



Texas **Service Sector** Outlook Survey

July 30, 2019

Texas Service Sector Growth Increases to 2019 High

Activity in the Texas service sector grew at a faster pace 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, picked up from 13.6 in June to 20.9 in July, with over one-third of respondents noting an increase in revenues.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index rose from 6.9 to 8.7, while the hours worked index increased nearly three points to 7.6 in July.

Perceptions of broader business conditions suggested modest improvement, and the index measuring uncertainty inched down but remained elevated. The general business activity index improved slightly from 3.2 in June to 4.7 in July, while the company outlook index dipped one point to 3.6. The capital expenditures index fell nearly nine points to 7.9, its lowest reading since 2016, while the outlook uncertainty index slipped three points to 16.3.

Wage pressures increased in July, while price pressures eased modestly. The wages and benefits index rose from 16.9 to 19.2. The selling prices index fell slightly to 5.8, while the input prices index dropped three points to 22.5, a two-year low.

Respondents' expectations regarding future business conditions were somewhat more optimistic than in June. The future general business activity index increased from 9.0 to 10.7 in July, while the future company outlook index ticked up to 13.4. Other indexes of future service sector activity, such as revenue and employment, reflected expectations of faster growth over the next six months.



Texas **Retail** Outlook Survey

Retail Sales Flatten Out

Retail sales were flat in July, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose over seven points to 0.6, indicating little net change compared with June. Inventories increased, as the inventories index rose from 1.4 to 7.3.

Retail labor market indicators held steady compared with June, as respondents indicated no change in employment and a slightly longer workweek. The employment index rose nearly 10 points to 0.7, while the hours worked index increased from -3.7 to 1.7 in July.

Retailers' perceptions of broader business conditions remained pessimistic in July. The general business activity index rose slightly from -9.3 in June to -7.7 in July, while the company outlook index increased about three points to -7.9. The increase in outlook uncertainty moderated this month, with the index remaining positive but retreating from 26.0 to 5.6. Seventeen percent of retailers saw a decrease in outlook uncertainty, while 23 percent noted an increase compared with June.

Retail price pressures were mixed in July, while wage pressures increased. The selling prices index fell nearly nine points to 5.8, while the input prices index was roughly unchanged at 7.8. The wages and benefits index picked up from 6.5 to 12.1.

Retailers' perception of future business conditions showed signs of improvement this month. The future general business activity index climbed nearly four points to 0.1, while the future company outlook index surged over 15 points to 10.9. Other indexes of future retail sector activity also reflected optimism, as the future sales index spiked and the future employment index rebounded into positive territory.

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: August 27, 2019

Data were collected July 16–24, and 221 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	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	20.9	13.6	+7.3	12.1	116(+)	34.6	51.7	13.7
Employment	8.7	6.9	+1.8	6.6	113(+)	16.9	74.9	8.2
Part-Time Employment	3.7	3.5	+0.2	1.8	6(+)	7.9	87.9	4.2
Hours Worked	7.6	4.8	+2.8	2.8	33(+)	11.4	84.7	3.8
Wages and Benefits	19.2	16.9	+2.3	14.5	122(+)	22.4	74.3	3.2
Input Prices	22.5	25.8	-3.3	25.5	123(+)	26.0	70.5	3.5
Selling Prices	5.8	6.9	-1.1	5.6	41(+)	13.1	79.6	7.3
Capital Expenditures	7.9	16.6	-8.7	10.7	119(+)	16.4	75.1	8.5

General Business Conditions Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	3.6	4.6	-1.0	6.2	2(+)	15.5	72.5	11.9
General Business Activity	4.7	3.2	+1.5	4.0	2(+)	17.2	70.3	12.5

Indicator	Jul Index	Jun Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	16.3	19.0	-2.7	11.0	18(+)	25.5	65.4	9.2

