Texas Service Sector Outlook Survey

DALLASFED

November 1, 2016

Texas Service Sector Activity Increases 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 service sector activity increased in October albeit at a slightly slower pace than in September, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, dipped from 13.0 in September to 9.9 in October.

Labor market indicators reflected slower employment growth and shorter workweeks this month. The employment index edged down from 4.4 to 2.7. The hours worked index moved back into negative territory this month, falling from 3.1 to -1.4.

Perceptions of broader economic conditions reflected less optimism in October. The general business activity index remained positive but fell slightly from 4.7 to 3.0. The company outlook index edged down to a reading near zero, with the share of respondents reporting that their outlook improved from last month equal to the share noting it worsened.

Price pressures were unchanged, while wage pressures eased this month. The selling prices index held steady at 3.7. The wages and benefits index edged down from 15.4 to 12.8, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions continued to reflect optimism in October. The index of future general business activity ticked down from 10.4 to 9.1. The index of future company outlook came in at a reading of 12.2, similar to September. Indexes of future service sector activity, such as future revenue and employment, reflected more optimism this month.

Retail Sales Decline

Retail sales fell in October, according to business executives responding to the Texas Retail Outlook Survey. The sales index moved back into contractionary territory, retreating from 2.0 in September to -6.6 in October. Inventories increased this month after declining last month.

Labor market indicators were mixed again this month. The employment index fell slightly to a reading near zero, indicating retail employment was relatively unchanged from September. The hours worked index remained in negative territory for a third consecutive month and fell further to -12.1, suggesting workweeks shortened.

Retailers' perceptions of broader economic conditions worsened in October. The general business activity index plunged from 7.9 to -5.1. The company outlook index retreated from 2.9 to -5.6, with 11 percent of respondents reporting that their outlook improved from last month and 16 percent noting that it worsened.

Retail price pressures increased, while wage pressures eased this month. The selling prices index rose slightly from 2.2 to 4.7. The wages and benefits index moved down 5 points to 3.5, although the great majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions were mixed in October. The index of future general business activity remained positive but fell from 9.9 to 4.2. The index of future company outlook fell sharply from 9.7 to -1.3. Indexes of future retail sector activity continued to reflect optimism this month.

The Texas Retail Outlook Survey (TROS) is a component of the TSSOS that uses information only from respondents in the retail and wholesale sectors.

Next release: November 29, 2016

The Dallas Fed conducts the Texas Service Sector Outlook Survey monthly to obtain a timely assessment of the state's service sector activity. Data were collected Oct. 18–26, and 291 Texas business executives responded to the survey. Firms are asked whether revenue, employment, prices, general business activity and other indicators increased, decreased or remained unchanged over the previous month.

Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. When the share of firms reporting an increase exceeds the share reporting a decrease, the index will be greater than zero, suggesting the indicator has increased over the prior month. If the share of firms reporting a decrease exceeds the share reporting an increase, the index will be below zero, suggesting the indicator has decreased over the prior month. An index will be zero when the number of firms reporting an increase is equal to the number of firms reporting a decrease. Data have been seasonally adjusted as necessary.

TEXAS SERVICE SECTOR OUTLOOK SURVEY

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
Revenue	9.9	13.0	-3.1	Increasing	83	29.1	51.7	19.2
Employment	2.7	4.4	-1.7	Increasing	80	12.3	78.1	9.6
Part-time employment	1.4	4.5	-3.1	Increasing	4	6.4	88.6	5.0
Hours worked	-1.4	3.1	-4.5	Decreasing	1	7.3	84.0	8.7
Wages and benefits	12.8	15.4	-2.6	Increasing	85	16.0	80.8	3.2
Input prices	23.3	22.9	+0.4	Increasing	90	25.6	72.1	2.3
Selling prices	3.7	3.9	-0.2	Increasing	8	10.7	82.3	7.0
Capital expenditures	3.6	5.4	-1.8	Increasing	86	13.6	76.4	10.0

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	0.3	2.8	-2.5	Improving	4	14.2	71.9	13.9
General business activity	3.0	4.7	-1.7	Improving	2	15.4	72.2	12.4

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
Revenue	40.3	37.7	+2.6	Increasing	92	53.0	34.3	12.7
Employment	25.3	17.7	+7.6	Increasing	91	34.5	56.3	9.2
Part-time employment	5.9	6.4	-0.5	Increasing	52	13.7	78.5	7.8
Hours worked	4.1	4.7	-0.6	Increasing	2	8.2	87.7	4.1
Wages and benefits	38.9	36.8	+2.1	Increasing	118	42.4	54.1	3.5
Input prices	44.4	42.2	+2.2	Increasing	118	47.8	48.8	3.4
Selling prices	20.1	22.0	-1.9	Increasing	90	28.6	62.9	8.5
Capital expenditures	18.8	13.2	+5.6	Increasing	91	29.6	59.5	10.8

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	12.4	-0.2	Improving	8	25.8	60.6	13.6
General business activity	9.1	10.4	-1.3	Improving	4	21.7	65.7	12.6

*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.
**Number of months moving in current direction.
Data have been seasonally adjusted as necessary.

