



Texas Service Sector Outlook Survey

DALLAS FED

June 28, 2016

TEXAS SERVICE SECTOR ACTIVITY EXPANDS

What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on the impact of lower energy prices. 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 picked up in June, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, advanced from 5.8 to 15.6, its highest reading in 11 months.

Labor market indicators reflected slower employment growth but longer workweeks this month. The employment index remained positive but edged down from 4.5 to 2.0. After declining last month, the hours worked index rebounded to positive territory, rising 5 points to 3.6.

Perceptions of broader economic conditions were mixed in June. The general business activity index was similar to May at -7.7, its sixth consecutive negative reading. The company outlook index rose slightly from -2.9 to a reading near zero, with equal shares of respondents reporting that their outlook improved from last month as reporting their outlook worsened.

Price and wage pressures increased very slightly this month. The selling prices index edged up from 4.4 to 5.7. The wages and benefits index ticked up a point to 15.7, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions were mixed in June. The index of future general business activity dipped from 1.3 to a reading near zero. The index of future company outlook rose slightly from 6.3 to 8.4, reflecting more optimism. Indexes of future service sector activity, such as future revenue and employment, continued to reflect optimism this month.



RETAIL SALES REBOUND

Retail sales increased modestly in June, according to business executives responding to the Texas Retail Outlook Survey. After dipping into negative territory last month, the sales index rose 6 points to 3.2. Inventories were essentially unchanged in June after decreasing last month.

Labor market indicators worsened this month. The employment index fell into negative territory from 1.4 to -2.1, indicating layoffs among retailers. The hours worked index remained negative for a fourth consecutive month but rose from -9.5 to -3.4, suggesting workweeks continued to shorten albeit to a smaller extent than in the prior month.

Retailers' perceptions of broader economic conditions were mixed in June. The general business activity index remained negative for a third consecutive month but moved up from -13.3 to -10.2. The company outlook index rebounded from a negative reading last month to 3.2 in June, with 18 percent of respondents reporting that their outlook improved and 15 percent noting that it worsened.

Retail price pressures increased, while wage pressures were unchanged this month. The selling prices index jumped from 5.3 to 15.5. The wages and benefits index was similar to last month at 8.6.

Retailers' perceptions of future broader economic conditions were mixed in June. The index of future general business activity remained negative for a second consecutive month and edged down further from -3.3 to -4.9. The index of future company outlook rose from 9.2 to 13.9. Indexes of future retail sector activity continued to reflect 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 June 14–22, and 285 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: July 26, 2016

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas									
Current (versus previous month)									
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	15.6	5.8	+9.8	Increasing	79	32.6	50.4	17.0	
Employment	2.0	4.5	-2.5	Increasing	76	14.2	73.6	12.2	
Part-time employment	-0.8	1.6	-2.4	Decreasing	1	8.2	82.8	9.0	
Hours worked	3.6	-1.3	+4.9	Increasing	1	10.2	83.2	6.6	
Wages and benefits	15.7	14.7	+1.0	Increasing	81	19.6	76.5	3.9	
Input prices	23.3	19.9	+3.4	Increasing	86	26.0	71.3	2.7	
Selling prices	5.7	4.4	+1.3	Increasing	4	11.5	82.7	5.8	
Capital expenditures	4.2	9.5	-5.3	Increasing	82	13.2	77.7	9.0	
General Business Conditions									
Current (versus previous month)									
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	-0.4	-2.9	+2.5	Worsening	2	16.4	66.8	16.8	
General business activity	-7.7	-7.1	-0.6	Worsening	6	11.8	68.7	19.5	
Business Indicators Relating to Facilities and Products in Texas									
Future (six months ahead)									
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	33.4	33.5	-0.1	Increasing	88	46.3	40.8	12.9	
Employment	16.7	18.7	-2.0	Increasing	87	27.7	61.3	11.0	
Part-time employment	5.5	6.6	-1.1	Increasing	48	14.4	76.7	8.9	
Hours worked	1.7	1.5	+0.2	Increasing	8	8.9	83.9	7.2	
Wages and benefits	40.4	37.0	+3.4	Increasing	114	43.8	52.8	3.4	
Input prices	40.4	37.6	+2.8	Increasing	114	42.2	56.0	1.8	
Selling prices	21.5	19.8	+1.7	Increasing	86	26.6	68.3	5.1	
Capital expenditures	17.0	23.6	-6.6	Increasing	87	25.7	65.6	8.7	
General Business Conditions									
Future (six months ahead)									
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	8.4	6.3	+2.1	Improving	4	22.7	63.0	14.3	
General business activity	-0.9	1.3	-2.2	Worsening	1	17.3	64.5	18.2	

