



## Texas Service Sector Outlook Survey

DALLAS FED

September 27, 2016

### TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS

Texas service sector activity increased in September, 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 6.5 in August to 13.0 in September.

Labor market indicators reflected slower employment growth and longer workweeks this month. The employment index edged down from 5.8 to 4.4. The hours worked index rose slightly from a reading near zero to 3.1.

Perceptions of broader economic conditions reflected optimism in September. The general business activity index rebounded from -5.0 to 4.7, its first positive reading this year. The company outlook index held steady at 2.8, with 16 percent of respondents reporting that their outlook improved from last month and 14 percent noting it worsened.

Price and wage pressures increased this month. The selling prices index edged up from 2.4 to 3.9. The wages and benefits index rose slightly from 14.2 to 15.4, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in September. The index of future general business activity rose from 2.8 to 10.4. The index of future company outlook came in at a reading of 12.4, similar to August. Indexes of future service sector activity, such as future revenue and employment, also reflected more optimism this month.



### RETAIL SALES REBOUND AND OUTLOOKS IMPROVE

Retail sales grew in September, according to business executives responding to the Texas Retail Outlook Survey. The sales index advanced from -5.3 to 2.0. Inventories declined this month after holding steady last month.

Labor market indicators were mixed again this month. The employment index was largely unchanged at 3.3, indicating retail hiring increased at the same pace as last month. The hours worked index remained in negative territory for a second consecutive month at -1.7, suggesting workweeks shortened.

Retailers' perceptions of broader economic conditions improved in September. The general business activity index surged from -11.8 to 7.9, its first positive reading in 11 months. The company outlook index rebounded from -13.4 to 2.9, with 19 percent of respondents reporting that their outlook improved from last month and 16 percent noting that it worsened.

Retail price pressures eased, while wage pressures increased this month. The selling prices index fell from 9.1 to 2.2. The wages and benefits index edged up from 5.9 to 8.5, although the great majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions improved in September. The index of future general business activity shot up from -3.5 to 9.9. The index of future company outlook rose slightly from 7.4 to 9.7. 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:** November 1, 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 Sep. 13–21, and 287 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	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	13.0	6.5	+6.5	Increasing	82	31.6	49.8	18.6
Employment	4.4	5.8	-1.4	Increasing	79	14.6	75.2	10.2
Part-time employment	4.5	1.4	+3.1	Increasing	3	10.2	84.1	5.7
Hours worked	3.1	0.6	+2.5	Increasing	4	7.8	87.5	4.7
Wages and benefits	15.4	14.2	+1.2	Increasing	84	20.5	74.4	5.1
Input prices	22.9	22.0	+0.9	Increasing	89	26.0	70.9	3.1
Selling prices	3.9	2.4	+1.5	Increasing	7	10.7	82.5	6.8
Capital expenditures	5.4	5.9	-0.5	Increasing	85	14.6	76.2	9.2
<b>General Business Conditions</b>								
<b>Current (versus previous month)</b>								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	2.8	3.0	-0.2	Improving	3	16.4	70.0	13.6
General business activity	4.7	-5.0	+9.7	Improving	1	17.8	69.1	13.1
<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Future (six months ahead)</b>								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	37.7	33.3	+4.4	Increasing	91	48.6	40.5	10.9
Employment	17.7	15.9	+1.8	Increasing	90	26.8	64.1	9.1
Part-time employment	6.4	8.4	-2.0	Increasing	51	12.7	81.0	6.3
Hours worked	4.7	-0.6	+5.3	Increasing	1	9.7	85.3	5.0
Wages and benefits	36.8	34.0	+2.8	Increasing	117	40.4	56.0	3.6
Input prices	42.2	39.5	+2.7	Increasing	117	44.6	53.0	2.4
Selling prices	22.0	17.2	+4.8	Increasing	89	28.8	64.4	6.8
Capital expenditures	13.2	18.8	-5.6	Increasing	90	22.7	67.7	9.5
<b>General Business Conditions</b>								
<b>Future (six months ahead)</b>								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	12.4	11.9	+0.5	Improving	7	25.8	60.8	13.4
General business activity	10.4	2.8	+7.6	Improving	3	24.6	61.2	14.2

\*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.