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

Indicator	Jul Index	Jun Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	40.8	37.2	+3.6	38.0	125(+)	49.7	41.4	8.9
Employment	25.2	24.6	+0.6	22.2	124(+)	31.4	62.4	6.2
Part-Time Employment	0.9	-1.4	+2.3	6.7	1(+)	10.1	80.8	9.2
Hours Worked	3.6	2.8	+0.8	5.4	35(+)	8.8	86.0	5.2
Wages and Benefits	37.1	38.6	-1.5	36.4	151(+)	40.1	56.9	3.0
Input Prices	33.5	39.4	-5.9	44.6	151(+)	37.8	57.9	4.3
Selling Prices	20.5	23.4	-2.9	23.5	123(+)	27.4	65.7	6.9
Capital Expenditures	19.4	21.6	-2.2	24.3	124(+)	28.7	62.0	9.3

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

Indicator	Jul Index	Jun Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	13.4	11.9	+1.5	17.2	7(+)	25.9	61.6	12.5
General Business Activity	10.7	9.0	+1.7	13.9	6(+)	23.9	62.9	13.2

Texas Retail Outlook Survey

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

Indicator	Jul Index	Jun Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	0.6	-6.8	+7.4	6.9	1(+)	25.5	49.6	24.9
Employment	0.7	-9.0	+9.7	2.4	1(+)	9.5	81.7	8.8
Part-Time Employment	0.0	0.0	0.0	-1.7	2()	3.8	92.3	3.8
Hours Worked	1.7	-3.7	+5.4	-1.2	1(+)	9.8	82.1	8.1
Wages and Benefits	12.1	6.5	+5.6	9.7	101(+)	20.5	71.1	8.4
Input Prices	7.8	7.7	+0.1	19.1	42(+)	17.3	73.2	9.5
Selling Prices	5.8	14.4	-8.6	10.2	28(+)	18.1	69.6	12.3
Capital Expenditures	1.9	6.0	-4.1	9.6	6(+)	11.3	79.2	9.4
Inventories	7.3	1.4	+5.9	4.0	2(+)	21.8	63.7	14.5
Companywide Retail Activity								
Companywide Sales	6.7	-7.5	+14.2	8.5	1(+)	23.5	59.8	16.8
Companywide Internet Sales	26.8	1.9	+24.9	7.0	15(+)	33.6	59.6	6.8

General Business Conditions, Retail Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-7.9	-10.8	+2.9	4.5	8(-)	9.1	73.9	17.0
General Business Activity	-7.7	-9.3	+1.6	0.0	8(-)	9.0	74.2	16.7

Outlook Uncertainty Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	5.6	26.0	-20.4	9.6	14(+)	22.6	60.4	17.0

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

Indicator	Jul Index	Jun Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	38.3	15.0	+23.3	33.1	2(+)	49.6	39.1	11.3
Employment	12.4	-5.2	+17.6	12.8	1(+)	18.8	74.9	6.4
Part-Time Employment	1.5	-8.9	+10.4	0.6	1(+)	7.7	86.1	6.2
Hours Worked	-0.4	-8.2	+7.8	2.9	9(-)	9.2	81.2	9.6
Wages and Benefits	24.8	19.3	+5.5	27.3	127(+)	31.1	62.6	6.3
Input Prices	26.5	28.6	-2.1	33.1	123(+)	34.0	58.5	7.5
Selling Prices	23.1	30.6	-7.5	29.1	123(+)	30.8	61.5	7.7
Capital Expenditures	1.9	4.2	-2.3	18.8	2(+)	11.3	79.2	9.4
Inventories	-5.9	-10.9	+5.0	8.9	3(-)	19.2	55.7	25.1
Companywide Retail Activity								
Companywide Sales	27.6	7.9	+19.7	31.5	124(+)	38.2	51.2	10.6
Companywide Internet Sales	19.5	10.0	+9.5	22.1	36(+)	29.3	61.0	9.8

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

Indicator	Jul Index	Jun Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	10.9	-4.5	+15.4	17.8	1(+)	23.2	64.5	12.3
General Business Activity	0.1	-3.8	+3.9	13.6	1(+)	17.3	65.5	17.2

*Shown is the number of consecutive months of expansion or contraction in the underlying indicator. Expansion is indicated by a positive index reading and denoted by a (+) in the table. Contraction is indicated by a negative index reading and denoted by a (-) in the table.

