Texas Manufacturing Outlook Survey

June 29, 2015

TEXAS MANUFACTURING ACTIVITY STILL CONTRACTING

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, rose to -6.5 but remained in negative territory, suggesting a fourth consecutive month of contracting output.

A similar pattern was seen among other measures of current manufacturing activity in June. The capacity utilization index increased to -6.1 and the shipments index increased to -8.8. These negative index levels indicate continued contraction, but the upward movement this month suggests the pace of decline slowed. The new orders index moved up to -10.3, while the growth rate of orders index edged down to -16.5.

Perceptions of broader business conditions worsened further, although not as sharply in June as in prior months. The general business activity index jumped nearly 14 points to -7, its highest reading since January. The company outlook index moved to -7.4, up from -10.5 last month.

Labor market indicators reflected slight employment declines and shorter workweeks. The June employment index was negative for a second month in a row but pushed up 7 points to -1.2. Fourteen percent of firms reported net hiring, compared with 15 percent reporting net layoffs. The hours worked index inched up from -11.6 to -10.7.

There was upward pressure on input prices and wages in June, and downward pressure on selling prices eased. The raw materials prices index jumped 9 points to 7.4 after five months of negative readings. The finished goods prices index remained negative for a sixth month but moved up to -1.9, suggesting an abatement of downward pressure. Meanwhile, the wages and benefits index remained positive and little changed at 16.4.

Expectations regarding future business conditions improved in June. The index of future general business activity edged up to 8.1 and the index of future company outlook came in at 13.4. Indexes of future manufacturing activity moved down slightly but remained in solid positive territory.

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 16–24, and 115 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 27, 2015

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	-6.5	-13.5	+7.0	Decreasing	4	24.7	44.2	31.2
Capacity Utilization	-6.1	-11.6	+5.5	Decreasing	5	22.7	48.5	28.8
New Orders	-10.3	-14.1	+3.8	Decreasing	6	24.1	41.5	34.4
Growth Rate of Orders	-16.5	-15.2	-1.3	Decreasing	8	15.5	52.5	32.0
Unfilled Orders	-17.1	-10.6	-6.5	Decreasing	7	10.2	62.5	27.3
Shipments	-8.8	-13.2	+4.4	Decreasing	5	24.3	42.6	33.1
Delivery Time	-3.1	-10.2	+7.1	Decreasing	5	9.7	77.5	12.8
Materials Inventories	1.5	-1.7	+3.2	Increasing	1	21.4	58.7	19.9
Finished Goods Inventories	-3.6	-4.5	+0.9	Decreasing	3	17.5	61.4	21.1
Prices Paid for Raw Materials	7.4	-1.7	+9.1	Increasing	1	15.9	75.6	8.5
Prices Received for Finished Goods	-1.9	-8.7	+6.8	Decreasing	6	11.9	74.3	13.8
Wages and Benefits	16.4	14.7	+1.7	Increasing	67	19.0	78.4	2.6
Employment	-1.2	-8.2	+7.0	Decreasing	2	13.8	71.2	15.0
Hours Worked	-10.7	-11.6	+0.9	Decreasing	6	12.9	63.5	23.6
Capital Expenditures	1.6	3.4	-1.8	Increasing	3	13.4	74.8	11.8

General Business Conditions Current (versus previous month)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-7.4	-10.5	+3.1	Worsening	6	15.2	62.2	22.6
General Business Activity	-7.0	-20.8	+13.8	Worsening	6	16.1	60.8	23.1

