



## Texas Service Sector Outlook Survey

DALLAS FED

July 26, 2016

### TEXAS SERVICE SECTOR ACTIVITY INCREASES AT A SLOWER PACE

Texas service sector activity continued to reflect expansion 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, fell from 15.6 to 10.3, indicating activity increased at a slower pace than last month.

Labor market indicators reflected faster employment growth and slightly longer workweeks this month. The employment index edged up from 2.0 to 3.8. Posting its second consecutive positive reading, the hours worked index dipped from 3.6 to 2.0.

Perceptions of broader economic conditions were mixed again in July. The general business activity index remained pessimistic for a seventh consecutive month, but moved up from -7.7 to -1.3, suggesting pessimism waned. The company outlook index rose slightly from a reading near zero to 1.0, with 16 percent of respondents reporting that their outlook improved from last month and 15 percent noting it worsened.

Price and wage pressures eased this month. The selling prices index fell slightly from 5.7 to 3.6. The wages and benefits index moved down from 15.7 to 10.4, although the vast majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions improved in July. The index of future general business activity jumped up from a reading near zero to 10.1. The index of future company outlook rose from 8.4 to 14.0, reflecting more optimism. Indexes of future service sector activity, such as future revenue and employment, reflected more optimism this month.



### RETAIL SALES CONTINUE TO GROW

Retail sales increased modestly in July, according to business executives responding to the Texas Retail Outlook Survey. Remaining positive for a second consecutive month, the sales index was unchanged from last month at 2.9. Inventories declined in July after holding steady last month.

Labor market indicators improved this month. The employment index rebounded from negative territory, rising from -2.1 to 2.5. After four consecutive negative readings, the hours worked index advanced 8 points into positive territory to a reading of 4.9, suggesting longer workweeks.

Retailers' perceptions of broader economic conditions were mixed in July. The general business activity index climbed from -10.2 to a reading near zero. The company outlook index was positive for a second consecutive month and rose from 3.2 to 8.9, with 21 percent of respondents reporting that their outlook improved and 13 percent noting that it worsened.

Retail price pressures eased, while wage pressures increased this month. The selling prices index moved down from 15.5 to 11.5. The wages and benefits index edged up from 8.6 to 10.2.

Retailers' perceptions of future broader economic conditions improved in July. The index of future general business activity surged from -4.9 to 16.4. The index of future company outlook rose slightly from 13.9 to 16.9. Indexes of future retail sector activity 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.**

**Next release:** August 30, 2016

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 12–20, and 272 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.

## TEXAS SERVICE SECTOR OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Current (versus previous month)</b>								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	10.3	15.6	-5.3	Increasing	80	29.4	51.5	19.1
Employment	3.8	2.0	+1.8	Increasing	77	12.9	78.0	9.1
Part-time employment	3.1	-0.8	+3.9	Increasing	1	8.8	85.5	5.7
Hours worked	2.0	3.6	-1.6	Increasing	2	8.6	84.8	6.6
Wages and benefits	10.4	15.7	-5.3	Increasing	82	14.9	80.6	4.5
Input prices	17.9	23.3	-5.4	Increasing	87	20.5	76.9	2.6
Selling prices	3.6	5.7	-2.1	Increasing	5	10.7	82.2	7.1
Capital expenditures	4.6	4.2	+0.4	Increasing	83	10.9	82.7	6.3
<b>General Business Conditions</b>								
<b>Current (versus previous month)</b>								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	1.0	-0.4	+1.4	Improving	1	15.5	70.0	14.5
General business activity	-1.3	-7.7	+6.4	Worsening	7	14.8	69.0	16.1
<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Future (six months ahead)</b>								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	35.9	33.4	+2.5	Increasing	89	46.2	43.5	10.3
Employment	23.6	16.7	+6.9	Increasing	88	30.5	62.6	6.9
Part-time employment	6.8	5.5	+1.3	Increasing	49	13.2	80.4	6.4
Hours worked	5.0	1.7	+3.3	Increasing	9	9.0	87.0	4.0
Wages and benefits	37.3	40.4	-3.1	Increasing	115	39.0	59.3	1.7
Input prices	38.4	40.4	-2.0	Increasing	115	41.5	55.4	3.1
Selling prices	19.4	21.5	-2.1	Increasing	87	25.8	67.8	6.4
Capital expenditures	19.3	17.0	+2.3	Increasing	88	24.7	69.9	5.4
<b>General Business Conditions</b>								
<b>Future (six months ahead)</b>								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	14.0	8.4	+5.6	Improving	5	27.1	59.8	13.1
General business activity	10.1	-0.9	+11.0	Improving	1	23.2	63.7	13.1