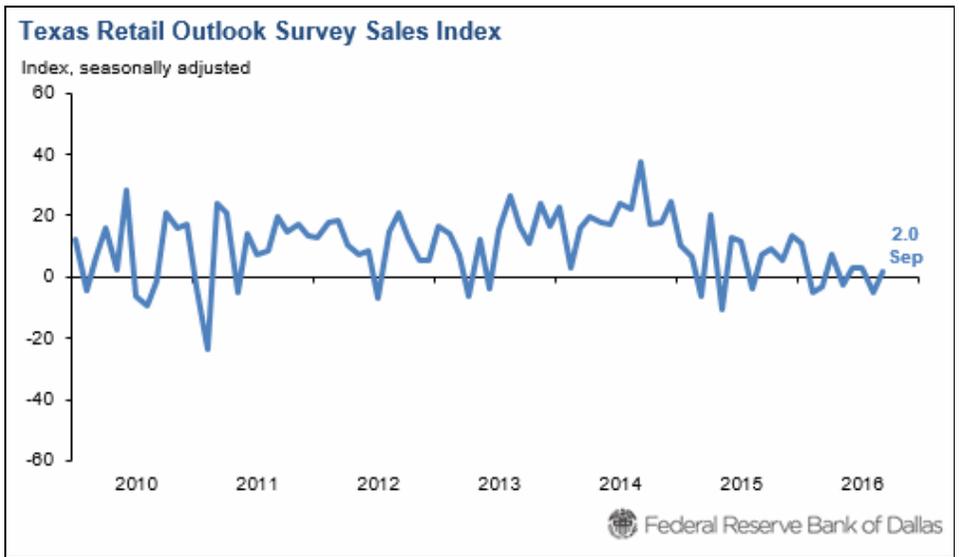
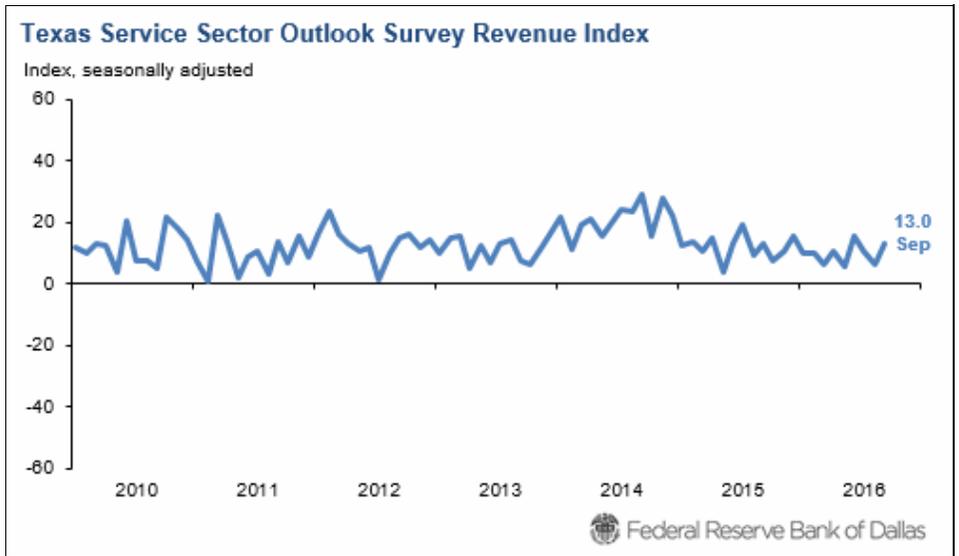
## TEXAS RETAIL OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)</b>								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	2.0	-5.3	+7.3	Increasing	1	28.8	44.5	26.8
Employment	3.3	3.7	-0.4	Increasing	3	11.9	79.5	8.6
Part-time employment	0.0	1.9	-1.9	No Change	1	9.1	81.8	9.1
Hours worked	-1.7	-2.6	+0.9	Decreasing	2	9.8	78.7	11.5
Wages and benefits	8.5	5.9	+2.6	Increasing	77	16.0	76.5	7.5
Input prices	16.9	15.4	+1.5	Increasing	8	21.1	74.7	4.2
Selling prices	2.2	9.1	-6.9	Increasing	7	12.5	77.2	10.3
Capital expenditures	7.0	5.7	+1.3	Increasing	2	17.5	71.9	10.5
Inventories	-8.9	-0.2	-8.7	Decreasing	5	16.9	57.3	25.8
Companywide Retail Activity								
Sales	0.2	-10.7	+10.9	Increasing	1	25.0	50.2	24.8
Internet sales	15.2	-4.5	+19.7	Increasing	1	20.9	73.4	5.7
Catalog sales								
<b>General Business Conditions, Retail Current (versus previous month)</b>								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	7.9	-11.8	+19.7	Improving	1	22.4	63.2	14.5
General business activity								
<b>Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)</b>								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	3.5	9.4	-5.9	Increasing	19	18.0	67.5	14.5
Employment	-7.9	-2.2	-5.7	Decreasing	3	8.1	75.9	16.0
Part-time employment	-7.4	-16.3	+8.9	Decreasing	2	7.5	77.6	14.9
Hours worked	24.1	22.5	+1.6	Increasing	93	31.8	60.5	7.7
Wages and benefits	27.3	25.5	+1.8	Increasing	89	36.4	54.5	9.1
Input prices	25.5	24.5	+1.0	Increasing	89	38.2	49.1	12.7
Selling prices	-5.3	7.9	-13.2	Decreasing	1	14.3	66.1	19.6
Capital expenditures	0.9	1.6	-0.7	Increasing	7	18.7	63.5	17.8
Inventories								
Companywide Retail Activity								
Sales	15.0	5.7	+9.3	Increasing	2	22.5	70.0	7.5
Internet sales								
Catalog sales	Current Index	Previous Index	Change	Current Index Direction	Trend* (Months)	% Reporting Improved	% Reporting Remained the Same	% Reporting Worsened
<b>General Business Conditions, Retail Future (six months ahead)</b>								
Indicator	Sep Index	Aug 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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## COMMENTS FROM SURVEY RESPONDENTS

