



# Texas **Service Sector** Outlook Survey

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July 31, 2018

## Texas Service Sector Activity Accelerates

Texas service sector activity accelerated in July, 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 19.0 in June to a three-year high of 25.4 in July.

Labor market indicators reflected continued employment growth and longer workweeks this month. The employment index remained positive but fell slightly from 13.9 in June to 11.9 in July. The hours worked index dipped to 9.1, though it remains above its 12-month average.

Perceptions of broader economic conditions continued to reflect optimism. The general business activity index fell slightly from 22.4 in June to 21.1 in July. The company outlook index was largely unchanged at 14.2.

Price and wage pressures remained elevated this month. The wages and benefits index was largely steady at 24.5 in July, with over one-quarter of respondents noting wage increases. The selling price index edged down to 13.2 in July, though it continues to hold well above its postrecession average.

Respondents' expectations regarding future business conditions softened slightly but continued to reflect optimism. The future general business activity index fell over three points to 25.5, while the future company outlook index inched down from 27.6 in June to 26.1 in July. Wage expectations remained elevated, as the future wages and benefits index advanced to its highest level since early 2007. Indexes of future service sector activity, such as revenue and employment, also reflected continued optimism this month.



# Texas **Retail** Outlook Survey

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## Retail Sales Pick Up

Retail sales increased in July, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose from 1.6 in June to 6.0 in July. Inventories grew at an accelerated pace, with the index rising to its highest level in nearly a year.

Retail employment decelerated and workweek length remained unchanged this month. The employment index fell from 10.7 in June to 3.3 in July. The hours worked index declined from 9.1 to 0.6.

Retailers' perceptions of broader economic conditions remained positive in July but softened compared with June. The general business activity index fell about four points to 9.4, while the company outlook index dropped nearly three points to 3.2.

Retail price and wage pressures remained elevated but eased compared with June. The selling prices index plummeted from 27.0 in June to 15.3 in July, its lowest reading in a year. The wages and benefits index fell over eight points to 21.1.

Retailers' perceptions of future broader economic conditions indicated continued but diminished optimism in July. The index of future general business activity declined to 19.5. The index of future company outlook fell to 9.2. Other indexes of future retail sector activity also fell, particularly future sales, which dropped over 20 points to 22.1.

**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:** August 28, 2018

Data were collected July 17–25, and 209 Texas service sector and 54 retail sector 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	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	25.4	19.0	+6.4	Increasing	103	40.2	45.0	14.8
Employment	11.9	13.9	-2.0	Increasing	101	19.4	73.1	7.5
Part-Time Employment	5.7	4.3	+1.4	Increasing	6	9.4	86.9	3.7
Hours Worked	9.1	10.7	-1.6	Increasing	21	13.1	82.8	4.0
Wages and Benefits	24.5	24.2	+0.3	Increasing	110	27.5	69.6	3.0
Input Prices	31.4	32.2	-0.8	Increasing	111	33.2	65.0	1.8
Selling Prices	13.2	15.4	-2.2	Increasing	29	18.3	76.6	5.1
Capital Expenditures	17.4	14.4	+3.0	Increasing	107	22.4	72.6	5.0

## General Business Conditions Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	14.2	14.4	-0.2	Improving	25	22.0	70.2	7.8
General Business Activity	21.1	22.4	-1.3	Improving	23	26.2	68.7	5.1

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	12.1	6.9	+5.2	Increasing	6	20.4	71.3	8.3

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	44.1	44.6	-0.5	Increasing	113	52.2	39.7	8.1
Employment	28.9	28.9	0.0	Increasing	112	35.1	58.8	6.2
Part-Time Employment	9.4	9.5	-0.1	Increasing	73	16.6	76.2	7.2
Hours Worked	9.1	10.7	-1.6	Increasing	23	12.8	83.5	3.7
Wages and Benefits	51.1	50.4	+0.7	Increasing	139	53.2	44.7	2.1
Input Prices	48.7	45.4	+3.3	Increasing	139	52.0	44.6	3.3
Selling Prices	35.0	35.8	-0.8	Increasing	111	41.1	52.8	6.1
Capital Expenditures	28.7	28.4	+0.3	Increasing	112	36.1	56.4	7.4

