



Texas Service Sector Outlook Survey

DALLAS FED

October 28, 2014

TEXAS SERVICE SECTOR ACTIVITY INCREASES AT A SLOWER PACE

What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on credit availability. Results for these questions from the Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS) have been released together.

Texas service sector activity continued to expand in October, according to business executives responding to the Texas Service Sector Outlook Survey. However, the revenue index, a key measure of state service sector conditions, declined from 26.9 to 14.

Labor market indicators reflected continued hiring and longer workweeks. The employment index held steady at 12.3 in October. The hours worked index inched down from 6.9 to 4.1 this month.

Perceptions of broader economic conditions reflected less optimism in October. The general business activity index dropped from 27.5 to 18. The company outlook index moved down from 21.5 to 15.9, with 23 percent of respondents reporting that their outlook improved from last month and 7 percent noting it worsened.

Price and wage pressures eased this month. The selling prices index fell slightly from 8 to 6.6. The wages and benefits index dipped 2 points to 18, suggesting labor costs increased at a slower pace than last month, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in October. The index of future general business activity retreated from 36.3 to 23.4. The index of future company outlook moved down from 34.3 to 29. Indexes of future service sector activity, such as future revenue and employment, fell but remained in solid positive territory this month.



RETAIL SALES GROWTH SLOWS

Retail sales grew in October, but at a slower pace, according to business executives responding to the Texas Retail Outlook Survey. After surging last month, the sales index plunged from 35.5 to 16.7. Inventories increased at a slower pace than last month.

Labor market indicators reflected slower employment growth and shorter workweeks. The employment index declined from 10.8 to 2.9, indicating retail jobs increased at a slower pace than in September. The hours worked index retreated into negative territory at -1.3, suggesting shorter workweeks, although the great majority of firms continued to note no change.

Retailers' perceptions of broader economic conditions reflected more optimism in October. The general business activity index rose from 25.9 to 29.8. The company outlook index held steady at 26.8, with 28 percent of respondents noting an improved company outlook over the prior month, compared with 1 percent reporting their outlook had worsened.

Retail price and wage pressures eased this month. The selling prices index fell from 19.5 to 13. The wages and benefits index declined from 20.8 to 11.6, although the majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions reflected slightly less optimism in October. The future general business activity index inched down from 35.7 to 33.9. The index of future company outlook ticked down from 35.7 to 34.9. Indexes of future retail sector activity remained in solid positive territory this month.

The Texas Retail Outlook Survey (TROS) is a component of the TSSOS that uses information only from respondents in the retail and wholesale sectors.

The Dallas Fed conducts the Texas Service Sector Outlook Survey monthly to obtain a timely assessment of the state's service sector activity. Data were collected Oct. 14–22, and 246 Texas business executives responded to the survey. 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.

Next release: November 25, 2014

Federal Reserve Bank of Dallas

Texas Service Sector Outlook Survey

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TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	14.0	26.9	-12.9	Increasing	60	31.1	51.8	17.1
Employment	12.3	11.9	+0.4	Increasing	56	19.6	73.1	7.3
Part-time employment	6.3	7.4	-1.1	Increasing	12	9.7	86.9	3.4
Hours worked	4.1	6.9	-2.8	Increasing	9	8.8	86.5	4.7
Wages and benefits	18.0	19.9	-1.9	Increasing	65	20.0	78.0	2.0
Input prices	22.9	27.8	-4.9	Increasing	66	27.7	67.5	4.8
Selling prices	6.6	8.0	-1.4	Increasing	47	13.6	79.4	7.0
Capital expenditures	11.1	14.5	-3.4	Increasing	62	18.5	74.1	7.4
General Business Conditions								
Current (versus previous month)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	15.9	21.5	-5.6	Improving	38	22.8	70.3	6.9
General business activity	18.0	27.5	-9.5	Improving	36	24.1	69.8	6.1
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	47.6	53.0	-5.4	Increasing	68	55.6	36.4	8.0
Employment	33.0	36.3	-3.3	Increasing	67	37.4	58.2	4.4
Part-time employment	13.7	14.5	-0.8	Increasing	28	17.7	78.3	4.0
Hours worked	5.6	7.8	-2.2	Increasing	11	9.2	87.2	3.6
Wages and benefits	41.5	47.3	-5.8	Increasing	94	41.8	57.9	0.3
Input prices	45.5	50.1	-4.6	Increasing	94	49.3	47.0	3.8
Selling prices	29.0	29.8	-0.8	Increasing	66	34.7	59.6	5.7
Capital expenditures	29.9	33.0	-3.1	Increasing	67	36.7	56.4	6.8
General Business Conditions								
Future (six months ahead)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	29.0	34.3	-5.3	Improving	38	34.7	59.6	5.7
General business activity	23.4	36.3	-12.9	Improving	37	30.4	62.6	7.0

