



Texas Service Sector Outlook Survey

DALLAS FED

March 31, 2015

TEXAS SERVICE SECTOR ACTIVITY INCREASES BUT AT A SLOWER PACE

Texas service sector activity continued to reflect expansion in March, according to business executives responding to the Texas Service Sector Outlook Survey. However, the revenue index, a key measure of state service sector conditions, edged down from 13.6 to 10.7, its lowest reading since October 2013.

Labor market indicators suggested some softness this month. The employment index remained positive but fell from 12 to 4.2, indicating employment rose at a slower pace than in February. The hours worked index dipped into negative territory to -1, suggesting work hours decreased in March.

Perceptions of broader economic conditions dimmed in March. The general business activity index declined back into negative territory this month to a reading of -4.6. The company outlook index dipped to a reading near zero, indicating outlooks were unchanged from February. About 15 percent of respondents reported that their outlook improved from last month and 16 percent noted that it worsened.

Price pressures eased while wage pressures were unchanged this month. The selling prices index fell slightly from 3.9 to 1.7. The wages and benefits index held steady at 15.2, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in March. The index of future general business activity moved down from 8.9 to 2.7. The index of future company outlook fell slightly from 14.3 to 9.7. Indexes of future service sector activity, such as future revenue and employment, remained in solid positive territory this month.



RETAIL SALES DECLINE

Retail sales fell in March, according to business executives responding to the Texas Retail Outlook Survey. The sales index plunged from 6.8 to -6.4, its lowest reading since July 2012. Inventories decreased.

Labor market indicators worsened in March. The employment index retreated back to negative territory to -6.6, indicating retail jobs decreased this month. The hours worked index fell sharply from -0.1 to -11.9, suggesting workweek length decreased.

Retailers' perceptions of broader economic conditions deteriorated this month. The general business activity index plunged further into negative territory to -19.9. The company outlook index dropped 15 points back into negative territory to -12, with 8 percent of respondents noting an improved company outlook over the prior month, compared with 20 percent reporting their outlook had worsened.

Retail prices were unchanged, while wage pressures increased this month. The selling prices index edged down to a reading of 0, indicating prices held steady in March. The wages and benefits index ticked up from 6.6 to 9.4, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions indicate optimism declined in March. The index of future general business activity dropped from 2.3 to -4.2. The index of future company outlook remained positive but fell from 12.9 to 5.3. Indexes of future retail sector activity showed mixed movements in March but posted solidly positive readings.

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 March 17–25, and 241 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: April 28, 2015

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	10.7	13.6	-2.9	Increasing	65	30.4	49.9	19.7
Employment	4.2	12.0	-7.8	Increasing	61	15.6	73.0	11.4
Part-time employment	0.9	5.9	-5.0	Increasing	17	10.7	79.5	9.8
Hours worked	-1.0	1.4	-2.4	Decreasing	1	9.8	79.4	10.8
Wages and benefits	15.2	15.4	-0.2	Increasing	66	18.8	77.6	3.6
Input prices	14.4	18.9	-4.5	Increasing	71	20.8	72.8	6.4
Selling prices	1.7	3.9	-2.2	Increasing	52	11.1	79.5	9.4
Capital expenditures	10.6	7.0	+3.6	Increasing	67	19.5	71.6	8.9
General Business Conditions								
Current (versus previous month)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-0.9	3.5	-4.4	Worsening	1	15.4	68.3	16.3
General business activity	-4.6	1.7	-6.3	Worsening	1	12.7	70.0	17.3
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	31.9	38.3	-6.4	Increasing	73	46.2	39.4	14.3
Employment	23.0	21.7	+1.3	Increasing	72	33.6	55.8	10.6
Part-time employment	10.9	10.3	+0.6	Increasing	33	19.4	72.1	8.5
Hours worked	1.8	3.7	-1.9	Increasing	16	10.6	80.6	8.8
Wages and benefits	34.8	37.2	-2.4	Increasing	99	38.1	58.6	3.3
Input prices	40.4	40.5	-0.1	Increasing	99	43.4	53.6	3.0
Selling prices	23.7	19.3	+4.4	Increasing	71	30.7	62.3	7.0
Capital expenditures	21.5	18.7	+2.8	Increasing	72	30.2	61.1	8.7
General Business Conditions								
Future (six months ahead)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	9.7	14.3	-4.6	Improving	43	27.0	55.7	17.3
General business activity	2.7	8.9	-6.2	Improving	42	21.8	59.1	19.1

*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.

