Texas Service Sector Outlook Survey

DALLASFED

April 28, 2015

Texas Service Sector Activity Picks Up

Texas service sector activity increased in April, 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 10.7 to 14.6, its highest reading so far this year.

Labor market indicators improved this month. The employment index moved up from 4.2 to 7.9, indicating employment rose at a faster pace than in March. The hours worked index advanced from negative territory last month to 4.7 in April.

Perceptions of broader economic conditions were mixed in April. The general business activity index remained negative for the second month in a row but rose slightly from -4.6 to -1. The company outlook index rose from a near-zero reading last month to 4.5 in April, indicating outlooks turned optimistic. About 17 percent of respondents reported that their outlook improved from last month, while 13 percent noted that it worsened.

Price and wage pressures increased this month. The selling prices index rose slightly from 1.7 to 3.4. The wages and benefits index inched up 1 point to 16.2, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in April. The index of future general business activity rose from 2.7 to 6.2. The index of future company outlook was relatively unchanged at 10.2. Indexes of future service sector activity, such as future revenue and employment, remained in solid positive territory this month.

Retail Sales Rebound

Retail sales improved notably in April, according to business executives responding to the Texas Retail Outlook Survey. The sales index surged back into positive territory, gaining 27 points to reach 20.5, its highest reading so far this year. Inventories increased.

Labor market indicators recovered in April. The employment index bounced back to positive territory, up 9 points to 2.4, indicating retail jobs increased this month. The hours worked index also climbed back to positive territory to a reading of 6.4, suggesting workweek length increased.

Retailers' perceptions of broader economic conditions were mixed this month. The general business activity index shot up 20 points to a reading near zero, indicating views were unchanged from March. After a negative reading last month, the company outlook index jumped from -12 to 11.4 in April, with 23 percent of respondents noting an improved company outlook over the prior month, compared with 11 percent reporting their outlook had worsened.

Retail price and wage pressures increased in April. The selling prices index rose from 0 to 5.7. The wages and benefits index edged up from 9.4 to 12.7, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions reflected more optimism in April. The index of future general business activity advanced from -4.2 to 13.3, its highest reading so far this year. The index of future company outlook rose from 5.3 to 12.1. Indexes of future retail sector activity also reflected more optimism 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 April 14–22, and 243 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: May 27, 2015

TEXAS SERVICE SECTOR OUTLOOK SURVEY

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

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	14.6	10.7	+3.9	Increasing	66	31.1	52.4	16.5
Employment	7.9	4.2	+3.7	Increasing	62	16.7	74.5	8.8
Part-time employment	3.9	0.9	+3.0	Increasing	18	11.7	80.5	7.8
Hours worked	4.7	-1.0	+5.7	Increasing	1	10.2	84.3	5.5
Wages and benefits	16.2	15.2	+1.0	Increasing	67	18.9	78.4	2.7
Input prices	19.3	14.4	+4.9	Increasing	72	23.5	72.3	4.2
Selling prices	3.4	1.7	+1.7	Increasing	53	11.4	80.6	8.0
Capital expenditures	7.1	10.6	-3.5	Increasing	68	16.3	74.5	9.2

General Business Conditions
Current (versus previous month)

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	4.5	-0.9	+5.4	Improving	1	17.2	70.1	12.7
General business activity	-1.0	-4.6	+3.6	Worsening	2	15.9	67.2	16.9

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

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	32.1	31.9	+0.2	Increasing	74	46.9	38.3	14.8
Employment	20.4	23.0	-2.6	Increasing	73	32.9	54.6	12.5
Part-time employment	7.0	10.9	-3.9	Increasing	34	15.9	75.2	8.9
Hours worked	4.3	1.8	+2.5	Increasing	17	10.0	84.3	5.7
Wages and benefits	38.9	34.8	+4.1	Increasing	100	43.5	51.9	4.6
Input prices	40.4	40.4	0.0	Increasing	100	43.4	53.6	3.0
Selling prices	21.5	23.7	-2.2	Increasing	72	30.0	61.5	8.5
Capital expenditures	24.3	21.5	+2.8	Increasing	73	32.5	59.3	8.2

General Business Conditions
Future (six months ahead)

