



Texas **Service Sector** Outlook Survey

March 26, 2019

Texas Service Sector Activity Decelerates

Texas service sector activity growth softened 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, fell from 19.2 in February to 12.8 in March.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index inched up slightly to 10.9, while the hours worked index was largely unchanged at 5.7 in March.

Perceptions of broader business conditions weakened, and measures of uncertainty rose this month. The general business activity index slipped into negative territory at -4.4, indicating that on net more respondents see business activity worsening than improving. The company outlook index declined over seven points to -1.2, while the outlook uncertainty index ticked up to 11.6.

Price and wage pressures picked up slightly this month. The wages and benefits index increased from 19.1 to 22.0, while the selling prices index rose over three points to 11.2, and the input prices index picked up from 20.6 to 25.1—its highest value so far this year.

Respondents' expectations regarding future business conditions remained optimistic overall compared with last month. The future general business activity index remained positive but slipped from 11.0 to 7.6 in March, while the future company outlook index was unchanged at 17.3. Other indexes of future service sector activity, such as revenue and employment, strengthened and pointed to expectations of further growth over the next six months.



Texas **Retail** Outlook Survey

Retail Sales Flatten Out

Retail sales were largely unchanged in March, according to business executives responding to the Texas Retail Outlook Survey. The sales index fell from 9.2 in February to -0.6 in March. Inventory growth picked up, with the inventories index rising from 13.6 to 16.0.

Retail labor market indicators suggested weakness in employment and mostly steady workweek length. The employment index fell from 6.3 in February to -1.0 in March, while the hours worked index fell slightly to -0.8.

Retailers' perceptions of broader business conditions worsened in March. The general business activity index fell nearly 13 points to -18.5, its lowest value since early 2016. The company outlook index declined into negative territory, falling from 0.5 to -8.5.

Retail price pressures were mixed, while wage pressures increased this month. The selling prices index fell to its lowest value since mid-2017, from 11.0 to 7.4, while the input prices index surged over 14 points to 20.4. The wages and benefits index rose sharply from 11.1 in February to 19.0 in March.

Retailers' perception of future business conditions softened this month. The future general business activity index fell from 7.5 to -1.6, while the future company outlook index declined about five points to 3.3. Other indexes of future retail sector activity, such as sales and employment, rose notably and reflected optimism over the next six months.

The Texas Retail Outlook Survey is a component of the Texas Service Sector Outlook Survey that uses information only from respondents in the retail and wholesale sectors.

Next release: April 30, 2019

Data were collected March 12–20, and 225 Texas service sector and 55 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	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Decrease
Revenue	12.8	19.2	-6.4	Increasing	111	29.6	53.6	16.8
Employment	10.9	9.7	+1.2	Increasing	109	16.5	77.9	5.6
Part-Time Employment	2.0	1.7	+0.3	Increasing	2	5.9	90.2	3.9
Hours Worked	5.7	5.0	+0.7	Increasing	29	9.0	87.7	3.3
Wages and Benefits	22.0	19.1	+2.9	Increasing	118	23.3	75.4	1.3
Input Prices	25.1	20.6	+4.5	Increasing	119	26.4	72.3	1.3
Selling Prices	11.2	8.0	+3.2	Increasing	37	13.8	83.6	2.6
Capital Expenditures	16.5	10.5	+6.0	Increasing	115	21.9	72.7	5.4

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	-1.2	6.1	-7.3	Worsening	1	9.2	80.4	10.4
General Business Activity	-4.4	2.0	-6.4	Worsening	1	9.1	77.3	13.5

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Decrease
Outlook Uncertainty†	11.6	8.7	+2.9	Increasing	14	18.1	75.3	6.5

