



Texas Service Sector Outlook Survey

DALLAS FED

September 30, 2014

TEXAS SERVICE SECTOR ACTIVITY EXPANDS AGAIN

Texas service sector activity improved notably in September, 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 21 to 26.9, its highest reading in more than six years.

Labor market indicators reflected slightly slower employment growth and longer workweeks. The employment index edged down from 13.2 to 11.9 in September. The hours worked index rose slightly from 4.1 to 6.9 this month.

Perceptions of broader economic conditions reflected more optimism in September. The general business activity index moved up from 22.8 to an all-time high of 27.5. The company outlook index rose from 18.3 to 21.5, with 25 percent of respondents reporting that their outlook improved from last month and 4 percent noting it worsened.

Price pressures eased while wage pressures held steady this month. The selling prices index fell slightly from 10.5 to 8, indicating prices increased at a slower pace than in August. The wages and benefits index held steady at 19.9, suggesting labor costs increased at the same pace as last month, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in September. The index of future general business activity moved up from 31.2 to 36.3. The index of future company outlook ticked up from 33 to 34.3. Indexes of future service sector activity, such as future revenue and employment, remained in solid positive territory this month.



RETAIL SALES STRENGTHEN FURTHER

Retail sales climbed again in September, according to business executives responding to the Texas Retail Outlook Survey. The sales index surged from 20.6 to 35.5, its highest reading in seven years. Inventories increased at a faster pace than last month.

Labor market indicators reflected slower employment growth and longer workweeks. The employment index fell from 15.7 to 10.8, indicating retail jobs increased at a slower pace than in August. The hours worked index was largely unchanged at 3.2, suggesting longer workweeks, although the great majority of firms continued to note no change.

Retailers' perceptions of broader economic conditions reflected more optimism in September. The general business activity index moved up from 22.9 to 25.9. The company outlook index advanced from 16.8 to 26.6, with 30 percent of respondents noting an improved company outlook over the prior month, compared with 3 percent reporting their outlook had worsened.

Retail price and wage pressures increased this month. The selling prices index rose from 15 to 19.5. The wages and benefits index edged up from 19.3 to 20.8, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions reflected more optimism in September. The future general business activity index moved up from 31 to 35.7. The index of future company outlook rose 5 points to 35.7. 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 Sept. 16–24, and 227 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: October 28, 2014

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	26.9	21.0	+5.9	Increasing	59	38.6	49.7	11.7
Employment	11.9	13.2	-1.3	Increasing	55	16.9	78.1	5.0
Part-time employment	7.4	10.0	-2.6	Increasing	11	10.2	87.0	2.8
Hours worked	6.9	4.1	+2.8	Increasing	8	11.3	84.3	4.4
Wages and benefits	19.9	20.1	-0.2	Increasing	64	21.3	77.3	1.4
Input prices	27.8	25.0	+2.8	Increasing	65	32.0	63.8	4.2
Selling prices	8.0	10.5	-2.5	Increasing	46	13.6	80.8	5.6
Capital expenditures	14.5	16.5	-2.0	Increasing	61	20.0	74.6	5.5

General Business Conditions								
Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	21.5	18.3	+3.2	Improving	37	25.1	71.3	3.6
General business activity	27.5	22.8	+4.7	Improving	35	31.7	64.1	4.2

Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	53.0	56.2	-3.2	Increasing	67	59.8	33.4	6.8
Employment	36.3	35.7	+0.6	Increasing	66	39.2	57.9	2.9
Part-time employment	14.5	13.2	+1.3	Increasing	27	18.5	77.5	4.0
Hours worked	7.8	4.1	+3.7	Increasing	10	12.5	82.8	4.7
Wages and benefits	47.3	42.4	+4.9	Increasing	93	48.4	50.5	1.1
Input prices	50.1	46.4	+3.7	Increasing	93	53.3	43.6	3.2
Selling prices	29.8	28.4	+1.4	Increasing	65	34.9	60.0	5.1
Capital expenditures	33.0	31.8	+1.2	Increasing	66	40.0	53.0	7.0

General Business Conditions								
Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	34.3	33.0	+1.3	Improving	37	41.7	50.9	7.4
General business activity	36.3	31.2	+5.1	Improving	36	41.5	53.3	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.

