

Texas Retail in the Doldrums; Brick-and-Mortar Stores Take the Brunt

By Amy Jordan

ABSTRACT: Texas retailers have confronted a pair of challenges. First, the 2015–16 oil bust depressed personal income, while a stronger dollar weakened demand for goods along the border. Second, amid the Texas economy’s recovery, brick-and-mortar retailers have been losing business to internet sales.

The traditional retail industry has been challenged in recent years. Consumption, primarily a function of income, drives retail sales. And in Texas, weak retail sales have been in line with flat income growth, by-products of the oil bust and ensuing economic slowdown.

Sales among the state’s retailers declined from the second half of 2015 through 2016—the first sustained drop since the Great Recession.¹ Real (inflation-adjusted) personal income per capita stagnated in 2015–16 after advancing 4 percent in 2014.

There are indications that improving consumer incomes are boosting consumption this year, and with it, retail sales. But difficulties remain, particularly from a rise in e-commerce.² National chains along with regional and local retailers are closing stores as consumers increasingly go online.³

Slipping Retail Sales

Retail sales represent the dollar amount consumers spend at stores, restaurants, auto dealers, gas stations and nonstore—internet or mail-order—retailers.⁴ The Census Bureau estimates national retail sales monthly after surveying about 12,000 such businesses.⁵

The Federal Reserve Bank of Dallas estimates Texas monthly retail sales based on Texas Comptroller of Public Accounts data on state quarterly sales tax receipts and monthly allocations of sales tax collections to local taxing entities, such as cities and counties.

Quarterly real Texas retail sales fell steeply with the energy slump—the most significant declines on a year-over-year basis were in first quarter 2016 at 5.5 percent and in second quarter 2016 at 6.9 percent (*Chart 1*).⁶ Sales turned positive in first quarter 2017, rising 1.0 percent, consistent with

a sharp pickup in state job and wage growth in 2017.⁷

Nationally, retail sales rose from the second half of 2015 through 2016 at a slightly slower pace than in 2014 but still above the longer-run trend rate of growth. Consumers nationally, like those in Texas, benefited from lower gasoline prices during the oil bust. Gasoline prices fell from a high of \$3.71 per gallon in April 2014 to \$2.04 in January 2015, reaching a low of \$1.72 in February 2016.

Consumers spend 2.4 percent of their household income on gasoline on average, so large declines in fuel costs increase real income and spur spending on other items. However, Texas is a large oil and natural gas producer, so the negative effects on energy producers outweigh the consumer benefits of lower pump prices. The oil bust resulted in massive job losses in the state’s energy and manufacturing sectors; from peak to trough, those high-paying industries shed 174,000 jobs. As a result, retail spending softness was pronounced in regions with larger concentrations of employment in the energy and manufacturing industries.

In addition, Mexican visitors’ purchases in Texas became more expensive amid U.S. dollar appreciation against the peso, damping retail sales, particularly in stores along the border. A respondent to the Dallas Fed’s Texas Retail Outlook Survey highlighted these contemporaneous realities, stating: “The strong dollar continues to negatively impact us in our border stores. Our oil patch stores continue to decline more than the rest of the chain.”⁸

The peso reached a low of just less than 22 per dollar in January 2017, down from 15 per dollar in January 2015. It strengthened to 18

pesos per dollar by July 2017, which should support retailing in Brownsville, El Paso, Laredo and McAllen.⁹

Retail sales in these border metros incurred slight to significant declines during fourth quarter 2016, the most recent data available show. El Paso's real retail sales were down 0.3 percent from fourth quarter 2015, with more substantial drops in Brownsville (8.5 percent), McAllen (9.4 percent) and Laredo (14 percent). The statewide net decline was 0.6 percent.

Comparisons of regional and national sales are complicated because all local consumer activity isn't completely measured. Texas retail sales data are based on reports from state sales- and use-tax permit holders; companies without a physical presence in the state need not obtain a permit.

In fact, the U.S. Supreme Court ruled in 1967 that states could not require out-of-state businesses to collect and remit sales and use taxes while conducting business in the state solely through common carriers such as the U.S. Postal Service. This became known as the physical-presence rule and was affirmed by the court in 1992. Thus, internet and mail-order sales by retailers with no physical presence in Texas—for example, stores or warehouses—are not fully captured.

Weak Employment Growth

Texas' retail sector accounts for 1.3 million jobs and the food services industry an additional 1.1 million positions. The two make up 19 percent of total state employment—about the same relative size as in the nation.

Slowing activity among retail establishments and a shift to the internet has suppressed retail job growth and even prompted some cutbacks, particularly among traditional outlets. Department stores and stores selling clothing and accessories, health and personal care items, sporting goods and hobby goods all cut jobs on net during the first half of 2017, while electronics and appliance stores added jobs at the fastest rate of all retail categories and nonstore retailers continued increasing positions (*Table 1*).

In Texas, slowing retail employment growth has followed slumping sales, with the rate of job growth sliding from 2.7 percent in 2015 to 1.5 percent in 2016 and to -0.7 percent in the first half of 2017. Nationally, retail employment grew just over 1 percent per year in 2015 and 2016 and declined slightly through the first half of 2017.¹⁰

Bucking the trend of declines in the retail trade workforce, food service

industry employment continued increasing, up 5.1 percent in 2015, 2.7 percent in 2016 and 3.9 percent in the first half of 2017.