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	10.2	9.7	+0.5	Improving	44	27.8	54.6	17.6
General business activity	6.2	2.7	+3.5	Improving	43	25.9	54.4	19.7

*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	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	20.5	-6.4	+26.9	Increasing	1	39.1	42.3	18.6
Employment	2.4	-6.6	+9.0	Increasing	1	13.1	76.2	10.7
Part-time employment	7.2	-1.8	+9.0	Increasing	1	14.5	78.2	7.3
Hours worked	6.4	-11.9	+18.3	Increasing	1	16.4	73.6	10.0
Wages and benefits	12.7	9.4	+3.3	Increasing	50	16.7	79.3	4.0
Input prices	4.5	2.3	+2.2	Increasing	3	14.1	76.3	9.6
Selling prices	5.7	0.0	+5.7	Increasing	1	19.1	67.5	13.4
Capital expenditures	12.3	3.6	+8.7	Increasing	18	21.1	70.2	8.8
Inventories	10.9	-4.8	+15.7	Increasing	1	25.3	60.3	14.4
Companywide Retail Activity								
Sales	34.4	-7.7	+42.1	Increasing	1	47.1	40.2	12.7
Internet sales	15.6	3.4	+12.2	Increasing	23	20.1	75.4	4.5
Catalog sales	11.4	0.0	+11.4	Increasing	1	14.3	82.9	2.9

General Business Conditions, Retail
Current (versus previous month)

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	11.4	-12.0	+23.4	Improving	1	22.7	66.0	11.3
General business activity	0.3	-19.9	+20.2	Improving	1	16.6	67.1	16.3

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

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	33.9	24.2	+9.7	Increasing	74	45.4	43.1	11.5
Employment	15.3	8.9	+6.4	Increasing	2	30.9	53.5	15.6
Part-time employment	-3.6	0.5	-4.1	Decreasing	1	13.8	68.8	17.4
Hours worked	7.1	-9.2	+16.3	Increasing	1	15.6	75.9	8.5
Wages and benefits	31.8	22.3	+9.5	Increasing	74	37.7	56.4	5.9
Input prices	30.9	30.9	0.0	Increasing	72	34.5	61.8	3.6
Selling prices	34.5	30.3	+4.2	Increasing	72	40.0	54.5	5.5
Capital expenditures	21.8	20.0	+1.8	Increasing	49	29.1	63.6	7.3
Inventories	13.6	22.8	-9.2	Increasing	65	32.8	48.0	19.2
Companywide Retail Activity								
Sales	33.3	31.4	+1.9	Increasing	73	46.6	40.0	13.3
Internet sales	22.5	24.3	-1.8	Increasing	73	30.0	62.5	7.5
Catalog sales	11.4	15.2	-3.8	Increasing	3	12.5	86.4	1.1

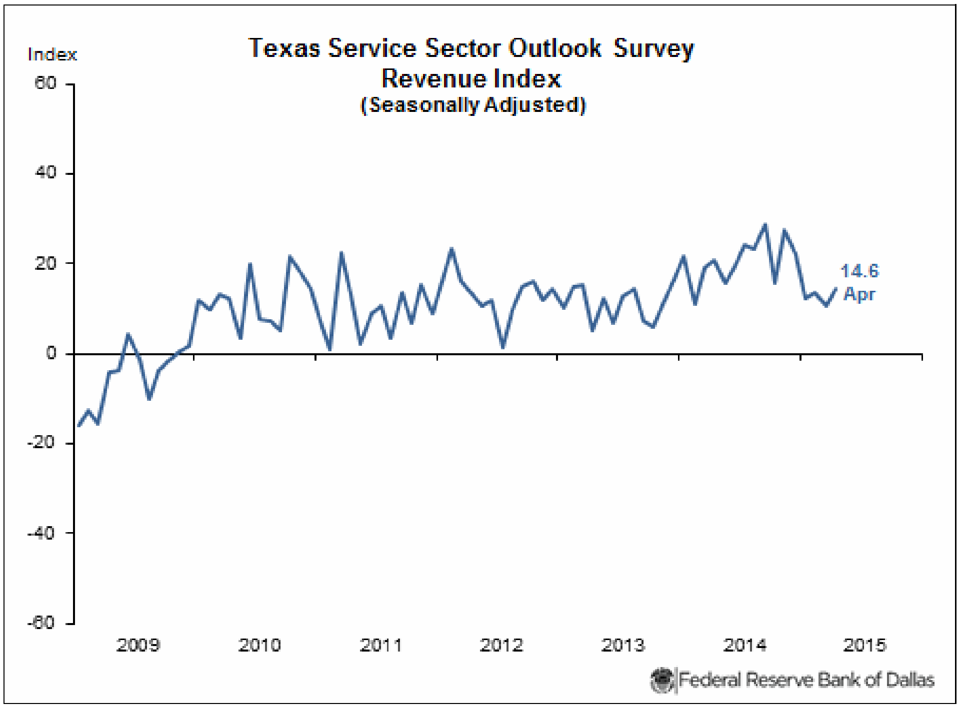
General Business Conditions, Retail
Future (six months ahead)