*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.

Data have been seasonally adjusted as necessary.

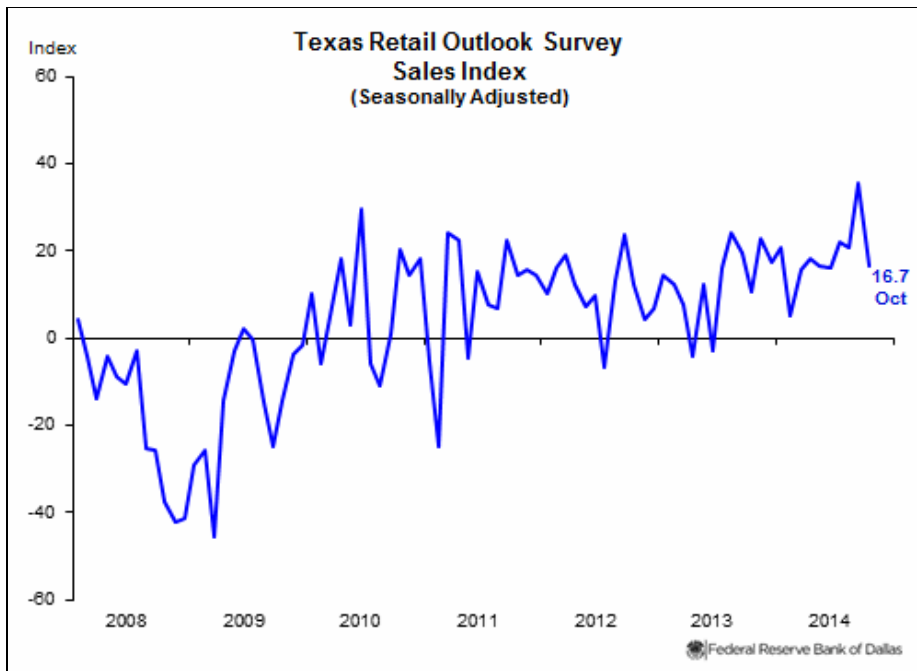
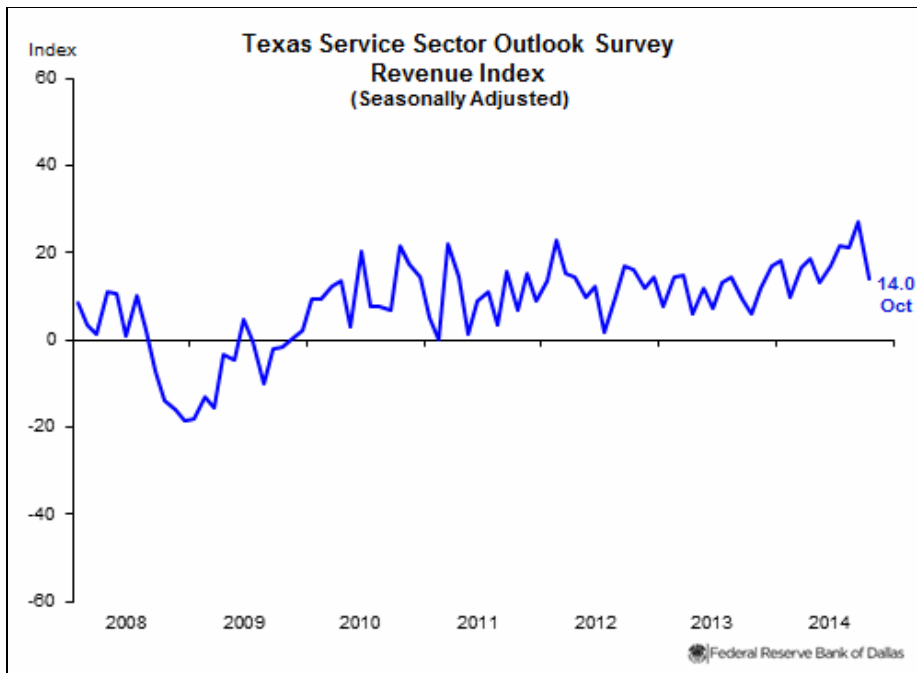
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	16.7	35.5	-18.8	Increasing	16	39.0	38.7	22.3
Employment	2.9	10.8	-7.9	Increasing	3	12.1	78.7	9.2
Part-time employment	3.5	0.0	+3.5	Increasing	1	8.8	86.0	5.3
Hours worked	-1.3	3.2	-4.5	Decreasing	1	7.9	82.9	9.2
Wages and benefits	11.6	20.8	-9.2	Increasing	44	17.5	76.6	5.9
Input prices	13.1	17.9	-4.8	Increasing	51	22.1	68.9	9.0
Selling prices	13.0	19.5	-6.5	Increasing	27	24.7	63.6	11.7
Capital expenditures	6.8	21.0	-14.2	Increasing	12	13.6	79.7	6.8
Inventories	15.1	22.6	-7.5	Increasing	33	32.0	51.1	16.9
Companywide Retail Activity								
Sales	15.8	30.4	-14.6	Increasing	41	32.8	50.2	17.0
Internet sales	11.7	5.1	+6.6	Increasing	9	14.0	83.7	2.3
Catalog sales	0.0	3.0	-3.0	No Change	1	2.7	94.6	2.7
General Business Conditions, Retail Current (versus previous month)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	26.8	26.6	+0.2	Improving	18	27.5	71.8	0.7
General business activity	29.8	25.9	+3.9	Improving	18	33.3	63.2	3.5
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	56.3	51.8	+4.5	Increasing	68	62.8	30.7	6.5
Employment	27.1	30.4	-3.3	Increasing	58	33.4	60.3	6.3
Part-time employment	10.7	3.2	+7.5	Increasing	16	17.2	76.3	6.5
Hours worked	8.5	3.0	+5.5	Increasing	31	13.7	81.1	5.2
Wages and benefits	39.1	46.7	-7.6	Increasing	70	41.7	55.6	2.6
Input prices	31.6	40.4	-8.8	Increasing	66	38.6	54.4	7.0
