



Texas **Service Sector** Outlook Survey

March 27, 2018

Texas Service Sector Activity Continues to Increase

Texas service sector activity picked up in March, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, rose from 13.2 in February to 19.3 in March.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index edged up three points to 15.1. The hours worked index moved up from 3.8 to 8.0.

Perceptions of broader economic conditions continued to reflect optimism in March. The general business activity index fell four points to 13.5. The company outlook index rose from 12.9 to 16.8, with 25 percent of respondents noting their outlook improved from last month and 8 percent noting it worsened.

Price and wage pressures remained elevated but eased slightly this month. The selling prices index remained largely unchanged at 15.7. The wages and benefits index edged down from 22.2 to 19.7, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions continued to reflect optimism in March. The index of future general business activity dipped from 30.5 to 29.2. The index of future company outlook advanced eight points to 34.1. Indexes of future service sector activity, such as future revenue and employment, reflected more optimism this month.



Texas **Retail** Outlook Survey

Retail Sales Rebound

Retail sales improved notably in March, according to business executives responding to the Texas Retail Outlook Survey. After two consecutive months of declines, the sales index surged 22 points to 13.0. Inventories increased at a markedly faster pace than last month.

Labor market measures indicated faster retail employment growth and longer workweeks this month. The employment index rose from 12.1 to 16.7. The hours worked index moved up from 5.5 to 10.1.

Retailers' perceptions of broader economic conditions continued to reflect optimism in March. The general business activity index edged down two points to 2.5. The company outlook index rose four points to 6.4, with 19 percent of respondents reporting that their outlook improved from last month and 13 percent noting it worsened.

Retail price pressures eased slightly, while wage pressures increased this month. The selling prices index fell from 31.8 to 28.2. The wages and benefits index rose five points to 24.9, although the majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions reflected more optimism in March. The index of future general business activity advanced from 7.1 to 14.8, while the index of future company outlook jumped 16 points to 19.7. Indexes of future retail sector activity also reflected more 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: May 1, 2018

Data were collected March 13–21, and 289 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	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	19.3	13.2	+6.1	Increasing	100	32.3	54.7	13.0
Employment	15.1	12.3	+2.8	Increasing	97	22.0	71.1	6.9
Part-Time Employment	5.5	2.7	+2.8	Increasing	21	8.4	88.7	2.9
Hours Worked	8.0	3.8	+4.2	Increasing	17	12.6	82.8	4.6
Wages and Benefits	19.7	22.2	-2.5	Increasing	102	23.0	73.7	3.3
Input Prices	31.4	35.5	-4.1	Increasing	107	32.3	66.9	0.9
Selling Prices	15.7	16.6	-0.9	Increasing	25	19.7	76.3	4.0
Capital Expenditures	19.0	16.7	+2.3	Increasing	103	21.3	76.4	2.3

General Business Conditions Current (versus previous month)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	16.8	12.9	+3.9	Improving	21	24.9	67.0	8.1
General Business Activity	13.5	17.5	-4.0	Improving	19	22.3	68.8	8.8

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	5.9	9.9	-4.0	Increasing	2	18.6	68.7	12.7

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	54.3	50.3	+4.0	Increasing	109	60.1	34.1	5.8
Employment	33.4	31.8	+1.6	Increasing	108	40.0	53.4	6.6
Part-Time Employment	12.9	10.1	+2.8	Increasing	69	17.4	78.1	4.5
Hours Worked	13.7	13.2	+0.5	Increasing	19	15.7	82.3	2.0
Wages and Benefits	48.5	45.6	+2.9	Increasing	135	50.4	47.7	1.9
Input Prices	47.0	47.5	-0.5	Increasing	135	48.0	51.1	1.0
Selling Prices	37.1	32.7	+4.4	Increasing	107	40.6	55.9	3.5
Capital Expenditures	32.9	35.2	-2.3	Increasing	108	37.7	57.5	4.8

General Business Conditions
Future (six months ahead)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Improved	Reporting No Change	Reporting Worsened
Company Outlook	34.1	25.7	+8.4	Improving	25	40.5	53.1	6.4
General Business Activity	29.2	30.5	−1.3	Improving	25	35.0	59.3	5.8

