



Texas Service Sector Outlook Survey

DALLAS FED

July 28, 2015

TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS FURTHER

Texas service sector activity picked up in July, 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 13.2 to 19.1.

Labor market indicators improved this month. The employment index moved up from 5.6 to 10.1, suggesting faster employment growth in July. The hours worked index rose from a reading near zero to 5.3, reflecting longer workweeks.

Perceptions of broader economic conditions reflected more optimism in July. The general business activity index moved up from 4.1 to 7.9. The company outlook index rose slightly from 6.7 to 8.8, with 20 percent of respondents reporting that their outlook improved from last month, compared with 11 percent noting that it worsened.

Price pressures eased, while wage pressures were unchanged this month. The selling prices index fell 6 points to 1.8, indicating prices were similar to last month. The wages and benefits index was relatively unchanged at 14.8, suggesting labor costs increased at the same pace as in June, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in July. The index of future general business activity rose 8 points to 20.6. The index of future company outlook advanced from 12.9 to 21.3. Indexes of future service sector activity, such as future revenue and employment, also continued to reflect optimism this month.



RETAIL SALES CONTINUE TO INCREASE AND OUTLOOKS IMPROVE

Retail sales continued to reflect expansion in July, according to business executives responding to the Texas Retail Outlook Survey. The sales index remained positive but edged down from 13.1 to 11.5. Inventories increased at a slightly faster pace this month.

Labor market indicators improved in July. The employment index rose 6 points to 7, indicating retail jobs increased this month. After two consecutive months in negative territory, the hours worked index advanced to a reading of 6, suggesting longer workweeks.

Retailers' perceptions of broader economic conditions improved this month. The general business activity index rebounded from -5.7 to 5.3. The company outlook index edged up from 9.4 to 12, with 25 percent of respondents noting an improved company outlook over the prior month, compared with 13 percent reporting their outlook had worsened.

Retail price and wage pressures eased in July. The selling prices index ticked down from 6.5 to 5. The wages and benefits index fell from 11.4 to 7.5, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions reflected more optimism in July. The index of future general business activity surged from 4 to 27.2. The index of future company outlook advanced from 10.5 to 20.3. 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 July 14–22, and 265 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: September 1, 2015

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	19.1	13.2	+5.9	Increasing	69	35.3	48.5	16.2
Employment	10.1	5.6	+4.5	Increasing	65	17.8	74.5	7.7
Part-time employment	6.4	0.5	+5.9	Increasing	21	10.2	86.0	3.8
Hours worked	5.3	0.1	+5.2	Increasing	4	10.1	85.1	4.8
Wages and benefits	14.8	15.6	-0.8	Increasing	70	18.3	78.2	3.5
Input prices	20.8	21.8	-1.0	Increasing	75	24.0	72.8	3.2
Selling prices	1.8	7.9	-6.1	Increasing	56	11.5	78.8	9.7
Capital expenditures	7.7	14.5	-6.8	Increasing	71	15.4	76.9	7.7
General Business Conditions								
Current (versus previous month)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	8.8	6.7	+2.1	Improving	4	19.5	69.8	10.7
General business activity	7.9	4.1	+3.8	Improving	3	20.9	66.1	13.0
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	44.2	42.3	+1.9	Increasing	77	53.4	37.4	9.2
Employment	25.8	25.4	+0.4	Increasing	76	35.5	54.8	9.7
Part-time employment	8.2	9.8	-1.6	Increasing	37	15.6	77.0	7.4
Hours worked	5.6	3.1	+2.5	Increasing	20	13.0	79.6	7.4
Wages and benefits	39.1	39.6	-0.5	Increasing	103	42.4	54.2	3.3
Input prices	43.7	44.2	-0.5	Increasing	103	48.1	47.6	4.4
Selling prices	24.2	29.8	-5.6	Increasing	75	33.6	57.0	9.4
Capital expenditures	25.5	22.7	+2.8	Increasing	76	33.1	59.3	7.6
General Business Conditions								
Future (six months ahead)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	21.3	12.9	+8.4	Improving	47	33.5	54.3	12.2
General business activity	20.6	12.5	+8.1	Improving	46	31.6	57.4	11.0

*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.