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	43.7	39.2	+4.5	Increasing	121	51.0	41.7	7.3
Employment	25.0	23.7	+1.3	Increasing	120	32.8	59.4	7.8
Part-Time Employment	6.4	8.9	-2.5	Increasing	81	12.1	82.2	5.7
Hours Worked	7.1	9.6	-2.5	Increasing	31	10.8	85.5	3.7
Wages and Benefits	43.8	42.4	+1.4	Increasing	147	46.3	51.1	2.5
Input Prices	43.9	41.6	+2.3	Increasing	147	44.7	54.5	0.8
Selling Prices	31.9	29.2	+2.7	Increasing	119	35.8	60.2	3.9
Capital Expenditures	22.3	27.7	-5.4	Increasing	120	26.5	69.3	4.2

**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	17.3	17.4	-0.1	Improving	37	26.9	63.5	9.6
General Business Activity	7.6	11.0	-3.4	Improving	2	18.9	69.7	11.3

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	-0.6	9.2	-9.8	Decreasing	1	24.5	50.4	25.1
Employment	-1.0	6.3	-7.3	Decreasing	1	3.5	92.0	4.5
Part-Time Employment	1.8	4.1	-2.3	Increasing	2	3.7	94.4	1.9
Hours Worked	-0.8	0.6	-1.4	Decreasing	1	4.9	89.4	5.7
Wages and Benefits	19.0	11.1	+7.9	Increasing	97	23.0	73.0	4.0
Input Prices	20.4	6.1	+14.3	Increasing	38	22.2	76.0	1.8
Selling Prices	7.4	11.0	-3.6	Increasing	24	16.6	74.2	9.2
Capital Expenditures	7.2	10.0	-2.8	Increasing	2	12.7	81.8	5.5
Inventories	16.0	13.6	+2.4	Increasing	10	27.4	61.2	11.4
Companywide Retail Activity								
Companywide Sales	-0.2	5.0	-5.2	Decreasing	1	21.6	56.6	21.8
Companywide Internet Sales	2.0	3.9	-1.9	Increasing	11	15.6	70.8	13.6

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	-8.5	0.5	-9.0	Worsening	1	3.4	84.7	11.9
General Business Activity	-18.5	-5.8	-12.7	Worsening	4	0.5	80.5	19.0

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†	11.1	6.0	+5.1	Increasing	10	18.5	74.1	7.4

**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	29.2	24.9	+4.3	Increasing	3	38.3	52.6	9.1
Employment	6.5	3.3	+3.2	Increasing	2	12.9	80.7	6.4
Part-Time Employment	2.5	3.6	-1.1	Increasing	2	8.1	86.3	5.6
Hours Worked	-3.3	0.5	-3.8	Decreasing	1	3.5	89.7	6.8
Wages and Benefits	32.0	24.5	+7.5	Increasing	123	35.2	61.6	3.2
Input Prices	30.8	26.6	+4.2	Increasing	119	32.7	65.4	1.9
Selling Prices	23.5	27.1	-3.6	Increasing	119	29.4	64.7	5.9
Capital Expenditures	13.4	16.3	-2.9	Increasing	3	19.2	75.0	5.8
Inventories	0.6	-14.1	+14.7	Increasing	1	18.1	64.4	17.5
Companywide Retail Activity								
Companywide Sales	24.9	20.3	+4.6	Increasing	120	32.5	59.9	7.6
Companywide Internet Sales	27.0	12.5	+14.5	Increasing	32	29.7	67.6	2.7

**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	3.3	7.9	-4.6	Improving	1	13.7	75.9	10.4
General Business Activity	-1.6	7.5	-9.1	Worsening	1	10.2	78.0	11.8

*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.