Texas Retail Outlook Survey

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	13.0	-9.4	+22.4	Increasing	1	35.0	42.9	22.0
Employment	16.7	12.1	+4.6	Increasing	7	21.6	73.5	4.9
Part-Time Employment	4.0	2.0	+2.0	Increasing	2	8.0	88.0	4.0
Hours Worked	10.1	5.5	+4.6	Increasing	9	15.7	78.7	5.6
Wages and Benefits	24.9	19.9	+5.0	Increasing	85	30.1	64.7	5.2
Input Prices	34.3	37.3	-3.0	Increasing	26	34.3	65.7	0.0
Selling Prices	28.2	31.8	-3.6	Increasing	11	34.6	59.0	6.4
Capital Expenditures	17.6	11.7	+5.9	Increasing	20	17.6	82.4	0.0
Inventories	12.3	1.3	+11.0	Increasing	18	27.9	56.5	15.6
Companywide Retail Activity								
Companywide Sales	12.2	-10.4	+22.6	Increasing	1	31.1	50.0	18.9
Companywide Internet Sales	17.0	8.2	+8.8	Increasing	14	26.4	64.2	9.4

General Business Conditions, Retail Current (versus previous month)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	6.4	2.4	+4.0	Improving	8	19.3	67.8	12.9
General Business Activity	2.5	4.4	-1.9	Improving	10	15.6	71.3	13.1

Outlook Uncertainty Current (versus previous month)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	8.3	12.7	-4.4	Increasing	2	27.1	54.2	18.8

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	38.3	28.8	+9.5	Increasing	109	45.8	46.8	7.5
Employment	23.2	8.9	+14.3	Increasing	10	29.8	63.6	6.6
Part-Time Employment	1.1	-2.0	+3.1	Increasing	1	8.7	83.7	7.6
Hours Worked	5.8	5.6	+0.2	Increasing	8	9.1	87.6	3.3
Wages and Benefits	41.6	25.2	+16.4	Increasing	111	42.9	55.7	1.3
Input Prices	37.5	38.0	-0.5	Increasing	107	41.7	54.2	4.2
Selling Prices	43.7	28.0	+15.7	Increasing	107	45.8	52.1	2.1
Capital Expenditures	31.3	26.0	+5.3	Increasing	18	31.3	68.8	0.0
Inventories	17.3	10.9	+6.4	Increasing	17	26.3	64.7	9.0
Companywide Retail Activity								
Companywide Sales	38.5	26.0	+12.5	Increasing	108	43.0	52.5	4.5
Companywide Internet Sales	25.7	15.2	+10.5	Increasing	20	31.4	62.9	5.7

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	19.7	3.7	+16.0	Improving	16	29.3	61.1	9.6
General Business Activity	14.8	7.1	+7.7	Improving	19	28.4	58.0	13.6

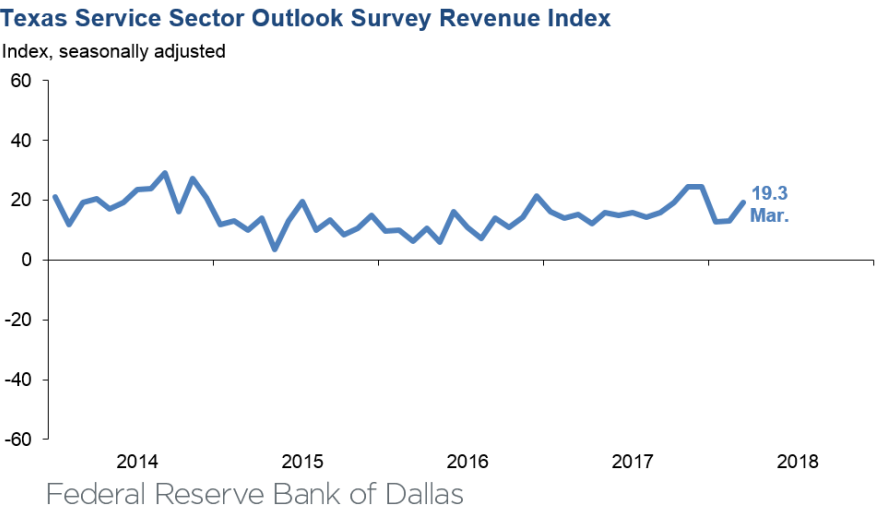
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