Shopping Moves Online

Many consumer behavior trends affect retail sales but none more than online shopping, which in first quarter 2017 accounted for 8.5 percent of total retail sales nationally—double the 4.2

Chart 1 Texas Real Retail Sales Decline amid Energy Bust



*Calculated from quarterly real retail sales in 2016 dollars; change is year over year.
NOTE: Gray bars represent U.S. recessions; blue bar represents the oil bust period.
SOURCES: Census Bureau; Texas Comptroller of Public Accounts; Federal Reserve Bank of Dallas.

Table 1 Texas Retail Employment Growth Varies by Type of Retailer

	2015 percent change	2016 percent change	1H 2017 percent change
Total retail	2.7	1.5	-0.7
Electronics and appliance stores (3.4%)	-1.2	0.0	2.3
Other general merchandise (13.6%)	2.8	3.7	1.4
Nonstore retailers (1.8%)	8.0	4.7	1.4
Furniture and home stores (3%)	3.4	-2.8	-0.5
Building material and garden equipment dealers (7.9%)	2.4	3.0	-1.5
Food and beverage stores (18%)	4.2	2.7	-1.7
Gasoline stations (6.5%)	3.6	-0.1	-2.1
Miscellaneous store retailers (4.9%)	2.0	-1.1	-3.2
Health and personal care stores (5.7%)	-0.2	7.2	-3.4
Department and clothing stores (17.2%)	1.7	-0.3	-3.6
Sporting goods and hobby stores (3.6%)	-1.2	-1.6	-7.3

NOTES: Table shows the annual (December/December) percent change. First half 2017 is the June/December annualized percent change. Numbers in parentheses are the share of total retail employment in that specific retail category.
SOURCES: Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

► *The square footage under contract for construction of stores and restaurants in Texas has steadily fallen since 2015 and dropped 10 percent in 2017 from the prior year.*

percent share at the beginning of 2010—according to Census Bureau data. Online sales replace those at brick-and-mortar stores and represent a loss in sales tax revenue for state and local governments.

Given the limited data available on online sales to Texas residents, the Dallas Fed’s Texas Retail Outlook Survey (TROS) fills an important gap. TROS is a monthly survey of about 80 Texas wholesalers and retailers that asks about retail sales revenue, including online sales.

Respondents are queried how their internet sales companywide have changed from the prior month. Their responses are used to construct diffusion indexes, where positive values represent increasing sales and negative values decreasing sales. A higher positive index number indicates faster growth. While respondents are located in Texas, they may do business in other states as well and, therefore, the internet sales measure also likely captures some out-of-state online sales activity.

Internet sales, TROS shows, are increasing at a faster rate than companywide sales, with the internet sales index pushing above the companywide sales index in mid-2016 (Chart 2). This is in line with national e-commerce data. The survey measure of companywide internet sales indicates continuing increases

every quarter since the second half of 2013, while companywide sales declined slightly in third quarter 2016 but otherwise increased.¹¹

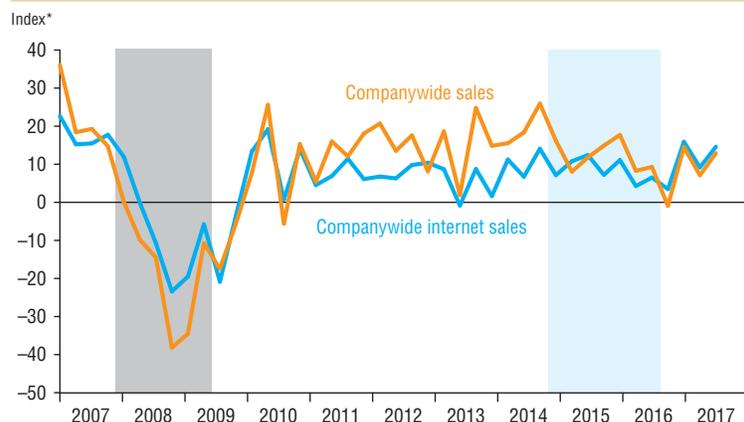
Store Construction Slows

As online spending grows at the expense of brick-and-mortar stores, store closings have followed, impacting malls and other shopping centers in small and large cities nationwide.¹² City leaders have increasingly worked to help fill vacant spaces—either with other retailers or nonretail tenants.¹³

Meanwhile, construction of new facilities is slowing. The square footage under contract for construction of stores and restaurants in Texas has steadily fallen since 2015 and dropped 10 percent in 2017 from the prior year (Chart 3). Store and restaurant construction has also accounted for a shrinking share of the value of total nonresidential construction in Texas.

In 2012, construction of stores and restaurants amounted to 10 percent of the value of all nonresidential construction projects; by the first part of 2017, that share had slipped to 7.8 percent. This decline has broader implications. Slowing construction in the stores-and-restaurants category means reduced demand from this sector for construction workers and materials.