Selling prices	38.6	46.1	-7.5	Increasing	66	43.9	50.9	5.3
Capital expenditures	25.0	32.0	-7.0	Increasing	43	33.9	57.1	8.9
Inventories	20.9	27.2	-6.3	Increasing	59	32.2	56.5	11.3
Companywide Retail Activity								
Sales	47.9	53.4	-5.5	Increasing	67	53.6	40.7	5.7
Internet sales	26.2	23.5	+2.7	Increasing	67	26.2	73.8	0.0
Catalog sales	7.6	7.9	-0.3	Increasing	12	8.0	91.6	0.4
General Business Conditions, Retail Future (six months ahead)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	34.9	35.7	-0.8	Improving	67	38.0	58.9	3.1
General business activity	33.9	35.7	-1.8	Improving	37	40.3	53.3	6.4

*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.

Data have been seasonally adjusted as necessary.



COMMENTS FROM SURVEY RESPONDENTS

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

Credit Intermediation and Related Activities

- > Market rates are irrational at present, and this makes it very difficult to see down the road far. Business levels are great right now, but upheavals in equity and bond markets could really put a damper on activity.
- > Housing availability in a thriving rural environment has become a big problem. It is good if you have a house for sale but bad if you cannot find a suitable one.

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

- > Slowing growth may reduce asset values in oil, farming and real estate. Job growth and farm income are down slightly.
- > There are no significant changes because the base causes of concern, such as an increase in government regulation and taxes and immigration policies, have not been fixed.