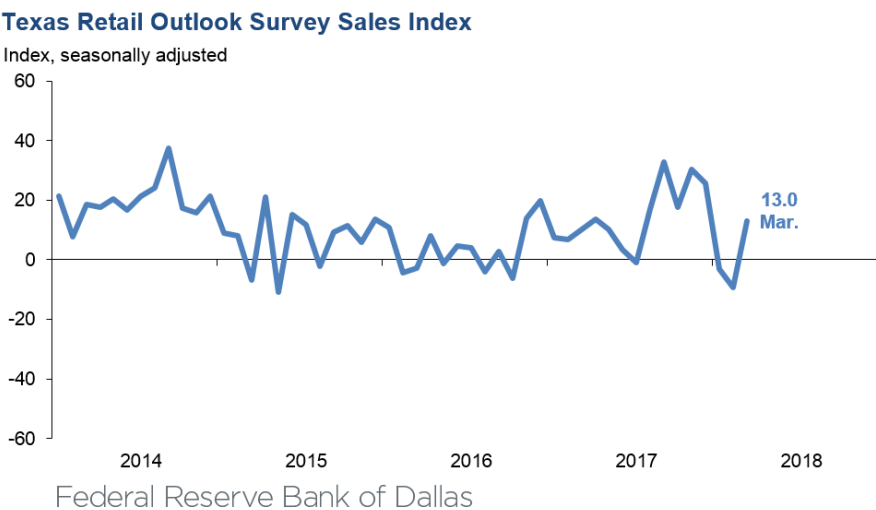
†Added to survey in January 2018.

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 Retail Outlook Survey



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Comments from Survey Respondents

Publishing Industries (Except Internet)

- More evolved and serviceable opportunities keep forming on the horizon.

Data Processing, Hosting and Related Services

- We are optimistic about the rest of the year based on the quarter's presales activity levels. The coming interest rate increases have people a bit anxious about what they will do to business decisions in the coming months. We don't have enough data yet on whether they are helping decisions happen more quickly or more cautiously.

Credit Intermediation and Related Activities

- We are in an interest-rate-dependent industry and are automating as fast as we can. We cannot control interest rates. We can augment productivity while we compete with offshored \$8-per-day labor.
- There is a lot of activity locally with ancillary benefits as a result of construction of a wind generator farm and continued demand for frac sand. County sales tax receipts continue to increase.

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

- We are still having issues with certain types of mandatory-type expenses, and the labor market is getting tighter now.
- I'm being acquired and will have more resources to grow my staff.

Real Estate

- It is spring. People are happier and make decisions to move during the late spring and early summer.
- NAFTA (North American Free Trade Agreement) and immigration continue to dampen the market, and the euphoria over the tax law changes is being killed by the fear over the tariffs.

Professional, Scientific and Technical Services

- An increase in the number of new prospective projects has been noted, which appears to be associated with the recent bump in interest rates.
- The oil and gas business is going in the right direction. Permian production is causing more pipeline projects to be constructed.
- February brought a significant boost in client work requests. Proposals issued in the latter part of 2017 and January 2018 turned into contracts in February and March. The sluggish response of clients to sign contracts from 2016 and 2017 may finally be abating.
- Our uncertainty increased due to NAFTA and steel tariffs.
- We are still experiencing a slowdown in revenue and orders year over year. We think this decrease is due to the current increases in the 30-year mortgage rate and the 10-year rate. With the economy remaining strong, we feel that we are in an adjustment period, and the market will soon stabilize.
- We experienced a slight uptick in billable hours and rates collected.
- We are concerned about trade wars and the impact on the global economy and client demand.
- The perilous decision to impose tariffs will hurt Texas. The uncertainty in the White House will hurt consumer confidence. It is a challenge to do business today.
- Increases in steel costs will impact the ability of our clients to move forward on some construction projects. The steel industry advised us of an immediate 15 percent increase and another 15 percent in 30 days. We are also seeing cost increases in other construction materials.
- The tariff situation is an unknown for our local energy and chemical base.

- It feels like things are really jumping.

Management of Companies and Enterprises

- Strange as it might sound, the two months of dreary weather in the latter part of January and February I believe impacted consumers' buying of cars and homes. It seemed as if every weekend was wet, cold and dreary—not leading to much consumer activity. The sun is now out, spring break is here, and there seems to be a change in attitude and traffic.

