Texas Manufacturing Outlook Survey

DALLASFED

June 27, 2016

# Texas Manufacturing Activity Declines Again

## What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on the impact of lower energy prices. 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 declined again in June, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, posted a second consecutive negative reading but rose from -13.1 to -7.0, suggesting the pace of contraction eased somewhat from May.

Other measures of current manufacturing activity also reflected continued declines this month. The new orders index held steady at -14.2, while the growth rate of orders index fell four points to -18.6. The capacity utilization and shipments indexes remained negative for a second month but edged up, coming in at -9.3 and -8.6, respectively.

Perceptions of broader business conditions stayed pessimistic in June. The general business activity index has been negative since January 2015 and came in at -18.3 this month, up slightly from its May reading. The company outlook index posted a seventh consecutive negative reading but rose 5 points to -11.0.

Labor market measures indicated a sixth month of contraction in a row in June. The employment index fell to -11.5, its lowest reading since November 2009. The decline in the index was largely due to a falloff in the share of firms adding to headcounts. Only six percent of firms noted net hiring in June, down from 16 percent last month and well below the 18 percent noting net layoffs. The hours worked index edged down one point to -12.8, signaling continued contraction in workweek length.

Price pressures were mixed, and wages continued to rise. Input costs rose for a third month in a row, as the raw materials prices index held steady at 12.6. Selling prices continued to decline, with the finished goods prices index edging down to -5.2 in June. Meanwhile, the wages and benefits index stayed positive and relatively unchanged at 21.6, suggesting a continued rise in compensation.

Expectations regarding future business conditions improved in June. The index of future general business activity bounced back to a positive reading of 2.6 after dipping below zero last month. The index of future company outlook also ticked up, coming in at 7.9. Most indexes for future manufacturing activity pushed further into positive territory in June.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state’s factory activity. Data were collected June 14–22, and 114 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.

**Next release:** July 25, 2016

| Business Indicators Relating to Facilities and Products in Texas<br>Current (versus previous month) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Indicator | Jun Index | May Index | Change | Indicator Direction* | Trend** (months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
| Production | -7.0 | -13.1 | +6.1 | Decreasing | 2 | 22.4 | 48.3 | 29.4 |
| Capacity Utilization | -9.3 | -11.0 | +1.7 | Decreasing | 2 | 17.9 | 54.9 | 27.2 |
| New Orders | -14.2 | -14.9 | +0.7 | Decreasing | 2 | 19.9 | 45.9 | 34.1 |
| Growth Rate of Orders | -18.6 | -14.7 | -3.9 | Decreasing | 20 | 14.2 | 53.0 | 32.8 |
| Unfilled Orders | -13.6 | -9.3 | -4.3 | Decreasing | 19 | 13.3 | 59.8 | 26.9 |
| Shipments | -8.6 | -11.5 | +2.9 | Decreasing | 2 | 22.3 | 46.8 | 30.9 |
| Delivery Time | -7.6 | -4.6 | -3.0 | Decreasing | 7 | 6.6 | 79.2 | 14.2 |
| Materials Inventories | -6.0 | -2.5 | -3.5 | Decreasing | 11 | 16.4 | 61.2 | 22.4 |
| Finished Goods Inventories | -4.4 | -8.1 | +3.7 | Decreasing | 2 | 14.0 | 67.5 | 18.4 |
| Prices Paid for Raw Materials | 12.6 | 12.4 | +0.2 | Increasing | 3 | 21.4 | 69.8 | 8.8 |
| Prices Received for Finished Goods | -5.2 | -3.3 | -1.9 | Decreasing | 18 | 8.0 | 78.8 | 13.2 |
| Wages and Benefits | 21.6 | 21.8 | -0.2 | Increasing | 79 | 25.2 | 71.2 | 3.6 |
| Employment | -11.5 | -6.7 | -4.8 | Decreasing | 6 | 6.4 | 75.7 | 17.9 |
| Hours Worked | -12.8 | -11.8 | -1.0 | Decreasing | 6 | 11.4 | 64.4 | 24.2 |
| Capital Expenditures | -2.1 | -6.6 | +4.5 | Decreasing | 2 | 14.2 | 69.5 | 16.3 |

| General Business Conditions<br>Current (versus previous month) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Indicator | Jun Index | May Index | Change | Indicator Direction* | Trend** (months) | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
| Company Outlook | -11.0 | -16.1 | +5.1 | Worsening | 7 | 13.2 | 62.6 | 24.2 |
| General Business Activity | -18.3 | -20.8 | +2.5 | Worsening | 18 | 12.1 | 57.5 | 30.4 |

