Texas Manufacturing Outlook Survey

DALLASFED

October 31, 2016

Texas Manufacturing Activity Increases Again, but at a Slower Pace

What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on credit availability. Results for these questions from the Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS) have been released together.

Texas factory activity increased again in October, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, posted a fourth consecutive positive reading but moved down to 6.7. This suggests output grew but at a slower pace this month.

Other measures of current manufacturing activity showed mixed movements. The new orders and growth rate of orders indexes posted second consecutive negative readings in October, holding fairly steady at -3.5 and -5.1, respectively. The capacity utilization and shipments indexes have been positive throughout the second half of the year so far but fell notably after spiking last month, coming in at 0.8 and 1.9. The capital expenditures index moved up to 8.7, reaching its highest reading in nearly two years.

Perceptions of broader business conditions remained mixed. The general business activity index has been negative for nearly two years, although it continued to push closer to positive territory in October, coming in at -1.5. The company outlook index posted a second positive reading in a row, but moved down 5 points to 1.8.

Labor market measures indicated flat employment levels and slightly shorter workweek length. The employment index came in at 0.2, suggesting little change in headcounts in October. The hours worked index edged down to -1.8.

Price and wages generally rose this month. Input costs continued to rise, with the raw materials prices index holding fairly steady at 13.7. Selling prices have been falling since December 2014 but stabilized in September and edged up in October, with the finished goods prices index coming in at 1.2. Wages and benefits continued to rise but at a slightly slower pace, with the index moving down from 21.0 to 16.4.

Expectations regarding future business conditions improved again in October. The index of future general business activity posted a fifth positive reading in a row, although it fell from 9.3 to 4.8, indicating slightly less optimism. The index of future company outlook also fell but remained positive, coming in at 12.2. Other indexes for future manufacturing activity pushed higher into positive territory.

Next release: November 28, 2016

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Oct. 18–26, and 116 Texas manufacturers responded to the survey. Firms are asked whether output, employment, orders, prices 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.

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	6.7	16.7	-10.0	Increasing	4	28.1	50.5	21.4
Capacity Utilization	0.8	13.5	-12.7	Increasing	4	21.1	58.6	20.3
New Orders	-3.5	-2.9	-0.6	Decreasing	2	27.1	42.4	30.6
Growth Rate of Orders	-5.1	-5.8	+0.7	Decreasing	2	20.6	53.7	25.7
Unfilled Orders	-7.5	-1.1	-6.4	Decreasing	23	12.7	67.1	20.2
Shipments	1.9	20.1	-18.2	Increasing	4	24.6	52.7	22.7
Delivery Time	-1.2	3.2	-4.4	Decreasing	1	9.9	79.0	11.1
Materials Inventories	-5.5	-7.7	+2.2	Decreasing	15	12.7	69.1	18.2
Finished Goods Inventories	1.8	-0.9	+2.7	Increasing	1	15.7	70.4	13.9
Prices Paid for Raw Materials	13.7	13.3	+0.4	Increasing	7	22.3	69.1	8.6
Prices Received for Finished Goods	1.2	-0.9	+2.1	Increasing	1	11.4	78.4	10.2
Wages and Benefits	16.4	21.0	-4.6	Increasing	83	17.2	82.0	0.8
Employment	0.2	2.3	-2.1	Increasing	2	17.8	64.6	17.6
Hours Worked	-1.8	3.7	-5.5	Decreasing	1	16.2	65.8	18.0
Capital Expenditures	8.7	3.1	+5.6	Increasing	2	17.4	73.9	8.7

General Business Conditions Current (versus previous month)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	1.8	6.7	-4.9	Improving	2	17.8	66.2	16.0
General Business Activity	-1.5	-3.7	+2.2	Worsening	22	18.5	61.5	20.0