Administrative and Support Services

- We still see the same weakness in certain very competitive areas like restaurants and strength in the real estate markets.
- Any decrease is not an indication of the market or volume of opportunities but is simply related to our ability to execute well. We are working on this, and once our special projects are complete and we've put effective marketing and sales in place, I expect to see a noticeable improvement in our revenue, profit and overall business performance.
- We are experiencing a labor shortage.
- My only fear now is that the economy is set for a correction of some scale.
- Optimism is high, and people are getting to work. The stability of a known regulatory environment helps us make business decisions.
- I was just informed of a raw materials increase for steel rebar due to tariffs.

Educational Services

- I remain optimistic about the local and national economy. Signals point to robust growth.
- Lack of qualified candidates to fill openings continues to pressure our business model. Workforce concerns continue.

Hospitals

- Rural health systems continue to struggle. Increased regulatory requirements and cost, while reimbursements and funding decrease, continue to strain the financial stability; the loss of health care in Texas' small communities will have a huge impact on these areas.

Nursing and Residential Care Facilities

- The environment for acute care hospitals is unstable, with an aging workforce, significant cost pressure and unpredictable regulatory environment.
- We continue to struggle to find clients with the ability to pay for our services. Over 90 percent of our potential clients require government funding to obtain services.

Amusement, Gambling and Recreation Industries

- Austin has a huge problem with not enough employees to hire in all sectors of the business world. This is especially true in hospitality with new businesses opening and other restaurants and hotels trying to hire from the same labor pool. The cost of labor and all the corresponding items based on wages, i.e., workers comp insurance, vacation and sick time, retirement plans, etc., continue to rise. The city of Austin now has a new mandatory sick leave policy for all employees. This is adding to the cost of doing business as well. This critical shortage of workers also makes it very difficult to hire people to do jobs related to plumbing or roofing or electricity. Let's just say it is a real challenge trying to operate a business in Austin right now.

Food Services and Drinking Places

- We are opening a new store in McAllen, Texas, in the next six months.
- We're still recovering from Hurricane Harvey. We expect to start our phased reopening April 5 (with groups) and be open for guests by June 1.
- The reason there was no change between February and March is because February had Valentine's Day and the beginning of Lent for half the month, while March has a whole month of Lent. The increases in the six months were increases in salaries and additional hiring for the new restaurants we opened up in Houston and Dallas.

- We consider uncertainty increased because, while we are netting out to virtually the same as last year, we have a lot of froth—up one week and down the next. Not real sure how things are going to settle out. For example, the first weekend of spring break, traditionally a very high sales and critical period for us, left us solidly behind and looking like we were going to fall quite short of last year, but the second weekend (closing of spring break) went gangbusters and left us virtually even for the entire spring break period compared to last year.
- Our costs for beef and labor are high.

Pipeline Transportation

- It is a tough call on uncertainty. The imposition of steel tariffs has increased costs and likely uncertainty, but it has not altered our 2018–2019 capital investment plans, which are relatively robust.

Support Activities for Transportation

- Steel and aluminum tariffs bring uncertainty to import-export businesses.
- Continued protectionist trade has made our company's situation worse.

Repair and Maintenance

- The high cost of health insurance is very difficult for our company and the employees who must share the cost. Also, there must be a better system for taxation than property taxes. We pay sales tax when we buy the equipment, then pay property taxes on the equipment every year, whether it is being used or not. I simply do not understand how this is fair or equitable.

Merchant Wholesalers, Nondurable Goods

- We will continue to do more with less, as we need to see if we can fully pass on the increased costs of freight, etc.

Motor Vehicle and Parts Dealers

- We are concerned about what an increase in interest rates will do to Main Street.
- We are concerned with current market conditions. January and February were challenging and disappointing months for us. The industry faced a more challenging environment than expected. Profits were down and expenses up versus the same period the prior year. March will tell us a lot about the market and perhaps the year. I don't like what I am seeing right now.

Building Material and Garden Equipment and Supplies Dealers

- We are having problems right now. Three homes that we started from what we call dirt sales, where the customer puts 2 percent down and they pick tile, paint, granite, etc., from my selection, backed out when the home was sold. Six months ago rates were 3.75 percent; at the time of closing, they were 4.5 percent, so the customers canceled. We cannot find any experienced help, including supers, subs or operators. If rates go up much more, the situation will get worse and then we're going to sit on homes too long.
- Our future outlook is clouded due to potential negative impacts of public deficits, trade policy and immigration policy.

Clothing and Clothing Accessories Stores

- We continue to see sales stabilizing in the stores located in oil patch markets, but sales in the border stores are starting to slip once again.

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