\*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.

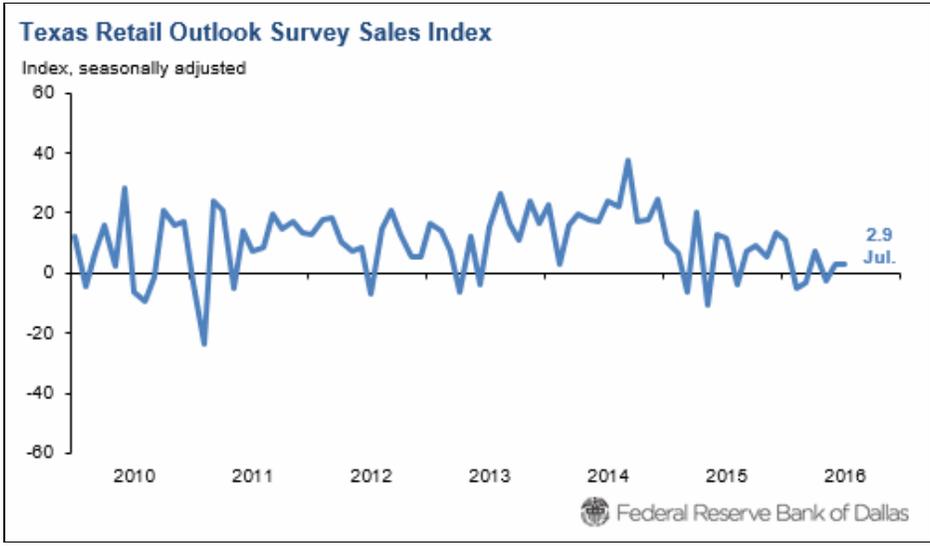
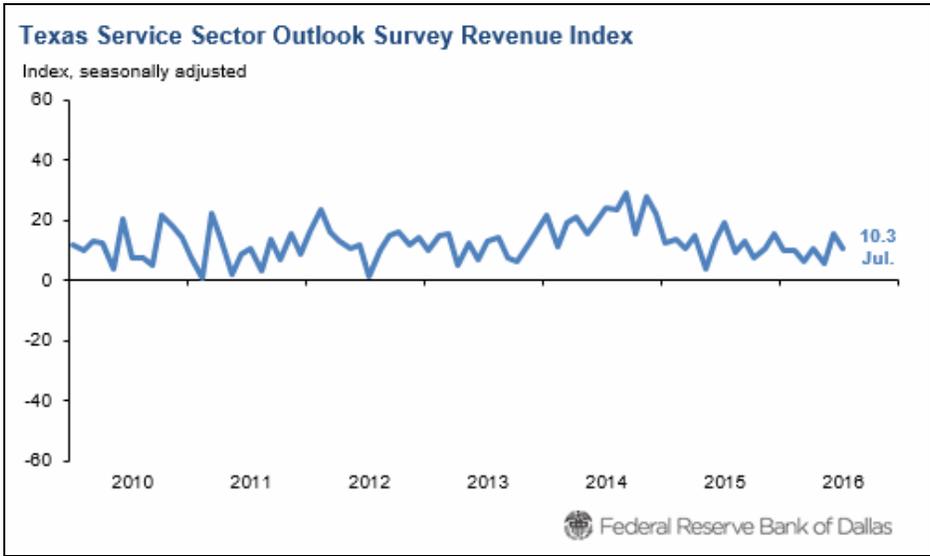
Data have been seasonally adjusted as necessary.