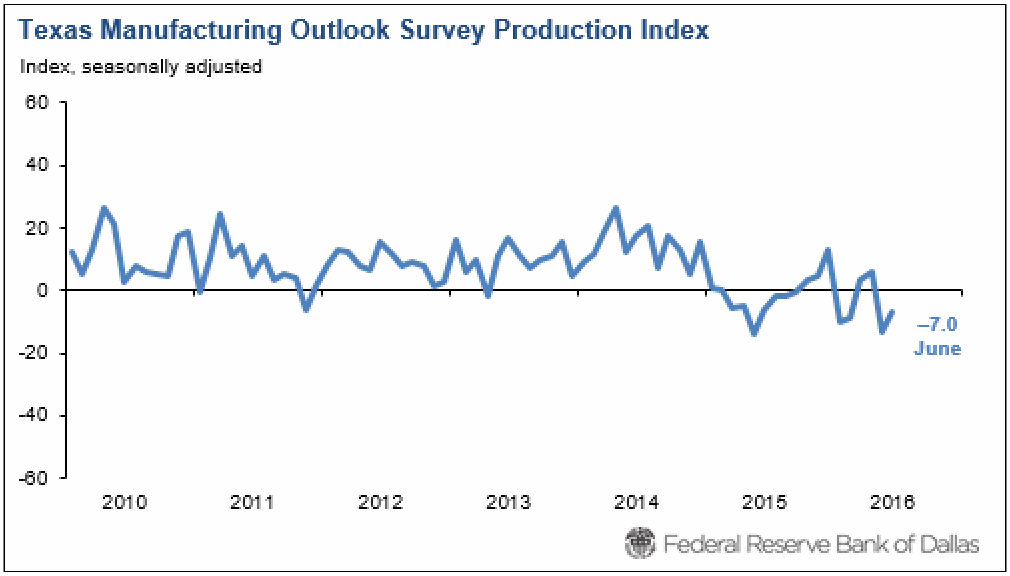
| Business Indicators Relating to Facilities and Products in Texas<br>Future (six months ahead) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Indicator | Jun Index | May Index | Change | Indicator Direction* | Trend** (months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
| Production | 27.1 | 24.6 | +2.5 | Increasing | 88 | 39.7 | 47.8 | 12.6 |
| Capacity Utilization | 21.9 | 25.7 | -3.8 | Increasing | 88 | 34.5 | 52.9 | 12.6 |
| New Orders | 26.6 | 24.0 | +2.6 | Increasing | 88 | 38.4 | 49.7 | 11.8 |
| Growth Rate of Orders | 20.3 | 10.2 | +10.1 | Increasing | 88 | 28.3 | 63.7 | 8.0 |
| Unfilled Orders | 2.1 | 2.1 | 0.0 | Increasing | 9 | 15.9 | 70.3 | 13.8 |
| Shipments | 27.6 | 24.4 | +3.2 | Increasing | 88 | 40.6 | 46.3 | 13.0 |
| Delivery Time | 0.5 | -4.4 | +4.9 | Increasing | 1 | 9.4 | 81.7 | 8.9 |
| Materials Inventories | -10.2 | -6.7 | -3.5 | Decreasing | 2 | 14.8 | 60.2 | 25.0 |
| Finished Goods Inventories | -10.2 | -8.6 | -1.6 | Decreasing | 4 | 12.0 | 65.7 | 22.2 |
| Prices Paid for Raw Materials | 14.8 | 20.0 | -5.2 | Increasing | 87 | 18.5 | 77.8 | 3.7 |
| Prices Received for Finished Goods | 6.7 | 3.8 | +2.9 | Increasing | 5 | 14.2 | 78.3 | 7.5 |
| Wages and Benefits | 31.6 | 31.4 | +0.2 | Increasing | 145 | 34.6 | 62.4 | 3.0 |
| Employment | 12.2 | 2.7 | +9.5 | Increasing | 43 | 25.4 | 61.4 | 13.2 |
| Hours Worked | 4.6 | -4.4 | +9.0 | Increasing | 1 | 18.5 | 67.6 | 13.9 |
| Capital Expenditures | 7.7 | 2.9 | +4.8 | Increasing | 79 | 18.3 | 71.2 | 10.6 |