*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.

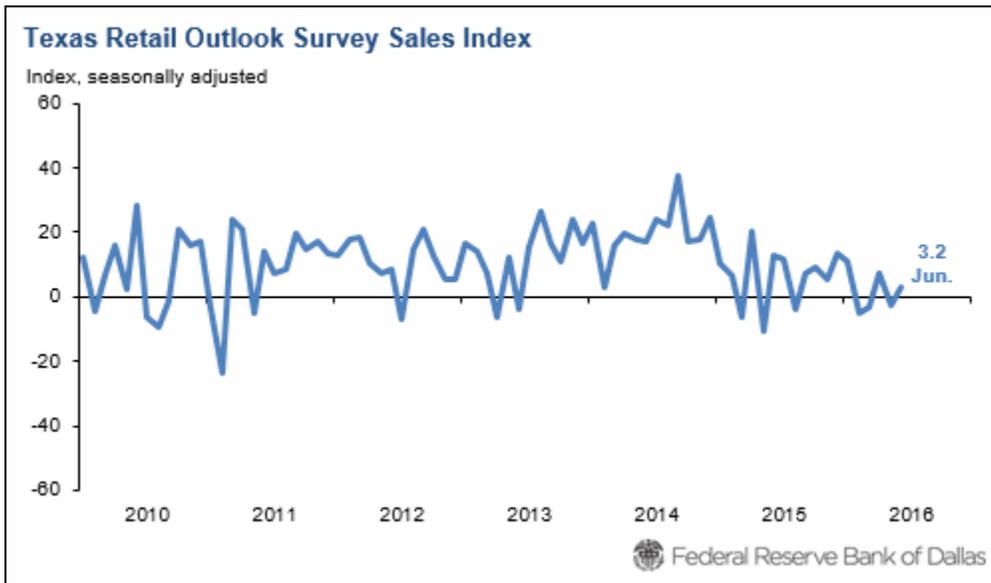
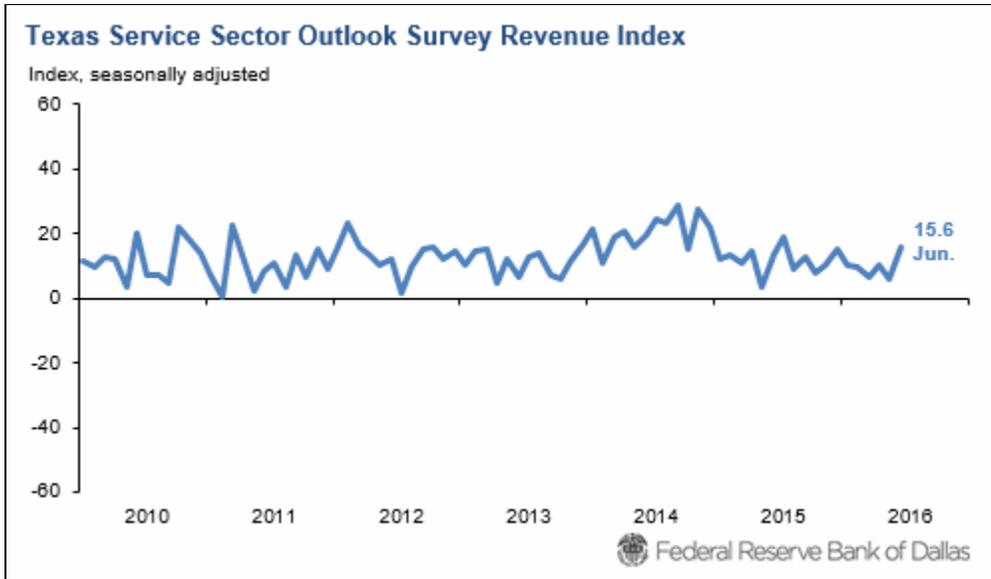
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	3.2	-2.8	+6.0	Increasing	1	30.2	42.7	27.0
Employment	-2.1	1.4	-3.5	Decreasing	1	10.4	77.1	12.5
Part-time employment	0.0	0.0	0.0	No Change	3	13.5	73.1	13.5
Hours worked	-3.4	-9.5	+6.1	Decreasing	4	7.4	81.8	10.8
Wages and benefits	8.6	8.5	+0.1	Increasing	74	13.3	82.0	4.7
Input prices	16.9	17.7	-0.8	Increasing	5	19.7	77.5	2.8
Selling prices	15.5	5.3	+10.2	Increasing	4	20.5	74.5	5.0
Capital expenditures	-1.9	15.4	-17.3	Decreasing	1	9.4	79.2	11.3
Inventories	-0.9	-2.4	+1.5	Decreasing	2	21.8	55.5	22.7
Companywide Retail Activity								
Sales	16.0	8.3	+7.7	Increasing	13	34.5	47.1	18.5
Internet sales	20.4	5.0	+15.4	Increasing	2	25.9	68.6	5.5
Catalog sales	6.3	-6.5	+12.8	Increasing	1	9.4	87.5	3.1
General Business Conditions, Retail Current (versus previous month)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	3.2	-1.6	+4.8	Improving	1	17.8	67.6	14.6
General business activity	-10.2	-13.3	+3.1	Worsening	3	15.1	59.6	25.3
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	22.6	27.0	-4.4	Increasing	88	36.1	50.4	13.5
Employment	5.0	5.7	-0.7	Increasing	16	17.8	69.4	12.8
Part-time employment	1.1	-2.1	+3.2	Increasing	1	11.9	77.3	10.8
Hours worked	-0.9	-0.7	-0.2	Decreasing	2	7.2	84.7	8.1
Wages and benefits	28.7	27.5	+1.2	Increasing	90	32.2	64.3	3.5
Input prices	29.4	35.3	-5.9	Increasing	86	31.4	66.7	2.0
Selling prices	29.4	31.4	-2.0	Increasing	86	33.3	62.7	3.9
Capital expenditures	7.8	20.0	-12.2	Increasing	63	19.6	68.6	11.8
Inventories	0.6	3.8	-3.2	Increasing	4	22.0	56.6	21.4
Companywide Retail Activity								
Sales	18.3	27.9	-9.6	Increasing	87	33.2	51.9	14.9
Internet sales	20.0	15.1	+4.9	Increasing	87	22.9	74.3	2.9
Catalog sales	-0.3	-4.2	+3.9	Decreasing	2	3.8	92.1	4.1
General Business Conditions, Retail Future (six months ahead)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	13.9	9.2	+4.7	Improving	4	22.8	68.3	8.9
General business activity	-4.9	-3.3	-1.6	Worsening	2	17.7	59.7	22.6