## TEXAS RETAIL OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)</b>								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	2.9	3.2	-0.3	Increasing	2	25.2	52.5	22.3
Employment	2.5	-2.1	+4.6	Increasing	1	5.2	92.1	2.7
Part-time employment	5.9	0.0	+5.9	Increasing	1	11.8	82.4	5.9
Hours worked	4.9	-3.4	+8.3	Increasing	1	10.6	83.7	5.7
Wages and benefits	10.2	8.6	+1.6	Increasing	75	13.0	84.2	2.8
Input prices	14.3	16.9	-2.6	Increasing	6	17.0	80.3	2.7
Selling prices	11.5	15.5	-4.0	Increasing	5	16.0	79.5	4.5
Capital expenditures	0.0	-1.9	+1.9	No Change	1	5.8	88.5	5.8
Inventories	-12.7	-0.9	-11.8	Decreasing	3	17.5	52.3	30.2
<b>Companywide Retail Activity</b>								
Sales	10.6	16.0	-5.4	Increasing	14	29.8	51.0	19.2
Internet sales	1.2	20.4	-19.2	Increasing	3	9.5	82.2	8.3
Catalog sales	3.3	6.3	-3.0	Increasing	2	6.5	90.3	3.2
<b>General Business Conditions, Retail Current (versus previous month)</b>								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	8.9	3.2	+5.7	Improving	2	21.4	66.1	12.5
General business activity	-0.4	-10.2	+9.8	Worsening	4	17.0	65.6	17.4
<b>Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)</b>								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	28.1	22.6	+5.5	Increasing	89	37.5	53.1	9.4
Employment	9.1	5.0	+4.1	Increasing	17	17.1	74.9	8.0
Part-time employment	-2.2	1.1	-3.3	Decreasing	1	7.5	82.8	9.7
Hours worked	3.9	-0.9	+4.8	Increasing	1	8.0	87.9	4.1
Wages and benefits	27.5	28.7	-1.2	Increasing	91	29.0	69.5	1.5
Input prices	32.6	29.4	+3.2	Increasing	87	36.7	59.2	4.1
Selling prices	35.4	29.4	+6.0	Increasing	87	39.6	56.3	4.2
Capital expenditures	14.3	7.8	+6.5	Increasing	64	18.4	77.6	4.1
Inventories	6.9	0.6	+6.3	Increasing	5	26.8	53.3	19.9
<b>Companywide Retail Activity</b>								
Sales	24.8	18.3	+6.5	Increasing	88	38.4	47.9	13.6
Internet sales	0.0	20.0	-20.0	No Change	1	9.1	81.8	9.1
Catalog sales	4.4	-0.3	+4.7	Increasing	1	10.8	82.8	6.4
<b>General Business Conditions, Retail Future (six months ahead)</b>								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	16.9	13.9	+3.0	Improving	5	26.2	64.5	9.3
General business activity	16.4	-4.9	+21.3	Improving	1	22.4	71.6	6.0

\*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.



## COMMENTS FROM SURVEY RESPONDENTS

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

### Credit Intermediation and Related Activities

- > The biggest factor impacting the future employment expense is the Department of Labor's minimum wage law. This will possibly force rural banks to eliminate midmanagement positions and change full-time positions to part-time. It will result in negative impacts to consumers and businesses and also force companies to reduce benefits like health insurance.
- > Loan requests have decreased in the second quarter after a strong first quarter.

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

- > We have not seen an upturn in the service and capital equipment sector for the oil and gas industry. Our business is heavily dependent on the industry. We don't see any significant upturn until after the first of the year. The above conditions, including the continuing increase in costs, e.g. federal regulations, the Affordable Care Act, etc., make for an unpleasant picture.

