Texas Service Sector Outlook Survey

DALLASFED

June 29, 2015

Special Questions

Data were collected June 1–4, and 195 Texas business executives responded to the surveys.

Oil prices today are near $60 per barrel, down from over $100 a year ago. Natural gas prices are near $2.90 per million British thermal units, down from over $4.40 a year ago.

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

No effect	37.6%
Decreased our firm's costs (input/raw materials prices, wages and benefits, etc.)	36.0%
Decreased demand from our customers	28.5%
Increased demand from our customers	11.8%
Increased our firm's costs (input/raw materials prices, wages and benefits, etc.)	1.1%

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

Slight positive impact	35.3%
Slight negative impact	28.9%
No impact	21.4%
Significant negative impact	8.6%
Significant positive impact	5.9%

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

Government regulation	66.5%
U.S. economy	58.6%
Interest rates	40.8%
Labor shortages	37.7%
Energy prices	25.1%
Real estate values	14.1%
Strong dollar	12.0%
Other	14.7%

Special Questions Comments

These comments have been edited for publication.

Credit Intermediation and Related Activities

- There are a growing number of nonbank competitors engaging in lending and deposit gathering, but they are not subject to the same regulatory scrutiny as the financial industry.
- The overall impact of lower oil prices has been surprisingly light. We do, however, deal with a small number of oil and gas customers compared with other credit unions in our area. Our core sponsors are education and medical, so we have not seen a major disruption in their borrowing as employment is very stable for them.
- There are some marginal impacts of the energy slowdown at the consumer level, primarily in the frack sand industry. The plants in our area have laid some employees off, and the sand truck numbers are down substantially.

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

- The energy slowdown has put a damper on investment. Federal regulations are putting a choke hold on business activity.

Insurance Carriers and Related Activities

- We are an insurance sales operation, so sales and payrolls of our energy clients are affected and we may see return premiums on insurance audits next year.
- We have not yet seen any impact from declining energy prices and the sharp decline in drilling activity. We do expect some negative impact as the layoffs and cutbacks percolate through the general Texas economy.

Telecommunications

- We are seeing the impact of lower oil prices in the Houston metropolitan area, including layoffs, slower job growth and slowing of home and apartment building. Also, small businesses are starting to feel the impacts of the layoffs, and residents are becoming conservative with spending. Regulations—including the Affordable Care Act, Net Neutrality and those related to hiring college students for internships—have impacted many businesses in a negative way.

Rental and Leasing Services

- We are an equipment dealer that covers the state of Texas with 22 stores. We have 3,800 pieces of heavy construction equipment in our rental fleet. Utilization on many categories has dropped from around 92 percent to below 50 percent in the last six months due directly to the energy slowdown. We do not believe that business is coming back anytime soon. Oil prices have to be way north of $60 per barrel to justify the shale projects that drive our business in the Permian Basin and the Eagle Ford. Other industries may be doing better in Texas, but they do not purchase or rent heavy construction equipment like the energy industry does when it is booming. That said, we are up 11.4 percent over 2014 through May. Our capital purchases will be far less this year than last; we have a hiring and expense freeze on; and if bonus depreciation is not passed before the last 10 days of the year, or at all, we likely won't be investing in our rental fleet or rolling stock or new facilities at all in 2015.

Professional, Scientific and Technical Services

- We provide professional engineering services to the energy sector—both upstream and midstream. The downturn in oil prices has forced many clients to cut back on capital projects by as much as 50 percent in 2015.
- Since we are in Houston, there are no simple answers. Oilfield service company clients have reduced spending dramatically. Bank clients have cut back on marketing spending, and they are very cautious. Other clients in refining, technology, retail, etc. have maintained budgets. We're net slightly lower in revenues year to date.
- The U.S. and global economies are concerns. Unfortunately, we just don't feel that economic factors are moving in as positive a direction as they should. There are a lot of geopolitical concerns, too. Lower energy prices are a moderate issue for us right now, but they could turn into a significant issue if prices don't rebound and stabilize some. Money not being spent on energy is not finding its way to the U.S. economy; consumers are saving and continuing to deleverage. Globally, savings appear to be absorbed by governments, so consumers aren't necessarily enjoying gains.
- Lower gas prices have benefited us slightly, but since we deal mainly with international companies, a strong dollar has affected us negatively. In all, it's basically a wash. Our main concern is the near-term outlook of the U.S. economy. We are cautious. This will slow our intent to invest or postpone it as much as possible.
- We believe government overregulation continues to cripple the economy and is the primary reason for the lack of economic development.

Management of Companies and Enterprises

- We feel there is way too much complex government regulation. Something is wrong with our system when something simple is made complicated.
- The largest obstacle to our bank and our customers is continual government overreach—including the Consumer Finance Protection Bureau mandate to core processors to provide all processing records of their banks and fair lending policies.
- Lower oil and gas prices have lowered trust income and created additional problem loans.

Administrative and Support Services

- Our business relies heavily on the impact of higher oil prices on our local economy. The savings we realize on the cost side do not make up for the lost revenue that higher oil prices cause for our business.
- We believe the federal government is by far the largest threat to every business that has employees.
- Recent heavy rains have impacted our production significantly. We are hopeful that the rains will let up some in the near future.
- We have placed more vehicles on the road, so gas prices are always a concern. Government regulation, such as corn ethanol used in fuel, is diverting corn from the general supply and has raised food prices affecting our restaurant customers and forcing cutbacks. New regulations on chemicals have affected costs. At the same time, competition allows little room to recapture cost increases through increased pricing to customers. We also continue to see personnel stretched at our customer base covering multiple areas, which creates long cycles in decision-making or a lack of noncritical decisions being made.