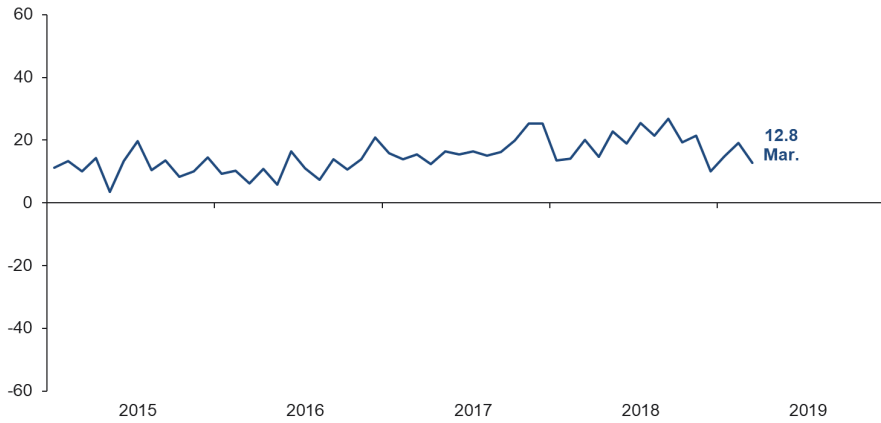
†Added to survey in January 2018.

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

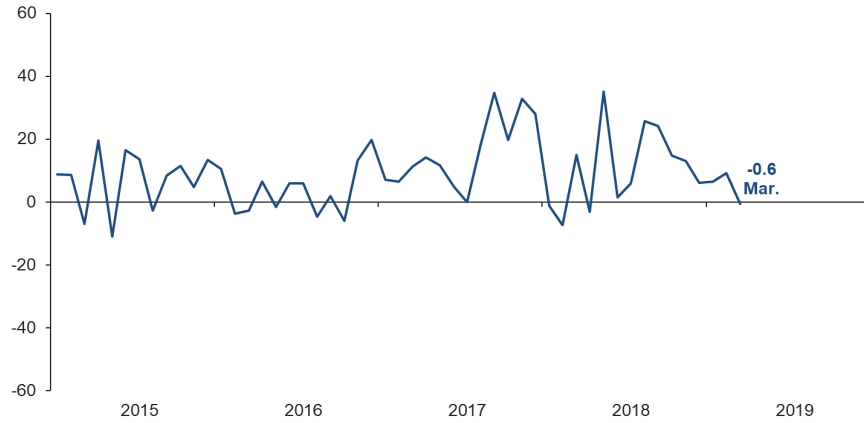


Federal Reserve Bank of Dallas

Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

Texas Service Sector Outlook Survey

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Comments from Survey Respondents

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

Publishing Industries (Except Internet)

- We are currently being more domestic-centric for software solutions; international concerns don't have a significant impact, but in time, if the improving geopolitical trends continue and materialize, it would open up international growth markets more.

Credit Intermediation and Related Activities

- The closing down of three sand-mining operations will displace approximately 360 employees by June of this year. This has and will continue to reduce retail sales volume, especially fuel sales at the pump, which is a primary result of truck transportation of mining materials drastically reducing as trucking terminals migrate west to new sand-mining operations. All of these factors negatively impact sales tax revenues for the local economy. We also face the threat of the short-rail operation closing down without the potential development of new industries to open new open pit-mining operations. The continued development of wind-energy fields will eventually offset the impact to local sales tax revenue, but the migration of employment out of the area will be difficult to replace without new industries being developed.

Real Estate

- The weather affects my business. Spring is always the start of more sales. Oil prices continue to be good and increase purchases.
- We are still optimistic but cautious. There are too many things that can still go badly with national and international issues that could impact our local economy, and over which we have no control.

Professional, Scientific and Technical Services

- There is uncertainty about the sales team's ability to meet its revenue goals.
- We continue to see low demand for legal services, especially in the mergers and acquisitions area. We do see an increase in litigation and bankruptcy restructuring work, too. These two events generally indicate trending toward a market slowdown. Much may still be waiting on both the China trade and Brexit resolution, as well as the market change in Mexico under President López Obrador (AMLO), to indicate whether there is any change in CEO confidence. If that happens (and that is the market expectation), the remainder of the year should provide similar production levels to 2018.
- The budget deficit predicted by President Trump is unacceptable. We must not spend money we don't have, as it will harm our country.
- As usual, the political aspects of our future cause a great deal of uncertainty.

