



Texas **Service Sector** Outlook Survey

January 30, 2018

Texas Service Sector Activity Continues to Expand but at Slower Pace

What's New This Month

The surveys now include a new index that gauges business executives' uncertainty regarding their company's outlook. The annual seasonal factors revisions have been moved from January to April.

Texas service sector activity continued to increase in January, albeit at a slower pace than last month, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, remained positive but fell sharply from 24.4 in December to 12.8 in January.

Labor market indicators reflected slower employment growth and slightly longer workweeks this month. The employment index fell from 15.3 to 6.8. The hours worked index moved down five points to 3.9.

Perceptions of broader economic conditions reflected more optimism in January, with both the general business activity and company outlook indexes increasing to their highest levels in more than three years. The general business activity index rose four points to 22.2, while the company outlook index edged up to 20.9.

Price and wage pressures eased this month. The selling prices index moved down from 16.6 to 12.4. The wages and benefits index fell five points to 15.0, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected slightly more optimism in January. Both the index of future general business activity and the index of future company outlook edged up a point to 36.0 and 34.5, respectively. Indexes of future service sector activity, such as future revenue and employment, continued to reflect optimism this month.



Texas **Retail** Outlook Survey

Retail Sales Decline

Retail sales fell in January for the first time since July, according to business executives responding to the Texas Retail Outlook Survey. The sales index plunged from 25.6 in December to -3.2 in January. Inventories increased at a faster pace than last month.

Labor market measures indicated slower retail employment growth and slightly longer workweeks this month. The employment index remained positive but fell sharply from 13.1 to 1.6. The hours worked index dropped 14 points to 1.6.

Retailers' perceptions of broader economic conditions reflected less optimism in January. The general business activity index dipped three points to 17.8. The company outlook index plunged 12 points to 12.7, with 24 percent of respondents reporting that their outlook improved from last month and 12 percent noting it worsened.

Retail price pressures eased, while wage pressures increased slightly this month. The selling prices index fell from 26.0 to 20.2. The wages and benefits index moved up three points to 16.8, although the majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions reflected less optimism in January. The index of future general business activity fell five points to 26.6, while the index of future company outlook fell nine points to 24.5. Indexes of future retail sector activity also reflected less 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: February 27, 2018

Data were collected Jan. 16–24, and 301 Texas business executives responded to the survey. The Dallas Fed conducts the Texas Service Sector Outlook Survey monthly to obtain a timely assessment of the state's service sector activity. 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	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Decrease
Revenue	12.8	24.4	-11.6	Increasing	98	31.5	49.8	18.7
Employment	6.8	15.3	-8.5	Increasing	95	14.8	77.2	8.0
Part-Time Employment	0.1	5.6	-5.5	Increasing	19	6.4	87.3	6.3
Hours Worked	3.9	9.2	-5.3	Increasing	15	11.4	81.1	7.5
Wages and Benefits	15.0	20.1	-5.1	Increasing	100	19.1	76.7	4.1
Input Prices	33.7	33.3	+0.4	Increasing	105	34.3	65.1	0.6
Selling Prices	12.4	16.6	-4.2	Increasing	23	17.9	76.6	5.5
Capital Expenditures	8.8	13.4	-4.6	Increasing	101	15.9	77.0	7.1

General Business Conditions

Current (versus previous month)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Improved	Reporting No Change	Reporting Worsened
Company Outlook	20.9	19.6	+1.3	Improving	19	28.7	63.5	7.8
General Business Activity	22.2	18.1	+4.1	Improving	17	29.0	64.1	6.8

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Decrease
Outlook Uncertainty†	-1.4	#N/A	#N/A	Decreasing	1	17.3	64.0	18.7

Business Indicators Relating to Facilities and Products in Texas

Future (six months ahead)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Decrease
Revenue	53.8	56.3	-2.5	Increasing	107	60.7	32.4	6.9
Employment	30.3	30.6	-0.3	Increasing	106	38.3	53.8	8.0
Part-Time Employment	14.0	13.3	+0.7	Increasing	67	19.1	75.8	5.1
Hours Worked	11.8	12.3	-0.5	Increasing	17	15.0	81.8	3.2
Wages and Benefits	47.2	47.6	-0.4	Increasing	133	49.0	49.2	1.8
Input Prices	51.3	51.4	-0.1	Increasing	133	53.5	44.4	2.2
Selling Prices	38.2	37.8	+0.4	Increasing	105	42.2	53.8	4.0
Capital Expenditures	35.6	35.7	-0.1	Increasing	106	40.2	55.2	4.6

**General Business Conditions
Future (six months ahead)**

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Improved	Reporting No Change	Reporting Worsened
Company Outlook	34.5	33.5	+1.0	Improving	23	41.8	50.9	7.3
General Business Activity	36.0	35.0	+1.0	Improving	23	39.9	56.2	3.9