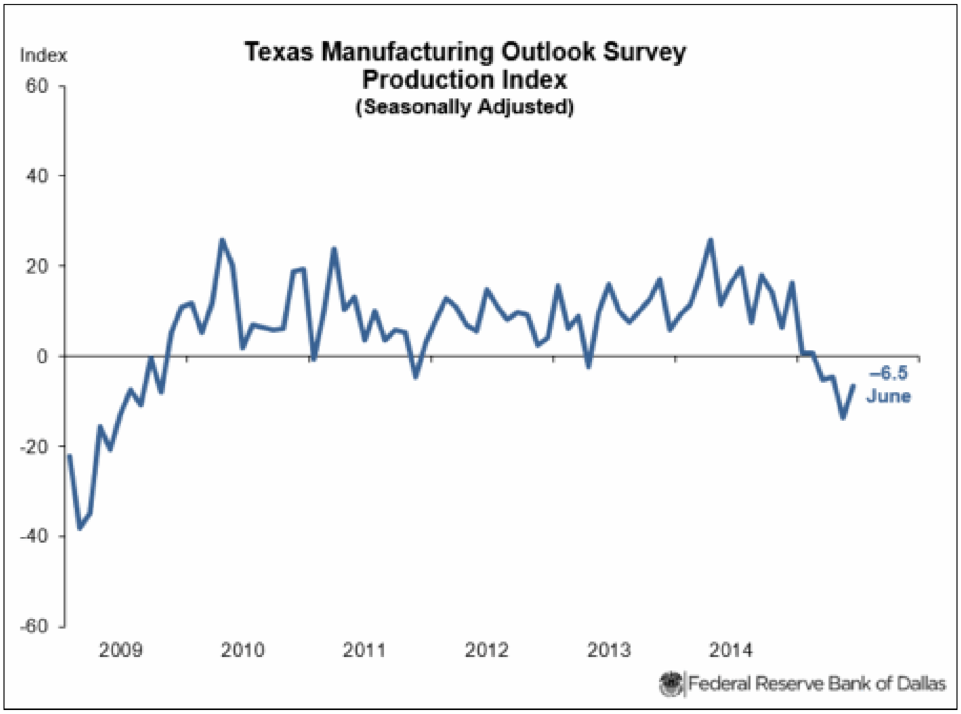
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	35.2	38.6	-3.4	Increasing	76	47.4	40.5	12.2
Capacity Utilization	31.7	35.5	-3.8	Increasing	76	43.0	45.8	11.3
New Orders	33.9	35.3	-1.4	Increasing	76	47.3	39.3	13.4
Growth Rate of Orders	21.1	27.3	-6.2	Increasing	76	35.4	50.3	14.3
Unfilled Orders	-2.9	4.0	-6.9	Decreasing	1	13.5	70.1	16.4
Shipments	31.5	33.3	-1.8	Increasing	76	45.0	41.6	13.5
Delivery Time	1.2	1.3	-0.1	Increasing	2	11.0	79.2	9.8
Materials Inventories	-0.9	-6.4	+5.5	Decreasing	5	17.4	64.2	18.3
Finished Goods Inventories	-2.8	-13.8	+11.0	Decreasing	6	15.7	65.7	18.5
Prices Paid for Raw Materials	19.3	21.1	-1.8	Increasing	75	26.6	66.1	7.3
Prices Received for Finished Goods	5.5	10.1	-4.6	Increasing	36	15.6	74.3	10.1
Wages and Benefits	31.0	30.6	+0.4	Increasing	133	31.8	67.4	0.8
Employment	16.9	14.1	+2.8	Increasing	31	27.1	62.7	10.2
Hours Worked	6.1	11.1	-5.0	Increasing	4	15.5	75.1	9.4
Capital Expenditures	13.0	10.5	+2.5	Increasing	67	25.0	63.0	12.0

General Business Conditions Future (six months ahead)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	13.4	15.1	-1.7	Improving	75	26.1	61.2	12.7
General Business Activity	8.1	4.9	+3.2	Improving	2	21.7	64.7	13.6

*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.



Comments from Survey Respondents

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

Chemical Manufacturing

- We are picking up business from other competitors. We have been awarded business based on quality activities.

Fabricated Metal Manufacturing

- We currently believe we are seeing the bottom of the downturn in oil and gas. So far, it appears it is holding true as new orders received in June are equal to the prior month for the first time in 2015.
- Sales and orders are increasing, but costs are increasing at a greater rate.
- First we faced strikes, now storms. It is tough out there.
- Signs of some stability in oil and gas exploration and production are emerging. If that continues, then our business conditions will benefit in the coming months.
- Weather in the Texas region continues to slow home building and renovation. Due to the wet conditions, most of my customers are unable to work on projects and their backlog continues to grow.

