



Texas **Service Sector** Outlook Survey

October 1, 2019

Texas Service Sector Growth Improves

Activity in the Texas service sector accelerated in September, 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 7.8 in August to 12.9 in September.

Labor market indicators reflected slower employment growth and slightly longer workweeks this month. The employment index remained positive but fell from 10.2 to 6.5, its lowest reading in two years. The hours worked index also declined, falling from 8.2 to 2.4 in September.

Perceptions of broader business conditions strengthened, while the rise in outlook uncertainty moderated compared with August. The general business activity index rose over six points to 6.3 in September, while the company outlook index rebounded from negative territory to 4.1. The outlook uncertainty index remained elevated but fell from 19.6 to 15.4.

Wage pressures moderated in September, while price pressures were mostly unchanged. The wages and benefits index declined nearly six points to 14.1. The selling prices index inched up one point to 2.5, while the input prices index declined slightly from 23.8 to 21.6.

Respondents' expectations regarding future business conditions improved compared with August. The future company outlook index rose seven points to 11.6 in September, while the future general business activity index rebounded over 10 points to 6.2. Other indexes of future service sector activity, such as revenue and employment, reflected expectations of continued growth over the next six months.



Texas **Retail** Outlook Survey

Retail Sales Growth Rebounds

Retail sales strengthened in September, according to business executives responding to the Texas Retail Outlook Survey. The sales index picked up after holding flat for two months, rising from -0.2 to a five-month high of 7.7. Inventories declined, as the inventories index fell 9.5 points to -4.0.

Retail labor market indicators remained weak in September, as respondents indicated a decline in employment and shortening workweeks. The employment index increased but remained in negative territory at -3.1, with 13 percent of respondents noting a decline in employment compared with August. The hours worked index fell over four points to -7.5 in September.

Retailers' perceptions of broader business conditions were notably less pessimistic in September following several months of dismal expectations. The general business activity index improved nearly seven points, though it remained slightly negative at -2.0. The company outlook index rose from -13.8 to -0.1, indicating essentially no change in the outlook. The outlook uncertainty index decreased markedly from 21.1 in August to 11.3 in September.

Retail price pressures were largely steady, while wages pressures eased notably in September. The input prices index dipped one point to 17.8, while the selling prices index also fell slightly from 16.8 to 15.5. The wages and benefits index plummeted over eight points to 5.3, with nearly 10 percent of respondents noting a decrease in wages and benefits paid compared with August.

Retailers' perceptions of future business conditions were significantly improved this month. The future general business activity index was still slightly negative but increased over 13 points to -1.2, while the future company outlook index rebounded 19 points to 6.6. Most other indexes of future retail sector activity also rose, reflecting expectations for improved growth 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: October 29, 2019

Data were collected September 17–25, and 240 Texas service sector and 53 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	Sep Index	Aug Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	12.9	7.8	+5.1	12.1	118(+)	30.7	51.5	17.8
Employment	6.5	10.2	-3.7	6.7	115(+)	15.7	75.1	9.2
Part-Time Employment	1.4	3.7	-2.3	1.8	8(+)	5.8	89.8	4.4
Hours Worked	2.4	8.2	-5.8	2.8	35(+)	9.2	84.0	6.8
Wages and Benefits	14.1	20.0	-5.9	14.6	124(+)	18.5	77.1	4.4
Input Prices	21.6	23.8	-2.2	25.4	125(+)	25.7	70.2	4.1
Selling Prices	2.5	1.5	+1.0	5.5	43(+)	10.4	81.7	7.9
Capital Expenditures	13.0	17.4	-4.4	10.8	121(+)	18.9	75.1	5.9

General Business Conditions

Current (versus previous month)

Indicator	Sep Index	Aug Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	4.1	-2.5	+6.6	6.1	1(+)	16.2	71.7	12.1
General Business Activity	6.3	0.2	+6.1	3.9	4(+)	17.5	71.3	11.2

Indicator	Sep Index	Aug Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	15.4	19.6	-4.2	11.6	20(+)	23.2	69.0	7.8