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

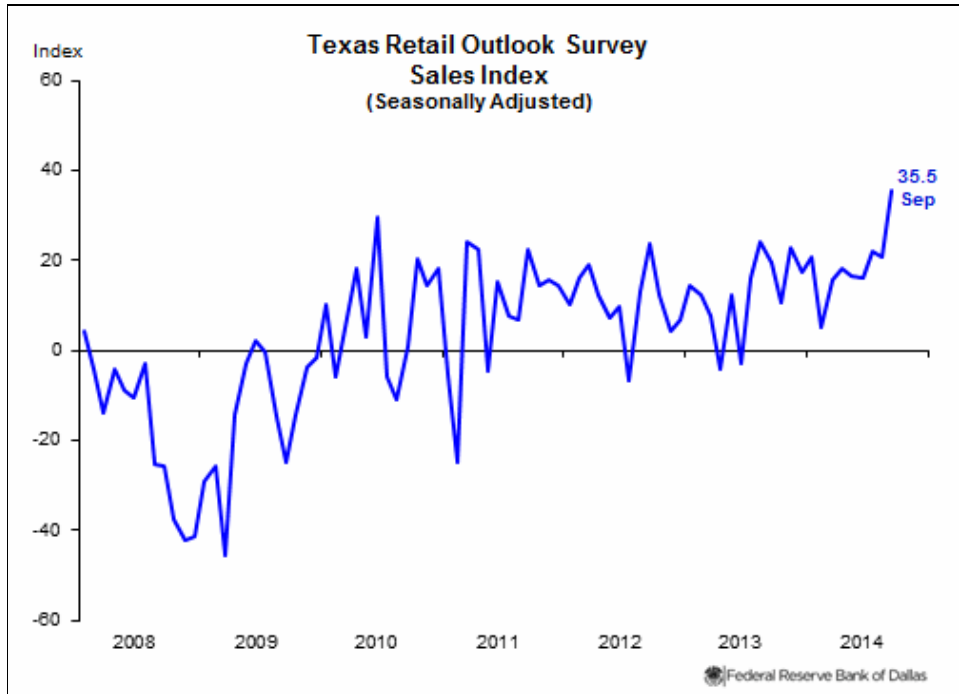
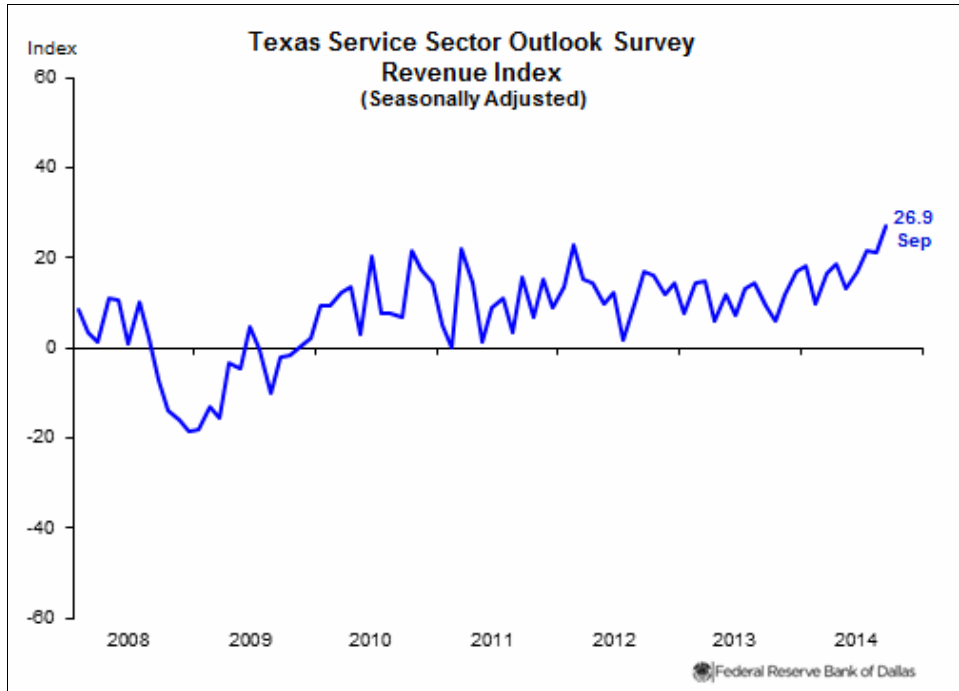
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	35.5	20.6	+14.9	Increasing	15	45.3	44.8	9.8
Employment	10.8	15.7	-4.9	Increasing	2	15.2	80.4	4.4
Part-time employment	0.0	12.9	-12.9	No Change	1	9.4	81.1	9.4
Hours worked	3.2	2.5	+0.7	Increasing	4	9.7	83.8	6.5
Wages and benefits	20.8	19.3	+1.5	Increasing	43	23.5	73.8	2.7
Input prices	17.9	20.5	-2.6	Increasing	50	27.1	63.7	9.2
Selling prices	19.5	15.0	+4.5	Increasing	26	27.0	65.5	7.5
Capital expenditures	21.0	14.3	+6.7	Increasing	11	22.8	75.4	1.8
Inventories	22.6	19.1	+3.5	Increasing	32	33.2	56.2	10.6
Companywide Retail Activity								
Sales	30.4	17.8	+12.6	Increasing	40	42.4	45.6	12.0
Internet sales	5.1	21.7	-16.6	Increasing	8	12.8	79.5	7.7
Catalog sales	3.0	0.0	+3.0	Increasing	1	5.9	91.2	2.9
General Business Conditions, Retail Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	26.6	16.8	+9.8	Improving	17	29.8	67.0	3.2
General business activity	25.9	22.9	+3.0	Improving	17	32.9	60.1	7.0
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	51.8	54.1	-2.3	Increasing	67	55.7	40.4	3.9
Employment	30.4	25.5	+4.9	Increasing	57	33.1	64.2	2.7
Part-time employment	3.2	14.3	-11.1	Increasing	15	10.0	83.2	6.8
Hours worked	3.0	9.5	-6.5	Increasing	30	10.3	82.4	7.3
Wages and benefits	46.7	36.7	+10.0	Increasing	69	49.2	48.3	2.5
Input prices	40.4	35.5	+4.9	Increasing	65	46.2	48.1	5.8
Selling prices	46.1	33.8	+12.3	Increasing	65	51.9	42.3	5.8
Capital expenditures	32.0	26.2	+5.8	Increasing	42	34.0	64.0	2.0
Inventories	27.2	27.6	-0.4	Increasing	58	38.1	51.0	10.9
Companywide Retail Activity								
Sales	53.4	59.8	-6.4	Increasing	66	56.0	41.4	2.6
Internet sales	23.5	31.7	-8.2	Increasing	66	23.5	76.5	0.0
Catalog sales	7.9	8.7	-0.8	Increasing	11	8.1	91.7	0.2
General Business Conditions, Retail Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	35.7	30.3	+5.4	Improving	66	41.2	53.3	5.5
General business activity	35.7	31.0	+4.7	Improving	36	43.2	49.4	7.5