**Shown is the number of consecutive months of improvement or worsening in the underlying indicator. Improvement is indicated by a positive index reading and denoted by a (+) in the table. Worsening is indicated by a negative index reading and denoted by a (-) in the table.

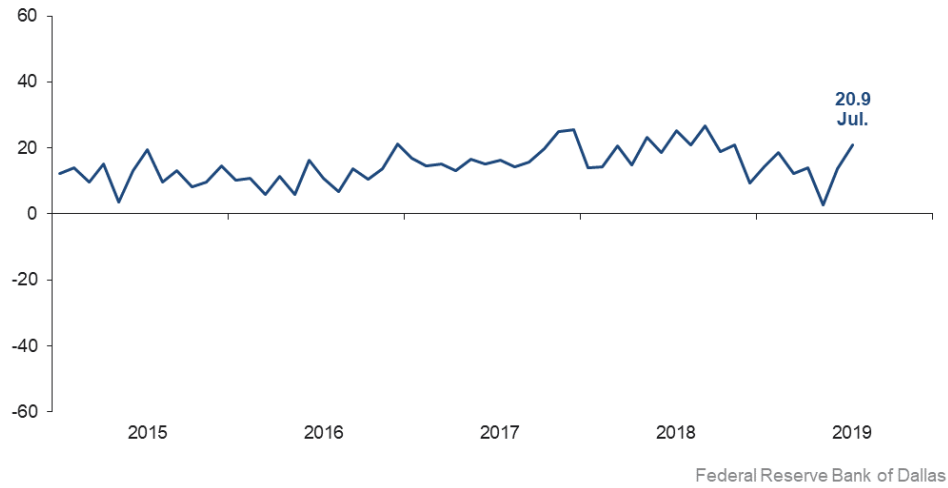
†Added to survey in January 2018.

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

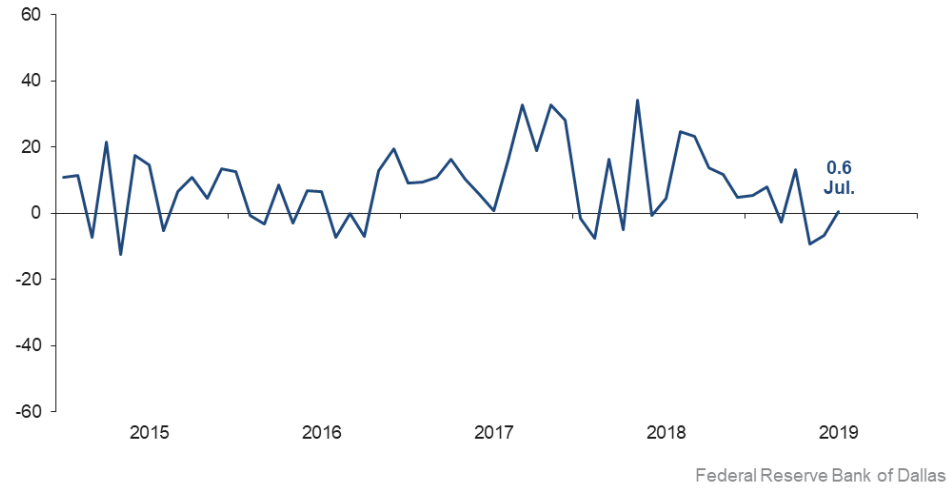
Index, seasonally adjusted



Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



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Comments from Survey Respondents

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

Specialty Trade Contractors

- We are seeing a slowing in capital expenditures spending.