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

Indicator	Sep Index	Aug Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	33.3	31.3	+2.0	37.9	127(+)	43.7	46.0	10.4
Employment	21.9	24.3	-2.4	22.2	126(+)	29.6	62.7	7.7
Part-Time Employment	3.3	0.6	+2.7	6.7	3(+)	10.2	82.9	6.9
Hours Worked	4.1	5.1	-1.0	5.4	37(+)	10.3	83.5	6.2
Wages and Benefits	37.5	39.5	-2.0	36.4	153(+)	39.9	57.7	2.4
Input Prices	34.3	40.5	-6.2	44.5	153(+)	40.3	53.7	6.0
Selling Prices	19.6	20.0	-0.4	23.4	125(+)	28.2	63.2	8.6
Capital Expenditures	20.3	18.4	+1.9	24.2	126(+)	28.6	63.1	8.3

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

Indicator	Sep Index	Aug Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	11.6	4.6	+7.0	17.0	9(+)	23.4	64.8	11.8
General Business Activity	6.2	-4.0	+10.2	13.7	1(+)	20.5	65.3	14.3

Texas Retail Outlook Survey

Business Indicators Relating to Facilities and Products in Texas

Retail (versus previous month)

Indicator	Sep Index	Aug Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	7.7	-0.2	+7.9	6.8	1(+)	29.8	48.2	22.1
Employment	-3.1	-5.6	+2.5	2.4	2(-)	9.9	77.1	13.0
Part-Time Employment	-3.9	0.0	-3.9	-1.7	1(-)	3.8	88.5	7.7
Hours Worked	-7.5	-2.9	-4.6	-1.3	2(-)	7.2	78.1	14.7
Wages and Benefits	5.3	13.5	-8.2	9.7	103(+)	15.1	75.1	9.8
Input Prices	17.8	18.8	-1.0	19.1	44(+)	23.8	70.2	6.0
Selling Prices	15.5	16.8	-1.3	10.3	30(+)	22.3	70.9	6.8
Capital Expenditures	3.8	13.2	-9.4	9.6	8(+)	11.3	81.1	7.5
Inventories	-4.0	5.5	-9.5	3.9	1(-)	18.7	58.6	22.7
Companywide Retail Activity								
Companywide Sales	8.3	2.1	+6.2	8.5	3(+)	27.3	53.7	19.0
Companywide Internet Sales	4.2	4.2	0.0	7.0	17(+)	16.9	70.4	12.7

General Business Conditions, Retail

Current (versus previous month)

Indicator	Sep Index	Aug Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-0.1	-13.8	+13.7	4.4	10(-)	14.1	71.7	14.2
General Business Activity	-2.0	-8.9	+6.9	-0.1	10(-)	15.4	67.2	17.4

Outlook Uncertainty

Current (versus previous month)

Indicator	Sep Index	Aug Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	11.3	21.1	-9.8	10.2	16(+)	22.6	66.0	11.3

Business Indicators Relating to Facilities and Products in Texas, Retail

Future (six months ahead)

Indicator	Sep Index	Aug Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	19.8	13.0	+6.8	32.9	4(+)	33.5	52.8	13.7
Employment	8.6	-2.3	+10.9	12.7	1(+)	17.2	74.2	8.6
Part-Time Employment	3.6	-3.0	+6.6	0.6	1(+)	11.1	81.4	7.5
Hours Worked	-2.3	-2.4	+0.1	2.8	11(-)	10.7	76.3	13.0
Wages and Benefits	32.1	32.3	-0.2	27.4	129(+)	35.0	62.2	2.9
Input Prices	21.2	39.2	-18.0	33.1	125(+)	32.7	55.8	11.5
Selling Prices	23.5	29.4	-5.9	29.1	125(+)	33.3	56.9	9.8
Capital Expenditures	7.9	8.0	-0.1	18.6	4(+)	15.7	76.5	7.8
Inventories	-5.2	-6.9	+1.7	8.7	5(-)	13.8	67.2	19.0
Companywide Retail Activity								
Companywide Sales	26.7	4.9	+21.8	31.3	126(+)	40.2	46.2	13.5
Companywide Internet Sales	16.6	11.1	+5.5	22.0	38(+)	19.4	77.8	2.8

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

Indicator	Sep Index	Aug Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	6.6	-12.4	+19.0	17.5	1(+)	17.5	71.5	10.9
General Business Activity	-1.2	-14.6	+13.4	13.3	2(-)	16.1	66.6	17.3

*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.