Machinery Manufacturing

- Our dollars quoted for new sales is down significantly. We also see customers delaying purchasing new products. For example, orders that our salesmen thought they would receive in late May or early June have been pushed out until August. Customers just continue to procrastinate—we think due to their own uncertainty about the price of oil.
- The decrease in the cost of energy is a positive for consumer-oriented businesses. We believe that recent proposed regulations by the Environmental Protection Agency will be a large negative to manufacturing and business in general.

Transportation Equipment Manufacturing

- We plan to install new equipment in December to better supply our customer.
- Imports from Asia continue to take business from our manufacturing capacities.

Wood Product Manufacturing

- May's rains will impact construction activity over the next couple of months.

Paper Manufacturing

- June has continued the slow pace of May (and year to date). So far, the predicted uptick has not materialized. We are now far enough behind 2014 to not be able to catch up this year. 2015 is guaranteed to be behind 2014 at this point.

Printing and Related Support Activities

- After a strong start to the year, we've hit a dead spot: sales are off 40 percent and possibly worse for July. For the first time in a long while, we've had multiple employees poached by competitors with higher wage and "you'll get first shift" offers. This has stirred up the rumor mill on the shop floor, and employee dissatisfaction seems to be rising.

Food Manufacturing

- There is a lack of work force. Every business seems to be having the same problem in our area.

Miscellaneous Manufacturing

- We feel that the government tax and regulatory environment is awful. We are spending too much effort on non-value generating activities, and it’s getting worse.

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/.

June 29, 2015

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 1–4, and 292 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)

Decreased our firm's costs (input/raw materials prices, wages and benefits, etc.)	40.0%
No effect	32.9%
Decreased demand from our customers	30.4%
Increased demand from our customers	12.1%
Increased our firm's costs (input/raw materials prices, wages and benefits, etc.)	1.8%

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

Slight positive impact	37.5%
Slight negative impact	22.5%
No impact	18.2%
Significant negative impact	14.3%
Significant positive impact	7.5%

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

Government regulation	68.4%
U.S. economy	60.4%
Labor shortages	37.8%
Interest rates	33.3%
Energy prices	30.2%
Strong dollar	17.4%
Real estate values	9.4%
Other	14.9%

NOTE: Survey respondents were given the opportunity to provide comments.

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/.

June 29, 2015

Special Questions

Data were collected June 1–4, and 97 Texas manufacturers 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.)	47.9%
Decreased demand from our customers	34.0%
No effect	23.4%
Increased demand from our customers	12.8%
Increased our firm's costs (input/raw materials prices, wages and benefits, etc.)	3.2%

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

Slight positive impact	41.9%
Significant negative impact	25.8%
No impact	11.8%
Significant positive impact	10.8%
Slight negative impact	9.7%

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

Government regulation	72.2%
U.S. economy	63.9%
Energy prices	40.2%
Labor shortages	38.1%
Strong dollar	27.8%
Interest rates	18.6%
Real estate values	0.0%
Other	15.5%

Special Questions Comments

These comments have been edited for publication.

Chemical Manufacturing

- In the petrochemical business, any time petroleum and natural gas liquids prices are lower, margins are better. It's always true.

Primary Metal Manufacturing

- Weather in Texas has negatively impacted our business significantly, especially with regards to construction activities. Imports of steel (notably from Turkey and Japan) continue to create downward pressure on price.
- We are competing with cheap foreign imports.