Transportation Equipment Manufacturing

- Our biggest risk is the Trump administration placing tariffs on European Union imports. If implemented, and depending on the scope and values, this could have either a manageable or dramatic impact.

Warehousing and Storage

- Being that the majority of our business is in manufacturing in the maquiladora system in Mexico, with a distribution center in Texas, our business is looking at an increase due to the uncertainty and cost increases related to China sourcing. Uncertainty with Mexico continues to be an issue with the policies surrounding immigration and the USMCA [U.S.–Mexico–Canada Agreement] trade deal as well as President Trump's rhetoric regarding immigrants and the need to bring more jobs back to the U.S.

Publishing Industries (Except Internet)

- Our trend assumptions for next year continue to look better for our type of software and its adoption.

Broadcasting (Except Internet)

- We increased wages in July by an average of 3 percent (ranging from 0–10 percent) in an effort to reward good work and retain staff.

Data Processing, Hosting and Related Services

- The hunt for skilled workers is creating uncertainty for growth. We are not finding properly skilled technology workers, even with the help of local search firms. We have started looking outside of our market.

Credit Intermediation and Related Activities

- We are all wondering what rates are going to do. The LIBOR [London Interbank Offered Rate] is going down gradually, and there is still an inversion in the shorter-term Treasury yields. All economists are predicting something different but generally forecasting a change in overall economic strength. In McCulloch County, sales tax revenue year to date is down 10 percent, primarily due to the migration of the sand-mine plants, trucking and employment to West Texas, resulting in fewer consumers buying locally. The future of the short rail line is still unknown, but the current owners we are told have started the process of requesting that the line be salvaged. We have heard there are buyers inquiring but no one seems to know for sure.
- Uncertainty in trade relations continues to be a concern.
- Interest rate markets, global trade and energy prices are in question.

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

- We see a flattening of job growth and oil activity. Home construction trails last year.
- We see the same factors as the past several months. Selling prices are hard to increase and costs are going up, especially property taxes, insurance and all the raw materials—especially chemical based.

Real Estate

- I am cautiously, very cautiously, optimistic, fueled by my conviction that Congress will get nothing done until after the elections and that the president will settle the trade disputes to declare a win before the elections. The reality is, though, that things are slowing some, and we are watching this with keen interest.
- We have happy people with jobs. People feel like President Trump is getting things accomplished.
- Over the last six months we have decreased in revenue but taken on more employees in anticipation of being busier from 2018. This has not proven to be the case. Our prices have remained the same or fallen 5 percent to accommodate the decrease in revenue.

Professional, Scientific and Technical Services

- Political animosity in the U.S. is very draining and not a positive for business. Immigration issues, including the tremendous costs, have to be addressed in a manner that's not so politically explosive.
- Continued trade and tariff issues will plague growth.
- We continue to get mixed signals about a possible economic slowdown in late 2020 and 2021. Conditions generally remain strong, and plans remain intact for continued growth (but we will have a "plan B" ready if conditions begin to soften). We are concerned about Congress' ability/willingness to address major infrastructure needs. We are also concerned about the continued tight labor market and its impact on staffing for growth, retaining talent and the pressures on salaries/wages.
- Increased global tensions, lack of resolution of trade issues, Brexit and monetary policy are affecting CEO confidence in a way that is slowing deal flow. Litigation and restructuring work are increasing.
- The trade overseas issue has affected us on our promotional products side, but no one is really shocked. So, we've been OK so far.
- In the first half of 2018, we encountered a slowdown in orders on both the residential and commercial sides of our business. In the second half of 2018, orders rebounded and we ended up having a record year. The first quarter of 2019 proved to be the same, but over the last couple of months, we have seen a significant drop in commercial orders, while our residential orders have remained steady. While we do not feel we are slipping into a recession, we are beginning to see signs that the commercial real estate market is leveling off to a more normal pace and hope that it holds at that level.
- We are seeing a slight uptick in the level of business, particularly as it relates to real estate transactions. That does not seem to be the case across the board based on other data we see.
- We continue to find it very challenging to identify/recruit experienced professionals in our industry with three to six years' experience. And when we do, there is a cost increase in almost every instance. All are signs of a thriving economy, so it's a blessing in disguise.