Texas Retail Outlook Survey

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	-6.6	2.0	-8.6	Decreasing	1	25.0	43.3	31.6
Employment	0.7	3.3	-2.6	Increasing	4	12.9	74.9	12.2
Part-time employment	1.7	0.0	+1.7	Increasing	1	13.6	74.6	11.9
Hours worked	-12.1	-1.7	-10.4	Decreasing	3	3.7	80.5	15.8
Wages and benefits	3.5	8.5	-5.0	Increasing	78	10.4	82.7	6.9
Input prices	10.0	16.9	-6.9	Increasing	9	14.3	81.4	4.3
Selling prices	4.7	2.2	+2.5	Increasing	8	15.4	73.9	10.7
Capital expenditures	6.7	7.0	-0.3	Increasing	3	16.7	73.3	10.0
Inventories	1.4	-8.9	+10.3	Increasing	1	24.6	52.2	23.2
Companywide Retail Activity								
Sales	1.8	0.2	+1.6	Increasing	2	24.5	52.8	22.7
Internet sales	8.5	15.2	-6.7	Increasing	2	20.8	66.9	12.3

General Business Conditions, Retail Current (versus previous month)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-5.6	2.9	-8.5	Worsening	1	10.7	73.0	16.3
General business activity	-5.1	7.9	-13.0	Worsening	1	11.5	71.9	16.6

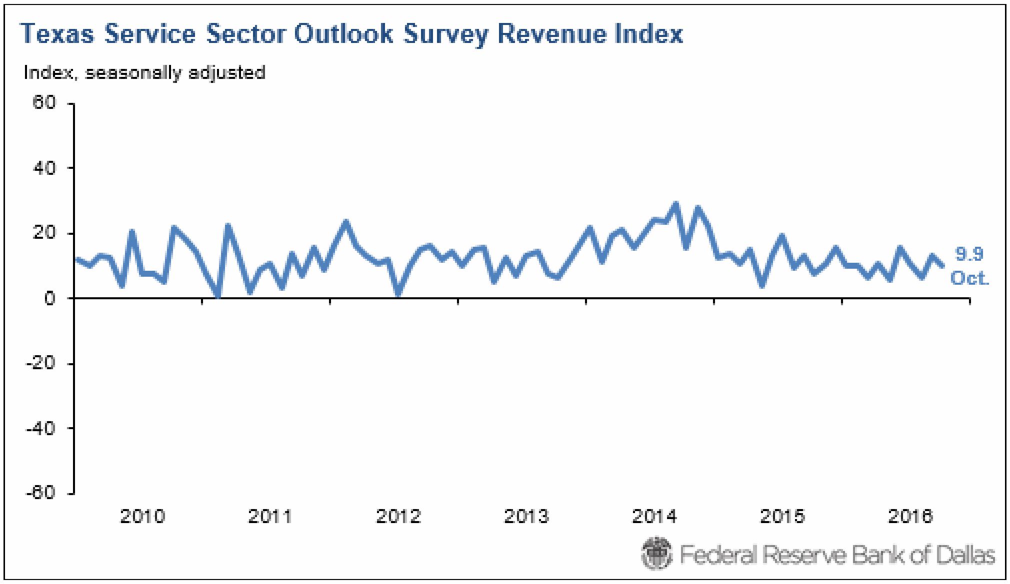
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	16.6	21.7	-5.1	Increasing	92	32.8	51.0	16.2
Employment	10.8	3.5	+7.3	Increasing	20	20.1	70.6	9.3
Part-time employment	-0.7	-7.9	+7.2	Decreasing	4	12.1	75.1	12.8
Hours worked	-2.4	-7.4	+5.0	Decreasing	3	3.8	90.0	6.2
Wages and benefits	27.9	24.1	+3.8	Increasing	94	33.7	60.5	5.8
Input prices	22.8	27.3	-4.5	Increasing	90	31.6	59.6	8.8
Selling prices	19.3	25.5	-6.2	Increasing	90	29.8	59.6	10.5
Capital expenditures	8.8	-5.3	+14.1	Increasing	1	28.1	52.6	19.3
Inventories	-4.8	0.9	-5.7	Decreasing	1	19.0	57.2	23.8
Companywide Retail Activity								
Sales	24.4	24.0	+0.4	Increasing	91	36.1	52.2	11.7
Internet sales	17.9	15.0	+2.9	Increasing	3	25.6	66.7	7.7

General Business Conditions, Retail Future (six months ahead)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-1.3	9.7	-11.0	Worsening	0	17.6	63.5	18.9
General business activity	4.2	9.9	-5.7	Improving	2	17.6	69.0	13.4

*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.


