



Texas Service Sector Outlook Survey

DALLASFED

August 30, 2016

TEXAS SERVICE SECTOR ACTIVITY EXPANDS BUT AT A SLOWER PACE

Texas service sector activity continued to reflect expansion but at a slower pace in August than 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 10.3 to 6.5.

Labor market indicators reflected faster employment growth and unchanged workweeks this month. The employment index edged up 2 points to 5.8. The hours worked index fell slightly to a reading near zero, indicating workweek length was the same as last month.

Perceptions of broader economic conditions were mixed again in August. The general business activity index reflected more pessimism, moving down from -1.3 to -5.0. The company outlook index reflected more optimism, edging up 2 points to 3.0, with 18 percent of respondents reporting that their outlook improved from last month and 15 percent noting it worsened.

Price pressures eased while wage pressures increased this month. The selling prices index dipped from 3.6 to 2.4. The wages and benefits index moved up from 10.4 to 14.2, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in August. The index of future general business activity declined from 10.1 to 2.8. The index of future company outlook fell slightly from 14.0 to 11.9. Indexes of future service sector activity, such as future revenue and employment, also reflected less optimism this month.



RETAIL SALES DECLINE AND OUTLOOKS WORSEN

Retail sales fell in August, according to business executives responding to the Texas Retail Outlook Survey. The sales index retreated from 2.9 back into negative territory to -5.3. Inventories were unchanged this month after decreasing last month.

Labor market indicators were mixed this month. The employment index edged up from 2.5 to 3.7, indicating retail hiring increased at a slightly faster pace. The hours worked index fell back into negative territory from 4.9 to -2.6, suggesting workweeks shortened.

Retailers' perceptions of broader economic conditions worsened in August. The general business activity index fell sharply from a reading near zero to -11.8. The company outlook index plunged from 8.9 to -13.4, with 10 percent of respondents reporting that their outlook improved from last month and 23 percent noting that it worsened.

Retail price and wage pressures eased this month. The selling prices index fell slightly from 11.5 to 9.1. The wages and benefits index moved down from 10.2 to 5.9, although the vast majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions were mixed in August. The index of future general business activity plunged from 16.4 to -3.5. The index of future company outlook remained positive but dropped from 16.9 to 7.4. 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.

Next release: September 27, 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 Aug. 16–24, and 276 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

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	6.5	10.3	-3.8	Increasing	81	26.6	53.3	20.1
Employment	5.8	3.8	+2.0	Increasing	78	15.8	74.2	10.0
Part-time employment	1.4	3.1	-1.7	Increasing	2	9.3	82.8	7.9
Hours worked	0.6	2.0	-1.4	Increasing	3	7.5	85.6	6.9
Wages and benefits	14.2	10.4	+3.8	Increasing	83	18.2	77.8	4.0
Input prices	22.0	17.9	+4.1	Increasing	88	24.3	73.4	2.3
Selling prices	2.4	3.6	-1.2	Increasing	6	8.9	84.6	6.5
Capital expenditures	5.9	4.6	+1.3	Increasing	84	15.6	74.7	9.7
General Business Conditions								
Current (versus previous month)								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	3.0	1.0	+2.0	Improving	2	17.6	67.8	14.6
General business activity	-5.0	-1.3	-3.7	Worsening	8	11.7	71.6	16.7
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	33.3	35.9	-2.6	Increasing	90	47.6	38.2	14.3
Employment	15.9	23.6	-7.7	Increasing	89	26.9	62.1	11.0
Part-time employment	8.4	6.8	+1.6	Increasing	50	13.9	80.6	5.5
Hours worked	-0.6	5.0	-5.6	Decreasing	1	8.0	83.4	8.6
Wages and benefits	34.0	37.3	-3.3	Increasing	116	39.5	55.0	5.5
Input prices	39.5	38.4	+1.1	Increasing	116	43.2	53.1	3.7
Selling prices	17.2	19.4	-2.2	Increasing	88	23.6	70.0	6.4
Capital expenditures	18.8	19.3	-0.5	Increasing	89	29.7	59.3	10.9
General Business Conditions								
Future (six months ahead)								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	11.9	14.0	-2.1	Improving	6	25.2	61.5	13.3
General business activity	2.8	10.1	-7.3	Improving	2	20.0	62.8	17.2