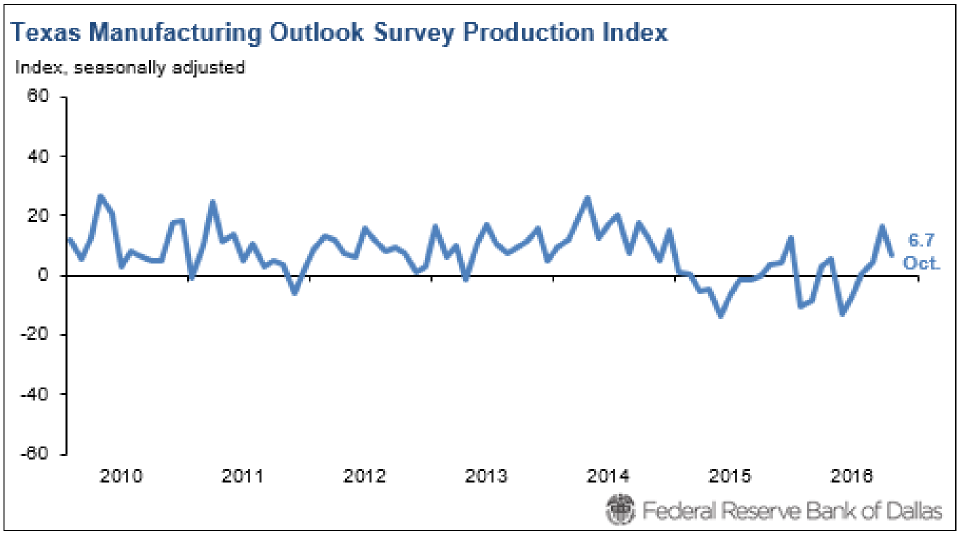
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	33.0	30.5	+2.5	Increasing	92	48.2	36.6	15.2
Capacity Utilization	32.8	29.3	+3.5	Increasing	92	44.6	43.7	11.8
New Orders	32.2	29.1	+3.1	Increasing	92	48.4	35.5	16.2
Growth Rate of Orders	23.5	19.1	+4.4	Increasing	92	37.0	49.5	13.5
Unfilled Orders	0.7	2.5	-1.8	Increasing	13	15.3	70.1	14.6
Shipments	26.5	26.1	+0.4	Increasing	92	42.3	41.8	15.8
Delivery Time	-5.6	-1.5	-4.1	Decreasing	3	7.2	80.0	12.8
Materials Inventories	0.9	1.9	-1.0	Increasing	2	18.5	63.9	17.6
Finished Goods Inventories	0.9	5.8	-4.9	Increasing	4	15.9	69.2	15.0
Prices Paid for Raw Materials	25.9	25.2	+0.7	Increasing	91	29.6	66.7	3.7
Prices Received for Finished Goods	14.0	8.7	+5.3	Increasing	9	24.3	65.4	10.3
Wages and Benefits	36.4	31.2	+5.2	Increasing	149	39.3	57.8	2.9
Employment	14.2	14.5	-0.3	Increasing	47	32.7	48.8	18.5
Hours Worked	2.8	6.1	-3.3	Increasing	5	15.0	72.8	12.2
Capital Expenditures	14.0	13.5	+0.5	Increasing	83	29.9	54.2	15.9

General Business Conditions Future (six months ahead)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	12.2	17.8	-5.6	Improving	9	27.4	57.4	15.2
General Business Activity	4.8	9.3	-4.5	Improving	5	24.7	55.4	19.9

*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.

Nonmetallic Mineral Product Manufacturing

- Job losses from the oil sector are having a negative effect on tax revenues in Texas. This puts pressure on government spending at the state and local level. High-paying manufacturing jobs are being replaced with lower-paying minimum wage service sector jobs. Unfunded pension liabilities of the city of Houston will further depress economic expansion as city budgets are affected.

Primary Metal Manufacturing

- Strong housing construction in Dallas–Fort Worth has put pressure on wages and availability of labor in that labor segment.