## General Business Conditions Future (six months ahead)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	26.1	27.6	-1.5	Improving	29	34.1	58.0	8.0
General Business Activity	25.5	28.7	-3.2	Improving	29	30.2	65.1	4.7

# Texas Retail Outlook Survey

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	6.0	1.6	+4.4	Increasing	3	29.6	46.8	23.6
Employment	3.3	10.7	-7.4	Increasing	11	11.5	80.3	8.2
Part-Time Employment	0.0	8.2	-8.2	No Change	1	5.7	88.7	5.7
Hours Worked	0.6	9.1	-8.5	Increasing	13	7.8	85.0	7.2
Wages and Benefits	21.1	29.5	-8.4	Increasing	89	26.0	69.1	4.9
Input Prices	29.4	41.3	-11.9	Increasing	30	35.3	58.8	5.9
Selling Prices	15.3	27.0	-11.7	Increasing	16	31.9	51.5	16.6
Capital Expenditures	11.1	12.0	-0.9	Increasing	24	18.5	74.1	7.4
Inventories	18.9	12.7	+6.2	Increasing	2	27.2	64.5	8.3
<b>Companywide Retail Activity</b>								
Companywide Sales	1.6	4.2	-2.6	Increasing	3	26.2	49.3	24.6
Companywide Internet Sales	4.0	17.8	-13.8	Increasing	3	14.0	76.0	10.0

General Business Conditions, Retail  
Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	3.2	6.1	-2.9	Improving	16	16.7	69.8	13.5
General Business Activity	9.4	13.0	-3.6	Improving	3	19.8	69.8	10.4

Outlook Uncertainty  
Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	9.4	6.1	+3.3	Increasing	2	22.6	64.2	13.2

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	22.1	43.5	-21.4	Increasing	113	37.1	47.8	15.0
Employment	14.9	23.6	-8.7	Increasing	14	23.1	68.7	8.2
Part-Time Employment	0.7	9.7	-9.0	Increasing	5	9.3	82.1	8.6
Hours Worked	4.0	8.4	-4.4	Increasing	12	11.7	80.6	7.7
Wages and Benefits	44.8	50.9	-6.1	Increasing	115	47.2	50.3	2.4
Input Prices	37.8	47.9	-10.1	Increasing	111	49.1	39.6	11.3
Selling Prices	26.4	45.8	-19.4	Increasing	111	39.6	47.2	13.2
Capital Expenditures	15.1	20.8	-5.7	Increasing	22	26.4	62.3	11.3
Inventories	4.0	9.1	-5.1	Increasing	21	22.1	59.8	18.1
<b>Companywide Retail Activity</b>								
Companywide Sales	22.6	37.1	-14.5	Increasing	112	34.3	54.0	11.7
Companywide Internet Sales	13.1	24.2	-11.1	Increasing	24	18.4	76.3	5.3

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	9.2	13.9	-4.7	Improving	20	22.3	64.6	13.1
General Business Activity	19.5	23.2	-3.7	Improving	23	25.8	67.9	6.3

\*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.

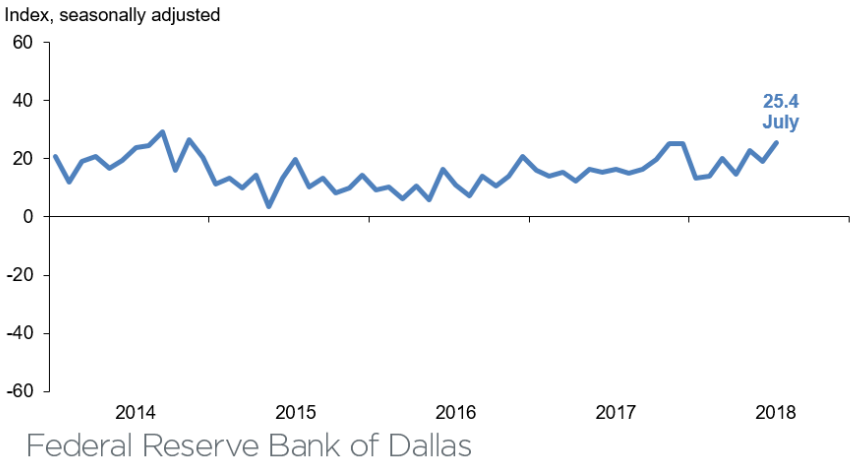
\*\*Number of months moving in current direction.