### Insurance Carriers and Related Activities

- > Summer slowdown ... With the bad news on TV and the Brexit talk about a global recession, I don't see any growth signals in Northeast Texas.

### Real Estate

- > We are seeing slow, steady leasing activity for the summer with the usual dead space around the holiday. We are expecting activity to pick up as we approach the back-to-school season. The elections are still, we feel, keeping activity below what it should be given low interest rates—seems to be a spike in home buying activity, which should spur some retail activity for us. Assuming there's no more major bad news events, the rest of the summer could be OK, but we are a little apprehensive for the political conventions and expect some hesitation until they are over and hopefully without major problems.

### Rental and Leasing Services

- > I know all the talking heads, most of which you cannot trust, say the economy is just great, but we are not seeing it in our family-owned company across 20 cities in Texas. We are a heavy construction equipment dealer so our large sales are capital expenditures by our customers. Industry units are down in Texas, and our sales are down 1.1 percent versus this time last year. That is an 800 basis point swing to the negative from where we were at the end of the first quarter. Perhaps more concerning: Parts and service business, which is an expense rather than a capital investment by the customer, is also slow. We are not investing; we have an expense and hiring freeze on; we are not expanding our \$200 million rental fleet—we have the tough times playbook in play.

### Professional, Scientific and Technical Services

- > The price of oil and gas continues to drive my consulting business.
- > Continued slump in upstream/midstream market is impacting our engineering business.
- > We have seen an increase in commercial orders and residential refinance orders over the past couple of months due to low interest rates. We feel this trend will continue for the foreseeable future because there is no upward pressure on these rates.
- > We are laying off. This is the first layoff since 2009.
- > Proposals, which historically have represented construction activity six to nine months out, are down to 2009 levels. Capital expenditures are up in coming months because of replacement of outdated trucks.

### Management of Companies and Enterprises

- > The oil and gas sector is slowly recovering, or at least stabilizing. Our margins are being compressed due to two factors: regulatory compliance and decreased business activity. We expect the business sector to improve while the compliance and regulatory issues to become a greater expense.
- > We are seeing a marked decrease in loan requests and activity in our various markets. Uncertainty of the global situation following the Brexit and the political drama of two very unpopular presidential candidates has put a real damper on business. This along with an overbearing regulatory environment will forestall any hope of a business recovery for the foreseeable future. Personally, I feel the U.S. economic engine has been derailed by our current administration and regulatory requirements, and it will be a long time before it is restarted, if ever. We may have entered a new normal with the present lackluster business environment.

### Administrative and Support Services

- > There has been an increase in the cost of IT employees due to the severe shortage of skilled personnel who are getting multiple offers. Correspondingly, companies are not investing in new or upgraded IT systems unless absolutely necessary and are unwilling to pay more for qualified staff and will wait until they can find cheaper options.
- > Low fuel prices continue to impact sales in the public transportation industry.
- > A lot of concern over the macro business environment, Brexit, fuel prices rising coupled with inflation concerns.
- > The corporate aviation maintenance sector has increased in the last month for heavy inspections being performed July through August as scheduled to date. The airline aviation maintenance sector has remained low but consistent. The industrial nondestructive testing (NDT) sector has seen an increase in small orders for inspection below quantities of 100 pieces. The oil and gas NDT sector has remained low and inconsistent on orders for services. The military NDT sector has increased, with a projected increase in service orders in late 2016.

## Publishing Industries (except Internet)

- > Some concern on Brexit and our international business, although at this point we are not seeing any material difference in the business climate internationally.
- > Many of our prospective clients are delaying expenditures due to economic uncertainties and fear. Other prospects (and current clients too) are requiring significantly more due diligence to approve purchases (and renewals), particularly related to increased regulations. These long sales cycles and delays are having a marked impact on small businesses like ours and, unfortunately, the ripple effect extends to many. We have enacted layoffs and pay cuts. We have also had to cancel contracts with some of our vendors.