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

### Credit Intermediation and Related Activities

- > My personal opinion is that it seems as if the spillover from the oil collapse may have worked its way through the south Texas economy and that we are identifying a new normal.
- > The financing from smaller banks and credit unions has loosened up in regards to loan structure (more liberal terms). Apartment construction financing has tightened quite a bit. If there is a very good opportunity on a new apartment development to pursue, then participants in the credit are very hard to find.
- > Local business activity has improved slightly, with continued slow recovery of oil-related industries slowing economic activity. The downward pressure on commodity markets continues to be a drag on economic recovery. The one exception is the Spanish goat market, which continues to be very strong.

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

- > Rain has helped attitudes, but the sharp drop in cattle is hurting all of west Texas. Home sales are good, but new construction is slowing. Retail sales are flat.
- > Times are tough in the oil and gas patch when you are dedicating a significant portion of your business to this industry. No letup in regulations, health care insurance, all kinds of taxes coming.

### Insurance Carriers and Related Activities

- > Political environment uncertainty is worsening the evaluation of general business activity, in my opinion.

### Real Estate

- > Business seems stable but not growing. I feel like the election is a huge damper on the consumer and is keeping the markets from improving.
- > Volume is off about 15 percent versus last year. We are hopeful that the year ends with increases. The biggest issue is health care costs, for us and clients.

### Rental and Leasing Services

- > The only reason my outlook has not changed from August to September is it can't get much worse.

### Professional, Scientific and Technical Services

- > Continued decrease in industrial development. Slight uptick in retail development.
- > Given the International Energy Agency report showing slowing demand growth and increasing supply of oil, the glut is projected to continue through mid-2017. This will have a prolonged effect on the commercial real estate market and general economy in the Houston area. To add to that, the current slowdown has caused a large surplus in available office space. Until the oil glut subsides and the office market back fills existing space, there will be little demand for commercial office space.
- > We were awarded two new contracts effective mid-September and are adding staff to accommodate.
- > Business has gotten pretty slow. We have some things on the horizon, but may have to have layoffs by end of year.
- > The election has paralyzed the economy. It is so discouraging. We are fortunate to be in Texas, but it is still losing ground.

### Management of Companies and Enterprises

- > Government regulation is costing a lot of money. Some of the regulations are silly and useless. There is no doubt that overregulation is costing our customers money. There are times that regulations are preventing us from helping our customers. Customers are frustrated, and so are our employees.
- > We are seeing a significant pullback by our customer base in their businesses. The economy is not anywhere near as strong as the Federal Reserve or the administration considers it to be.