Management of Companies and Enterprises

- Uncertainty due to the tariff wars is beginning to affect some of our customers and their ability to sell products.

Administrative and Support Services

- Opportunities exist, however, the decision matrix is taking longer as customers look to tighten budgets.
- We seem to be finding an equilibrium in business right now. Things have overall slowed down some, but existing projects have not been canceled, and our regular customers are steadily submitting RFQs [request for quotations].
- The comfort level for discretionary spending/travel has been impacted by many outside influences not directly related to the individual's actual daily situation. There is only so much negativity that one can absorb.
- Our contracts have been renewed for another year. We are trying to bring new contracts for next year.
- Markets are strong in sales, but we need employees; the job market is tight.

Educational Services

- I continue to feel strongly that metrics on the economy are in our favor in the short term and long term. CPI [consumer price index] and PPI [producer price index] reflect continued low inflation, and the job numbers last month indicate continued labor market strength. While we do have headwinds (i.e., trade issues), I continue to remain optimistic that they will be resolved and the USMCA will be ratified by Congress. We not only have strong fiscal policy and regulatory rollback occurring, we also have a Federal Reserve that is restrained but continues to monitor and adjust if necessary—a great recipe for continued growth.

Nursing and Residential Care Facilities

- Eliminating the 14c [Fair Labor Standards Act] exemption will have a big negative effect on our clients and organization. If passed in the Senate as is, it will eliminate 14 percent of our full-time employees, and without additional changes to the FLSA, it will either require additional investment in our vocational work/training program to continue 54 part-time jobs, or those people will lose their jobs also.

Amusement, Gambling and Recreation Industries

- As always, there are lots of challenges with a business that has lots of moving parts. This month in particular, it is the increase in the price of avocados—no more guacamole for our folks. In general, it is property taxes. A new building in downtown Austin just sold for about \$875 per square foot. The building we are in just sold for about \$250 million, which is up from the \$180 million it sold for about two and a half years ago. Taxes will be going up, and these are not small numbers. Again on the big picture, Austin's new homeless "camp wherever you want" policy is having a negative effect on how people feel about downtown dining. Add to that a [2.6] percent unemployment rate, and you have some serious challenges in running a business.

Food Services and Drinking Places

- Overall, performance remains strong with positive comps [comparable same-store sales]—really no change. We have had this trend for quite some time.
- It is difficult to hire good employees, and we are starting high schoolers at \$10 to \$12 an hour.

Merchant Wholesalers, Durable Goods

- The reduction in inventory over the next six months is due to a concerted internal effort to review purchasing processes and sales history to refine our stocking inventory and stocking levels.

Merchant Wholesalers, Nondurable Goods

- Due to major highway construction in front of our business, the traffic flow continues to have an adverse effect on our business. Moving forward as this is resolved, business activity hopefully returns to normal.

Motor Vehicle and Parts Dealers

- Tariffs are still a cloud on the horizon for the automobile business.
- The labor market is so tight that the applicant pool is very low.
- We continue to see a general softness in customer traffic and sales.
- A significant management change has improved the outlook for our company.
- The industry continues to show signs of weakness. Margins are declining and expenses increasing. New vehicle prices are increasing, with the reason being input and selling prices are up. The average cost of vehicles and average transaction prices are at an all-time high. Inventories are too high. Profits are down double digits year over year.

Building Material and Garden Equipment and Supplies Dealers

- Improved weather conditions in major Texas markets have led to increased consumer demand for our products and services.

Clothing and Clothing Accessories Stores

- It continues to be difficult to hire quality associates in the Houston area.

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