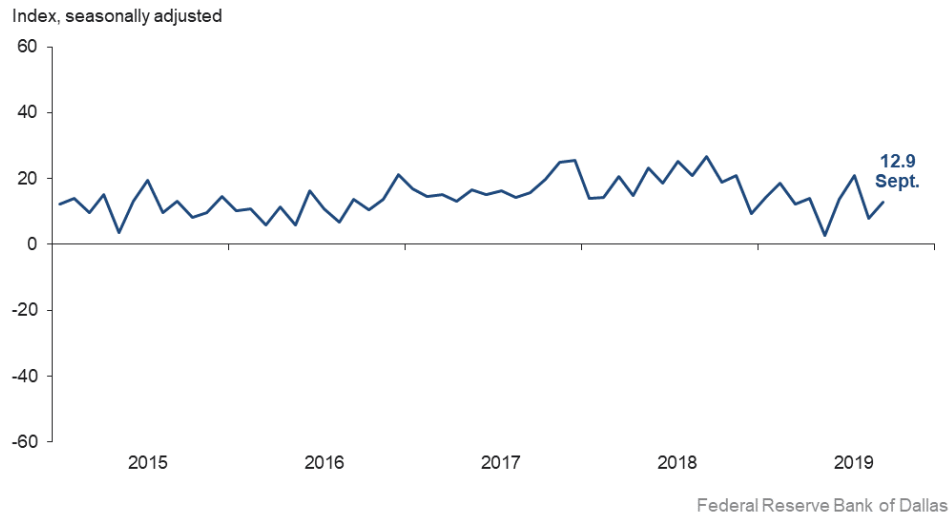
**Shown is the number of consecutive months of improvement or worsening in the underlying indicator. Improvement is indicated by a positive index reading and denoted by a (+) in the table. Worsening is indicated by a negative index reading and denoted by a (-) in the table.

†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.

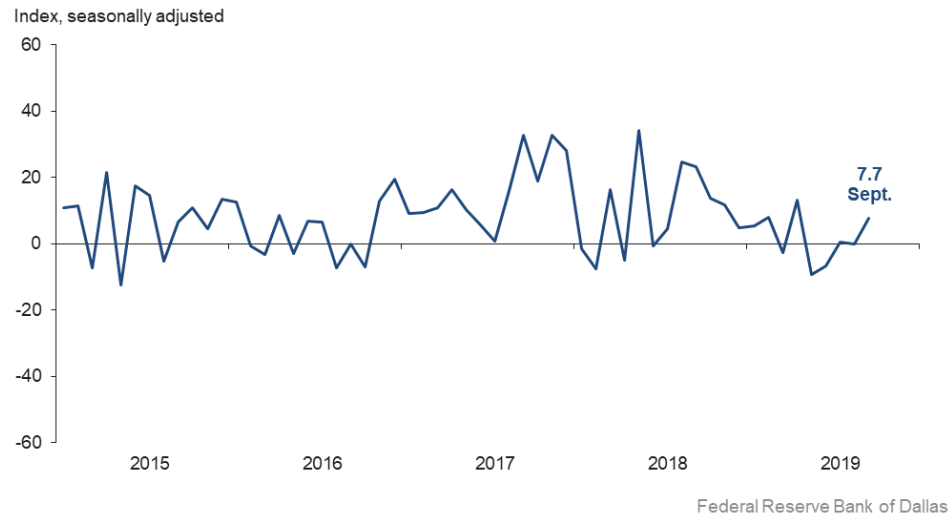
Texas Service Sector Outlook Survey

Texas Service Sector Outlook Survey Revenue Index



Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index



Texas Service Sector Outlook Survey

October 1, 2019

Comments from Survey Respondents

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

Utilities

- Uncertainty remains elevated as it appears that there is no imminent resolution to the trade wars.

Truck Transportation

- We think with the growing population there will be more opportunity.

Pipeline Transportation

- High levels of uncertainty prevail in the energy sector. Fears of a global recession are pervasive.

Publishing Industries (Except Internet)

- A few projects involving AR [augmented reality]/VR [virtual reality]/MR [mixed reality] are a higher probability for planned/budgeted projects to improve human productivity and efficiency via advanced tech user interface for training and education applications.

Data Processing, Hosting and Related Services

- There is a lot of talk about uncertainty—interest rate uncertainty, presidential election uncertainty, government policy change uncertainty—which is usually not good for the economy. But, we don't see business purchasing decisions slowing down yet because of this talk.