Fabricated Metal Product Manufacturing

- The underlying issue in the business today still is finding people with basic skills and retaining them. Overall wages have increased by nearly 30 percent in the past two years.
- Sales are good, but our backlog continues to decline. Customers are waiting to the absolute last minute to place orders. This results in little visibility and little comfort, not to mention the difficulty in planning.
- We are seeing some work as a result of refinery turnaround season and the classic "end-of-year spend it or lose it budget" orders. Forecasts for 2017 are coming in pretty weak.
- A slowdown started to occur in August that was initially interpreted to be the result of a pulling forward of work in anticipation of higher steel costs. The slowdown was more pronounced through September including October to date. The slowdown appears to be across all low-rise nonresidential construction areas—commercial, industrial, institutional and agricultural.
- The global economies and U.S. economy are very weak and uncertain.
- We have had a lot of bid activity, but most schools, colleges, municipalities and commercial clients are postponing expansion until they see how the economy goes after the elections.
- The second and third quarters showed improvement over a weak first quarter, but the outlook for the fourth quarter is very soft. Additional staff reductions may be required.

Machinery Manufacturing

- We see continued decline in capital equipment purchases in all segments of manufacturing, both domestic and international. $20 trillion in debt and eight years of stimulus spending have failed to produce any lasting improvement in the industry. A very poor bargain indeed.
- We had one good month for bookings, but the sales funnel is pretty empty. We have a couple of vendors that are trying to raise prices, so we are searching for replacements. We've had one major vendor go out of business. There are still more business casualties on the horizon. We're none too optimistic about a recovery anytime soon.

Computer and Electronic Product Manufacturing

- We are just bumping along in a low-growth environment. We are starting to hear that auto market may slow, but have not seen it yet in our order rates.
- We are in the traffic industry. Products sold are supposed to be in the public domain. An individual has sued several companies for patent infringement. It is our understanding that product will be pulled from the Manual on Uniform Traffic Control Devices manual. This product currently accounts for 20 percent of our business.
- We need a government that cares for small business and promotes exports by stopping the currency manipulation by other countries.

Transportation Equipment Manufacturing

- We have an increased outlook based on adding a new product line. No change for same products.

Printing and Related Support Activities

- We are very worried about six months from now. Not only is that a slow time period for us, but with the election not looking to be favorable for business climate in general, it gives me a very uneasy feeling.

Beverage and Tobacco Product Manufacturing

- Our sales are down, but down less than sales tax collections: –8 percent 2014 to 2015 and year-to-date 2016. It seems that we are facing a general business downdraft in northeast Texas led by oilfield services and a long-term secular health trend against soft drinks. That all being noted, –3.5 percent doesn't seem too bad as long as the general business cycle improves in the long term.
- The craft distilled spirits industry is currently working with Congress to decrease the Alcohol and Tobacco Tax and Trade Bureau tax rate in order to remain competitive with large industry members. The outlook for accomplishing this is good. These reduced rates will allow smaller businesses to expand capital expenditures for equipment and increased production rates.

Miscellaneous Manufacturing

- Brexit is going to require an increase in our United Kingdom prices as those are in British pounds. It will also likely prompt a decrease in business there. This will accelerate downwards as the United Kingdom is looking at a hard exit over immigration rights.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org.
The Texas Manufacturing Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tmos/.

Texas Business Outlook Surveys

October 31, 2016

Special Questions

Results below include responses from participants of all three surveys: Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

Data were collected Oct. 18–26, and 388 Texas business executives responded to the surveys.