*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.



COMMENTS FROM SURVEY RESPONDENTS

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

Credit Intermediation and Related Activities

- > The consumer market is still doing very well, with high levels of activity in home improvement loans and new vehicles. Volumes seem to be holding steady, and it appears that activity will continue unabated for the next few months.
- > The rain has helped from an agricultural standpoint. Close to 40,000 acres of ranch land have changed hands in the last six months. Several sand plants are expanding their plants to better meet the demand from oil drilling exploration. The towns in Central and West Texas are feeling the pressure that a growing population has on city government infrastructure for water, sewer and utilities.
- > We have plans in place to open two new branches.

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

- > Lower commodity prices continue to help cattle, dairy and ethanol producers, offsetting much of the decline for farmers.
- > We are nervous about the extension of tax breaks for capital expenditures retroactive to Jan. 1, 2014. Increases in government regulation are very expensive.

Real Estate

- > The residential real estate market is good but choppy.
- > We are experiencing a lull in the upper end of our residential sales market, probably due to the upcoming election. Fundamentally, our market is sound—residential inventory has rebounded, interest rates remain low and home appreciation rates have slowed, helping maintain an acceptable affordability level in the market. Mortgage loan underwriting and Federal Housing Administration fees are still obstacles to first-time home buyers. Hopefully, lenders and regulators will adjust lending policies in the near future.