*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

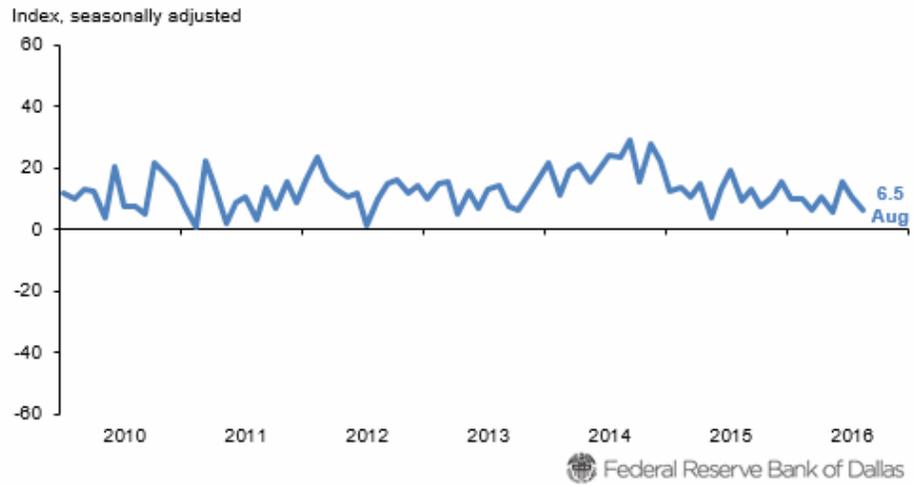
Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	-5.3	2.9	-8.2	Decreasing	1	21.0	52.7	26.3
Employment	3.7	2.5	+1.2	Increasing	2	12.4	78.9	8.7
Part-time employment	1.9	5.9	-4.0	Increasing	2	7.8	86.3	5.9
Hours worked	-2.6	4.9	-7.5	Decreasing	1	6.8	83.8	9.4
Wages and benefits	5.9	10.2	-4.3	Increasing	76	10.5	84.9	4.6
Input prices	15.4	14.3	+1.1	Increasing	7	20.8	73.8	5.4
Selling prices	9.1	11.5	-2.4	Increasing	6	13.2	82.7	4.1
Capital expenditures	5.7	0.0	+5.7	Increasing	1	19.2	67.3	13.5
Inventories	-0.2	-12.7	+12.5	Decreasing	4	21.6	56.6	21.8
Companywide Retail Activity								
Sales	-10.7	10.6	-21.3	Decreasing	1	18.4	52.5	29.1
Internet sales	-4.5	1.2	-5.7	Decreasing	1	9.8	75.9	14.3
Catalog sales								
General Business Conditions, Retail Current (versus previous month)								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-11.8	-0.4	-11.4	Worsening	5	9.4	69.4	21.2
General business activity								
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	9.4	9.1	+0.3	Increasing	18	18.2	73.0	8.8
Employment	-2.2	-2.2	0.0	Decreasing	2	6.1	85.6	8.3
Part-time employment	-16.3	3.9	-20.2	Decreasing	1	1.4	80.9	17.7
Hours worked	22.5	27.5	-5.0	Increasing	92	28.3	65.9	5.8
Wages and benefits	25.5	32.6	-7.1	Increasing	88	33.3	58.8	7.8
Input prices	24.5	35.4	-10.9	Increasing	88	30.6	63.3	6.1
Selling prices	7.9	14.3	-6.4	Increasing	65	21.6	64.7	13.7
Capital expenditures	1.6	6.9	-5.3	Increasing	6	23.7	54.2	22.1
Inventories								
Companywide Retail Activity								
Sales	5.7	0.0	+5.7	Increasing	1	17.1	71.4	11.4
Internet sales								
Catalog sales	Current Index	Previous Index	Change	Current Index Direction	Trend * (Months)	% Reporting Improved	% Reporting Remained the Same	% Reporting Worsened
General Business Conditions, Retail Future (six months ahead)								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook								
General business activity								

*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.