1. How do borrowing conditions facing your firm compare to those six months ago?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Eased substantially	1.8	0.7	0.5
Eased somewhat	11.8	7.0	7.8
No change	48.0	47.4	46.5
Tightened somewhat	5.5	12.3	9.1
Tightened substantially	2.6	2.0	3.4
Not applicable—haven't sought credit	30.3	30.8	32.7

2. How does the cost of credit compare to what it was six months ago?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Increased substantially	0.7	0.3	0.8
Increased somewhat	12.1	13.6	16.6
No change	48.5	48.7	44.3
Decreased somewhat	7.0	5.6	6.2
Decreased substantially	1.1	1.3	0.8
Not applicable—haven't sought credit	30.5	30.5	31.3

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	43.0	42.0	43.5
Some difficulty	14.1	15.9	12.6
Substantial difficulty	3.3	2.4	2.4
Extreme difficulty	0.7	0.3	0.5
Not applicable—haven't sought credit	38.9	39.3	41.1

4.	To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?		
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	42.4	41.4	38.1
Some difficulty	7.8	9.2	9.2
Substantial difficulty	3.0	1.7	2.6
Extreme difficulty	1.5	0.0	0.5
Not applicable—haven't sought credit	45.4	47.8	49.6

5.	Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?		
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	2.9	0.7	1.6
Yes–somewhat	8.5	8.1	7.9
No	35.7	40.3	37.3
Not applicable–haven't had problems obtaining credit	15.8	13.8	13.6
Not applicable—haven't sought credit	37.1	37.2	39.6

6.	Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?		
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	0.7	0.0	0.8
Yes–somewhat	5.5	7.6	5.2
No	44.1	42.4	44.8
Not applicable–haven't had problems obtaining credit	13.6	13.2	11.1
Not applicable—haven't sought credit	36.0	36.8	38.1

NOTE: Survey respondents were given the opportunity to provide comments. These comments can be found on the individual survey Special Questions results pages, accessible by the tabs above.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org, and questions regarding the Texas Service Sector Outlook Survey or the Texas Retail Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.

The Texas Business Outlook Surveys can be found online at www.dallasfed.org/research/surveys/.

Texas Manufacturing Outlook Survey

DALLASFED

October 31, 2016

Special Questions

Data were collected Oct. 18–26, and 114 Texas manufacturers responded to the survey.

1. How do borrowing conditions facing your firm compare to those six months ago?

	Oct '14 (percent)	Oct '15 (percent)	Oct '15 (percent)
Eased substantially	0.0	0.0	0.0
Eased somewhat	13.5	6.3	8.8
No change	53.9	47.9	50.9
Tightened somewhat	4.5	9.4	9.6
Tightened substantially	3.4	3.1	5.3
Not applicable—haven't sought credit	24.7	33.3	25.4

2. How does the cost of credit compare to what it was six months ago?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Increased substantially	1.1	0.0	1.8
Increased somewhat	15.7	17.7	10.5
No change	48.3	44.8	53.5
Decreased somewhat	6.7	3.1	7.9
Decreased substantially	1.1	2.1	0.9
Not applicable—haven't sought credit	27.0	32.3	25.4

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	47.2	42.4	45.5
Some difficulty	16.9	17.4	8.9
Substantial difficulty	5.6	3.3	4.5
Extreme difficulty	0.0	1.1	0.9
Not applicable—haven't sought credit	30.3	35.9	40.2

4.	**To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?**		
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	50.6	48.4	42.1
Some difficulty	6.9	16.1	10.5
Substantial difficulty	4.6	0.0	3.5
Extreme difficulty	1.1	0.0	0.9
Not applicable—haven't sought credit	36.8	35.5	43.0

5.	**Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?**		
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	1.1	0.0	2.7
Yes–somewhat	11.2	10.6	8.9
No	32.6	35.1	38.4
Not applicable–haven't had problems obtaining credit	23.6	20.2	16.1
Not applicable—haven't sought credit	31.5	34.0	33.9

6.	**Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?**		
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	0.0	0.0	0.9
Yes–somewhat	4.5	9.4	7.0
No	43.8	36.5	43.0
Not applicable–haven't had problems obtaining credit	21.3	18.8	13.2
Not applicable—haven't sought credit	30.3	35.4	36.0

Special Questions Comments

These comments have been edited for publication.