*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

- > The hiring climate in Central Texas is very competitive, especially for technical people, i.e., network services, developers and user experience/designers. We believe we are forced to overpay for talent in these areas and are evaluating other markets with similar attributes to Central Texas—including Lincoln/Omaha, Des Moines, Minneapolis/St. Paul and Indianapolis—but they have lower costs of living, which should translate into wages that are more in line with the value we receive from these positions.
- > Firming oil prices has led to a more confident outlook; however, the energy collapse continues to negatively impact petro-chemical and industrial business activity. Three large industrial entities reported severe slowness in new business. Residential home building is robust and is offsetting oil patch job losses.
- > Agriculture commodity prices will have a delayed outcome on agriculture outlooks, which will be partially offset by yields exceeding expectations where harvesting was able to be completed. Cattle prices continue to slide even with supplies being down and green grass in the pastures. Goat and sheep prices are steady to good and with current inventory levels, prices should be maintained throughout the fall season. Rural markets are just maintaining, but the overflow from commercial development in the metropolitan statistical areas has been a boost for business and industrial and commercial real estate lending. Economic anxiety is the biggest deterrent to a more positive economic environment, and government intervention imposing overburdening regulation is stifling potential improvement in the economy from a banker's perspective. The attitude of the administration has to change soon before we are beyond repairing our national well-being. I am thankful that I live in the country and have my own food and water sources and an ample store of whisky.