Credit Intermediation and Related Activities

- The region in Central Texas is still doing all right. There has been a slowdown in retail sales as evidenced by a drop in sales tax revenue. This is a direct result of the movement of the frack-sand companies and employees to West Texas. We have had one restaurant that had been in business for 49 years close down but it was probably more related to management—the second generation of family members. There are more restaurants than a small town can support, and most are dependent on highway traffic. There also exists an overabundance of churches—one closes the doors and a new comes into being. The startup churches typically have a short life. Our biggest challenge is the impact of the growing restrictions the drought creates for agriculture and the threat of wildfires. The beginning of hunting season will continue to boost the local economy through the end of January. In addition, the second phase of the wind farm is beginning, and that will be a plus for the local sales receipts for almost a year.
- The drop in interest rates is placing pressure on interest income revenue. We've seen a drop in the rate of EBITDA [earnings before interest, taxes, depreciation and amortization] growth for clients in our loan portfolio.
- We are cautious due to recession expectations.
- Continued lowering of rates and the uncertain bond market will affect our profitability over the coming months.
- Our outlook was positive in August and remains so in September and for the next six months. We will be looking to expand our business over the next six to 12 months.
- Manufacturing uncertainty has increased, with rising input costs. We've seen a pullback on capital expenditure budgets. Uncertainty in top-line revenue growth for clients is creating a pause in hiring/expansion. We have concerns over valuations in M&A [mergers and acquisitions] and uncertainty in energy markets.

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

- The trade war and Trump "volatility" is the biggest concern with the uncertainty they entail.
- We are seeing increases in raw materials and supplies, along with property taxes and insurance. These cost increases are extremely hard to pass along in the selling prices.
- I believe in the next six months—early next year—we will start to see increasing data that the economy is slowing. Not necessarily a recession but potentially an early stage that the economy is headed that way.

Insurance Carriers and Related Activities

- We are insurance brokers, and we continue to see some hardening (increasing) of insurance rates for property with the wind and hail exposures in Texas—including the floods in southeast Texas last week.

Real Estate

- The media continues to damage buyers' thinking. No one wants to hear about impeachment. Everyone is happy because they have a job. It doesn't matter what economic level they are. It would be nice for the media to report how people's lives have improved in the last three years. So much negative reporting causes consumers to become uncertain in investing, especially into a larger house.

Professional, Scientific and Technical Services

- Our biggest impediment to growth will be our ability to, and the pace at which we can, acquire qualified staff.
- We continue to watch U.S. and international geopolitical events closely. There is still a somewhat high degree of uncertainty in the marketplace. We are focused on closing out 2019 and planning for 2020 in the face of all of this.
- Most businesses that will sell for \$500,000 to \$2 million are typically overvalued or are not on the market yet. Owners need to consider selling before the baby boomer generation wakes up and there are too many businesses of this size on the market and market values have declined. Who knows what the 2020 election results will do to small businesses.
- Tariffs continue to add to the uncertainty and slowdown in capital investment in the energy and petrochemical industry.
- The biggest issue for my business is still the cost of benefits and the inability to hire the professionals with the skill set we need.
- Construction activity continues to be very strong. The majority of industrial development appears driven by e-commerce, while housing and multifamily development appear driven by an influx of people into north Texas region.
- We are still feeling the headwinds of market uncertainties related to trade and political tensions that continue to cause clients to delay transactions. Litigation and restructuring work continues to increase as further evidence mounts of a pending economic slowdown.
- We can't find good employees, and some of the good ones we have are leaving for better offers. We can't increase wages because our customers won't allow us to increase our prices.

Management of Companies and Enterprises

- Our increased uncertainty relates to impacts of the ongoing tariff war with China. They are tough negotiators, and the ongoing negative impact, particularly on agriculture commodities, is huge—much bigger than the farm subsidies appropriated by President Trump. An example is the lost trade to China of U.S. beef.