†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.

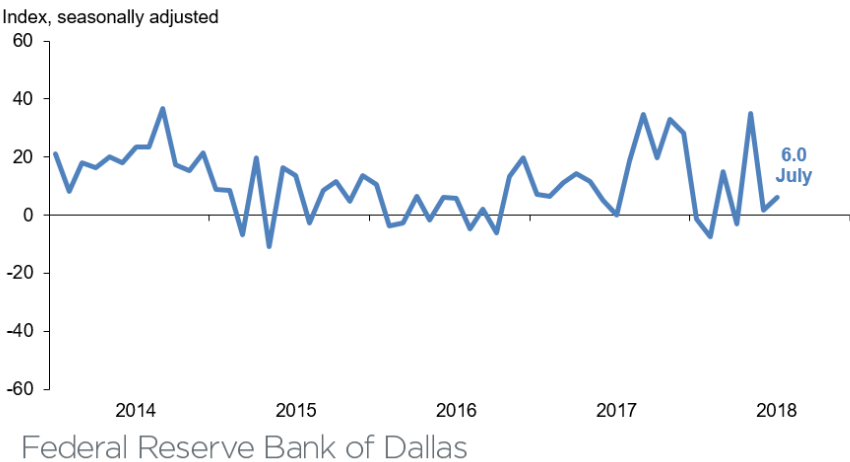
# Texas Service Sector Outlook Survey

Texas Service Sector Outlook Survey Revenue Index



# Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index



# Texas Service Sector Outlook Survey

July 31, 2018

## Comments from Survey Respondents

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

### Utilities

- The continued uncertainty associated with the trade wars is increasingly making it more difficult to plan for the future.

### Pipeline Transportation

- Tariffs in general and particularly steel tariffs have increased our cost to do business and added meaningful uncertainty.

### Telcommunications

- We have experienced difficulty finding applicants for jobs across the spectrum—from highly technical engineers to entry-level customer service. Although we offer a very competitive total compensation package, the firm is still unable to secure the type of human resources necessary to compete, short of using third-party “consultants” or sponsoring H1B candidates ourselves. This is resulting in wage pressure to both retain existing employees and attract new talent.

### Data Processing, Hosting and Related Services

- Our sales team has heard some hesitation in the marketplace in anticipation of the mid-term elections—wanting to better understand (or have greater certainty about) how businesses may be affected. Overall, our clients and prospects are optimistic. Our technology business is currently struggling with recruiting locally for programming and database talent who are qualified for the positions we have open. We are filling some gaps with part-time international help but really want to hire full-time local talent as quickly as we can. Even our multiple recruiting firms are struggling with bringing us qualified candidates.

### Credit Intermediation and Related Activities

- Interest rates paid for deposits are increasing and, therefore, squeezing margins.
- Business activity has been steady, supplemented by a continued increase in activity in the oil industry. The hot, dry weather has put a damper on agriculture land sales and prices of livestock with more inventory being liquidated. There is growing concern for agriculture product values possibly being impacted by the tariff uncertainty.

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

- It is a tight job market. We are concerned over tariffs.

### Real Estate

- I am beginning to see more houses come on the market.

### Professional, Scientific and Technical Services

- We are keeping a very close eye on the trade wars and the changes to CFIUS (Committee on Foreign Investment in the United States) to see how it will impact general market business and our business. Political turmoil continues to cause problems, generally causing a lack of confidence both from an economic and political standpoint.
- We have an improved backlog of work that will carry us to the end of the year. The backlog is a significant improvement compared with any of the three previous years. Clients are committing to projects, showing their increased confidence in the markets.
- The uncertainty surrounding NAFTA (North American Free Trade Agreement) is certainly growing and the anxiety with it. There are a lot of businesses on the border that depend on it.
- Oil and gas pipeline business has increased dramatically, which has improved our outlook. Tax cuts, decreased regulations, lower unemployment and a general positive outlook for the economy have allowed our clients to go forward with projects they've been reluctant to over the past several years. A new administration with a positive pro-growth agenda is a huge plus for us.
- The trade issues and tariffs are a huge concern. The U.S. cannot afford to be at war with countries who buy our products. I understand the overall point, but the fake news is troubling to all. It is very hard to remain optimistic.
- Construction activity is still strong and will remain the same for next six to 10 months. New projects are dropping to 2009 levels.