Texas Retail Outlook Survey

Business Indicators Relating to Facilities and Products in Texas Retail (versus previous month)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	-3.2	25.6	-28.8	Decreasing	1	26.2	44.4	29.4
Employment	1.6	13.1	-11.5	Increasing	5	11.8	78.0	10.2
Part-Time Employment	-7.1	12.1	-19.2	Decreasing	1	5.4	82.1	12.5
Hours Worked	1.6	15.8	-14.2	Increasing	7	7.7	86.2	6.1
Wages and Benefits	16.8	13.9	+2.9	Increasing	83	21.5	73.8	4.7
Input Prices	35.8	31.8	+4.0	Increasing	24	37.7	60.4	1.9
Selling Prices	20.2	26.0	-5.8	Increasing	9	28.1	64.0	7.9
Capital Expenditures	5.2	17.3	-12.1	Increasing	18	14.0	77.2	8.8
Inventories	7.4	5.3	+2.1	Increasing	16	21.4	64.6	14.0
Companywide Retail Activity								
Companywide Sales	1.6	25.4	-23.8	Increasing	6	26.8	48.0	25.2
Companywide Internet Sales	11.5	14.3	-2.8	Increasing	12	20.3	70.9	8.8

General Business Conditions, Retail Current (versus previous month)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	12.7	24.7	-12.0	Improving	6	24.3	64.1	11.6
General Business Activity	17.8	20.9	-3.1	Improving	8	23.6	70.6	5.8

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	-9.4	#N/A	#N/A	Decreasing	1	15.1	60.4	24.5

**Business Indicators Relating to Facilities and Products in Texas, Retail
Future (six months ahead)**

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	34.8	41.9	-7.1	Increasing	107	43.5	47.8	8.7
Employment	16.3	22.6	-6.3	Increasing	8	24.0	68.3	7.7
Part-Time Employment	12.0	9.2	+2.8	Increasing	5	16.2	79.6	4.2
Hours Worked	5.7	11.6	-5.9	Increasing	6	8.8	88.1	3.1
Wages and Benefits	37.1	35.3	+1.8	Increasing	109	37.6	61.9	0.5
Input Prices	46.3	47.3	-1.0	Increasing	105	50.0	46.3	3.7
Selling Prices	42.5	43.6	-1.1	Increasing	105	48.1	46.3	5.6
Capital Expenditures	28.3	40.0	-11.7	Increasing	16	34.0	60.4	5.7
Inventories	7.2	16.7	-9.5	Increasing	15	23.0	61.2	15.8
Companywide Retail Activity								
Companywide Sales	39.6	48.4	-8.8	Increasing	106	46.0	47.6	6.4
Companywide Internet Sales	25.0	13.8	+11.2	Increasing	18	30.6	63.9	5.6

**General Business Conditions, Retail
Future (six months ahead)**

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	24.5	33.4	-8.9	Improving	14	32.4	59.7	7.9
General Business Activity	26.6	31.5	-4.9	Improving	17	30.3	66.0	3.7

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

**Number of months moving in current direction.

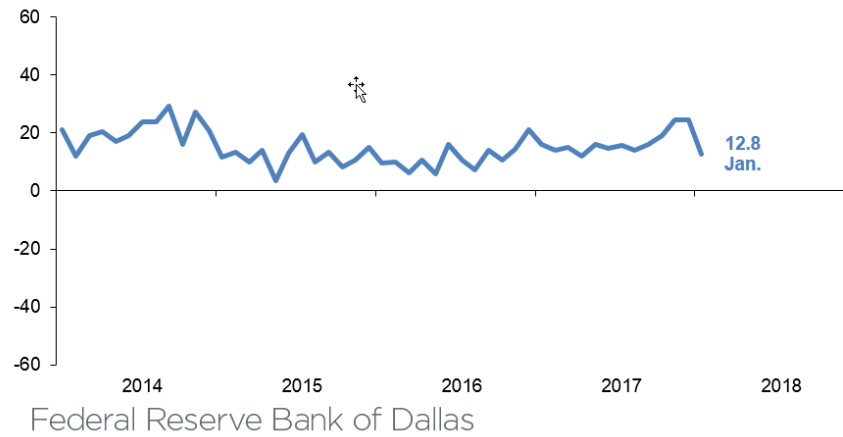
†Added to survey in January 2018.

Data have been seasonally adjusted as necessary, with the exception of the outlook uncertainty index which does not yet have a sufficiently long time series to test for seasonality.