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

- > Our business continues to languish along. There is no real reason for business to get better until there is a substantial and sustained increase in the oil and gas machinery and equipment business. The increase in this business depends solely on the prices of oil and natural gas, which will increase with sustained demand. Meantime, the cost of health and business insurance, property taxes, federal regulation costs, etc. just keep going up. There is not a bright outlook.

Insurance Carriers and Related Activities

- > Summer slowdown has kicked in. It is really quiet in far Northeast Texas.

Real Estate

- > The election is weighing on everyone and there is no real optimism for either candidate. Costs and regulations are continuing to escalate and make it more difficult for small businesses. The unknowns with the election are starting to dampen customer confidence, and I think will keep growth from accelerating until next year at the soonest.

Professional, Scientific and Technical Services

- > Our revenue increased because several projects in our backlog were finally released for design. Simultaneously, we were able to loan out a few employees to a friendly competitor for a couple of months, which is reducing our staffing costs while allowing us to retain the employees in the mid-term. Projects in the Houston area continue to stagnate due to decreases in energy and related increases in office space on the sublease market. Work in other regions of Texas is increasing.
- > Definite slowdown in commercial construction. Proposals, which we use as sign of future activity, are off approximately 8 percent over the last five months, trending to same activity as 2013.
- > The oil and gas slump and declining stock market have hurt our revenue. Companies are holding on decisions, stalling and delaying, and in general it is challenging to plan for the future. The government's approach to small business is not beneficial.
- > The bottom has fallen out. We have been going along okay, and all of a sudden everything has dried up. We are looking at layoffs for the first time since 2009.
- > Activity in the realm of marketing communications is robust right now and projected to remain that way through 2016. Great talent is available to relocate to Texas, and we are taking advantage of that, which means new furnishings, technology elements, etc.
- > As an independent consultant in the energy sector, I see some improvement in the attitude of others in similar consulting roles, but we all consider the stabilization of the price of oil (and its increase) as a driver for our having more work.

Management of Companies and Enterprises

- > The overreach of our federal government and regulatory bodies is pretty much choking any hope of recovery.
- > We are spending way too much time trying to comply with regulations. There is no end to the audits: financial audits, compliance audits, IT audits, operational audits. I honestly think the regulators sit in a room and try to invent new things to write us up for. There are some regulations that have been on the books for many years that suddenly get interpreted in a new way. Next thing you know, we are writing new policies and procedures. I feel the regulators get pressured, so they pressure us. Someone needs to wake up and realize that a whole lot of this work is accomplishing nothing. Many times when

I ask an auditor/examiner why they are doing some of their audit steps that seem silly, they tell me they are "covering themselves." I don't blame them, but it is sad that it has come to that.

Administrative and Support Services

- > We have seen a cutback in service from some of our main customers in retail and manufacturing, which we have not been able to replace at this time. I see both of these types of customers as very cautious about the future. It will take us the rest of the year to recover those lost sales. This will have an effect on our investment in further technology upgrades and employment.
- > Our aviation customers overall have increased their request for quotes from last month. The oil and gas sector has remained low, but it seems to have stabilized, with no further loss of customers at this point from last month. Optimism seems to have increased. The military part supplier customers are stable, but no new business is expected for this month. The overall industrial sector seems flat, not much growth expected as far as new customers for us.
- > We have had a shortage of full-time professional employees. We are currently adding to this shortage and giving the long-term intense training that is necessary to retain these individuals. The second half of 2016 should be an improvement over the first half of the year.