### Administrative and Support Services

- > My forecast for improvement in our business is based on the expectation that business will improve once we get past the national election and some of the uncertainty is removed from the business environment.
- > We are seeing a significant pullback in airline capacity (number of seats available to be sold on flights), declines in corporate travel, large concerns over general business health, and people skittish about spending because of looming economic concerns. Also, there is a lot of uncertainty surrounding the fallout from the November elections. Regardless of who wins, sentiment seems to be fearful of how this can impact our economy.
- > We have lost 22 percent of our machine shop service customers from July to early September 2016. No new customers have been picked up since late June 2016. The corporate aircraft maintenance business has increased from last year at this time by 6 percent. The rail car inspection needs have dropped off 14 percent from the same time last year. We anticipate further reduction in tank car servicing requests for the foreseeable future. The airline maintenance side has remained flat. Military aircraft maintenance requests have picked up some, but no percentage increase known at this time.
- > Although we continue to see opportunities with commercial real estate and multifamily, the retail and restaurant cutbacks have had a negative effect on our business.

## Telecommunications

- > The increased vacancies in office space and the drop in apartment occupancy in the Houston area continue to negatively impact our sales revenue. Residential home sales are still strong. Federal Communications Commission regulatory proposals and modifications to previous administrations' interpretation of current policies have reduced our future capital expenditure plans.

## Ambulatory Health Care Services

- > We are planning a near-year-end installation of additional testing equipment and systems. Centers for Medicare & Medicaid Services issued the preliminary fee schedule for 2017, showing a meaningful reduction in reimbursement. We anticipate a regional contract with a major payer converting to national agreements—meaning lower pricing.
- > Capital purchases of new equipment are made in anticipation of more difficult times ahead. We hope there is no major recession in the next year. Fortunately, interest rates are locked in at low rates.

## Hospitals

- > Rural health systems are continuing to be strained due to increased consolidation/merger activity and regulatory requirements and decreased reimbursements.

## Nursing and Residential Care Facilities

- > Volatility in the health care marketplace persists. I expect continued uncertainty, consolidation and uneven financial performance through the current presidential election cycle. Health care providers are subject to policy decisions at the federal level, and federal and state government leaders' health policy decisions will damage many physicians and health systems in the next 12 to 36 months.

## Food Services and Drinking Places

- > We will be raising our general manager salaried wage to meet the new minimum on Dec. 1. We will have to increase pricing to cover this added cost. All of our current salaried managers that are not general managers will be moved to hourly. This part of the change will hopefully be cost neutral.
- > We are stuck running very flat compared with last year despite having a 1.43 percent price increase in place. Our primary concept will probably end the fiscal period with sales up 0.01 to 0.02 percent. We are now having significant difficulty hiring enough people. Our wages are beginning to creep up faster as a result. Cost of goods sold is still very flat. I don't see any sign that we are about to break out of this sluggish period on the upside. If anything, there are more indicators that things might get worse.
- > The Affordable Care Act is killing my profits and ability to have funds for year-end bonuses.

## Repair and Maintenance

- > August/September is down because of weather-related issues. August was very rainy and delayed the ability to accomplish work. Backlog is strong, and we see a very solid fourth quarter. Finding skilled workers has been and will continue to be a challenge. We need workers to be able to increase revenue growth more than we are currently predicting.
- > The lingering effects of lower oil prices are taking their toll with several oil-related service companies going out of business in our area. The one thing that seems to be thriving is the wind turbines that are appearing like popcorn on the landscape.

## Religious, Grantmaking, Civic, Professional, and Similar Organizations

- > Revenue is below what we anticipated for this fiscal year. Our business supports people who work in the oil and gas industry, and until the oil price and industry employment increases I don't see things getting any better for us. We have had more negative surprises than positive surprises.

## Merchant Wholesalers, Durable Goods

- > General business activity in Texas is good, although customers seem to be waiting on the upcoming election results to make longer-term decisions regarding capital expenditure purchases. Upcoming highway letting should generally help the company over the next six months due to the volume of work being performed in our territory.
- > We experienced a nonrecurring increase in sales related to the floods in Louisiana. Additionally, we expect sales growth at twice the industry average through capturing market share. Finally, we plan to launch a new website in first quarter 2017 that we expect will grow our market share.

## Motor Vehicle Parts Dealers

- > The effect of low crude oil prices and layoffs in that industry continue to lower our new vehicle sales volume.
- > There is no clear picture of where the economy is going. We will be increasingly conservative in our approach to early 2017.
- > Eagle Ford slowdown, the presidential election and Federal Reserve uncertainty seem to have people holding off on purchases. Whether the economy is flat or not is irrelevant. Business feels flat.

## Clothing and Clothing Accessories Stores

- > The strong dollar continues to negatively impact us in our border stores. Our oil patch stores continue to decline more than the rest of the chain.

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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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