| General Business Conditions<br>Future (six months ahead) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Indicator | Jun Index | May Index | Change | Indicator Direction* | Trend** (months) | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
| Company Outlook | 7.9 | 4.4 | +3.5 | Improving | 5 | 22.1 | 63.7 | 14.2 |
| General Business Activity | 2.6 | -1.8 | +4.4 | Improving | 1 | 19.3 | 64.0 | 16.7 |

*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.




## Comments from Survey Respondents

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

### Primary Metal Manufacturing

- I have a feeling that business has slowed down. New orders have decreased and phone activity has been slowing over the past two months.
- Projected sales improved slightly in June.

### Fabricated Metal Product Manufacturing

- Summer is the slowest time of the year for our business. We will be going to a four-day workweek.
- Bookings have become less choppy and are gaining some momentum. Steel prices are rising, which necessitated passing price increases on to our customers. We view this positively. Our three publicly-available leading indicators for low-rise (less than five stories) nonresidential construction starts measured in square feet are single family residential starts, mixed practice Architecture Billings Index, and the Conference Board Leading Economic Index. Together and seasonally adjusted these three indicators have a 97 percent correlation with Dodge historically-reported actual low-rise nonresidential construction starts and point to 7-8 percent year-over-year growth for the remainder of the year.
- Some Midcontinent and Permian Basin oil and gas exploration and production companies have increased their activity and demand for our products. However, the consensus remains a wait-and-see approach. We have seen a slight increase in order activity but orders are relatively small and short-lived while continuity is questionable.
- Based on year-to-date customer orders compared with the same period in 2015: 25 percent of customers have increased purchases (including new customers), 55 percent of customers have decreased purchases, and 20 percent of customers have ordered nothing. Revenue has declined 28 percent over the same period. Customers remain very cautious with their inventory levels.

### Machinery Manufacturing

- Low oil prices continue to have a negative effect on general industry and business in South Texas.
- The oil industry is suffering due to the crude price plunge worse now than in the 1980s. For the ninth month U.S. industrial production declined year over year. This is a recession. There is a continued significant negative impact due to the downturn in the energy industry as a result of weak commodity prices. Recent slight improvement in commodity prices is having no positive impact on business conditions, although it may be slowing the pace of deceleration in business activity.
- Orders continue to be steady. Wages and benefits are rising at an increased rate that will require price increases to be implemented or a deterioration in margins.
- Tariffs applied to steel imports are adversely affecting small to medium business and consumers to a greater extent than the help provided to the large U.S. steel producers. With tariff protection, steel companies are reducing capacity and simultaneously raising pricing beyond just the basics of supply and demand. This is not good for the majority over the long run.
- There are some prospects for improvements in land drilling, but our business—deepwater drilling—looks to be in deep trouble. The number of rigs that are being stacked and the long lead time to bring those rigs back into service makes the outlook very pessimistic. We'll have to find an alternative or face a shell of a company.

## Computer and Electronic Product Manufacturing

- Industrial production and machinery exports are hurting big time. The global economy, dollar and EuroAsia financial problems are not helping American manufacturers.
- Macroeconomic concerns are causing softening in demand.

## Electrical Equipment, Appliance, and Component Manufacturing

- We are at a pretty steady state. It is hard to completely judge June until it is over. The last week of the month can be pretty big due to our industry's accounts receivables dating, which lures people to take shipments after the 25th of any month. In general we have been telling people for a couple years that things are "ok" or "good," but not great. Pricing for our products is dependent on competitors to a large degree and that is also very unpredictable.