Texas Service Sector Outlook Survey

Texas Service Sector Outlook Survey Revenue Index

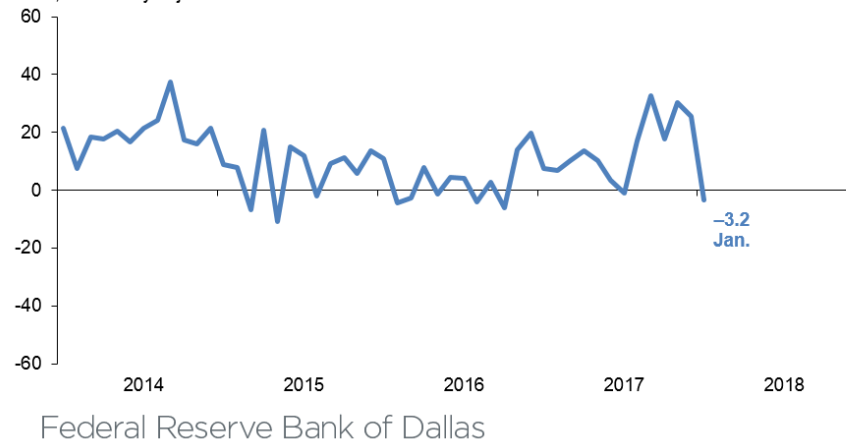
Index, seasonally adjusted



Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



Texas Service Sector Outlook Survey

January 30, 2018

Comments from Survey Respondents

Publishing Industries (Except Internet)

- There is an acceleration of the rising tide around opportunities for advanced solutions in user interface from augmented reality in health to audiovisual information in vehicles. Software/sensor/compute solutions are the new hardware solutions. Some who wanted to move cautiously will now actively consider these solutions. More funding is available, and there is a rising concern about being left behind in their markets and what the new normal needs to be to remain competitive and/or grow. The January Consumer Electronics Show is always a catalyst, but more sectors' senior management are interested in engaging now than even last year.

Data Processing, Hosting and Related Services

- The business climate is more positive, and buying decisions are being made more readily.

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

- Costs are rising without corresponding increases in sales pricing. The costs of raw materials are increasing at a rapid clip.
- In the private-equity business, we continue to see fewer commercial banks involved in financing leveraged transactions. There seems to be a quite a bit of mergers and acquisitions activity in Texas for small- to midsized companies. Very little of this activity is financed by commercial banks. Insurance-funded firms are providing the leverage for many of the small- and midsized transactions.

Credit Intermediation and Related Activities

- I am seeing increased confidence in the business community.
- The idea of regulatory relief may become a reality, and that should have a compensatory positive impact on banks and, thus, the economy. Oil production and prices are continuing to increase, and we are seeing growth in the service industry as well as trucking and rail loads. Taxing entities in our county are developing strategies to spend the additional tax income generated from the establishment of the wind-generation farm. This will create jobs and increase sales tax while reducing property tax rates. It should be a good start to a better year as long as U.S. politics or a global incident does not frighten prosperity away.

Real Estate

- December was slow, and the beginning of January was slow. Things are picking up, especially on warmer days.
- The only major uncertainty we are facing is the uncertainty with the North American Free Trade Agreement (NAFTA) and potential changes to immigration laws. All the border communities are very interdependent, and the constant negative rhetoric frankly is our primary headwind. It is amazing the seemingly total ignorance the administration has of international trade with Mexico and its positive impact on the entire country. We should be embracing trade with Mexico and using it as a gateway to increase trade with all of South America.

Rental and Leasing Services

- We think 2018 will be a strong year; however, the competition in the construction machinery industry is just absurd. I think in 2019, or shortly after the November elections, we will definitely have something much more severe than a correction.

Professional, Scientific and Technical Services

- There are far fewer multifamily starts.
- The tax cut legislation is welcomed.
- The U.S., Middle East and Asian economies seem very strong and to be getting stronger.
- The tight labor market could inhibit growth.
- We are slightly overstaffed versus revenue. We anticipate loss of some employees without immediate replacement.

- We are cautiously optimistic about 2018. The effect of the tax reform should increase activity (both client structuring and mergers and acquisitions), and it should prolong this real estate cycle. We are also starting to see a pickup in technology and even litigation.
- We feel that the rise in the 10-year rate and 30-year fixed mortgage rate is starting to have a negative impact on our business. The commercial transactions that were on the fence are now being pushed or put on hold, and the number of consumers who can qualify for 30-year mortgage loans is decreasing. We are still in a very good economy in Texas, but we all know this market cannot continue at this pace forever.
- January is off to a slow start due to the timing of the New Year's holiday and slow client start of the year. Our outlook for the rest of 2018 still looks strong—improved over 2017.
- NAFTA is our prevailing preoccupation right now.

Management of Companies and Enterprises

- Regulatory relief is needed.