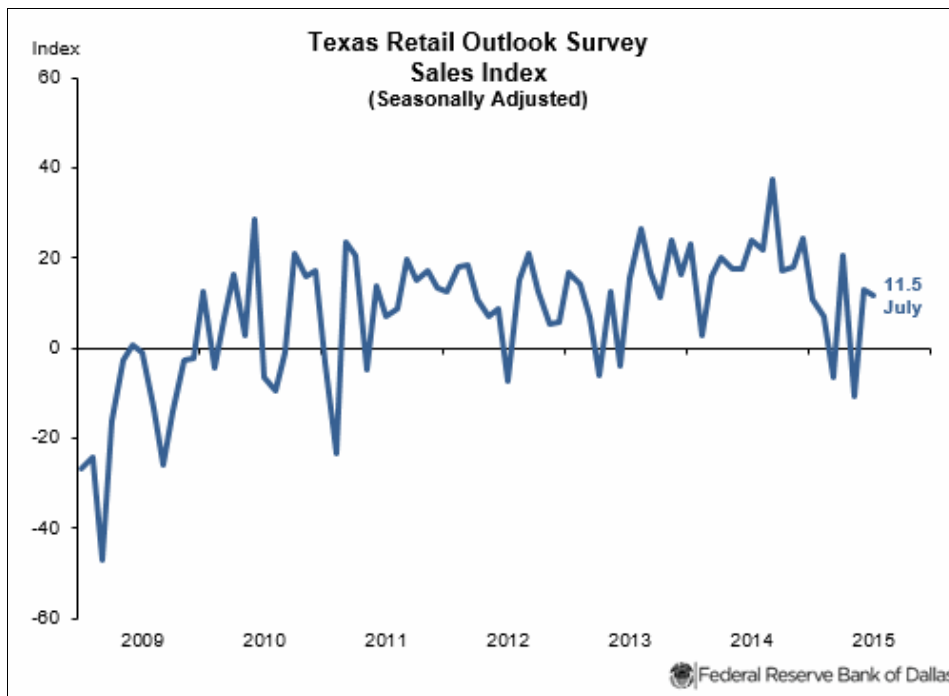
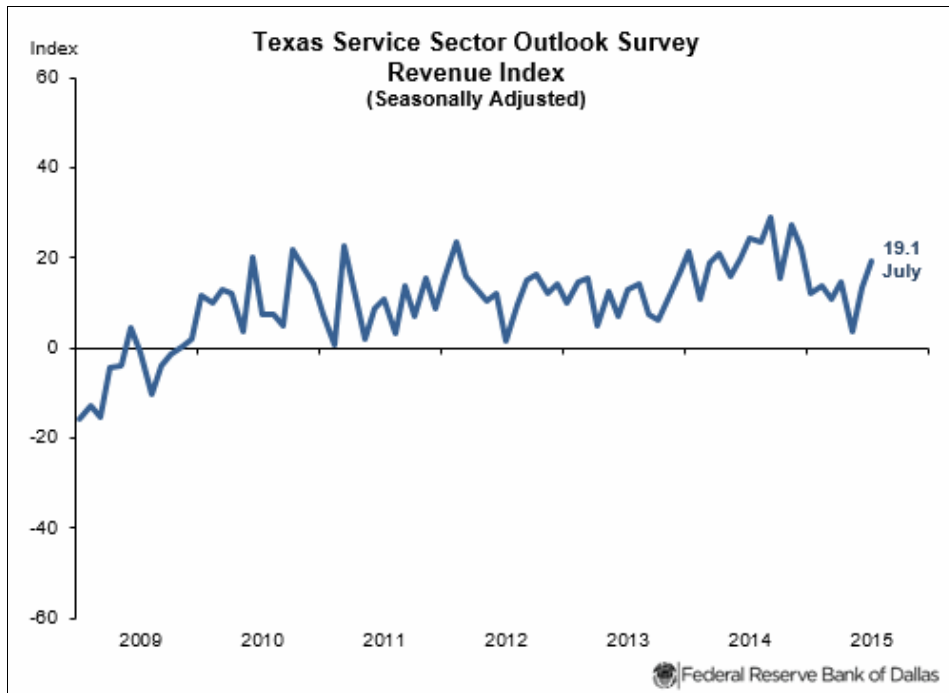
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	11.5	13.1	-1.6	Increasing	2	33.4	44.7	21.9
Employment	7.0	1.0	+6.0	Increasing	2	13.7	79.6	6.7
Part-time employment	0.0	3.4	-3.4	No Change	1	8.9	82.1	8.9
Hours worked	6.0	-3.8	+9.8	Increasing	1	12.8	80.4	6.8
Wages and benefits	7.5	11.4	-3.9	Increasing	53	15.1	77.3	7.6
Input prices	9.7	17.6	-7.9	Increasing	6	17.4	74.9	7.7
Selling prices	5.0	6.5	-1.5	Increasing	4	18.5	68.0	13.5
Capital expenditures	6.9	13.5	-6.6	Increasing	21	17.2	72.4	10.3
Inventories	8.3	7.0	+1.3	Increasing	4	24.9	58.5	16.6
Companywide Retail Activity								
Sales	28.1	17.8	+10.3	Increasing	2	42.8	42.6	14.7
Internet sales	10.8	13.5	-2.7	Increasing	26	14.5	81.8	3.7
Catalog sales	10.8	8.3	+2.5	Increasing	4	10.8	89.2	0.0
General Business Conditions, Retail Current (versus previous month)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	12.0	9.4	+2.6	Improving	4	24.9	62.2	12.9
General business activity	5.3	-5.7	+11.0	Improving	1	23.3	58.7	18.0