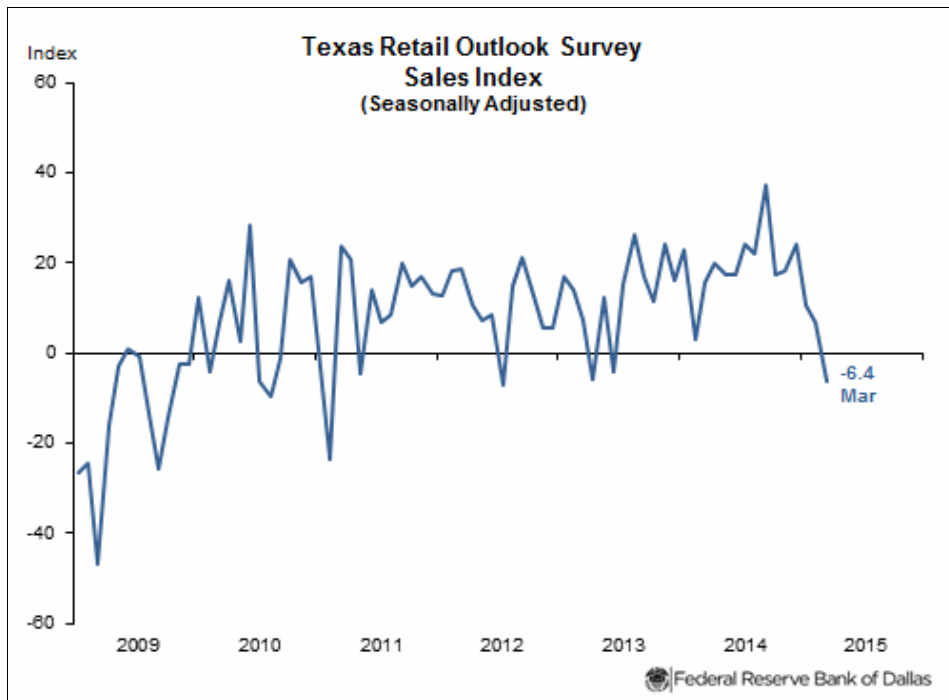
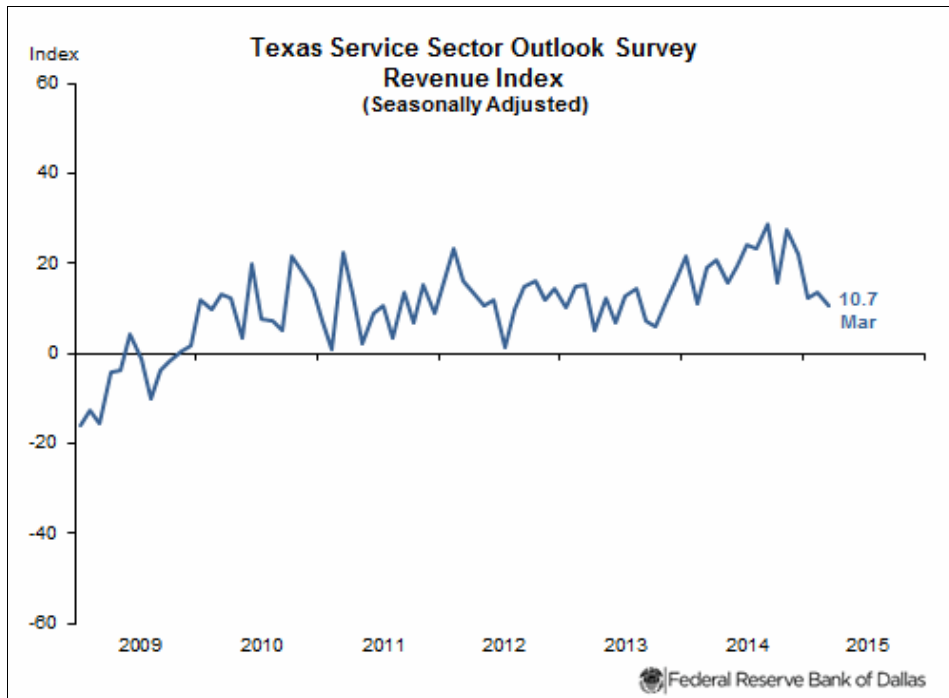
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	-6.4	6.8	-13.2	Decreasing	1	23.9	45.9	30.3
Employment	-6.6	1.8	-8.4	Decreasing	1	7.3	78.8	13.9
Part-time employment	-1.8	2.0	-3.8	Decreasing	1	9.1	80.0	10.9
Hours worked	-11.9	-0.1	-11.8	Decreasing	2	7.3	73.5	19.2
Wages and benefits	9.4	6.6	+2.8	Increasing	49	13.8	81.8	4.4
Input prices	2.3	9.2	-6.9	Increasing	2	14.7	72.9	12.4
Selling prices	0.0	1.9	-1.9	No Change	1	12.7	74.6	12.7
Capital expenditures	3.6	3.6	0.0	Increasing	17	14.3	75.0	10.7
Inventories	-4.8	5.1	-9.9	Decreasing	1	17.0	61.2	21.8
Companywide Retail Activity								
Sales	-7.7	18.0	-25.7	Decreasing	1	18.6	55.1	26.3
Internet sales	3.4	15.0	-11.6	Increasing	22	9.6	84.2	6.2
Catalog sales	0.0	9.1	-9.1	No Change	1	5.9	88.2	5.9
General Business Conditions, Retail Current (versus previous month)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-12.0	3.1	-15.1	Worsening	1	8.0	72.0	20.0