Management of Companies and Enterprises

- Our housing market seems to be mushy. While we are having a much better first quarter than 2018, it still is not as robust as in the past. I have considered that we have more competition, but talking to other community bankers in the area, they all seem to have the same outlook.

Administrative and Support Services

- There is uncertainty about health care costs—out of control.
- The government shutdown and prolonged cold weather created uncertainty.
- While the desire to travel remains at the top of the mind for many, the sharing economy is having more of an impact on the luxury travel market, which is taking revenue from traditional sellers of luxury travel. The marketplace is saturated with options at all price levels, and the big brands are attempting to move into this space and remove the middleman from the process.

Waste Management and Remediation Services

- The ripple effect of trade issues with China is appearing and negatively impacting what is being exported to that country. Supply lines are full as demand decreases, creating stiff headwinds for the near future.

Ambulatory Health Care Services

- This month's economic limerick: As the months move on, concern for a trade war; longing for the less stressful days of before; investors would only wish that yield curve stay flatish; less angst to watch pending March Madness score.

Hospitals

- Unfunded mandates and economies of scale are resulting in difficult times for independent health systems during this rural hospital crisis.

Nursing and Residential Care Facilities

- Continued uncertainty with the regulatory environment is impacting health care providers. We are experiencing wage pressure with little flexibility to increase revenues and very real potential to experience decreasing payment from government payers.
- One of our skilled nursing centers closed in February. We are finalizing new staffing patterns now.
- Because 50 percent of our funding comes through Medicaid, the final budget and allocations could have a big impact on our ability to control expenses if we receive a cut in funding.

Social Assistance

- There have been a lot of legislative changes that have impacted how we do business and increased overall cost of services without increased revenue.
- We are increasing funding capacity.

Amusement, Gambling and Recreation Industries

- The reason our business decreases in March from February is a combination of the effects of spring break and South by Southwest (SXSW). Usually these are on the same week, but this year, they were on separate weeks. This is tough on our business. While some businesses greatly improve from SXSW, we are not one of them. Hiring remains a huge problem, so we anticipate increases in wages and benefits just to compete.

Food Services and Drinking Places

- We are still in recovery from Hurricane Harvey. Our insurance claims are in litigation.
- Sales continue to be strong and run ahead of the prior year. This has been a continuing trend in our business.

Merchant Wholesalers, Nondurable Goods

- Domestic manufacturers are raising prices faster than we can pass on increases. Customers won't pay the higher resales. We are having to source imports to remain competitive.

Motor Vehicle and Parts Dealers

- A significant management change is responsible for our improvement in sales, employment, inventories and outlook.
- We are experiencing increased pressure from higher inventories, and margins continue to see erosion from internet competition. Spring break in our market did have some impact on our sales and service traffic, but we cannot quantify the difference between 2019 versus 2018. Overall, business is a little tougher than this time last year.

Building Material and Garden Equipment and Supplies Dealers

- We see some slowing down in our market the last half of the year. Business is decent and there is no big downturn, but business is a little off. The confidence level moving forward is not really optimistic.
- Our supply chain is under cost pressure due to labor shortage and punitive tariffs. This causes our product costs to rise. It's unclear how much we can increase retail prices to compensate.

- We see very up-and-down changes month to month.

Health and Personal Care Stores

- Extreme reimbursement reductions by pharmacy benefit managers (PBMs) still continue to hammer my industry. I am hopeful that the state carve-out of PBMs from Medicaid will give us some relief next year. Federally, who knows what will happen?

Clothing and Clothing Accessories Stores

- February was a slow and difficult month for consumer sales, and it seems to have translated into increased uncertainty, especially among suppliers.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Christopher Slijk at christopher.slijk@dal.frb.org.