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Texas Service Sector Outlook Survey Revenue Index



Texas Retail Outlook Survey Sales Index



COMMENTS FROM SURVEY RESPONDENTS

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

Credit Intermediation and Related Activities

- > Employment cycles in our rural markets are generally only affected in part-time categories, which are up in summer months and Christmas holidays made up of almost exclusively of students—both high school and college. Our retention of high school hires through college is very good, but return trainees after college is not as prevalent unless they get married, move back home and need two incomes for the family.
- > Highly competitive market—it is starting to feel like 2007 again.
- > We are experiencing some increased confidence in business activity and expect interest rates to increase. The oil collapse may have run its course.

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

- > Increased regulation and its accompanying cost is a serious and debilitating industry issue.
- > Our operations are heavily dependent on the oil and gas industry. The market prices of oil and natural gas are not moving out of their ranges. Even if prices did move upward, it would take a good six months to promote a substantial increase in our overall sales volume. The above factors, along with federal government regulations and enforcement, seem to never slow down—they just keep coming. These along with increases in property tax and all kinds of insurance (including health) make business tough.

Insurance Carriers and Related Activities

- > The uncertainty over the election choices sure has added to uncertainty of business activity.

Real Estate

- > While occupancies are stable and leasing activity is good, business seems to be slow for this time of year. There is a lot of construction activity, but retail activity seems slow while restaurant activity seems good.
- > The election year seems to be holding buyers back from buying high-end properties. The homes below \$500,000 are short on inventory, causing bidding on homes with two to three offers, resulting in more expensive prices. Homes over \$1 million are difficult to sell.

Rental and Leasing Services

- > We previously forecasted 2017 to be worse than 2016, but we are now thinking the deteriorating economy in our industry and markets is accelerating such that 2016 is going to be worse than we thought and maybe 2017 won't be down quite as much.

Professional, Scientific and Technical Services

- > Our outlook has improved slightly, but very slightly.
- > Indications of future work (construction) remain soft. We anticipate a slowdown in construction in six months.
- > The election is the worst possible influence on business ever. The violence in the world is off-putting and concerning. Business seems to be in a holding pattern. Uncertainty prevails.
- > As lenders begin to pull back on multifamily development lending and tighten their lending requirements for the other sectors, we know the transaction volume for the DFW market will slow down. We are not anticipating a major change, but we know transaction volume for 2017 will not remain at the same levels we enjoyed from 2014 through 2016. Still a great market, but we are coming off record years that are impossible to maintain.

Management of Companies and Enterprises

- > Overregulation is hurting businesses. Just about everyone I talk to has a story about extra work they are doing to comply with something. Overregulation is terrible.
- > Our customers are struggling with the current economy, including: low ag commodity prices compounded by the strong dollar, which will get worse if the Federal Reserve raises interest rates; and health care cost increases being reported of up to 60 percent. The Affordable Care Act is a disaster. The cost of the regulatory burden on the country is pretty much unsustainable and is much of the issue of why the country cannot jump start the economy.

Administrative and Support Services

- > We see no increase in demand, a full-employed IT labor force and no indication from our clients that businesses are going to increase investment this year.
- > Low fuel prices continue to impact sales in the public transportation industry.
- > There is a lot of discussion about overall business health. We are seeing a slowing in global travel demand. In some areas of the company, we have frozen open jobs, frozen wage increases and eliminated bonuses. There is great uncertainty around global macro concerns and increased terrorist attacks around the world. We are seeing a drag on revenue, yet increased expenses and reduced free cash flow.
- > We still couldn't hire a flea off the back of a dog. We get so very many applicants who just come to fill out an application with no intent to go to work.
- > Restaurants and retail are focused on budgets and are cutting outside services where they can. Real estate is still a bright spot in DFW and Austin. West Texas is still in decline.
- > Our largest negative that we are dealing with is the machine shop sector in relation to oil producers. There is still no increase in requests for work for the next three months.

Publishing Industries (except Internet)

- > While we remain optimistic about the future, the compliance aspects of running a business and getting new business are slowing our sales cycle beyond anything we've ever experienced. The buying process for our clients has several more steps involved to get to a contract because of regulatory requirements. In addition, the process for implementations after the sale are prolonged due to additional approval steps for compliance and perceived risk. The ripple effect and costs of continuously compounding regulations are wide and deep. Our company has cut costs and decreased staff to try to adapt to the prolonged sales process. As a business owner (and as a consumer), the value of the additional regulations (and lack of clarity about those regulations) appears to be far below the costs.