General business activity	-19.9	-2.2	-17.7	Worsening	2	4.4	71.3	24.3
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	24.2	27.3	-3.1	Increasing	73	45.0	34.1	20.8
Employment	8.9	-0.9	+9.8	Increasing	1	22.2	64.4	13.3
Part-time employment	0.5	2.7	-2.2	Increasing	21	13.3	73.9	12.8
Hours worked	-9.2	-7.8	-1.4	Decreasing	4	8.6	73.6	17.8
Wages and benefits	22.3	18.7	+3.6	Increasing	73	27.8	66.7	5.5
Input prices	30.9	28.8	+2.1	Increasing	71	36.4	58.2	5.5
Selling prices	30.3	21.5	+8.8	Increasing	71	35.7	58.9	5.4
Capital expenditures	20.0	19.2	+0.8	Increasing	48	29.1	61.8	9.1
Inventories	22.8	9.7	+13.1	Increasing	64	40.1	42.7	17.3
Companywide Retail Activity								
Sales	31.4	21.3	+10.1	Increasing	72	43.8	43.8	12.4
Internet sales	24.3	25.0	-0.7	Increasing	72	24.3	75.7	0.0
Catalog sales	15.2	6.0	+9.2	Increasing	2	15.4	84.4	0.2
General Business Conditions, Retail Future (six months ahead)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	5.3	12.9	-7.6	Improving	72	19.9	65.5	14.6
General business activity	-4.2	2.3	-6.5	Worsening	1	16.2	63.4	20.4