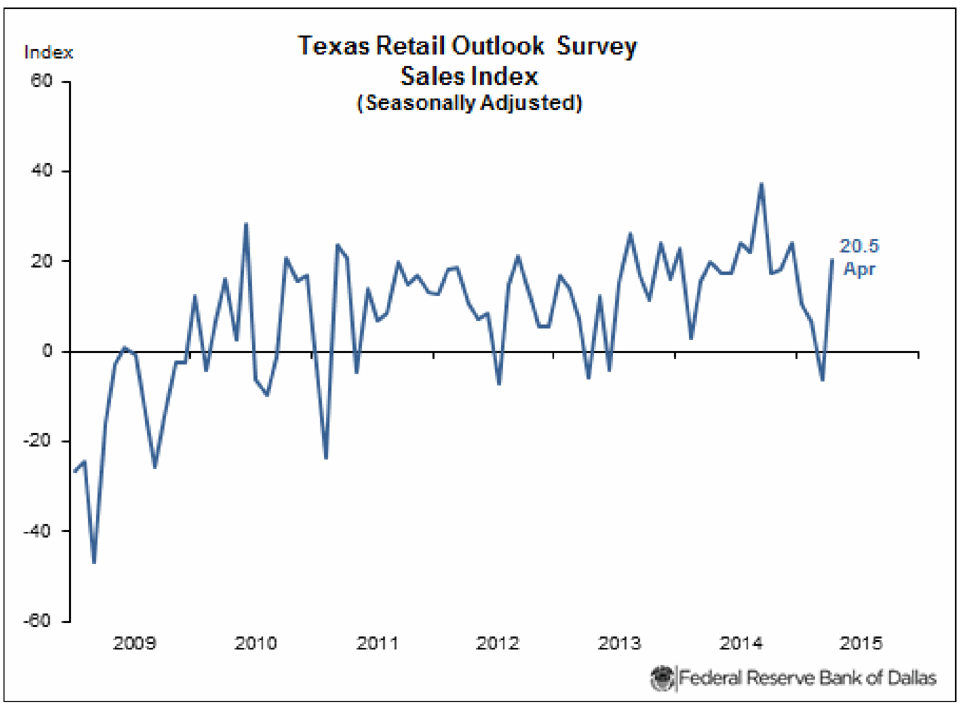
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	12.1	5.3	+6.8	Improving	73	24.1	63.9	12.0
General business activity	13.3	-4.2	+17.5	Improving	1	27.1	59.1	13.8

*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 Service Sector Outlook Survey
Revenue Index
(Seasonally Adjusted)
Index
60
40
20
0
-20
-40
-60
2009
2010
2011
2012
2013
2014
2015
14.6
Apr
Federal Reserve Bank of Dallas


Texas Retail Outlook Survey
Sales Index
(Seasonally Adjusted)
Index
60
40
20
0
-20
-40
-60
2009
2010
2011
2012
2013
2014
2015
20.5
Apr
Federal Reserve Bank of Dallas

Comments from Survey Respondents

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

Credit Intermediation and Related Activities

- The biggest percentage improvement has come from our expansion into new markets. This is especially true with the increase in loans. Local, more rural markets have been steady to slightly increasing, and we are seeing some slowdown in service-related businesses that are dependent on the oil and gas industry. Water supplies continue to be an increasing concern.
- The big question is where will the consumer go? Will consumers back off and cool the borrowing trend, or will they gear up for the summer and keep growth intact?