## Transportation Equipment Manufacturing

- Our business is seasonal, so we generally see a downturn in fall/winter. This is not an indication of economic conditions.
- The economy is nervous, shaky and uncertain. Fed policy has us locked into a lethargic and tenuous position. It appears the Fed doesn't know how to get off the horse it created. The Fed talks interest rate increases but looks for every reason not to do it. Until the Fed backs out of trying to manage the economy, we will be stuck on the cusp of slow growth and a recession. Add the difficulty in getting commercial and retail financing and rising employee costs (health care, minimum wage threats and the ridiculous overtime executive order), and hiring for many of us will be minimal. We cannot have millions of people out of the workforce and be healthy economically—they are a burden not a benefit.

## Food Manufacturing

- We are bringing on another facility in March 2017, which will increase our capacity significantly.
- Business remains fairly flat other than some new product successes.

## Textile Product Mills

- Labor availability in Juarez and other areas of Mexico has tightened considerably.

## Wood Product Manufacturing

- We are nearly halfway through the year, and results exceed expectations by slightly more than 5 percent. Customer demand remains elevated. We expect the second half to equal or exceed the first, with monthly results within a tight range +/-. Our market is exclusively single-family new home builders in Dallas–Fort Worth.

## Paper Manufacturing

- We saw a slight increase from May, although it was an easy comparison as May was a very slow month.

## Printing and Related Support Activities

- June has become stupid slow for us, and we are not sure why. We have a decent backlog of work but nothing is here for us to work on now. We are very worried about this goofy decision by the Department of Labor to adjust salary levels for overtime; that makes zero sense to us and will have a negative impact on how we go about compensating office people.

## Miscellaneous Manufacturing

- We are experiencing major demand instability in the U.S. Continued management focus on upcoming regulatory changes is keeping us from pursuing new markets (especially internationally) and delaying making long-term investments. Major human resources policy updates and changes have resulted in eliminating positions (in the future as people are promoted or leave the company they will not be replaced) and considering moving all salary people who do not travel to hourly. Although we need more people, we are increasing the requirements for the open positions to reflect higher cost thresholds and most likely will delay hiring decisions for most positions until the impacts of the changes are fully understood.
- The Affordable Care Act (ACA) continues a downward push on productivity as it limits our hiring because we can't afford the estimated 60 percent increase in health care premiums that an ACA-compliant policy would cost. Steel raw material costs are rising, but the steel scrap is falling, therefore increasing our costs. Customers are not accepting price increases. It is slow, and the general business climate seems tepid at best.

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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/.

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Texas Business Outlook Surveys

DALLASFED

June 27, 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 June 14–22, and 347 Texas business executives responded to the surveys.

**Oil prices today are near $50 per barrel, up from $30 lows earlier this year but still down from $60 a year ago and down from over $100 in mid-2014. Natural gas prices are near $1.90 per million British thermal units, down from $3 a year ago.**

**1. What impact have lower energy prices had on your business over the past six months? (Please select all that apply)**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Decreased demand from our customers | 41.2 | 30.4 |
| No effect | 31.3 | 32.9 |
| Decreased our firm’s costs (input/raw materials prices, wages and benefits, etc.) | 31.0 | 40.0 |
| Increased demand from our customers | 7.8 | 12.1 |
| Increased our firm’s costs (input/raw materials prices, wages and benefits, etc.) | 3.0 | 1.8 |

**2. Overall, what has been the net impact of lower energy prices on your business over the past six months?**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Slight positive impact | 29.2 | 37.5 |
| Slight negative impact | 27.4 | 22.5 |
| No impact | 20.8 | 18.2 |
| Significant negative impact | 18.8 | 14.3 |
| Significant positive impact | 3.9 | 7.5 |

**3. What are the top three concerns affecting your companyâ€™s outlook? (Please select up to 3 choices)**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Government regulation | 75.1 | 68.4 |
| U.S. economy | 62.9 | 60.4 |
| Energy prices | 36.5 | 30.2 |
| Labor shortages | 31.6 | 37.8 |
| Interest rates | 22.6 | 33.3 |
| Strong dollar | 13.0 | 17.4 |
| Real estate values | 10.4 | 9.4 |
| Other | 15.9 | 14.9 |

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.

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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/.

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Texas Manufacturing Outlook Survey

DALLASFED

June 27, 2016

## Special Questions

Data were collected June 14–22, and 96 Texas manufacturers responded to the surveys.