Fabricated Metal Product Manufacturing

- A bank that we contacted told us there was too much leverage and to come see them after the first of the year if our financials continued to improve. They said they wanted to look at it then. By then we won't need their help because the problem will be resolved one way or the other. Most bankers don't seem to understand how a manufacturing S corporation uses section 179 and bonus depreciation to offset profits for tax purposes. It can really affect how your balance sheet looks. The effect of the increased banking regulations are impacting smaller and midsize banks more, and thus the small to midsize manufacturing companies.
- We had to move out an employee that was not even making enough production to pay his wage much less add to the bottom line. We hired a trainee at less than half of his pay level. Finding good workers is still a big problem.
- We are a capital-intensive business but do not use debt financing. There are not any opportunities convincing enough to pursue given the current business environment.

Machinery Manufacturing

- We have not sought credit, but our line of credit has dropped, loan covenants have tightened and interest rates have gone up.
- We got fired by our bank—they exited the oil and gas business altogether. They blamed it on the regulators, but I think it was more mismanagement at the bank. We found another bank in a week, with better terms. We still have issues with the large companies slow paying the little guys, but we've all seen this rodeo before. We've just battened down the hatches and hope to survive until 2018.

Computer and Electronic Product Manufacturing

- We have been saving cash for years now. The uncertainty in this economy does not help. Industrial production in United States has never been so sluggish, especially in the durable goods/equipment manufacturing sectors. Currency manipulation and economic problems around the world have placed a huge burden on U.S. GDP.

Transportation Equipment Manufacturing

- Capital expenditures and working capital are relatively easy to qualify for. The bureaucracy and regulations of the government make it very cumbersome to renew lines of credit.
- Two years of low oil prices has created a very challenging environment.

Food Manufacturing

- Credit is available but have not needed it.

Beverage and Tobacco Product Manufacturing

- We are nearly debt free for most of the last 90 years, so the small loans we occasionally need aren't hard to obtain.

Paper Manufacturing

- We have not sought new credit because we have financing agreements, including a line of credit, in place that have met our needs. We have expanded, bought new equipment and even purchased a new business but this was all done within the framework of already existing commitments.
- The single biggest issue we have is medical insurance coverage for employees. Our costs have risen significantly since the Affordable Care Act and we will have no choice but to increase the amount that employees are paying. Therefore I am not sure who is really getting helped.

Texas Service Sector Outlook Survey

DALLASFED

October 31, 2016

SPECIAL QUESTIONS

Data were collected Oct. 18–26, and 274 Texas business executives responded to the survey.

1. How do borrowing conditions facing your firm compare to those six months ago?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Eased substantially	2.7	1.0	0.7
Eased somewhat	11.0	7.3	7.4
No change	45.1	47.1	44.6
Tightened somewhat	6.0	13.6	8.9
Tightened substantially	2.2	1.5	2.6
Not applicable—haven't sought credit	33.0	29.6	35.8

2. How does the cost of credit compare to what it was six months ago?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Increased substantially	0.5	0.5	0.4
Increased somewhat	10.4	11.7	19.1
No change	48.6	50.5	40.4
Decreased somewhat	7.1	6.8	5.5
Decreased substantially	1.1	1.0	0.7
Not applicable—haven't sought credit	32.2	29.6	33.8

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	40.9	41.9	42.6
Some difficulty	12.7	15.3	14.1
Substantial difficulty	2.2	2.0	1.5
Extreme difficulty	1.1	0.0	0.4
Not applicable—haven't sought credit	43.1	40.9	41.5

4. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?			
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	38.5	38.1	36.3
Some difficulty	8.2	5.9	8.6
Substantial difficulty	2.2	2.5	2.2
Extreme difficulty	1.6	0.0	0.4
Not applicable—haven't sought credit	49.5	53.5	52.4

5. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?			
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	3.8	1.0	1.1
Yes–somewhat	7.1	6.9	7.4
No	37.2	42.6	36.8
Not applicable–haven't had problems obtaining credit	12.0	10.8	12.6
Not applicable—haven't sought credit	39.9	38.7	42.0

6. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?			
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	1.1	0.0	0.7
Yes–somewhat	6.0	6.8	4.4
No	44.3	45.1	45.6
Not applicable–haven't had problems obtaining credit	9.8	10.7	10.2
Not applicable—haven't sought credit	38.8	37.4	39.1

Special Questions Comments

These comments have been edited for publication.