Educational Services

- As a nonprofit organization, we are seeing a negative impact from lower oil prices on corporate and individual philanthropy as well as a negative impact on revenues associated with trusts that are primarily driven by mineral rights.

Ambulatory Health Care Services

- Because we are in an energy production area, lower energy prices affect both income and available spending of customers. While lower costs will increase consumers' in-pocket cash in the short term, layoffs and lower corporate income will have a strong downward effect on the overall economy. As medical providers of a large number of elective surgeries, we may expect a slowdown in the months ahead, but not to the level of the 2008 recession.
- Health services have a significantly high exposure to government regulation, especially Medicare and Medicaid programs. The energy factor is relevant for individual employees as they are compensated per mile at work; lower pump prices means more disposable income for the individual employees. For the health care service provider, government regulations continue to increase costs, lowering margins and driving small- and medium-size businesses to exit or consolidate due to their limited ability to access cheap capital.

Amusement, Gambling, and Recreation Industries

- Our purveyors are not decreasing prices due to energy price decreases. They say they are putting the money into infrastructure upgrades. Our employees certainly have been appreciative of lower gasoline prices. It is like a raise to them and has allowed us to delay wage increases, but that has come to an end. There is a severe labor shortage in Austin. The cost to hire employees is up at least 10 percent in the last couple of months, which means we will be increasing everyone's hourly rates about the same.

Accommodation

- We are located near the Eagle Ford shale, and the cutbacks and layoffs by energy companies are reducing business travel, meetings and leisure business from the companies and employees affected.
- Some of our hotels are in the oil and gas areas, and the cutback has had a material reduction on those hotels' revenues through lower rates and decreased occupancy.

Food Services and Drinking Places

- The effect of ethanol subsidies has been one of the two strongest factors in the two-year rise in food prices. The drought in the south certainly has had an effect, but the increase in the price of grain-based foods—including beef, chicken, pork and food oil—has been the direct result of the requirement for increased use of ethanol in the nation's gasoline supply.
- Health care insurance is a nightmare for low wage businesses. We run at low profit margins, and there is just not enough left to pay for it. Since not all like businesses are being treated equally, it makes it very hard to compete with identical businesses that are not required to offer it.
- We can't prove that lower energy prices have increased our sales, but our revenues started increasing at the same time energy started dropping so we assume this is the main factor. Cheese prices have been low for a number of months but started increasing lately.

Repair and Maintenance

- We think the Section 179 bonus depreciation deduction should be maintained at $500,000. Small businesses that are capital intensive need the deduction to keep equipment updated. Most businesses servicing the oil and gas sector are capital intensive. Waiting until the last hour to extend it makes planning too difficult.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- Our business has declined 15 to 20 percent due to low oil prices.

Texas Retail Outlook Survey

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Special Questions

Data were collected June 1–4, and 46 Texas retailers responded to the surveys.

Oil prices today are near $60 per barrel, down from over $100 a year ago. Natural gas prices are near $2.90 per million British thermal units, down from over $4.40 a year ago.

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

Decreased our firm's costs (input/raw materials prices, wages and benefits, etc.)	42.9%
Decreased demand from our customers	31.0%
No effect	31.0%
Increased demand from our customers	16.7%
Increased our firm's costs (input/raw materials prices, wages and benefits, etc.)	2.4%

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

Slight positive impact	36.4%
Slight negative impact	31.8%
No impact	13.6%
Significant negative impact	9.1%
Significant positive impact	9.1%

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

U.S. economy	65.9%
Government regulation	61.4%
Interest rates	47.7%
Labor shortages	47.7%
Energy prices	20.5%
Strong dollar	15.9%
Real estate values	6.8%
Other	9.1%

Special Questions Comments

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Merchant Wholesalers, Durable Goods

- The short-term impact of much lower energy prices has been to dramatically reduce our diesel costs for trucking and distribution. However, the longer-term impact will be reduced demand for housing and slowing in-migration because of a strong energy sector buildout. With storm repair activity going on, rain-induced new-construction demand is slowing. That, combined with some significant corporate relocations to Texas and the employees that accompany such moves, makes it very hard to determine the impact of just the energy variable on our demand. The cost connection is clearer.

Motor Vehicle and Parts Dealers

- We are being negatively impacted by our manufacturer's continued difficulties. Lower energy pricing has resulted in purchasing delays in the energy sector of the business.
- While energy prices in general have not had any significant impact on our business, a prolonged crude oil price below the cost of production will have a significant impact on the Houston economy, which will cause additional layoffs and decreased sales volume and return on investment in our business.

Building Material and Garden Equipment and Supplies Dealers

- Energy prices have helped us in regards to gas prices as we have a fleet of trucks, but we have also felt a negative impact with a downturn in our business because of the soft prices, so it is a double-edged sword so to speak. We are also seeing some slowdown in our business, which we believe is due to overall lack of confidence in the economy.

General Merchandise Stores

- We have not seen lower energy pricing result in an increase in consumer demand. We have a noticeable, but not huge, cost savings on transportation.

Nonstore Retailers

- We thought that a slowdown in oil drilling might eventually result in more qualified candidates for our route driver positions, but we have not seen this yet. We continue to have a hard time recruiting route drivers. We turn many candidates away due to felonies or failed drug screens. As a vending company, we screen candidates carefully due to handling large amounts of cash.