**Oil prices today are near $50 per barrel, up from $30 lows earlier this year but still down from $60 a year ago and down from over $100 in mid-2014. Natural gas prices are near $1.90 per million British thermal units, down from $3 a year ago.**

**1. What impact have lower energy prices had on your business over the past six months? (Please select all that apply)**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Decreased demand from our customers | 41.8 | 34.0 |
| Decreased our firm’s costs (input/raw materials prices, wages and benefits, etc.) | 39.6 | 47.9 |
| No effect | 24.2 | 23.4 |
| Increased demand from our customers | 6.6 | 12.8 |
| Increased our firm’s costs (input/raw materials prices, wages and benefits, etc.) | 2.2 | 3.2 |

**2. Overall, what has been the net impact of lower energy prices on your business over the past six months?**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Slight positive impact | 28.6 | 41.9 |
| Significant negative impact | 23.1 | 25.8 |
| No impact | 20.9 | 11.8 |
| Slight negative impact | 18.7 | 9.7 |
| Significant positive impact | 8.8 | 10.8 |

**3. What are the top three concerns affecting your company's outlook? (Please select up to 3 choices)**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Government regulation | 81.1 | 72.2 |
| U.S. economy | 69.5 | 63.9 |
| Energy prices | 37.9 | 40.2 |
| Labor shortages | 27.4 | 38.1 |
| Strong dollar | 26.3 | 27.8 |
| Interest rates | 12.6 | 18.6 |
| Real estate values | 1.1 | 0.0 |
| Other | 22.1 | 15.5 |

## Special Questions Comments

These comments have been edited for publication.

### Fabricated Metal Product Manufacturing

- We are a small machining business in the aerospace, satellite and power business. Too-low energy prices mean less drilling, which means less parts and more competition from machining companies that are not familiar with these other industries. These companies quote work too cheaply, which drives down already slim margins. We need prices in the $65 to $75 range to pick that industry up, especially here in Texas.
- Business owners are cautious in the face of pending normalization of unprecedented global debt levels. Artificially low interest rates supporting central bank objectives designed to maintain the status quo are preventing creative destruction and price discovery in the marketplace.
- Customers have changed buying habits to buy everything with sufficient lead time and/or over $100,000 in China or Korea.
- Taxes (federal, state and local), governmental intrusion and health care costs continue to be major concerns of our business. These issues are greater impediments than a stronger dollar to our business.
- We have a deep need for secure borders, a balanced hydrocarbon-based national energy policy and pro-business executive and legislative branches.

### Machinery Manufacturing

- The strong dollar is a double whammy—it reduces the price of oil, thereby reducing demand, while simultaneously makes it harder for us to export our product.
- My immediate concern is crude oil pricing. My long-term concern is debasement of the U.S. dollar.
- The Affordable Care Act is stifling our business. This has to be one of the worst things beside all of the other federal regulations that are destroying our business.
- Government regulations announced for implementation prior to year-end are all cost increases that will result in a combination of higher prices and/or lower profitability. Health care costs for smaller companies are out of control.

### Computer and Electronic Product Manufacturing

- Macroeconomic conditions of the global economy appear to be causing a softening in demand.
- Interest rates have been too low for too long.

### Transportation Equipment Manufacturing

- Right now, the energy pricing impact has been slight. We are worried that the impact will accelerate in the second half of the year given that tax receipts will be likely down significantly.
- All choices for Question 3 have an extreme negative effect—barely holding on.
- Unlike many industries, the auto industry truly benefits from lower prices at the pump, especially the trucks that we build in San Antonio. As long as gas prices stay low and the economy continues to grow, people buy more trucks and that helps our business.

### Food Manufacturing

- There is no doubt that government regulation continues to grow as a major concern for our business and probably all businesses. Regardless of someone's view on politics or the merits of each new regulation passed, everyone should agree that the basic costs to education and compliance are staggering. Ultimately, those costs are passed on to Americans one way or another. A cost-benefit analysis is probably not considered by the regulators, but if it is, the rule of thumb must be to strive for an uncertain benefit at any cost.

### Furniture and Related Product Manufacturing

- Excessive government regulation continues to cause increased costs and wasted time. It is impacting health care costs, environmental costs and overhead operating costs. Labor shortages, especially skilled trades, are constraining the construction industry and limiting growth.