Texas Service Sector Outlook Survey Revenue Index
Index, seasonally adjusted
60
40
20
0
-20
-40
-60
2010
2011
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2014
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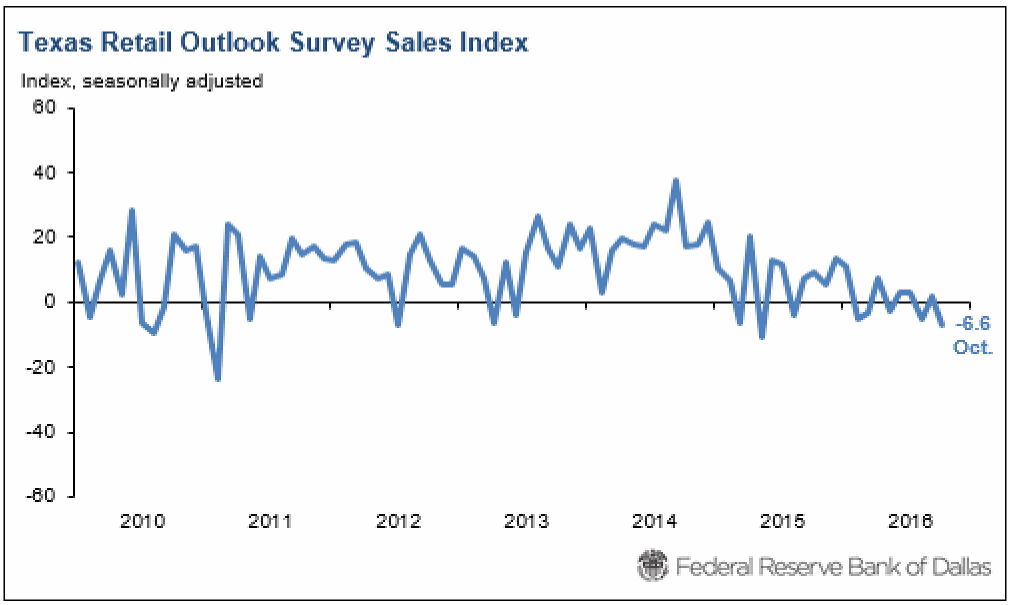
9.9
Oct.
Federal Reserve Bank of Dallas


Texas Retail Outlook Survey Sales Index
Index, seasonally adjusted
60
40
20
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-20
-40
-60
2010
2011
2012
2013
2014
2015
2016
-6.6
Oct.
Federal Reserve Bank of Dallas

Comments from Survey Respondents

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

Credit Intermediation and Related Activities

- There are some positive trends in the general business economy. The agricultural economy is in a slump, primarily a result of depressed commodity prices while input costs remain elevated. The election anxiety is high and seems to have all markets sensitive to any news diagnosed as negative.

Other Financial Investments and Related Activities

- Our company is heavy into the oil and gas industry service. We do not see an increase in that section of our business until sometime in the latter part of 2017. The increase in business will be slow for a long while.

Insurance Carriers and Related Activities

- We have seen some minor increases in general business activities. There is some growth in our San Antonio branch office. There seems to be some loosening as the political season draws to a close, and we can get back to planning ahead.

Real Estate

- The largest problem is due to the elections. We have two politicians that are telling us everything is terrible—and maybe in some parts of the U.S. it is—but when unemployment is at or under 5 percent, employers are raising wages to keep employees, and others are talking about large hiring for the holidays and working to keep those employees permanent, it's hard to see where we are bad off. Interest rates are spurring investment, housing costs are stable but rising, crime rates are stable or declining, we are focusing on education, increasing investment in our infrastructure, etc. I guess I am just too naive or optimistic or maybe I just live in Texas.
- We are still cautious. After the election, we may have a better feel. Large estate properties above $3 million are hard to sell.

Rental and Leasing Services

- We are a 56-year-old family-owned heavy equipment dealership. We have grown on average about 17 percent for the last 20 years. We were down about 3 percent this year through August. At the end of September, we were down almost 8 percent YTD. Anyone reporting they are up in our business and industry this year in Texas is highly suspect. This year has sucked, and we look for next year to be much worse.