Insurance Carriers and Related Activities

- > We suspect ISIS and Ebola are causing uncertainty in the economy. There are a number of people taking a cautious approach right now until the news reports become less sensational. Medical personnel and fire fighters are all watching for the next Ebola scare to surface, and we find that disconcerting.

Real Estate

- > The residential real estate market has continued to perform at record levels through September. The market has plateaued over the past several months. The question is whether declining oil prices will impact job creation over the coming months.
- > It appears that the economy, and specifically housing demand, is coasting to the end of the year. Hopefully recent job growth, household wealth increases and getting the election behind us will jumpstart 2015 activity.

Rental and Leasing Services

- > The U.S. economy is a house of cards.

Professional, Scientific and Technical Services

- > We will watch the coming months very closely. While we remain optimistic that the U.S. economy will continue to improve, weakening energy prices are impacting our business some, although we are not completely sure yet to what degree. We will likely see the impact a few months out in softening demand for services. Volatility in U.S. and foreign stock markets, along with global economic issues in Europe and China, weigh on us as well. Continued geopolitical risk is very concerning. We are adopting a "wait and see" attitude for now.
- > Ebola did not help the stock market or optimism. That was a disaster for Dallas. Hopefully, the recovery and readjustment process will solidify our reputation.
- > In spite of strong growth in most of our markets, we are concerned about the sustainability of the current economy.
- > Business has slowed dramatically. Usually we are very busy at this time of year, but now we are considering layoffs. We are not sure why things slowed down.
- > We are very fortunate to work in Texas. The real estate market is as hot as it has ever been and for a good reason. The amount of jobs being created is fueling a tremendous amount of development, and it seems that we are having trouble meeting the demands for housing and office space. We are very excited about the foreseeable future for this market.
- > The prices of crude oil and natural gas and the slowdown in the oil and gas market are issues for our business.

Administrative and Support Services

- > Market resistance to price increases makes it hard to pass along product cost increases.
- > Health care space is booming. The free market is trying to correct for recent regulations.
- > Health insurance rates have skyrocketed.
- > Our increase in revenue is not retail growth due to economic improvement, but instead is due to our ability to capture work from other providers.

Educational Services

- > There are more opportunities to submit proposals. Prices are able to move up slowly.
- > We have not received our updated health insurance quotes for 2015. Hopefully, there will not be too much of an increase.

Ambulatory Health Care Services

- > Eighty percent of our revenue comes from the federal government in the form of Medicare. Unfortunately, the government does not see the value in our segment of the health care market and continues to cut our reimbursement every January. January 2015 is no exception. We will have to increase our patient load to counteract the rate cut. This is not an easy task in most of our markets as competition is fierce. That being said, we have another line of business in the post-acute care segment of the health care market that is beginning to bear fruit. As a result, our overall outlook is positive.
- > Anticipated decreases will be due to an expected decline in Medicare reimbursement. We are seeing some payroll pressure due to the tight labor market. We expect health care coverage costs to rise again in 2015.

Hospitals

- > We have seen a decrease in volumes in October. Costs continue to increase as regulatory requirements continue to increase. Rural hospitals are required to maintain the same reporting requirements as larger systems.

Nursing and Residential Care Facilities

- > The overall environment for health care providers in Texas remains challenging. Increasing charity and bad debt costs, lower Medicare reimbursements, higher-deductible commercial plans, risk of losing supplemental Medicaid payments and lower levels of physician productivity all combine to make a bleak outlook.

Food Services and Drinking Places

- > Relative to September, sales in October have slowed down, although sales are still higher than last year and remain greater than our price increases. However, our input costs are up; so, on net, there is little change in revenue. In the next six months, we expect sales to continue to increase more than the percentage of price increases. We also expect our wage and benefits costs to rise as medical coverage costs increase sharply on Jan. 1, 2015. We may have to change to another health insurance carrier and take a decrease in benefits, which would result in a lower cost increase but fewer benefits for our employees. We could also pass on increased costs to the customer. However, that can be very counterproductive; we estimate that a price increase of 1 to 2 percent can be accepted by customers without a detrimental impact on sales.
- > Government regulations are harming small business profits and hiring.
- > We feel that concerns about the Ebola situation have affected the retail economy.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- > Our business depends on the health of the oil and gas exploration and production industry, and we are concerned that the fall in oil prices will be sustained over many months, leading to a reduction in activity.

