



Texas Service Sector Outlook Survey

DALLASFED

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.



Texas Retail Outlook Survey

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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

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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.