Professional, Scientific and Technical Services

- I think the elections are keeping much of the activity in a holding pattern. The impact would not be seen until mid next year.
- Proposal numbers for October are the same as in 2008 and early 2009, indicating to us a strong, dramatic decrease in future (spring to early summer) construction activity.
- Things have gotten really slow. Not sure why. Maybe because of the election or higher interest rates. Hopefully it will turn around, and we are not headed into a Japan-like situation.
- With lenders starting to tighten their lending requirements and the Federal Reserve discussing raising rates, we are seeing a slight slowdown in transactions across the state. We are still bullish on the DFW market but also understand that this market cannot maintain the pace we have enjoyed over the past three years.
- The election continues to be a negative, and fears of major governmental transition are present. Many fear a major recession in mid-2017 and believe we are headed for a decline. All this is not good for business.

Management of Companies and Enterprises

- All medium-sized businesses are discussing the increased cost of regulatory compliance. Medical, industrial, chemical plant and oil field are all spending a larger percentage of their expenses on compliance costs. While most understand the necessity of compliance with the law, there seems to be a universal feeling government is regulating to be regulating. Often times, businesses discuss approvals in terms of years and need expensive consultants to maneuver the processes and procedures for approvals. Businesses and government need to review bureaucracy and look for ways to expedite decisions, either yes or no answers, not this black hole of decision process.
- Way too much government regulation. It's hard to believe that "smart" people have passed some of the ridiculous laws that we have.
- With the pending election, the odds on a recovery are pretty much nil. Regulators will continue to dampen any recovery that should try to gain momentum. I personally believe we have entered a new normal of an extremely low-rate environment from now on with inflation between 1 and 2 percent or even totally flat.

Administrative and Support Services

- We continue to see sluggish demand in corporate travel, which is a general indicator of overall business health and activity. We see continued downside in especially the banking and financial services sector. In addition, most U.S. airlines are expected to report negative revenue metrics relative to their increasing nonfuel-related overhead costs, citing considerable pressure to increase wages. Also, we believe the pending presidential election is having a drag on business. In regards to

filling open jobs (not many), we are finding that it is difficult to fill and actually retain talent for the salaries we can offer. In general, workloads have greatly increased, while wages have remained very stagnant despite rapidly rising housing and rent costs. We are stringently watching all costs and managing facilities carefully. We are also experiencing a noticeable increase in health care costs but not offering wage increases to offset the difference (thus, impacting overall discretionary income).
- With benefit costs increasing for everyone (customers, suppliers), it is difficult to pass along increases. The market remains inflexible at this time.
- My only comment is "let’s get through this election cycle" and get back to work.

Publishing Industries (except Internet)

- Many of the businesses in our sales pipeline have placed buying decisions on hold right now. They still say they are going to buy but have more hurdles than usual to get approval. Most have pushed off decisions until the end of the year and even more into next year.

Ambulatory Health Care Services

- Health care is really hard right now. The government keeps looking for ways to cut costs and improve outcomes. The problem is they don't know what they are measuring and they consistently fail to consider unintended consequences of the rules they set. Post acute is even harder because we don't have the lobby dollars that the hospitals and physicians have; we are almost always on the losing end of a rate cut.
- We recently were infiltrated by the cryptovirus, which took out the network for about 24 hours. Fortunately, we were able to put in a backup domain server and restore services after making sure no additional devices were compromised. The sophistication of this cyberattack was impressive. We constantly are preparing and planning, and no patient data was compromised. We probably spent about $10K in new licenses and overtime, and no business interruption occurred. I wonder how less well-prepared businesses might fare. This seems to be an ever-increasing threat in the health care industry, and we seem to be a popular target.
- The drop in six–month-ahead revenue is expected due to the new Medicare payment system. It will be very difficult to navigate, and our revenue may drop along with increasing costs in attempts to comply with new system. Health benefits will increase in 2017.
- We will be hiring employees for a new product line in the first and second quarters of 2017, ergo increase in employees, wages and benefits. We will make capital expenditures for the reporting system for new product line.
- In looking forward six months, we'll be past the elections. Depending on whether the Federal Reserve and its counterparts around the world continue to prop up market confidence will make a huge difference in the timing of the overdue market correction. My six-month-out forecast assumes the beginning of a normalization of monetary policy and a significant drop in the market. This in turn will not only reduce investor net worth, but also cause a drop in consumer confidence. The cosmetic side of our dental business lives and dies on consumer confidence to go into debt to pay for our services, and I am assuming that drop in the Consumer Confidence Index will occur in the next six months.

