in other markets.

Management of Companies and Enterprises

- Government regulation is running up our costs and hurting our ability to help our customers.
- Continued regulatory burden is translating into a huge additional cost structure for our business and that of our customers. Some customers are giving up and selling out or refusing to do any needed expansion until they have a clearer understanding of what the playing field is going to look like.

Administrative and Support Services

- Our revenues will be increasing and our staff growing because of what our organization can provide, not due to the economy. The scale of our operation will allow us to align ourselves with larger contracted price work in our industry.
- The mood on the purchase of travel has moved towards a much more cautious and delayed commitment.
- We see continued possibilities to increase business as other businesses locate in the areas we service. However, there is still strong competition, limiting pricing flexibility and increasing economic uneasiness. Price increases are met with the probability of rebidding the service or product.

Ambulatory Health Care Services

- We have opted out of seeing Affordable Care Act patients to date. We are receiving complaints from referring physicians who have elected to take care of these patients. Many of these patients are not paying the premiums. After 90 days, the payments are being clawed back and the physicians are told to bill the patient. It is a disaster. Patients appear to be signing up for urgent care, receiving the care and then neglecting to pay the premiums. We are certain that there is much more to come. The cost of living in Houston continues to rise, but we are unable to pay our employees more. Shelter, medical, food and fuel costs continue to rise despite the fact that we have no inflation. Thank goodness we are in Texas where the economy remains relatively robust for now.

Hospitals

- The health care industry continues to put pressure on rural hospitals to reduce costs. Increasing regulations and declining reimbursements will stress the cash limits of the smaller rural Texas hospitals.

Food Services and Drinking Places

- June has bounced back from a slow May, but the fiscal year has seen a sales increase; however, the sales increase is less than the price increases we have taken so we are, in an absolute sense, down. We do not see much to indicate any significant change. Average hours worked edged up with the end of the school year a couple of weeks ago, but we still have not had much pressure to increase the number of employees or wages. Cost of goods sold remained flat for another period, but we still expect increases later in the year. Our capital expenses are up right now because we are opening a new restaurant in a property we already own, and we are remodeling one other property. We will fall back to more normal capital expenditure levels within a month. There could be another capital expenditure surge for another new unit toward the very end of the six-month horizon.
- We opened a new location in June, which will increase our noncomp revenues. We will have an additional location open in early 2015. We also give raises and increase prices in January each year and may have to increase prices more to cover costs from the Affordable Care Act.

Merchant Wholesalers, Durable Goods

- > Our increases and decreases are seasonal.
- > Tax law changes had a big negative effect on sales; we generated more leasing to offset write-off losses. If this actually gets reinstated, it will help sell asset replacements.

Merchant Wholesalers, Nondurable Goods

- > We have seen the largest increase in orders from our customers for the remainder of the year since 2007.

Motor Vehicle and Parts Dealers

- > Past months have been good, so we are trying to maintain that same level.
- > June sales are down slightly on a daily sales rate basis. However, overall business continues to hold at a strong level. There is a lot of pent-up demand due to several years of very slow unit sales, and our industry is now benefiting greatly from that demand. The Houston economy is exceptionally strong, and our car and light truck sales are outpacing national norms.

Building Material and Garden Equipment and Supplies Dealers

- > We are cautiously optimistic. We are still running very conservatively as we have a lot of ground to make up from previous years.
- > Things slowed a little, but with interest rates low, everyone seems to be thinking it will pick up in coming months.

Food and Beverage Stores

- > We are now expecting some minor increases in food costs over the next few months. The rate of change on wage inflation is moderating.

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/.