Fabricated Metal Manufacturing

- We believe that unprecedented global central bank actions have created the perception of a "juiced" economy among some business executives, who are concerned about making significant business commitments based on illusory business strength that could rapidly reverse.
- Since the first of the year, our backlog has continued to decrease with no new large jobs added. We have been quoting a large number of jobs for existing and new customers but have not added a significant, substantial purchase order in over 60 days. We have lost several jobs that the steel fabrication award went to another fabricator for amounts significantly below our production costs, indicating there is excess capacity in the region. These shops are "buying" the jobs to keep personnel and cover some overhead. Our benefit costs have gone up dramatically, which continues to cause our lower-end production personnel (especially younger ones) to opt out of coverage and say they cannot afford it. Our actual percentage of claims versus premiums is low.
- We have shifted focus away from oil and gas to other industries. We are still receiving occasional queries for projects, but they will not be acting on them until their position improves. We have resulted in setting these interests aside for the time being.
- My concern is that if the energy businesses had not slowed, labor would be very difficult to find and at a minimum, labor costs would have escalated more. Labor costs are still escalating due to rising health care costs.
- Low-rise (less than five stories) volumes measured in square feet are in the fifth year of recovery from the 2010 bottom but remain 40 percent below 50-year trough levels. Low-rise volumes historically represent 85–90 percent of all nonresidential construction, as reported by McGraw-Hill. Therefore, we can in part conclude that this economic recovery is weak.
- Low energy prices have significantly affected us in a negative way. In the U.S., our costs to explore and produce oil and gas are very expensive. The heavy regulations we have increase the costs to drill and produce, therefore making us uncompetitive in a global market. We believe that for us to compete as an energy producer globally we need an even playing field with our foreign competitors that have little to no costs associated with local regulations.
- The price of oil has a significant impact on our business not only in terms of fuel but also the cost of vinyl, which is predominantly made of oil. On the negative side, since we are selling products that promote energy efficiency—windows and doors—demand has gone down due to lower energy bills.
- Uncertainty regarding energy prices is a major issue for capital spending. The question of exporting crude oil is delaying some refinery expansion decisions. Overall, a little clarity in crude oil pricing would go a long ways to getting our business back to normal.

Machinery Manufacturing

- While lower energy prices reduce the inbound freight we pay and the outbound freight our customers pay, that impact is relatively minor. The biggest impact is on our equipment sales—being the most gas energy efficient lessens the incentive of certain customers to purchase our equipment.
- We believe that Congress needs to draft legislation to allow the exporting of crude oil and that the Energy Policy and Conservation Act of 1975 should be repealed. Our company builds robotic equipment for the oil industry. The recent decline in West Texas Intermediate (WTI) oil prices has caused a downturn in the U.S. oil industry. Last week we were forced to lay off 12 percent of our work force.

Computer and Electronic Product Manufacturing

- The strong dollar puts our U.S. original equipment manufacturers customers at a disadvantage. U.S.-made products are too expensive in comparison with Germany and Japan; therefore, our customers are losing competitive edge and the U.S. is losing on exports.

Transportation Equipment Manufacturing

- Labor shortage is the third major concern that we have insofar as quality skilled maintenance techs are hard to find. But the primary concerns are for energy prices to stay low and the economy strong, in that order.
- Rising health care costs have become a significant problem.
- This energy-driven manufacturing facility has been negatively affected by the lower energy prices by reducing manufacturing hours by 35 percent.

Printing and Related Support Activities

- In general, even our raw materials that involve petroleum feedstocks haven't come down. The suppliers have only reduced the fuel surcharges but not eliminated them. People are acting like this is a temporary drop. Prices at the pump have definitely edged up. The talk we hear is regarding whether we're at the end of the bull business cycle and shouldn't we be getting ready for the next recession. The stronger dollar has helped us buy some really high-end euro capital equipment at reasonable prices.
- Printing is driven by customer demands, and our production levels for the last two years have basically been the same. Kilowatt hours used in production averages the same month to month, so there is no significant change. The bulk of our business is shipping printed items, and the delivery companies charge a fuel surcharge. We have seen a slight change when fuel prices went down, but when they go up so do our shipping costs.
- In the manufacturing sector we are seeing difficulty in finding skilled, experienced labor to work in a 24/7 operation.

Furniture and Related Product Manufacturing

- Continued labor shortages are restraining construction, especially in Texas, and causing a slower than expected order flow. Orders are still strong, however, and the impact may result in a longer, but slower pace recovery that may actually be healthier for us in the long term.

Food Manufacturing

- There is a lack of good technical skills in our Texas workforce.

TSSOS

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.

June 29, 2015

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

These comments have been edited for publication.

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.