### Paper Manufacturing

- Runaway costs on health care due to our older workforce. In manufacturing it has been hard to find younger workers to replace those retiring.

### Printing and Related Support Activities

- Low energy benefits us quite a bit, with the exception that in Texas so much of the general economic activity revolves around oil and gas, which are severely reduced from previous levels. This is a little bit of a catch 22, and we are not sure if this is having any impact on the amount of and volume of reduced orders we are seeing.

# Texas Service Sector Outlook Survey

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June 27, 2016

## Special Questions

Data were collected June 14–22, and 251 Texas business executives responded to the surveys.

**Oil prices today are near $50 per barrel, up from $30 lows earlier this year but still down from $60 a year ago and down from over $100 in mid-2014. Natural gas prices are near $1.90 per million British thermal units, down from $3 a year ago.**

**1. What impact have lower energy prices had on your business over the past six months? (Please select all that apply)**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Decreased demand from our customers | 41.0 | 28.5 |
| No effect | 34.0 | 37.6 |
| Decreased our firm’s costs (input/raw materials prices, wages and benefits, etc.) | 27.9 | 36.0 |
| Increased demand from our customers | 8.2 | 11.8 |
| Increased our firm’s costs (input/raw materials prices, wages and benefits, etc.) | 3.3 | 1.1 |

**2. Overall, what has been the net impact of lower energy prices on your business over the past six months?**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Slight negative impact | 30.6 | 28.9 |
| Slight positive impact | 29.4 | 35.3 |
| No impact | 20.8 | 21.4 |
| Significant negative impact | 17.1 | 8.6 |
| Significant positive impact | 2.0 | 5.9 |

**3. What are the top three concerns affecting your company's outlook? (Please select up to 3 choices)**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Government regulation | 72.8 | 66.5 |
| U.S. economy | 60.4 | 58.6 |
| Energy prices | 36.0 | 25.1 |
| Labor shortages | 33.2 | 37.7 |
| Interest rates | 26.4 | 40.8 |
| Real estate values | 14.0 | 14.1 |
| Strong dollar | 8.0 | 12.0 |
| Other | 13.6 | 14.7 |

## Special Questions Comments

These comments have been edited for publication.

### Credit Intermediation and Related Activities

- Business activity in South Texas decreased and energy-related businesses are struggling; however, petrochemical industry is robust and industrial projects are doing well. Residential housing construction is good.

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

- Oil and gas leases, drilling, production and pipelines businesses suffer from a lack of demand, which has lowered their revenues. All of these businesses are our customers, both large and small. If their demand is low, our business suffers also. But, the costs keep rising for insurance, taxes and—most of all—from governmental regulation. A good and growing outlook is not in sight.

### Insurance Carriers and Related Activities

- We are insurance brokers, so energy affects our contractor clients and energy-related clients. Lower revenues for them mean lower payrolls, which lowers their insurance premiums from where they estimated last year.

### Telecommunications

- We may experience a longer than necessary recession in Houston due to banks' and investors' continued support to builders of homes, apartments, retail and commercial buildings that continue construction while the market is experiencing significant vacancies and properties for sale.

### Real Estate

- What we continue to see is regulation for the sake of regulation with no consideration of cost/benefit analysis. Health care is less affordable for employees, and the insurance companies are manipulating care to improve profitability. The complexity of choices for workers is more and more a problem for lower-level workers. The world economy is worrisome. The U.S. elections are offering no encouragement. The only good news is interest rates are low and retail still seems to be doing well.