## Telecommunications

- > We are very concerned with developers overbuilding market demand for retail and office space, plus the same for apartments. We are starting to see more homes bought by investors—similar to the last bubble burst.

## Ambulatory Health Care Services

- > We are seeing a midsummer slowdown that is more dramatic than usual, not only at our primary facility but also at other facilities that we interpret exams for.
- > General business conditions impact on the health care sector is minimal. Ninety percent of the impact is from the national and health care industry specific financial modeling, resulting in increasingly complex patients who need higher levels of care (that cost resources) and lower levels of reimbursement, which has steadily put pressure on health care service providers. From last year to this year, there is overall a 30 percent increase in patient volume, but revenue remained flat—that places a significant burden on health care operations. Due to the oil bust in West Texas, patients are unable to pay their high deductibles, resulting in loss of revenue for providers and patients also avoiding health care services unless needed.
- > Expect general local economic conditions to remain steady; concern over commodity prices and the general election in November could shake things up to the downside.

## Hospitals

- > Rural health care continues to see reduction in reimbursements and increased costs from unfunded government mandates.

## Amusement, Gambling, and Recreation Industries

- > Austin is still in a bubble of growth and prosperity. We do not feel the same for the rest of the state or the world. Therefore, in the long run we remain cautiously pessimistic.

## Accommodation

- > Our numbers are showing a general slowdown in business from the last survey. Third quarter will be significantly off our annual projection. In discussions with others, there is quite a bit of uncertainty about the upcoming election, the killings within and outside the U.S. From my perspective, very hard to get a clear understanding of the direction we are headed. I assume as the candidates are formally nominated and debates take place, a clearer understanding of economic direction will unfold.

## Food Services and Drinking Places

- > New store opening in in July.
- > Very difficult to staff. Paying entry-level students \$12 an hour to start at selected locations in affluent areas.
- > Our percentage increase over last year has been reduced every week this last month. We are still positive but only by a few hundredths of a percent despite the fact that we have 1.43 percent price increase in place. Wages and benefits are up primarily because operations has failed to adjust schedules to reflect the decline in sales. Our cost of goods sold has been trending down, and we are now clearly below a year ago. The movement from last month was very small, but we have strung together several months of those small decreases now and they have added up to several tenths of a percent. The outlook for the company and the general level of business activity has definitely worsened over the last month from our perspective. In the six-month horizon, we are still hoping this slump is not going to get worse. If things don't start to improve or at least level out very soon, that perspective could definitely change for the worse over the coming month. We are definitely finding it more difficult to recruit both hourly and salaried personnel and are beginning to see a corresponding pressure on wages.

## Support Activities for Transportation

- > Reduction of health and dental benefits to employees with no pay increases at this time.

## Merchant Wholesalers, Durable Goods

- > We are in the process of building a digital commerce business that initially will employ four to six people in Texas. The launch of this business is expected in late third quarter. The costs will be front-loaded with the sales increase to lag.
- > Drier weather has seen our business volume pick up. We are seeing some signs of life again in the oil and gas patch. It's not really strong, but we got some engine orders for the first time in 17 months, so that is a good sign that some life is returning to the oil patch.

## Merchant Wholesalers, Nondurable Goods

- > July has been much slower than previous Julys, and we cannot pinpoint why. Seems to be a lot of unsettled things out there, and it is holding business back. Looking for improvement in August.
- > The Affordable Care Act and new overtime regulations will continue to have an impact and encourage an increased transition to a part-time work force.

## Motor Vehicle Parts Dealers

- > The oil and gas downturn is still negatively affecting new vehicle sales in Houston.
- > The drop in July is normal seasonality in our industry.
- > All indicators of the heavy truck market indicate a downturn. Orders at virtually every manufacturer are off, and layoffs have occurred. Parts and service are holding up pretty well, but will slide down if the economy continues to slow as trucks are parked.

## Building Material and Garden Equipment and Supplies Dealers

- > Business activity slowed dramatically as the steel tariff caused steel prices to increase roughly 20 percent in the past two months.

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

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