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	34.5	43.5	-9.0	Increasing	77	48.4	37.7	13.9
Employment	15.1	17.6	-2.5	Increasing	5	26.6	61.8	11.5
Part-time employment	-9.2	1.5	-10.7	Decreasing	1	5.2	80.4	14.4
Hours worked	4.7	0.3	+4.4	Increasing	2	15.6	73.5	10.9
Wages and benefits	23.6	27.4	-3.8	Increasing	77	30.1	63.4	6.5
Input prices	23.2	33.9	-10.7	Increasing	75	32.1	58.9	8.9
Selling prices	28.3	33.4	-5.1	Increasing	75	37.7	52.8	9.4
Capital expenditures	14.3	19.3	-5.0	Increasing	52	26.8	60.7	12.5
Inventories	9.1	16.4	-7.3	Increasing	68	30.9	47.4	21.8
Companywide Retail Activity								
Sales	31.3	42.4	-11.1	Increasing	76	46.4	38.4	15.1
Internet sales	25.0	23.0	+2.0	Increasing	76	30.0	65.0	5.0
Catalog sales	14.2	10.3	+3.9	Increasing	6	14.2	85.8	0.0
General Business Conditions, Retail Future (six months ahead)								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	20.3	10.5	+9.8	Improving	76	33.7	52.9	13.4
General business activity	27.2	4.0	+23.2	Improving	4	36.5	54.2	9.3