Credit Intermediation and Related Activities

- Multifamily financing has tightened significantly. Higher rates and fees are being charged. There are very few banks that will participate in extending credit.
- The new Department of Labor rule on overtime will create the inevitable increase in labor cost. This rule will primarily impact exempt midlevel management personnel especially in rural markets. They will no longer be exempt, with the potential of increasing payroll expense resulting from increased overtime expense.

Securities, Commodity Contracts and Other Financial Investments and Related Activities

- Bank lending to real estate has tightened in a material way for some sectors of the industry.
- We are fortunate in that our capitalization is good. We really do not depend heavily on credit to run the business. Our debt is low and manageable, even in the current situation. We have decreased our workforce by 50 percent and deferred some capital expenditures to preserve operating capital. Most of our capital expenditure funds will go into major repair and maintenance projects.

Insurance Carriers and Related Activities

- Our agency is pretty much debt free, except for a balance on a note for acquisition of another agency purchased in January 2013. It's making money and paying itself off. All is great.

Publishing Industries (except Internet)

- Alternative sources of credit (as opposed to traditional sources) have been utilized.

Real Estate

- Personally, I see no reason for rates to rise given that the banks, due to new regulation, have nowhere to invest except in making loans, and they are limited to making loans that are pretty well collateralized. The borrower pool is limited, so they are all competing for the same borrower, and thus the rates are staying low. Frankly, I see nothing on the horizon to change that. Unless Congress or the new president does something, we are on a very good track and our biggest challenge is going to be how to maintain the positive momentum.

Rental and Leasing Services

- Sales are down for many reasons, not the least of which is the Texas economy and the oilfield bust and in some part due to it being tougher to get our retail customers financed for machine acquisitions.

Professional, Scientific and Technical Services

- We see higher rates as an opportunity to raise prices. It might come back to haunt us.
- Costs in the Texas region continue to rise. These costs affect our ability to be profitable. There is great concern about an impending recession and negative downturn.

Administrative and Support Services

- Banks are very cautious in their lending and have taken a "belt and suspenders" approach to their underwriting. As a result, the loans they propose are not loans I am willing to accept.
- Credit and resources are not a problem for us. The level of business investment in IT brought about by regulatory concerns and uncertainty in general is the problem. We're hoping that at least the election uncertainty will remove some of the reluctance and allow business to move forward.
- Seeking qualified employees is a major issue. Government over regulation is an issue.

Educational Services

- The school district is supported on a cash flow basis by its reserve fund of approximately $8 million. We have little need for operation on credit. We have one outstanding loan and three leases.

Ambulatory Health Care Services

- I have banks calling and offering significant loan rate discounts (over 50 percent lower rates to refinance debt that is only three years old) to get our business—hardly a difficult credit situation.
- We are aggressively pursuing expansion in the fourth quarter of 2016.

Hospitals

- Declining payer mix is yielding significantly less net revenue for the same work. The problem seems to have gained momentum over the last couple of months.

Nursing and Residential Care Facilities

- There is significant discounting of the selling price across our industry—greater than usual.
- The labor market is very competitive. We are seeing increasing wage pressure but inability to increase revenue due to government and commercial payer limitations.

Amusement, Gambling and Recreation Industries

- We are seasonal. Future employment costs will likely be determined by the government, not by the need to obtain qualified employees.

Food Services and Drinking Places

- Late last year/early this year we had no problem getting funding for the new restaurant we built, which has been open for a few months now. Since then we have not sought credit. We are doing some remodeling of existing units, but we have funded everything we've done internally, so there has been no need to look for external credit.