Merchant Wholesalers, Nondurable Goods

- > We are going to do more with less.
- > Our firm is increasing the number of part-time workers in place of full-time workers in anticipation of higher health care costs in 2015 for full-time workers. Business activity in Texas remains very strong, and activity in the remainder of the U.S. is stable.

Motor Vehicle and Parts Dealers

- > As long as we continue thinking that the stock market is the barometer on how well the economy is doing, things will not end well. Low interest rates have been feeding speculation, not investment in productive capacity or real growth. Internet activity is based on advertising revenues, which will dry up whenever companies pull back. We see interesting times to come in the near future.
- > Our industry and the overall economy are strong, but we are limited by issues with our major supplier.

Building Material and Garden Equipment and Supplies Dealers

- > September sales were very high, which makes October sales relatively lower, although October will still be a good month for sales.

Nonstore Retailers

- > Our vending business grows as new businesses come to Texas, as well as when our existing customers increase headcount. One concern we have is whether the drop in oil prices will impact the growth of fracking in Texas, which in turn could slow the Texas economy. The recent news of Ebola in Texas has already caused us to discuss potential impacts on our business if it spreads. We think businesses will have employees work from home when possible in order to slow the spread of disease, which would reduce our sales since we only sell to businesses with sizable workforces. For now, however, our forecast remains rosy.

Truck Transportation

- > We are having a big problem recruiting truck drivers for a long-haul operation. We have 20 openings now, and we are advertising across the country with no results.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org. The Texas Service Sector Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tssos/.



Texas Business Outlook Surveys

DALLASFED

October 27, 2014

SPECIAL QUESTIONS

Results below include responses from participants of all three surveys: Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

Data were collected Oct. 6–9, and 272 Texas business executives responded to the surveys.

1. How do borrowing conditions facing your firm compare to those six months ago?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Eased substantially	0.8	1.3	1.8
Eased somewhat	8.9	8.2	11.8
No change	50.2	43.8	48.0
Tightened somewhat	8.2	11.6	5.5
Tightened substantially	3.5	2.6	2.6
Not applicable—haven't sought credit	28.4	32.6	30.3

2. How does the cost of credit compare to what it was six months ago?*		
	Oct '13 (percent)	Oct '14 (percent)
Increased substantially	3.9	0.7
Increased somewhat	27.5	12.1
No change	31.3	48.5
Decreased somewhat	3.4	7.0
Decreased substantially	0.0	1.1
Not applicable—haven't sought credit	33.9	30.5

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	33.1	41.4	43.0
Some difficulty	19.1	11.2	14.1
Substantial difficulty	3.9	3.0	3.3
Extreme difficulty	4.7	3.0	0.7
Not applicable—haven't sought credit	39.3	41.4	38.9

4. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	38.2	40.5	42.4
Some difficulty	12.2	9.5	7.8
Substantial difficulty	2.4	1.3	3.0
Extreme difficulty	3.9	1.7	1.5
Not applicable—haven't sought credit	43.3	47.0	45.4

5. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes—significantly	4.7	2.2	2.9
Yes—somewhat	10.1	6.9	8.5
No	34.2	35.8	35.7
Not applicable—haven't had problems obtaining credit	12.5	15.1	15.8
Not applicable—haven't sought credit	38.5	40.1	37.1

6. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes—significantly	3.1	0.9	0.7
Yes—somewhat	9.4	7.3	5.5
No	39.5	38.4	44.1
Not applicable—haven't had problems obtaining credit	11.7	13.8	13.6
Not applicable—haven't sought credit	36.3	39.7	36.0

*Question added in 2013.

NOTE: Survey respondents were given the opportunity to provide comments. These comments can be found on the individual survey Special Questions results pages.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org, and questions regarding the Texas Service Sector Outlook Survey or the Texas Retail Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org. The Texas Business Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tbos/.





Texas Manufacturing Outlook Survey

DALLAS **FED**

October 27, 2014

SPECIAL QUESTIONS

Data were collected Oct. 6–9, and 89 Texas manufacturers responded to the survey.