Administrative and Support Services

- As government, corporate and educational institution travel contractors, we know exactly when we will have lower transactions and when we will need our employees to work fewer hours. We try to maintain a healthy balance so that our profitability is steady.
- We do not forecast an increase in overall business activity picking up until after the tariff issue is resolved or the presidential election is complete. I am worried that we have hit the "doldrums" until these issues are resolved by the president and/or the public. The corporate aviation sector has remained constant, with larger inspections being scheduled ahead of the holidays. The commercial aviation sector has remained flat, with some slight increase on AOG [aircraft on ground] callouts for the local major carrier here at DFW, due to the increased flying hours of their fleet other than the [Boeing]737 Max. The industrial sector has remained flat-to-below-average in regard to accepted RFQs [request for quotations] for the quarter. We see no indication of this changing positively until the end of 2019 (fourth quarter) or the beginning of 2020 (first quarter). The oil sector has remained weak, with local machine shop operations slowing dramatically as opposed to first quarter of this year.
- It is a very unique time in the history of our company. Market demand is at all-time highs, despite the volatility in the world marketplace. As a business owner, the experiences of 2009/2010 create apprehension. I believe market instability and political instability has caused a conservative outlook on where we are, despite what the actual numbers are indicating.

Educational Services

- I feel comfortable with our current economic climate, both locally and nationally, even in the wake of trade uncertainty. I hope Congress will step up and bring USMCA [U.S.–Mexico–Canada trade agreement] up for a vote, and for all practical purposes, it would be expected to pass. Clearly, if our negotiations with China are causing uncertainty, not passing USMCA is causing more uncertainty in our hemisphere. This would also give us leverage in our conversations with China and bring a higher sense of urgency in getting a deal done. The consumer continues to toe the line, and all signals point to a strong year end and holiday season.

Ambulatory Health Care Services

- We experienced significant flood damage in three of our buildings that contain our Information Technology department, youth services, crisis respite and residential services, MH [mental health] housing (45 units in all) and a drop-in MH center. We also had intermittent damages in eight more buildings throughout our administrative, mental health and IDD [intellectual and developmental disability] services. We were insured, but we will have out-of-pocket expenses up front and a loss of income for the month.
- The media's drum banging about a coming recession helped drop consumer confidence, which negatively impacts half of our business—cosmetic dentistry. These higher-dollar services usually require consumer borrowing, which can be impacted by interest rates or confidence in the economy. We see the recession fear gaining traction immediately in a reduction in inquiries that our marketing is able to generate for cosmetic dentistry, which translates to lower revenue and outlook.

Food Services and Drinking Places

- We are waiting for unintended consequences and fallout from tariffs. We know it is coming.
- With the Saudi oilfield attack, gasoline will increase and could affect restaurant sales going forward.
- Rainy weather last year slowed retail. It has been dry to date this year.
- Overall business remains strong with positive comp [comparable-store] sales. Cheese prices have started to rise and are projected to remain high through the end of the year. We will raise prices in January to cover raises and increased operating costs.

Personal and Laundry Services

- The trade war is increasing our costs.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- The economy is doing very well.

Merchant Wholesalers, Durable Goods

- Many of our manufacturing customers, especially those making parts for the energy industry in North Texas, seem to be slowing. The only reason I don't see our sales changing much is our ability to attract new business from aerospace accounts, while our current accounts slow. Most of our current customers have been telling us they are slow and expect that to remain through the end of the year.
- Things in the short term are still bleak, but I do see some changes coming in the next six months when the economy is weaker but more stable and predictable.
- The increase in input and selling prices is related to the additional tariffs on imports from China. The decrease in inventory is based on a concerted effort to right-size our inventory.

Merchant Wholesalers, Nondurable Goods

- I believe the economy is stronger than the media reports, and I feel that everyone expects a downturn outside of DFW. It seems like it's becoming a self-fulfilling prophecy.

Motor Vehicle and Parts Dealers

- Expectations of improvement six months from now are due to our company management changes and not improvement in business conditions.

Building Material and Garden Equipment and Supplies Dealers

- Tropical Storm Imelda has had a negative impact on our business. Cost increases resulting from government trade policy have worsened the negative outlook.

Clothing and Clothing Accessories

- Stores located near the Mexican border continue to have declining sales.

Nonstore Retailers

- We are excited to acquire a new business next month. Not only will it increase our revenues by the amount the seller has experienced over the past year, we have also identified some grave inefficiencies that will result in our operation of their business yielding greater revenue than they were able to experience on their own. This acquisition is not the only reason we have replied that business has improved; we are also looking to obtain new business unrelated to the acquisition.