## Administrative and Support Services

- The industrial inspection sector of oil and gas has remained flat, with no increases in RFQs (requests for quotation) or closed sales since Jan. 1, 2018. The overall industrial sector has remained consistent since Jan. 1, 2018. More machine shops are submitting RFQs for 30–60-day work to be completed at this point, which in the past, has always been a good sign going into the fall. The corporate aircraft inspection sector has increased in closed sales for calendar-type inspections and hourly maintenance items. There seems to be an increase in aircraft usage since June. The commercial aircraft inspection sector has remained flat, with no increase in sales since Jan. 1, 2018. The military inspection sector has increased 15 percent since Jan. 1, 2018.
- We are seeing very strong demand and a severe labor shortage, particularly in qualified skilled labor.
- My uncertainty has increased. We are seeing rising fuel costs and rising material costs.

## Ambulatory Health Care Services

- The potential change we as a medical practice are facing is a decline in revenue due to changes in the 2019 Medicare fee schedule, over which we have no control, and a potential decline in elective surgeries due to agriculture-related economic decline. Our ag sector is facing the double hit of drought and lower prices due to the tariff situation—also areas that are not in our control. Along with a decline in oil and gas prices, our area economy is facing some obstacles in the next six to 10 months.

## Hospitals

- Independent rural health systems continue to battle decreased reimbursements and unfunded regulatory requirements; rural hospitals are closing daily (or consolidating into a larger system, which is not always best for the community).

## Nursing and Residential Care Facilities

- We see continued uncertainty about future health care funding and instability of the Affordable Care Act. There are intense cost pressures, with minimal opportunity to increase revenues. The percentage of the uninsured population in Texas is expected to increase.

## Accommodation

- In recent weeks, there has been more uncertainty in our forecast. At this time, most arrows are pointing down. I hesitate to change the longer-term outlook, believing this will be a short-lived circumstance. We'll see; the more uncertainty the federal government puts into the equation, the more likely the decrease may become permanent.

## Food Services and Drinking Places

- We are making progress in recovering from Hurricane Harvey.
- Comparable store sales are up in most Texas markets. Overall, business remains strong.
- Wages continue to increase, and it is difficult to staff stores in high-income areas. We are offering high school students \$12 an hour to start in selected locations.

## Merchant Wholesalers, Durable Goods

- The trade war has affected us with regard to Mexico and China.
- The increase in selling prices is in response to the increase in input prices we have seen in recent months. We anticipate our website and continued improvements to generate incremental sales.
- Business activity in the construction sector continues to be strong with no signs of letting up. There is plenty of backlog for all of our contractors, and margins on jobs are remaining strong.

## Motor Vehicle and Parts Dealers

- Heavy-truck supply is getting short. Today's new orders are hopeful for one-quarter delivery. If a truck is not already on the order board, there is little chance that it will be built.
- Our industry business model is flawed. Margins continue to erode and expenses increase. Revenues are up, but grosses are down. Operating profits are down *significantly* year to date versus the prior year.
- Potential tariffs are a killer for our business.
- My support for Trump is still strong, but the political and global turmoil are adding to the uncertainty looking forward.

- Tariffs on imported cars being discussed by the president will cause great disruption to the automobile business. We would be forced to lay off probably 30 percent or more of our workers if the tariffs are pushed through. Current tariffs on imported steel and aluminum are causing prices of our vehicles and parts for repairs to rise.

### **Building Material and Garden Equipment and Supplies Dealers**

- The heat wave has depressed consumer demand. Uncertainty over trade policy and rising interest rates are a concern.
- Business activity is good. Prices are increasing, but customers have accepted this as there are not any alternatives at this time. The long-term effects of increased pricing are not known at this time. Communication and organizational skills are getting us through these changing markets.

### **Clothing and Clothing Accessories Stores**

- Sales at our border stores continue to decline due to the strong dollar and the increase in crime in surrounding areas.
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