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

- We think Amarillo's economy has slowed down due to lower levels of job growth.
- Our business is about 60 percent dependent on the oil and gas industry. Current oil and natural gas prices make prospects for the next few months pretty dim. This situation is coupled with significant increases in insurance and other regulations' compliance. We expect low and tight revenue with much higher costs, which is not a good combination.

Real Estate

- There is a slight improvement in our outlook and a very slight increase in costs.

Rental and Leasing Services

- We think the positive impact of a viable oil industry is greater than the reduced cost of input to other industries during an oilfield bust, and we may be in for some tough times.

Professional, Scientific and Technical Services

- The strong dollar and low oil prices continue to affect our energy clients and their need for real estate and office buildings. Growth in our medical business is slowing.
- Proposals for new work have increased approximately 8 percent for the first three months over last year—generally indicating an increase in development and construction over the next six months.
- Things have slowed down quite a bit. We had a layoff at the end of March. It is looking like we will have another layoff in May, and this one could be larger.
- The real estate market has been extremely hot for the past two years, and our numbers indicate that there is no sign of a slowdown in the foreseeable future. Apartment and office buildings are still leasing up as fast as they can be built, and there remains a shortage of inventory in the residential sector that is causing prices to continue to increase. Texas is a great place to be.
- We see low oil prices as creating a strain on the Texas workforce and economy.

Management of Companies and Enterprises

- We feel we are overregulated.
- Our costs continue to accelerate because of regulatory burden and health care insurance costs. Cost increases on health care insurance will be greater than 15 percent when all costs are factored in.

Administrative and Support Services

- We believe the San Antonio economy is very strong and that there is still a large amount of pent-up demand from after the Great Recession. We have seen a tremendous upsurge for our work in the city and surrounding counties. Our backlog has pushed out three months plus.
- The extended period of suppressed oil prices is having an effect on nearly every sector of our business now. We've moved from an optimistic plan for level sales followed by growth to considering staff and other cutbacks.

Telecommunications

- We are very concerned about the impact low oil and gas prices are having in the Houston area. We have instituted a hiring freeze and have become more conservative in launching new products.

Ambulatory Health Care Services

- We are facing regulatory cuts in reimbursement from Medicare of 21 percent, which will have a drastic impact on revenue and profits. That, combined with our expectation of a weakening in the local economy, could cause patient and surgical loads to decline.

Hospitals

- Current regulatory requirements continue to hinder rural hospitals. Decreasing reimbursements continue to stretch rural hospitals.

Nursing and Residential Care Facilities

- Our business is significantly influenced by policies related to Medicare and Medicaid reimbursement. Changing payment policies place hospitals and other health providers at significant risk moving forward.

Amusement, Gambling and Recreation Industries

- In our business, it is hard to forecast prices in six months, but we are very concerned about food prices rising due to the drought in California. In addition, if Austin continues to add restaurants, there may be wage pressures. There are many other variables that are hard to predict into the future.

Food Services and Drinking Places

- The price of beef has come down some. Labor costs have increased, the employment market is tight and we are paying more to attract good staff.

Repair and Maintenance

- Businesses that are directly related to oil exploration have been hurt, while other industries are doing well, with overall employment steady to improving.

Support Activities for Transportation

- Based on current planned improvements to our facilities, we anticipate increased activity in total passenger movements over current activity along with increased export activity.

Merchant Wholesalers, Durable Goods

- Our increase in employment is related to our efforts to improve our e-commerce solution.
- Our building material business—roofing, siding, insulation, gypsum, lumber and engineered wood products—is up 35 percent this month over last month. The millwork part of our business generally follows about 30 days later. We see an opportunity for strong growth this year, despite a projected dip in starts nationally. This is also wind, flood and hail season, and any storm activity that leads to repair will be a plus to our business.

Motor Vehicle Parts Dealers

- Weather was a drawback in the first quarter.
- We are impacted by the low price of oil. We expect a so-so market for the time being.
- We are beginning to feel the effects from layoffs in the oil and gas industry.

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/.