Telecommunications

- > The Houston metroplex is showing the effects of low oil prices to include lower occupancy levels in apartments and office/retail space, plus the slowing in new homes being built. Resale of homes is taking longer with vacancies increasing. The last part of this year, we are expecting to lower sales and reduce capital expenditures.

Educational Services

- > We have continued concern on rising health care costs in an environment where revenue is remaining the same or decreasing.

Ambulatory Health Care Services

- > We had an additional capital purchase this month of replacement equipment.
- > Decreases noted six months out are due to expected reduction in Medicare fees allowed.
- > We are planning a near-year-end installation of additional testing equipment and systems. The Centers for Medicare and Medicaid Services issued the preliminary fee schedule for 2017, showing a meaningful reduction in reimbursement. We anticipate our regional contract with a major payer converting to national agreements, meaning lower pricing.

Hospitals

- > Community hospitals must adapt to changes in the delivery of health care for rural health care systems to be successful and thrive.

Nursing and Residential Care Facilities

- > My perception is that the general business climate is slowing, based partly on uncertainty about the upcoming presidential election. Continuing angst regarding implementation of the Affordable Care Act, particularly insurers exiting the exchange markets, and entry of new niche competitors will provide headwinds for the acute care hospital business during the next year.

Accommodation

- > For the next 60 days, our business is softening. We see no short-term demand from the corporate market in terms of group or individual travelers. It may be that businesses are holding off until after Labor Day or perhaps the election outcome is known/understood.

Food Services and Drinking Places

- > A new store opened in Del Rio the last week of July. We will be converting a number of our current salaried managers to hourly to comply with the new overtime law effective on Dec. 1. We anticipate a small increase in wages as a result of this change. All general managers will be moved up to the new minimum base. Other salaried managers will be reduced to hourly employees, at no anticipated increase in cost.
- > I have shown revenue improving and the outlook for the company improved but left the general evaluation of the economy and the six-month outlook for sales and business outlook neutral. The reason is that we are experiencing an upturn in sales, but it is so recent—just the last week and a half—that I am not ready to jump to a conclusion that the general outlook or the six-month horizon have improved. One pattern has been very clear throughout the entire recession/recovery process since 2009—we have had better luck matching or beating the low points in our sales pattern than we have hitting the highs. That is, the weekdays have not dropped as much as the weekends. We interpret this to say that our core business has held pretty well throughout. People still eat out during the work day; however, the discretionary part of our sales (taking the family out for dinner on the weekend, going out with friends, etc.) seems to be where we have taken the hit. In the six-month horizon, I have shown wages and benefits going up because we have already been alerted that our Jan. 1, 2017 medical insurance plan is very likely to have a double-digit increase in premiums.
- > The price of oil has slowed sales in markets affected. Labor market is very tight. We are paying entry-level students \$11 and even \$12 an hour to start in selected markets.

Pipeline Transportation

- > Uncertainty in the market is a current drag on business confidence. The effects of the upcoming election and Brexit are factors that continue to introduce uncertainty. In addition, volatility in energy markets continues to weigh on business leaders.

Support Activities for Transportation

- > We completed several capital projects and will see increased income from related revenue streams. We are also filling positions that have been open for over six months, causing an increase in wages strictly due to filling budgeted positions. We anticipate increased capital expenditures beginning with fourth quarter 2016 through 2017 as several long-term capital projects begin.

Merchant Wholesalers, Durable Goods

- > Housing is steady in Texas and DFW, while flat in Houston and West Texas. After dynamic growth, we see apartments slowing way down.

Merchant Wholesalers, Nondurable Goods

- > School opens in August, directly affecting anticipated increased sales in August versus July.
- > June and July sales fell off the table. We have never had such a slow July. Lower oil prices in our market are coming home to roost now, as companies tighten their belts moving forward. We are looking to diversify as quickly as possible into other lines of related products that may not be as susceptible to oil prices.

Motor Vehicle Parts Dealers

- > The energy recession continues to contribute to a slowdown in retail sales volume in Houston.
- > The oil situation is catching up to us.

Building Material and Garden Equipment and Supplies Dealers

- > We feel oil will stabilize over the next six months and activity will increase in South Texas.
- > Business is steady, but there is still uncertainty in our market as to the last quarter and 2017.

Gasoline Stations

- > The decrease six months from now just reflects seasonal sales declines.

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/.