Chart 2 | Internet Sales Increasing Faster than Companywide Retail Sales Among Texas Retailers

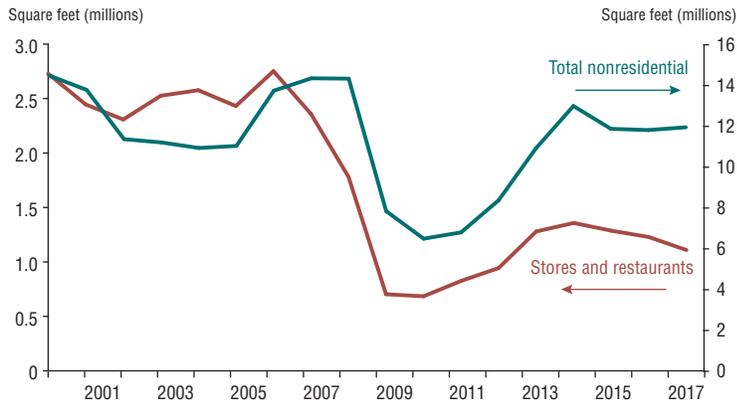


* Quarterly average; seasonally adjusted.

NOTE: Gray shaded bar represents U.S. recession; blue shaded bar represents the oil bust period.

SOURCE: Federal Reserve Bank of Dallas.

Chart 3 Store, Restaurant Square Footage Under Contract for Construction Declines in Texas



SOURCES: Dodge; Federal Reserve Bank of Dallas.

E-Commerce Gains Expanding

While the regional economic effects of the shift to online sales appear negative—with fewer retail stores and jobs and less construction and tax revenue—there are some advantages. Online shopping represents a big benefit to consumers, who can save money and time by easily comparing prices across retailers and avoiding the drive to physical locations. And in some cases, retail job losses are offset by the expansion of internet retailer distribution and service facilities.

E-commerce is growing at a faster rate than traditional retail sales. This trend will continue, with internet sales making up an increasing share of total retail sales. To survive, traditional retailers can further adapt the in-store customer experience and combine it with an online presence.

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Notes

- ¹ Texas retail sales declined in third quarter 2013—a one-quarter drop and not a sustained slump.
- ² U.S. general merchandise, apparel and accessories, furniture and other retail sales have declined since first quarter 2016, while e-commerce sales continue rising and account for an increasing share of total retail sales, according to Census Bureau data.
- ³ A study from retail think tank Fung Global Retail and Technology states that traditional retailers are struggling

due to pressure from the growth of e-commerce, consumers' shift to online shopping and dwindling mall traffic. www.fungglobalretailtech.com/research/deep-dive-retail-x-factor-the-store.

- ⁴ A specific breakout of Texas retail sales excluding restaurants is not available.
- ⁵ There are more than 1 million retail establishments in the U.S., according to the Census Bureau.
- ⁶ Retail sales figures for both Texas and the U.S. refer to real (inflation-adjusted) retail sales in 2016 dollars. U.S. retail sales are deflated using the CPI-U, the Consumer Price Index for all urban consumers from the Bureau of Labor Statistics (BLS); Texas retail sales are deflated using the Texas CPI from the BLS and Dallas Fed.
- ⁷ See "Texas Economy Shifting into Second Gear in 2017," by Keith R. Phillips and Christopher Slijk, Federal Reserve Bank of Dallas *Southwest Economy*, First Quarter 2017, www.dallasfed.org/research/swe.aspx.
- ⁸ Dallas Fed Texas Retail Outlook Survey, Sept. 27, 2016, www.dallasfed.org/research/surveys/-/media/Documents/research/surveys/tssos/2016/1609/tssos1609.pdf.
- ⁹ See "Dollar-Sensitive Mexican Shoppers Boost Texas Border Retail Activity," by Roberto A. Coronado and Keith R. Phillips, Federal Reserve Bank of Dallas *Southwest Economy*, Fourth Quarter 2012, www.dallasfed.org/research/swe.aspx, and "Exported Retail Sales Along the Texas–Mexico Border," by Roberto A. Coronado and Keith R. Phillips, *Journal of Borderlands Studies*, vol. 22, no. 1, spring 2007.

¹⁰ U.S. retail employment was down an annualized 0.6 percent through June 2017.

¹¹ Similar to the companywide internet sales index, the companywide retail sales index largely reflects Texas retail sales but may also capture out-of-state retail sales. We call these indexes companywide revenue and internet revenue in our survey; also see the Texas Retail Outlook Survey sample survey form, www.dallasfed.org/-/media/Documents/research/surveys/TSSOS/documents/tros_form.pdf?la=en.

¹² For examples of impacted malls, see "Cities Look to Regenerate Activity at Old Malls," by Michael Weiss, Federal Reserve Bank of Dallas *Southwest Economy*, Third Quarter 2014, www.dallasfed.org/research/swe.aspx.

¹³ The city of Athens, Texas, hired a retail consultant in 2016 to fill in retail and restaurant gaps. The city learned this year that J.C. Penney would close its store in Athens, www.dallasnews.com/business/retail/2017/03/17/jc-penney-lists-138-store-closings-including-9-texas.