1. How do borrowing conditions facing your firm compare to those six months ago?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Eased substantially	0.0	0.0	0.0
Eased somewhat	3.9	6.9	13.5
No change	53.2	51.4	53.9
Tightened somewhat	9.1	13.9	4.5
Tightened substantially	2.6	1.4	3.4
Not applicable—haven't sought credit	31.2	26.4	24.7

2. How does the cost of credit compare to what it was six months ago?*		
	Oct '13 (percent)	Oct '14 (percent)
Increased substantially	4.2	1.1
Increased somewhat	31.9	15.7
No change	31.9	48.3
Decreased somewhat	2.8	6.7
Decreased substantially	0.0	1.1
Not applicable—haven't sought credit	29.2	27.0

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	41.6	48.6	47.2
Some difficulty	9.1	13.9	16.9
Substantial difficulty	9.1	1.4	5.6
Extreme difficulty	3.9	4.2	0.0
Not applicable—haven't sought credit	36.4	31.9	30.3

4. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	42.7	50.0	50.6
Some difficulty	8.0	9.7	6.9
Substantial difficulty	5.3	2.8	4.6
Extreme difficulty	2.7	1.4	1.1
Not applicable—haven't sought credit	41.3	36.1	36.8

5. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes—significantly	3.9	1.4	1.1
Yes—somewhat	9.1	6.9	11.2
No	27.3	36.1	32.6
Not applicable—haven't had problems obtaining credit	19.5	20.8	23.6
Not applicable—haven't sought credit	40.3	34.7	31.5

6. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes—significantly	3.9	0.0	0.0
Yes—somewhat	6.5	11.1	4.5
No	32.5	34.7	43.8
Not applicable—haven't had problems obtaining credit	20.8	19.4	21.3
Not applicable—haven't sought credit	36.4	34.7	30.3

*Question added in 2013.

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Fabricated Metal Product Manufacturing

- > The credit markets are tightening somewhat, partly in response to Dodd–Frank leverage constraints.
- > We have existing notes and a line of credit, and the pressure related to those instruments has diminished. On the other hand, we have not sought to replace them.

Machinery Manufacturing

- > Our firm's profitability and cash flow growth have made any requested lending an easy process.
- > We refinanced a real estate loan and found many lenders to be very aggressive in pursuing our business. That was new; in the past the banks had been extremely standoffish regarding our revolving letter of credit.
- > We have an existing multibank credit facility and low overall financial leverage on the business. As a result, financing is not a significant issue for us.
- > We have only applied for a real estate loan, which was easily obtained at a good rate.

Chemical Manufacturing

- > As a part of the energy sector, we have been fortunate to be in a growth mode with good profitability. Lenders are willing participants in this business. When we need credit, the banks line up to get a piece of the action. We recently closed a \$135 million credit facility and it was oversubscribed by 50 percent.

Food Manufacturing

- > We don't live on credit. It may be a necessary evil but an evil nonetheless.
- > Current conditions are favorable, but we are monitoring the market for 2015 and beyond for warning signs. Higher interest rates, no growth, a stronger dollar and true inflation—especially in food—are all factors in our forecast.

Paper Manufacturing

- > Although we have not sought credit, the conditions and rates have been the same as six months ago.

Computer and Electronic Product Manufacturing

- > The federal government needs to focus on enabling business creation and sustainability by creating policies that incentivize growth, resulting in long-term job creation and investments.

Electrical Equipment, Appliance and Component Manufacturing

- > Our bank is a relatively large community bank with branches in San Antonio and Austin. We learned over lunch with our bank officer that, regarding loans and loan demand, the issue for his bank is finding qualified borrowers. His bank actively seeks out qualified borrowers to loan capital. His frustration is with the added staff and process necessitated by bank examiners today.

Transportation Equipment Manufacturing

- > We have been very fortunate that our company has not required credit for the past couple of years. There will probably be a need in the next two to three years as our equipment is working extremely hard and replacement will be a priority.

Plastics and Rubber Products Manufacturing

- > We are anticipating higher interest rates next year, but this will not affect our business as we are mostly debt free.