### Professional, Scientific and Technical Services

- Energy prices have helped some clients and hurt others, and we are sitting in the middle. We are very focused on Fed moves, Brexit and the contagion that creates (although it now appears postponed), weakness in China and contagion there too. We have just generally seen more downside risk in the global outlook than upside and feel our own poor election situation will add to that negative view. There is competition for key legal talent as well in a sector seeing less demand going to law firms. Nothing is easy now for sure.
- As an independent consultant in the energy arena, higher energy prices create more demand for consultant work as more projects go forward. Steady increases in the price of oil and gas will drive my segment of the economy. I love paying $4.00 per gallon for gasoline because it means I have plenty of work at higher value. The concern over the Fed raising interest rates is overblown by the stock market gurus and the media stories. Raising the federal funds rate, by itself, will not hurt the economy. The thing that will hurt is the banks using it as an excuse to jack up the rates they charge for loans. It would not surprise me if for every 100 basis points the Fed raises the federal funds rate the banks would raise APRs by 3 percent.
- Oil and gas price declines will help and hurt our architectural business. Construction costs will decline (or rise at a slower rate), which promotes more work for us. But our public clients' tax base will decline, causing them to have less funds to consider moving forward with new or renovated facilities. Since approximately 60 percent of our work is public client based, we anticipate more negatives from lower oil and gas prices.

### Management of Companies and Enterprises

- If I could have ranked regulatory requirements as all three concerns, I would have.

### Administrative and Support Services

- As a company that sells travel around the world, we are being impacted on several fronts: terrorism, Zika, health concerns, overall direction of economy and political uncertainty. The anxiety of the consumer is at an all-time high. I do not see the ability to entice consumers with deals or lower costs.
- Labor—and labor education—continues to be a major problem. The schools are not doing their job. Drug abuse is a big issue too.
- Businesses are holding back on investment in new projects. The lack of clarity on government regulation and political uncertainty are also slowing down the hiring of new employees.
- We have been both hurt and helped by low oil prices because it has sparked leisure travel but hurt corporate travel, which is a higher yielding traveler. Also, there is a lot of concern that the Fed will raise rates again, and it sparks a pullback in spending because many fear the extra costs they will incur in interest rates. The cost of housing and other items have gone up considerably but there is little to no benefit in wage increases in the near future.

- Energy prices have competing effects on travel to Dallas. Lower costs help leisure travel to the destination, while the negative impact on the energy sector has decreased corporate travel in that segment.
- It cannot be stressed enough the impact that overregulation is having on all business, but especially small business. It increases costs and requires more personnel in unproductive areas. The cost of lending is increasing and the effect on smaller banks is restrictive to lending. We have come to a point where bureaucracy is not accountable for its actions but hides behind its many layers. This is one of the main reasons we continue to have tepid growth in the economy while costs continue to rise, affecting the real income of both the employer and the employee.

## Educational Services

- While business has been good for our logistics industry, especially in food and beverage, we fear the next cycle for slowdown.

## Ambulatory Health Care Services

- Specific to health care, we are seeing a significant amount of entry-level job elimination due to technology in many aspects of this service-based industry. Voice recognition eliminated an entire transcription-related home-based employment model, data entry in medical practices, etc. Many of the small business health care "S" corporations are unable to meet increasing regulatory requirements, and continuous erosion of profit margins is eliminating many jobs in the local economies.
- Although health care law falls under the broad heading of government regulation, its impact on our business is substantial enough to warrant singling out. The Affordable Care Act has had, and the Protecting Access to Medicare Act (PAMA) will have, direct and significant impacts on our laboratory business. Specifically, the general shift of first-dollar health care expenses to the patient on high-deductible plans has significantly increased bad debt. Health care providers that do not have patient-facing services, like pathology/laboratory, do not have the ability to collect on the front-end before services are rendered. PAMA will apply prolonged pressure to the laboratory reimbursement side.

## Nursing and Residential Care Facilities

- Lower energy prices have a significant impact on contributions and sponsorships in West Texas, along with a reduced labor pool.

## Accommodation

- Wage pressure and a shortage of qualified labor are causing us to increase hourly wage rates in July. The ongoing economic challenges in Houston and the energy sector are negatively impacting leisure, group and business travel and meetings.

## Food Services and Drinking Places

- I've indicated no impact from the cost of energy in the sense that I don't find anyone at any level in the company making decisions on the change in the cost of energy or even keeping track of it. That includes top management and ownership. Of course, there has been some impact on profitability, but it is nominal compared to other factors. The U.S. economy, our local economy and building sales are always at the top of our list of concerns. However, right now a major concern added to that is the decision to substantially raise the salary level required to be considered salaried exempt. No final decision has been made yet in the company, but we are likely to adopt the fluctuating method of computing premium time compensation and adjust base salaries so that the net salary comes out just slightly above current salaries for the normal 50-hour workweek for the lower management levels, which will be heavily impacted by this change in regulations. The fact that lower-level management personnel are going to have to start punching a clock so that we can accurately track their hours is going to be perceived very negatively by the individuals in those positions. There is also the danger over time, if we find it harder to control total costs than we are expecting, that the change will ultimately impact the benefits available to lower-level managers. At this point we hope to avoid benefit changes.
- The threat of large increases in health care insurance for our staff are concerning.