Publishing Industries (except Internet)

- > The negative outlook of our clients and prospects because of all the uncertainty of government intervention (and perceived upcoming intervention) is impacting purchasing decisions. Many purchases expected over the next two quarters have moved out 90 to 180 days. We are adjusting our business model to try to bypass this. The coming months will tell if it works.

Telecommunications

- > The economy in Houston continues to be a challenge due to the oil bust. Home, apartment, retail and office vacancies continue to increase, while developers and builders continue to build new units for each of the aforementioned types of buildings. Construction planning and financing by banks and investors seem to be off base with the reality of the market. We may experience worse economic conditions in 2016 and 2017 due to oversupply of buildings.

Ambulatory Health Care Services

- > We are considering the purchase of a couple of system solutions, which would be approximately three to six months out.

Hospitals

- > Rural hospitals continue to struggle to meet unfunded mandates by our government.

Nursing and Residential Care Facilities

- > Finding qualified employees is extremely difficult; 70 percent do not pass the state-required background check. Health care and benefit costs prohibit us from providing enough work hours to retain good part-time employees. Overtime costs for full-time employees are driving costs up, but less than the cost of providing health care to entry-level employees.

Accommodation

- > Sluggish economy is holding down hotel prices. We are also struggling to find associates for entry-level positions.
- > We are seeing a tight labor market, which is requiring us to adjust our wages upward. Our outlook is slightly down but not in a significant way. We may have been hurt by the recent rains, which may have dampened demand. With the recent notification of the change in the overtime exemption rule in December, we will be faced with significant expense increase.

Food Services and Drinking Places

- > Too much government intrusion, with huge extra costs associated.
- > One new restaurant opened in El Paso in June. Another will open in Del Rio in July. Comparable store sales are running slightly positive. New overtime rules will have an impact on how we have to pay our current salary managers.
- > Revenue is up but by slightly less than our price increases in place. This is a marked slowdown from the recent past where we had been consistently up more than our price increases. The number of employees and hours worked have remained quite constant—much to my chagrin given that our sales have slowed. Operations are running well over our targeted labor levels as they have failed to adjust to our shortfall in the seasonal adjustment that happens at the end of the school year. Wages and benefits are starting to experience some upward pressure. Some of our key operations staff indicated it is getting harder to find qualified candidates both at the hourly level and at the management trainee level. I reviewed our hourly rates per position and found that, in total, we still have an annual rate of increase of less than 2 percent. However, the bottom two hourly positions—busser and host—moved up just over 3 percent year over year. This is partially because we made the decision to use \$8 as our minimum (for all but food servers). There were only a handful of employees paid less than \$8, so it did not make a substantial difference. In comparison, the year-over-year increase for cooks is 1.42 percent, and the food server staff has not had any change in rate of pay. Our prices are up 1.43 percent over last year. Cost of goods sold is virtually even with last year. Our capital expenditures have returned to normal since we completed and opened our latest new restaurant in April. We are still spending for remodels and new equipment—we just finished a fairly major remodel of one of our older restaurants—but that is normal and ongoing pretty much at all times. I marked our outlook and general

business activity as worse since we have clearly slowed down in the last several weeks. We aren't giving up on the summer as a whole yet, so I have marked the six-month horizon as about the same. Hopefully, that doesn't turn out to be too optimistic.

Support Activities for Transportation

- > Reduction in health care costs, including additional employee contribution with no pay increase, is driving compensation down. This is causing some turnover in seasoned, trained employees.

Merchant Wholesalers, Durable Goods

- > A new website will be launched at the end of third quarter, and we expect to hire five to seven people in Texas and see an increase in sales.
- > Moisture conditions improved, generating better crops. Relatively low commodity prices create future uncertainty.

Merchant Wholesalers, Nondurable Goods

- > Summertime slowdown has hit. Loss of sales days in April and May due to weather issues did not help. I was hoping for a bounce back in June, but not sure if we will see it coming.

Motor Vehicle Parts Dealers

- > We are feeling the impact of lower overall demand due to oil sector issues.
- > In the truck sales business we are in, the feeling among most all dealers is that there is a definite slowing of pace. Factories are either laying off employees or are complaining about not enough orders and threatening layoffs. Of course this has a negative impact to suppliers in the supply chain for the factories.