Nonmetallic Mineral Product Manufacturing

- > The time frame for obtaining credit and the number of questions has increased. Underwriting standards have tightened in the last six years.





Texas Service Sector Outlook Survey

DALLASFED

October 27, 2014

SPECIAL QUESTIONS

Data were collected Oct. 6–9, and 183 Texas business executives responded to the survey.

1. How do borrowing conditions facing your firm compare to those six months ago?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Eased substantially	1.1	1.9	2.7
Eased somewhat	11.1	8.7	11.0
No change	48.9	40.4	45.1
Tightened somewhat	7.8	10.6	6.0
Tightened substantially	3.9	3.1	2.2
Not applicable—haven't sought credit	27.2	35.4	33.0

2. How does the cost of credit compare to what it was six months ago?*		
	Oct '13 (percent)	Oct '14 (percent)
Increased substantially	3.7	0.5
Increased somewhat	25.5	10.4
No change	31.1	48.6
Decreased somewhat	3.7	7.1
Decreased substantially	0.0	1.1
Not applicable—haven't sought credit	36.0	32.2

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	29.4	38.1	40.9
Some difficulty	23.3	10.0	12.7
Substantial difficulty	1.7	3.8	2.2
Extreme difficulty	5.0	2.5	1.1
Not applicable—haven't sought credit	40.6	45.6	43.1

4. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	36.3	36.3	38.5
Some difficulty	14.0	9.4	8.2
Substantial difficulty	1.1	0.6	2.2
Extreme difficulty	4.5	1.9	1.6
Not applicable—haven't sought credit	44.1	51.9	49.5

5. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes—significantly	5.0	2.5	3.8
Yes—somewhat	10.6	6.9	7.1
No	37.2	35.6	37.2
Not applicable—haven't had problems obtaining credit	9.4	12.5	12.0
Not applicable—haven't sought credit	37.8	42.5	39.9

6. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?			
	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes—significantly	2.8	1.3	1.1
Yes—somewhat	10.6	5.6	6.0
No	42.5	40.0	44.3
Not applicable—haven't had problems obtaining credit	7.8	11.3	9.8
Not applicable—haven't sought credit	36.3	41.9	38.8

*Question added in 2013.

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Credit Intermediation and Related Activities

- > We learned a long time ago that in downturns you can keep your staff and continue product development, or you can pay debt service. Now is not a time to borrow.
- > We have seen a slight increase in loan demand, and basically the volume is at a level to offset paydowns on loans. Deposits continue to exceed expectations. Delinquencies are at a historical low, with consumer loan volume remaining steady but under projections. Most growth in loans has been in commercial real estate and development. We have been reissuing a lot of debit cards due to the multiple breaches that have been occurring at big retail chain stores, increasing costs to the bank for new cards and causing customers the inconvenience of delays in receiving the newly issued cards. Something must be done to require the retail stores to be held responsible for the breaches that they have.

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

- > We put our longer-term financing in place about 14 months ago, based on the theory that rates would increase significantly. The rates are higher now, and the conditions of the loans are somewhat more stringent. We are not in the credit or short-term bank-financing market right now, nor do we intend to be in the near future.

Real Estate

- > Our company hasn't sought credit, but our clients are dependent upon obtaining mortgage loans. Lately we've seen some additional tightening that has negatively impacted several clients.

Rental and Leasing Services

- > The problem isn't credit, it's regulatory-induced inefficiencies that cost us profit, which would otherwise be used to grow our business and hire more people.

Professional, Scientific and Technical Services

- > Credit is not a limiting factor to our business growth; however, regulation is a significant limiting factor.
- > We don't use credit to finance our day-to-day operations. This is all funded with available capital. We do maintain a credit line at the bank, but we haven't drawn on it in at least seven years. When we have borrowed funds for capital improvement—e.g., leasehold improvements—several of our partners guarantee a portion of said obligation. We have good, long-time banking relationships and would not expect any problems with borrowing funds if needed and justifiable.
- > We have plenty of capital but cannot find good places to put it to use.