Administrative and Support Services

- There is weakness in the restaurant industry that has created uncertainty. The real estate industry has been positive, but as properties turn over, their cost basis changes and budgets are reflective of those new increased costs/values.
- The aviation sector overall has increased in activity since Jan. 1. We have an increase in requests for quotes (RFQs) for aircraft components and on-wing inspections. The corporate aviation sector has increased its inspections due to cycle use, which has flowed down to us in inspection items due sooner. The commercial aviation sector has remained low but steady as compared with last year. We see no increase in this area for the foreseeable future. The industrial sector overall has increased with RFQs substantially since Jan. 1. All sectors have increased their submittal of RFQs for the next two months. The oil sector is still slow to respond. We have some RFQs, but they have come with the understanding that they would not be executed on until second or third quarter at the soonest. I believe, no matter your thoughts on President Trump, he does have the power at the moment to make the market move in a positive direction.
- We need the returning worker exemption for our H2B workforce.
- We have a number of new full-time employees who, as they go through our training program, are becoming more of an asset every month.
- The weather has been very cold and has impacted our operations significantly.
- As a government contractor, I have access to future opportunities, and so far, 2018 looks excellent.
- Weather was a negative factor in January.
- Tax relief is a win for business.

Educational Services

- We have lost a major account, which will reduce revenue by 50 percent. It will take time to recover from the loss of this logistics customer.
- Tax cuts and the elimination of the state and local tax deduction should be a boost for our area.

Ambulatory Health Care Services

- January is a seasonally low month due to the high patient responsibility component of health care imaging. Many patients put off elective and sometimes necessary services this time of year.
- Due to the nature of the health care business line we are in, increasing compliance costs and tightening of reimbursement by insurance payers are increasing our costs and, with increasing business volumes but decreasing margins, are challenging medium-sized businesses employing 150 to 300 employees to be viable. This has been the driver for a significant amount of consolidation across health care service providers including stand-alone hospitals, surgical centers, nursing homes, and home health and hospice service providers.

Amusement, Gambling and Recreation Industries

- The fundamental core of our business is solid, and we predict it will remain so. All the additional factors that we now have to manage are so difficult for us to predict and plan for, e.g., property taxes, very low unemployment rate, potential city-mandated sick leave policy, increases in health insurance rates, decreases in available parking and technology demands.

Accommodation

- Due to weather and other influences, our January is much softer than we anticipated. Hopefully, a thaw will take place sooner rather than later to allow business to get back to a more normal level. The dialogue in Washington regarding the funding of the government and immigration, DACA, does not help with business levels. Immigration is a very important issue that needs to be fixed. Going around about who said what is not fixing the issue.

Food Services and Drinking Places

- Business is still strong. We closed a location in Burleson, Texas, in mid-January, resulting in the decrease from December.
- When withholding tables are updated and implemented, the impact will definitely benefit our customers' disposable income, increasing the willingness of spontaneous purchases.
- January has seen a decrease in sales, but we believe it to be strictly weather-related and do not think it is a change in our trend line, which has been showing substantial increases for the last several months. Wages and benefits are up in the current month, primarily because our cost increases for medical coverage became effective Jan.1, 2018, and they were substantial. We are projecting an increase in the six-month horizon because wages are now increasing very close to 2 percent on an annualized basis at this point. Cost of goods sold continues to be overall quite stable, although we have seen substantial increases and decreases in particular products. We said uncertainty decreased because we now have several months in a row of solid increases and we expect them to continue, although, as mentioned above, January has been down because of much colder-than-normal weather.
- The employment market is tight.
- The reasons revenue will be down are we are a retailer and the change in weather on Jan.16 and 17.

Support Activities for Transportation

- Since we are engaged in international trade between the U.S., Mexico and other countries, the presidential focus has worsened our business outlook.

Utilities

- Several large coal plants have been retired, and reserve margins will now be lower than we've seen in several years. Wholesale power prices have increased as a result.
- Increases are because of the bad weather in New England.

Merchant Wholesalers, Durable Goods

- As long as oil stays above \$60 per barrel, things look good for the oil sector. Overall, commercial construction, homebuilding and heavy highway construction continue to look strong over the next 24 months or so. We are bullish about 2018 and 2019 as things stand today.
- January is off to a strong start. Based on customer feedback, we feel the outlook is positive for first quarter.

Motor Vehicle and Parts Dealers

- January is generally softer than December in our business. Our industry is projected to be down slightly from 2017. Margins continue to erode, and expenses continue to increase. Our business model will change dramatically in the years ahead as we move to electrified vehicles and autonomous vehicles, and consumers embrace various transportation options new to the market.
- Our business carries very large inventories (\$100+ million) and we are concerned about rising interest rates. This will also have an effect on our facility expansions.
- After seven years of increases in new-vehicle unit sales volume, a slight decrease in unit volume is to be expected.

Gasoline Stations

- The decrease in sales is seasonal, not economic.

Clothing and Clothing Accessories Stores

- Sales in oil patch areas continue to stabilize and are showing some small increases versus the prolonged downtrend that started in the fourth quarter of 2014.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.