*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.

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COMMENTS FROM SURVEY RESPONDENTS

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

Credit Intermediation and Related Activities

- > Strong lending activity and improving economic data should propel us into a very productive fourth quarter.
- > We are seeing more layoffs from existing companies, but there are prospects of new industries coming to town. We finally received enough rain at one time to knock down all the water gaps, filling the tanks and pushing the creeks and rivers above flood stage.

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

- > Demand for oil and gas operating equipment has slackened. At the same time, many of our customers are requesting—some are demanding—reduced pricing. All of this comes at a time when federal regulations are adding significantly to expenses.

Funds, Trusts and Other Financial Vehicles

- > The Houston multifamily market conditions have exceeded our expectations on the upside. Rents are continuing to rise, and occupancy remains at all-time highs (96 percent or more).

Real Estate

- > Our outlook has been pretty optimistic. We are aggressively trying to acquire more product, and that continues to be difficult. The product we are seeing on the market continues to be aggressively priced and of not very good quality. We continue to see a lot of new tenant interest, which we feel is good news—both expansions of existing chains and new tenants to our markets.

Rental and Leasing Services

- > We do not know where all the positive vibes on the Internet and in the media are coming from. We do not see them, we are not experiencing them, and we are not optimistic about this economy.

Professional, Scientific and Technical Services

- > We have 16 interns on board for the summer; thus, our number of part-time employees has increased. Clients are in a maintenance mode, not aggressive. Stable oil prices at some level will be helpful. Our attitude is basically positive.
- > There is a shortage of experienced technicians and engineers. Based on discussions with similar companies, the shortage is industrywide in the North Texas region. Wages for qualified individuals are rising via competition.
- > Oil prices are hurting our industry severely.
- > There is no sign of weakness in the real estate market. Even with the increase in the 10-year rate, the residential and commercial markets have remained very strong. Our revenue and orders are well ahead of 2014, and we expect that trend to continue. We are very optimistic about the future of the market through 2016.
- > Energy prices have hurt the Texas economy and excess regulation is stifling any other possible investment.

Management of Companies and Enterprises

- > We are seeing a marked decrease in levels of loan activity in the Permian Basin, the Eagle Ford Shale area and the metros tied to oil and gas, like the Houston market. The decrease is nothing drastic, just a cautious pullback and slowdown in activity, which may be helpful considering current global conditions.
- > We feel there is too much government regulation.
- > Our federal government and regulatory issues are still the biggest drags on the economy and probably will be for the foreseeable future.

Administrative and Support Services

- > Our shortened workweek is due to the July 4 holiday. We don't see any indication of an improving business climate, so our increase in revenue and number of employees is a result of changes in our approach to the market. Clients are ending projects without adding new ones at the same pace as in the last four years.
- > Suppliers are increasing prices to our company; however, due to competition we are not able to recover the entire increase. We are experiencing difficulty hiring personnel to cover our service routes. We believe this is due to our type of worker dropping out of the workforce.
- > It is very hard to find people. We cannot hire because there are no people available.

Telecommunications

- > We are very concerned about decisions being made in Washington that impact the economy, health care costs and costly regulations.

Ambulatory Health Care Services

- > Diagnostic testing is very dynamic. To remain current, we will need to continue to make capital expenditures.
- > Our local economy is stable but could decline later in the year depending on the harvest and commodity prices and whether energy remains stable. The decrease in our revenue and workweek in six months is seasonal, as annual medical deductibles come into play with the new year.
- > Generally, health care business improvement or decline is independent of the local economy. The local economy continues to deteriorate due to the energy pricing slump. Our business activity continues to increase, but we struggle with price declines in health care reimbursement from Medicare, Medicaid and private insurance payers who are independent of the local economy.

Hospitals

- > The downturn in the Permian Basin oil economy is beginning to impact our business and outlook.
- > Rural hospitals continue to struggle given declining reimbursements and increasing regulations. The struggle remains to stay independent.

Nursing and Residential Care Facilities

- > We are very concerned about the impact of the proposed changes to Fair Labor Standards Act regulations affecting salaried employees.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- > The recent drop in oil prices after they appeared to have bottomed out has us worried. With the low WTI and Brent prices, we expect our revenue to suffer.

Amusement, Gambling and Recreation Industries

- > Because we are usually slower in the summer, the increase in business so far has been surprising.

Accommodation

- > Leisure business in the tourism sector has been softer than expected in July.

Food Services and Drinking Places

- > Our outlook has worsened due to pending Department of Labor legislation that would change overtime rules and the minimum salary level for exempt employees. This legislation will have a major negative impact on our labor costs. We are not sure if we will be able to completely pass this on to customers.
- > We are experiencing very consistent, solid sales growth with steady cost of goods and labor this year, and last month was no exception. Our capital costs are up because we are building a new store; that is also the reason we are projecting our employee count to be up in the six-month horizon. Capital costs should go back to normal in the six-month horizon because we will have completed and opened the new store by then. We are in a very good period, and we would be more than happy to see things continue as is.
- > The price of protein has finally started to come down a little.

Merchant Wholesalers, Durable Goods

- > The downturn in the oil economy has directly affected our business. We are working to market ourselves in other areas in order to offset the impact. To date, we have been unsuccessful in our government bid attempts and are looking for other avenues.

Motor Vehicle Parts Dealers

- > We are somewhat dependent upon the oil industry. Our business going forward will be influenced by what ultimately happens in the oil industry.

Building Material and Garden Equipment and Supplies Dealers

- > Business is flat and off from last year. The last half of the year seems to hold some momentum for us. Net profit is down due to an increase in the cost of doing business, including health care, property taxes, pay increases and the cost of compliance.

Food and Beverage Stores

- > We look for improved sales for back-to-school purchases. In addition, the slight decline of fuel prices has aided in expense reduction. With the hotter weather, we see utility costs increasing.

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/.