Building Material and Garden Equipment and Supplies Dealers

- > Business is steady but flat compared with 2015, which was a much better year than some of the previous years so we can live with this for awhile. Pressure on margins and finding qualified employees is a struggle. I'd say the glass is half full, and we need more water before evaporation sets in.

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 Service Sector Outlook Survey

DALLAS FED

June 27, 2016

SPECIAL QUESTIONS

Data were collected June 14–22, and 251 Texas business executives responded to the surveys.

Oil prices today are near \$50 per barrel, up from \$30 lows earlier this year but still down from \$60 a year ago and down from over \$100 in mid-2014. Natural gas prices are near \$1.90 per million British thermal units, down from \$3 a year ago.

1. What impact have lower energy prices had on your business over the past six months? (Please select all that apply)

	Jun. '16 (percent)	Jun. '15 (percent)
Decreased demand from our customers	41.0	28.5
No effect	34.0	37.6
Decreased our firm's costs (input/raw materials prices, wages and benefits, etc.)	27.9	36.0
Increased demand from our customers	8.2	11.8
Increased our firm's costs (input/raw materials prices, wages and benefits, etc.)	3.3	1.1

2. Overall, what has been the net impact of lower energy prices on your business over the past six months?

	Jun. '16 (percent)	Jun. '15 (percent)
Slight negative impact	30.6	28.9
Slight positive impact	29.4	35.3
No impact	20.8	21.4
Significant negative impact	17.1	8.6
Significant positive impact	2.0	5.9

3. What are the top three concerns affecting your company's outlook? (Please select up to 3 choices)

	Jun. '16 (percent)	Jun. '15 (percent)
Government regulation	72.8	66.5
U.S. economy	60.4	58.6
Energy prices	36.0	25.1
Labor shortages	33.2	37.7
Interest rates	26.4	40.8
Real estate values	14.0	14.1
Strong dollar	8.0	12.0
Other	13.6	14.7

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Credit Intermediation and Related Activities

- > Business activity in South Texas decreased and energy-related businesses are struggling; however, petrochemical industry is robust and industrial projects are doing well. Residential housing construction is good.

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

- > Oil and gas leases, drilling, production and pipelines businesses suffer from a lack of demand, which has lowered their revenues. All of these businesses are our customers, both large and small. If their demand is low, our business suffers also. But, the costs keep rising for insurance, taxes and—most of all—from governmental regulation. A good and growing outlook is not in sight.

Insurance Carriers and Related Activities

- > We are insurance brokers, so energy affects our contractor clients and energy-related clients. Lower revenues for them mean lower payrolls, which lowers their insurance premiums from where they estimated last year.

Telecommunications

- > We may experience a longer than necessary recession in Houston due to banks' and investors' continued support to builders of homes, apartments, retail and commercial buildings that continue construction while the market is experiencing significant vacancies and properties for sale.

Real Estate

- > What we continue to see is regulation for the sake of regulation with no consideration of cost/benefit analysis. Health care is less affordable for employees, and the insurance companies are manipulating care to improve profitability. The complexity of choices for workers is more and more a problem for lower-level workers. The world economy is worrisome. The U.S. elections are offering no encouragement. The only good news is interest rates are low and retail still seems to be doing well.

Professional, Scientific and Technical Services

- > Energy prices have helped some clients and hurt others, and we are sitting in the middle. We are very focused on Fed moves, Brexit and the contagion that creates (although it now appears postponed), weakness in China and contagion there too. We have just generally seen more downside risk in the global outlook than upside and feel our own poor election situation will add to that negative view. There is competition for key legal talent as well in a sector seeing less demand going to law firms. Nothing is easy now for sure.
- > As an independent consultant in the energy arena, higher energy prices create more demand for consultant work as more projects go forward. Steady increases in the price of oil and gas will drive my segment of the economy. I love paying \$4.00 per gallon for gasoline because it means I have plenty of work at higher value. The concern over the Fed raising interest rates is overblown by the stock market gurus and the media stories. Raising the federal funds rate, by itself, will not hurt the economy. The thing that will hurt is the banks using it as an excuse to jack up the rates they charge for loans. It would not surprise me if for every 100 basis points the Fed raises the federal funds rate the banks would raise APRs by 3 percent.
- > Oil and gas price declines will help and hurt our architectural business. Construction costs will decline (or rise at a slower rate), which promotes more work for us. But our public clients' tax base will decline, causing them to have less funds to consider moving forward with new or renovated facilities. Since approximately 60 percent of our work is public client based, we anticipate more negatives from lower oil and gas prices.