Rental and Leasing Services

- > If the tax code related to bonus depreciation is not passed retroactive to the first of the year, we will not grow our company, make capital investments or hire more people.

Professional, Scientific and Technical Services

- > The level of activity is slowing. The number of proposals for work two to four months down the road has dropped significantly in August and September.
- > The effects of the Affordable Care Act (ACA) have been minimal—our premiums went down slightly, although our employees' annual max out of pocket essentially doubled. This was due to our provider aligning benefits and costs with the ACA. Those who have health issues have the potential to pay more.
- > We have seen a significant increase in orders and revenue since July, and all indicators point to a continuation of a hot real estate market through the end of the year. We have remained cautious about hiring additional staff until we can determine what effect the rising interest rates will have on this market.
- > We believe companies are hesitant to spend because of concerns for global security.
- > We are concerned about the lack of real underlying strength in the economy and question how long this market recovery can continue.

Management of Companies and Enterprises

- > Too much government regulation is hurting our ability to help our customers.

Administrative and Support Services

- > Competition is strong and selling prices are difficult to increase; this will not change in the near future. Companies are conservative in their spending and cost controls, which affects service sector revenue. We continue to see more business, which is a reflection of a growing market but not necessarily a vibrant market.
- > We still have no idea what the Affordable Care Act (ACA) will do to our operations. We simply do not have the margins to cover the costs associated with the ACA.
- > Our increased revenue and need for employees are generated by winning work from other providers and not necessarily from an improved economic state. In terms of outlook, competition is getting tougher and pricing tighter. Margins are difficult to maintain.
- > We have increased revenue and headcount but estimate worsening business conditions. Our increase is due to continued increases in our company's effectiveness in the midst of declining opportunity.

Ambulatory Health Care Services

- > We expect a decrease in Medicare reimbursement unless the Sustainable Growth Rate formula is repealed.

Hospitals

- > The regulatory and compliance requirements on rural facilities continue to burden the financial requirements of hospital districts.

Nursing and Residential Care Facilities

- > Beginning in October, the next level of cuts in Medicare reimbursement takes place for hospitals—including sequestration and value-based purchasing. In Texas, the lack of access to Medicaid for the uninsured and underinsured population, combined with the greater prevalence of high deductible health plans, are market forces that continue to pressure hospitals to do more with less.

Food Services and Drinking Places

- > Cheese prices have risen 8 percent from August to September. This is the cause of the higher input prices in September. We will be opening a new location in early 2015, which will increase revenue and labor in the six-month time frame. We will most likely take a price increase in early 2015 to offset raises and higher costs related to the Affordable Care Act. Overall, same store sales growth remains strong.
- > The cost of doing business and taxes seem to be constantly rising. It is much harder today to save for the future.
- > Our sales have been steadily improving this fiscal year. Additionally, we have been up substantially more than the price increases we have in place. It has been a long time since we have consistently maintained sales increases well over the price increases. Employee counts are virtually flat for the last year, and the rate of pay increases is less than 1 percent over a year ago. We expect that we will have to start adding people or increasing hours worked per employee if we want to continue to increase sales at the current rate. We have received preliminary estimates for the cost of employee benefits for 2015—the health insurance cost is devastating. The initial renewal quote we received calls for a 39.5 percent increase, and on top of that we are going to have to cover somewhere between double and triple the number of people we covered in the past. We expect wages to continue to show modest, if any, increase. The cost of goods was up and we expect it to continue to increase in the six-month horizon, but the rate of increase is moderate—under 2 percent—for the year. We expect the health insurance increase to force us to take a large price increase toward the end of the calendar year.
- > Taxes and the cost of protein are off the chart.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- > Our revenue is heavily dependent on the health of the oil and gas industry. We are concerned that falling oil prices due to the increased supply in the U.S. could lead to problems for us in the next six months.

Merchant Wholesalers, Durable Goods

- > Improved moisture conditions are favoring agricultural equipment sales.

Motor Vehicle and Parts Dealers

- > The seasonal decline in new vehicle sales from August to September is less than normal this year. We keep expecting a slowdown in new vehicle sales, but in Houston the consumer is still willing to spend on new autos and trucks.
- > We continue to be hampered by the issues our chief manufacturer is suffering. We are missing out on a strong market.

Food and Beverage Stores

- > We are seeing a lot of new retail competition.

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/.