Truck Transportation

- Money seems readily available from many different avenues.

Support Activities for Transportation

- We are reviewing 2017 capital needs in excess of current funding at this time. We currently have no concrete plans to go to credit markets in 2017.

Texas Retail Outlook Survey

DALLASFED

October 31, 2016

Special Questions

Data were collected Oct. 18–26, and 58 Texas retailers responded to the survey.

1. How do borrowing conditions facing your firm compare to those six months ago?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Eased substantially	4.3	0.0	0.0
Eased somewhat	10.9	6.7	5.4
No change	52.2	51.1	57.1
Tightened somewhat	6.5	20.0	3.6
Tightened substantially	0.0	0.0	3.6
Not applicable—haven't sought credit	26.1	22.2	30.4

2. How does the cost of credit compare to what it was six months ago?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Increased substantially	2.1	0.0	0.0
Increased somewhat	14.9	13.3	19.3
No change	55.3	55.6	45.6
Decreased somewhat	6.4	4.4	5.3
Decreased substantially	0.0	2.2	0.0
Not applicable—haven't sought credit	21.3	24.4	29.8

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	54.3	57.8	57.9
Some difficulty	15.2	11.1	10.5
Substantial difficulty	0.0	2.2	1.8
Extreme difficulty	0.0	0.0	0.0
Not applicable—haven't sought credit	30.4	28.9	29.8

4. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	59.6	53.5	50.0
Some difficulty	8.5	7.0	10.3
Substantial difficulty	2.1	4.7	1.7
Extreme difficulty	0.0	0.0	0.0
Not applicable—haven't sought credit	29.8	34.9	37.9

5. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	2.1	0.0	0.0
Yes–somewhat	6.4	6.8	5.4
No	51.1	56.8	46.4
Not applicable–haven't had problems obtaining credit	19.1	11.4	17.9
Not applicable—haven't sought credit	21.3	25.0	30.4

6. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	0.0	0.0	0.0
Yes–somewhat	8.5	8.9	3.4
No	57.4	53.3	55.2
Not applicable–haven't had problems obtaining credit	12.8	13.3	12.1
Not applicable—haven't sought credit	21.3	24.4	29.3

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- Credit in our sector is still strong. Banks have a strong appetite for solid capital assets, and given the steadiness of the Texas economy, we are experiencing no problems in lenders wanting to finance inventory, receivables and working capital for our business.
- The increasing complexity of government regulations, higher taxes, health insurance requirements, reporting requirements, etc. make it extremely difficult for small- to medium-sized companies to operate profitably. The stagnant economy, combined with the federal government's pressure on health insurance and their continuing efforts to raise minimum wages and pay rates due to required pay reclassifications, is having a detrimental effect on companies trying to survive in this sick economy. Our government is trying to kill our businesses, instead of supporting us to grow the economy.

Motor Vehicle and Parts Dealers

- We feel a general slowdown that is pretty much across the board. Some is the election, and some is the beginning of the yearend/winter slowdown that seems to occur every year. The slowdown has affected the degree of profitability.
- We haven't sought any new credit. Our credit lines for inventory financing have remained constant and rates fluctuate with Libor.
- We have not experienced any difficulty in obtaining credit.
- We are very well capitalized so credit is not an issue for us. Interest rates are increasing and margins aren't. Profits are negatively impacted.

Building Material and Garden Equipment and Supplies Dealers

- I am different from my other business friends. I retain lots of assets and cash, so credit is not a problem.
- We don't like debt and try and fund our capital improvements out of cash flow. We use our borrowing base to finance inventory and accounts receivable, and the low interest rates have helped greatly.

Nonstore Retailers

- Our company is working on maintaining existing debt covenants while we work through some management issues. We are compensating via additional owner capital while continuing to work with our banker on managing our covenants. Thus, our situation is more of our own doing than a function of the current economy.