Management of Companies and Enterprises

- > If I could have ranked regulatory requirements as all three concerns, I would have.

Administrative and Support Services

- > As a company that sells travel around the world, we are being impacted on several fronts: terrorism, Zika, health concerns, overall direction of economy and political uncertainty. The anxiety of the consumer is at an all-time high. I do not see the ability to entice consumers with deals or lower costs.
- > Labor—and labor education—continues to be a major problem. The schools are not doing their job. Drug abuse is a big issue too.
- > Businesses are holding back on investment in new projects. The lack of clarity on government regulation and political uncertainty are also slowing down the hiring of new employees.
- > We have been both hurt and helped by low oil prices because it has sparked leisure travel but hurt corporate travel, which is a higher yielding traveler. Also, there is a lot of concern that the Fed will raise rates again, and it sparks a pullback in spending because many fear the extra costs they will incur in interest rates. The cost of housing and other items have gone up considerably but there is little to no benefit in wage increases in the near future.

- > Energy prices have competing effects on travel to Dallas. Lower costs help leisure travel to the destination, while the negative impact on the energy sector has decreased corporate travel in that segment.
- > It cannot be stressed enough the impact that overregulation is having on all business, but especially small business. It increases costs and requires more personnel in unproductive areas. The cost of lending is increasing and the effect on smaller banks is restrictive to lending. We have come to a point where bureaucracy is not accountable for its actions but hides behind its many layers. This is one of the main reasons we continue to have tepid growth in the economy while costs continue to rise, affecting the real income of both the employer and the employee.

Educational Services

- > While business has been good for our logistics industry, especially in food and beverage, we fear the next cycle for slowdown.

Ambulatory Health Care Services

- > Specific to health care, we are seeing a significant amount of entry-level job elimination due to technology in many aspects of this service-based industry. Voice recognition eliminated an entire transcription-related home-based employment model, data entry in medical practices, etc. Many of the small business health care "S" corporations are unable to meet increasing regulatory requirements, and continuous erosion of profit margins is eliminating many jobs in the local economies.
- > Although health care law falls under the broad heading of government regulation, its impact on our business is substantial enough to warrant singling out. The Affordable Care Act has had, and the Protecting Access to Medicare Act (PAMA) will have, direct and significant impacts on our laboratory business. Specifically, the general shift of first-dollar health care expenses to the patient on high-deductible plans has significantly increased bad debt. Health care providers that do not have patient-facing services, like pathology/laboratory, do not have the ability to collect on the front-end before services are rendered. PAMA will apply prolonged pressure to the laboratory reimbursement side.

Nursing and Residential Care Facilities

- > Lower energy prices have a significant impact on contributions and sponsorships in West Texas, along with a reduced labor pool.

Accommodation

- > Wage pressure and a shortage of qualified labor are causing us to increase hourly wage rates in July. The ongoing economic challenges in Houston and the energy sector are negatively impacting leisure, group and business travel and meetings.