## Religious, Grantmaking, Civic, Professional, and Similar Organizations

- Lower oil prices have had an extremely negative impact on our business. Our business is focused solely on services for the oil and gas business.

TROS

# Texas Retail Outlook Survey

DALLASFED

June 27, 2016

## SPECIAL QUESTIONS

Data were collected June 14–22, and 49 Texas retailers responded to the surveys.

**Oil prices today are near $50 per barrel, up from $30 lows earlier this year but still down from $60 a year ago and down from over $100 in mid-2014. Natural gas prices are near $1.90 per million British thermal units, down from $3 a year ago.**

**1. What impact have lower energy prices had on your business over the past six months? (Please select all that apply)**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Decreased demand from our customers | 53.2 | 31.0 |
| Decreased our firm's costs (input/raw materials prices, wages and benefits, etc.) | 34.0 | 42.9 |
| Increased demand from our customers | 17.0 | 16.7 |
| No effect | 14.9 | 31.0 |
| Increased our firm's costs (input/raw materials prices, wages and benefits, etc.) | 2.1 | 2.4 |

**2. Overall, what has been the net impact of lower energy prices on your business over the past six months?**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Slight negative impact | 41.7 | 31.8 |
| Slight positive impact | 31.3 | 36.4 |
| Significant negative impact | 18.8 | 9.1 |
| No impact | 6.3 | 13.6 |
| Significant positive impact | 2.1 | 9.1 |

**3. What are the top three concerns affecting your company's outlook? (Please select up to 3 choices)**

| | Jun. '16 (percent) | Jun. '15 (percent) |
|---|---|---|
| Government regulation | 73.5 | 61.4 |
| U.S. economy | 65.3 | 65.9 |
| Energy prices | 44.9 | 20.5 |
| Labor shortages | 34.7 | 47.7 |
| Interest rates | 16.3 | 47.7 |
| Strong dollar | 12.2 | 15.9 |
| Real estate values | 6.1 | 6.8 |
| Other | 16.3 | 9.1 |

## Special Questions Comments

These comments have been edited for publication.

### Merchant Wholesalers, Durable Goods

- We are a government contractor and compete in the area of military procurement. Government spending, particularly for military equipment, is a major determinant to our wellbeing.

### Merchant Wholesalers, Nondurable Goods

- New overtime rules and the Affordable Care Act caused increases in health insurance.

### Motor Vehicle and Parts Dealers

- Energy prices have virtually stopped most of the drilling in south Texas and that has had an effect on the parts and service portion of our business as well as truck sales. Continued increase in government regulation has forced us to increase headcount to properly address and generate the ever increasing amount of reports and data required by the government. Often, there is no way to arrive at the data requested and the most common answer received when asked is approximate.
- We are hearing more about the political outlook than ever. Resulting concern is beginning to impact our business.
- Lower fuel prices seem to have increased the discretionary spending of customers that are not directly related to the energy industry. Since we are in an area that has a large amount of employees working directly and indirectly with the energy industry, we see that these consumers have delayed purchases until energy prices rebound to a higher level.
- Because we are located in Houston, the energy company layoffs have decreased our net sales more than any increase due to lower consumer energy costs.

### Building Material and Garden Equipment and Supplies Dealers

- Finding good qualified employees is difficult. Increased mandates on business take away from focus on sales, which drive everything. The U.S. economy has aging workers worried about retirement and 401(k) values.

### Nonstore Retailers

- We have great concern over the impact new Department of Labor overtime exemption regulations will have on our profitability. We have not yet computed the impact on our business, but plan to in the coming weeks. Most likely, we will simply convert any impacted employees from salary to hourly and then limit their hours to manage our costs. This may impact remaining salaried employees unfavorably by having to work more hours to cover for the reduced hours of other employees. But we must manage our costs to remain viable.