*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

- > We are beginning to see some slowdown as a result of the reduction in oil exploration and the impact on service companies and drilling component manufacturing. Many rigs are being shut down, resulting in layoffs. Loan demand continues to increase, due in part to commercial real estate development. Regulations continue to create head winds for progress. The battle to save community banks and local communities is intense.

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

- > The majority of our operations support the oil and gas industries, which are feeling the pinch of lower prices. Our business is really beginning to see cutbacks. We are making necessary cuts in product costs and expenses. Additionally, new regulations are very expensive. Our business and our employees will suffer.
- > We are beginning to feel the downturn in energy. Job numbers are flat.

Rental and Leasing Services

- > Half of our stores operate in Texas oilfield markets; the slowdown and impact of lower oil prices has just begun. We have already started cutting capital investments, people, benefits, expenses and costs in every area. We are focused on paying down all debt.

Professional, Scientific and Technical Services

- > Lower energy costs have driven many of our projects into postponement or cancellation.
- > Even with falling oil prices, the real estate market has remained strong. This is evident by the strength of our order count and increased revenue. Revenue and orders are up 10 percent year over year, and the general mood of the market remains very strong. Only time will tell if the drop in oil prices will negatively affect our economy.
- > Business expansion is limited by lack of qualified personnel.

Administrative and Support Services

- > The environment has been mixed depending on the area; we still see hesitation and long lead times in committing to new services and products.
- > There has been a very significant reduction of business investment in IT systems. Few new IT projects are being initiated, and projects often extended are ending. This trend began in November 2014 and has continued during the first two and a half months of 2015. We see no near-term change.

Educational Services

- > We are beginning to feel the impact of lower energy prices on business activity and community support, particularly donations.

Ambulatory Health Care Services

- > We had a 5 percent cost increase—absorbed by the employer for employees—in March as we started the new year for the employee medical plan. Employees absorbed the increase in dependent costs. Due to the drop in oil prices, we expect a significant drop in employment for our trade area. Patients will put off some medical procedures until fear subsides.

Nursing and Residential Care Facilities

- > Health care providers are at considerable financial risk with the continuing rollout of the Affordable Care Act (ACA) and the upcoming Supreme Court decision on the ACA. At the end of March, a change to the Medicare sustainable growth rate formula could negatively impact hospitals. All of this is a great distraction to caregivers and therefore increases the cost of care.

Social Assistance

- > We are hiring to meet larger demands but expect the workload to remain fairly steady going forward until the end of the year.

Amusement, Gambling and Recreation Industries

- > Amazingly, in Austin we continue to have nice business growth. Hiring is getting extremely difficult in the service sector. There are huge hotels opening and lots of new restaurants, but not many new employees. Another interesting fact is that we have not seen a reduction in the cost of our raw materials because of the decrease in oil prices. It is also extremely hard to get construction workers to do renovation projects. When we do get good people, their prices have skyrocketed. We continue to have to spend more and more time on compliance, which is truly a huge tax on our time.

Food Services and Drinking Places

- > The Affordable Care Act is still inhibiting our efforts to maintain the best service because we cannot afford to hire additional employees.
- > We had extremely strong spring break sales with increases far above our normal seasonal pattern. We are just now returning to more normal levels but are still posting increases well over the price increases we have taken. Hours worked were up because of the temporarily increased sales. We expect an increase in both total and part-time employment in the next six months because we should have a new store open within that time frame. Cost of goods has stayed quite stable recently, and we still have not seen much in the way of wage increases. In the six-month horizon, we expect increases in cost of goods and to finally start seeing pressure on wages. Because of that expectation, we are contemplating a price increase for November. Capital expenditures are up

because we have begun construction of a new unit, which should open sometime in the next few months.

Repair and Maintenance

- > Raw material costs are increasing while sales prices continue falling, hurting profit margins. We are shifting from full-time employees with benefits to part-time employees without benefits to control costs.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- > Our business is heavily affected by low oil prices.

Merchant Wholesalers, Durable Goods

- > Texas is leading improvement in construction business in south central states.
- > Our decline is mostly explained by weather. We view this as a temporary setback. Lumber dealer job packages are backed up in their yards waiting to ship, and we've heard numerous reports of trucks having to be pulled out of the mud this week, so this confirms our viewpoint. Demand is there; we just need some sunshine.

Motor Vehicle Parts Dealers

- > Crude oil prices could have a very significant effect on our sales. Continued low prices will limit exploration.
- > Our industry is impacted by the oil price drop. We anticipate additional tightening going forward.
- > Business just seems to be going sideways for the past several weeks.

Building Material and Garden Equipment and Supplies Dealers

- > Business is steady and mirrors last year, which was a good year for us. Hopefully we can match last year's strong numbers or even improve somewhat.

Health and Personal Care Stores

- > Closings and shortened sales days due to unusual winter weather have impacted our sales in March.

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/.