Food Services and Drinking Places

- > I've indicated no impact from the cost of energy in the sense that I don't find anyone at any level in the company making decisions on the change in the cost of energy or even keeping track of it. That includes top management and ownership. Of course, there has been some impact on profitability, but it is nominal compared to other factors. The U.S. economy, our local economy and building sales are always at the top of our list of concerns. However, right now a major concern added to that is the decision to substantially raise the salary level required to be considered salaried exempt. No final decision has been made yet in the company, but we are likely to adopt the fluctuating method of computing premium time compensation and adjust base salaries so that the net salary comes out just slightly above current salaries for the normal 50-hour workweek for the lower management levels, which will be heavily impacted by this change in regulations. The fact that lower-level management personnel are going to have to start punching a clock so that we can accurately track their hours is going to be perceived very negatively by the individuals in those positions. There is also the danger over time, if we find it harder to control total costs than we are expecting, that the change will ultimately impact the benefits available to lower-level managers. At this point we hope to avoid benefit changes.
- > The threat of large increases in health care insurance for our staff are concerning.

Religious, Grantmaking, Civic, Professional, and Similar Organizations

- > Lower oil prices have had an extremely negative impact on our business. Our business is focused solely on services for the oil and gas business.



Texas Retail Outlook Survey

DALLAS FED

June 27, 2016

SPECIAL QUESTIONS

Data were collected June 14–22, and 49 Texas retailers responded to the surveys.

Oil prices today are near \$50 per barrel, up from \$30 lows earlier this year but still down from \$60 a year ago and down from over \$100 in mid-2014. Natural gas prices are near \$1.90 per million British thermal units, down from \$3 a year ago.

1. What impact have lower energy prices had on your business over the past six months? (Please select all that apply)

	Jun. '16 (percent)	Jun. '15 (percent)
Decreased demand from our customers	53.2	31.0
Decreased our firm's costs (input/raw materials prices, wages and benefits, etc.)	34.0	42.9
Increased demand from our customers	17.0	16.7
No effect	14.9	31.0
Increased our firm's costs (input/raw materials prices, wages and benefits, etc.)	2.1	2.4

2. Overall, what has been the net impact of lower energy prices on your business over the past six months?

	Jun. '16 (percent)	Jun. '15 (percent)
Slight negative impact	41.7	31.8
Slight positive impact	31.3	36.4
Significant negative impact	18.8	9.1
No impact	6.3	13.6
Significant positive impact	2.1	9.1

3. What are the top three concerns affecting your company's outlook? (Please select up to 3 choices)

	Jun. '16 (percent)	Jun. '15 (percent)
Government regulation	73.5	61.4
U.S. economy	65.3	65.9
Energy prices	44.9	20.5
Labor shortages	34.7	47.7
Interest rates	16.3	47.7
Strong dollar	12.2	15.9
Real estate values	6.1	6.8
Other	16.3	9.1

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- > We are a government contractor and compete in the area of military procurement. Government spending, particularly for military equipment, is a major determinant to our wellbeing.

Merchant Wholesalers, Nondurable Goods

- > New overtime rules and the Affordable Care Act caused increases in health insurance.

Motor Vehicle and Parts Dealers

- > Energy prices have virtually stopped most of the drilling in south Texas and that has had an effect on the parts and service portion of our business as well as truck sales. Continued increase in government regulation has forced us to increase headcount to properly address and generate the ever increasing amount of reports and data required by the government. Often, there is no way to arrive at the data requested and the most common answer received when asked is approximate.
- > We are hearing more about the political outlook than ever. Resulting concern is beginning to impact our business.
- > Lower fuel prices seem to have increased the discretionary spending of customers that are not directly related to the energy industry. Since we are in an area that has a large amount of employees working directly and indirectly with the energy industry, we see that these consumers have delayed purchases until energy prices rebound to a higher level.
- > Because we are located in Houston, the energy company layoffs have decreased our net sales more than any increase due to lower consumer energy costs.

Building Material and Garden Equipment and Supplies Dealers

- > Finding good qualified employees is difficult. Increased mandates on business take away from focus on sales, which drive everything. The U.S. economy has aging workers worried about retirement and 401(k) values.

Nonstore Retailers

- > We have great concern over the impact new Department of Labor overtime exemption regulations will have on our profitability. We have not yet computed the impact on our business, but plan to in the coming weeks. Most likely, we will simply convert any impacted employees from salary to hourly and then limit their hours to manage our costs. This may impact remaining salaried employees unfavorably by having to work more hours to cover for the reduced hours of other employees. But we must manage our costs to remain viable.