Administrative and Support Services

- > We have a long-standing banking relationship and have not had to seek a new credit facility.
- > We still do not know about the ramifications of the Affordable Care Act. Health insurance is the most worrisome segment of our business right now.
- > We would not be surprised for nontraditional lending sources to step forward for qualified applicants, some with a slightly lower score and some with a smaller down payment.
- > We maintain discussions with lending institutions, and they are still tight on their non-real-estate lending requirements. Any lending we look for is based on cash flow, and those terms are difficult. Banks have cut back on inventory and even receivables as collateral.

Nursing and Residential Care Facilities

- > While our organization has not sought credit, we have considered refinancing existing debt. Our perception is that borrowing conditions have eased slightly, but there is still a great deal of instability in the market.

Food Services and Drinking Places

- > We have obtained some financing in the last six months—primarily for a new restaurant we opened and a couple of remodels of existing units—but we used existing lines of credit arranged some time back and did not need to add to them.

Truck Transportation

- > Our business is fast and furious. We increased our policy on deposits and now have a much tighter visibility of receivable aging. In terms of operating capital, we are growing, yet doing so within cash flow. We have met with our bank and easily received approval for an increased line of credit should it be necessary to fill gaps in cash flow. They did gripe about new regulation for reserves against unused line of credit dollars. We talked this past week about financing one of our existing buildings that has a large amount of equity tied up and a low amount of remaining debt. The conversation was easy, comfortable, and positive.



Texas Retail Outlook Survey

DALLASFED

October 27, 2014

SPECIAL QUESTIONS

Data were collected Oct. 6–9, and 47 Texas retailers responded to the survey.

1. How do borrowing conditions facing your firm compare to those six months ago?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Eased substantially	4.1	0.0	4.3
Eased somewhat	14.3	17.9	10.9
No change	55.1	43.6	52.2
Tightened somewhat	10.2	7.7	6.5
Tightened substantially	2.0	0.0	0.0
Not applicable—haven't sought credit	14.3	30.8	26.1

2. How does the cost of credit compare to what it was six months ago?*

	Oct '13 (percent)	Oct '14 (percent)
Increased substantially	0.0	2.1
Increased somewhat	33.3	14.9
No change	20.5	55.3
Decreased somewhat	12.8	6.4
Decreased substantially	0.0	0.0
Not applicable—haven't sought credit	33.3	21.3

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	38.8	43.6	54.3
Some difficulty	26.5	10.3	15.2
Substantial difficulty	2.0	2.6	0.0
Extreme difficulty	8.2	0.0	0.0
Not applicable—haven't sought credit	24.5	43.6	30.4

4. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	49.0	48.7	59.6
Some difficulty	14.3	5.1	8.5
Substantial difficulty	2.0	2.6	2.1
Extreme difficulty	8.2	0.0	0.0
Not applicable—haven't sought credit	26.5	43.6	29.8

5. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes—significantly	6.1	0.0	2.1
Yes—somewhat	14.3	5.3	6.4
No	42.9	39.5	51.1
Not applicable—haven't had problems obtaining credit	16.3	21.1	19.1
Not applicable—haven't sought credit	20.4	34.2	21.3

6. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes—significantly	6.1	0.0	0.0
Yes—somewhat	16.3	5.1	8.5
No	44.9	46.2	57.4
Not applicable—haven't had problems obtaining credit	12.2	15.4	12.8
Not applicable—haven't sought credit	20.4	33.3	21.3

*Question added in 2013.

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Motor Vehicle and Parts Dealers

- > Availability of credit has not been an issue, and terms have been shortened.

Building Material and Garden Equipment and Supplies Dealers

- > We have been hiring and are planning to purchase new equipment, but we do not plan to borrow to do so.

Food and Beverage Stores

- > We operate public companies, and credit is wide open for us and ridiculously cheap. Our concern is that mortgage credit is almost unobtainable for low- and middle-income borrowers, which is keeping home construction restrained and reducing our sales from the employees who work in construction-related trades—a key segment of our customer base.

Nonstore Retailers

> We have a long-term relationship with our banker and have a working capital line secured by cash. Our recent credit experience was for a mortgage on a building that we occupy—our fourth such transaction since 2006. Since we have an excellent record with our bank on our working capital line as well as several mortgages in place, we may have had an easier time obtaining credit than other businesses.