Hospitals

- Independent rural health care providers continue to struggle in a spectrum of decreased reimbursements and increased costs.

Nursing and Residential Care Facilities

- There is continuing pressure on health care providers related to federal regulation changing Medicare payment mechanisms and market pressures related to the implementation of the Affordable Care Act; combined with the upcoming presidential election, there is continued uncertainty about future federal funding and the stability of the Affordable Care Act.

Social Assistance

- Military spending for new apparel has dropped off of the table—at least until April 2017.

Amusement, Gambling, and Recreation Industries

- Right now Austin is having a tremendous increase in new restaurant openings. It is very difficult to hire skilled employees, especially for the chef and sous-chef positions. Therefore, we are having to increase wages to keep the staff we have. In addition, the cost of our health insurance went up and property taxes are insane. So even though revenue will go up with the increase in prices, that will be more than eaten up with increases in wages, benefits and taxes. Those are the big items. We also have new recycling costs, parking costs, reporting costs for health insurance, etc.

Accommodation

- We are looking at a slightly better first quarter 2017 than in 2016 (which was our best in the 47-year history of this property).

Food Services and Drinking Places

- Expenses are rising. We are continuing the fight with the amount of government reporting and regulations.
- There is a looming chance that salary thresholds will be raised.

- Wages will be going up on Dec. 1 with the new overtime law. We are going to have to raise all of our general managers to above $47,500. Current salary managers will be moved to hourly. That should be mainly cost-neutral we hope, but the general manager increase will not be neutral. We will be raising prices to cover this cost.
- Everything is very blah. It is difficult to even see a trend right now. One week we are down slightly compared with last year, the next up slightly. Revenue is up by 0.43 percent in our main concept, but we have a 1.43 percent price increase in place, so in an absolute sense, we were down. Our customer count reflects that by being down almost 2 percent. In the six-month horizon, we already have a confirmed increase of 8 percent for our employee medical insurance coverage effective Jan. 1. We also are seeing some wage creep, and it is much harder to find employees now. We are expecting increases in cost of goods sold within the next six months, but we are still flat to last year, despite substantial increases for some products because others dropped. We will likely take one price increase within the six-month horizon, although it is just tentatively scheduled at this point and the amount has not been determined.

Support Activities for Transportation

- We see slight increases in pay rates for existing employees in first quarter 2017. We expect increases in commitments docking at port, thus higher revenues in the first and second quarters; third and fourth quarters 2017 look to be flat at this time.

Merchant Wholesalers, Durable Goods

- It feels like the Texas economy is in good shape, but the elections have dragged down the optimism. I think that no matter what happens we will be in good shape. It's still better to be in Texas than anywhere else in the country, generally speaking. Home and commercial construction still remain strong along with road building in the territories we cover (San Antonio, Austin and the DFW area). We are starting to see some signs of life again from our oilfield customers—I think it will be slow and steady with them if prices continue to be above $50 per barrel.
- The decline in inventories is through a concerted effort to tighten up inventory and purchasing controls.

Merchant Wholesalers, Nondurable Goods

- Sales tax revenue has continued to decline in Houston. There is continued softness in the retail market. Workers are readily available at reasonable wages (mainly part time). Medical insurance premiums continue to climb due to the Affordable Care Act. Overall there is nothing promising.

Motor Vehicle Parts Dealers

- Our sales decrease is due to two factors: energy company layoffs and a general decline nationally in auto and truck sales.
- The increase in October sales will likely carry over into November but is due to a single order. The order does not occur every year.
- We have not achieved the sales we were expecting for this fall and have noticed that our competitors are doing likewise. Some want to blame the elections, but it is probably a matter of people deciding to drive their vehicles longer than they have in recent years. That could be a concern about overall economic conditions.
- We continue to be impacted by the slowdown in the overall oil industry.
- The automobile market seems to have plateaued. I expect it to remain flat or move backwards slightly.

Building Material and Garden Equipment and Supplies Dealers

- Business has slowed considerably. I assume (hope) everyone is waiting on the election to conclude.
- Not much movement either way in our current business environment. Not good but not really bad, just mediocre, which is not good for the future of any business.

Clothing and Clothing Accessories Stores

- Warm weather continues to hurt the sale of any cool weather apparel like sweatshirts, jackets, gloves, sweaters, etc. Oil patch areas continue to suffer from fewer workers, and border stores continue to be hurt by the strong dollar versus the peso.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.
The Texas Service Sector Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tssos/.

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 overregulation 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.