



## Texas Service Sector Outlook Survey

DALLASFED

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### TEXAS SERVICE SECTOR ACTIVITY INCREASES AT A SLOWER PACE AS OPTIMISM WANES

#### What's New This Month

This month's survey data include annual seasonal factor revisions. In January of each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Service Sector Outlook Survey after calculating new seasonal adjustment factors. Annual seasonal revisions result in slight changes in the seasonally adjusted series. Read more information on seasonal adjustment at [www.dallasfed.org/microsites/research/surveys/tssos/seasonal.cfm](http://www.dallasfed.org/microsites/research/surveys/tssos/seasonal.cfm).

Texas service sector activity continued to reflect expansion in January, 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 15.2 to 10.0, indicating activity increased but at a slower pace than in December.

Labor market indicators reflected employment growth and slightly longer workweeks this month. The employment index edged down from 11.5 to 10.0. The hours worked index dipped 3 points to 3.5.

Perceptions of broader economic conditions turned pessimistic in January. The general business activity index plunged more than 12 points into negative territory to a reading of -10.4. The company outlook index also retreated into negative territory to a reading of -5.8, with 15 percent of respondents reporting that their outlook improved from last month and 21 percent noting that it worsened.

Price pressures eased, while wage pressures were unchanged this month. The selling prices index declined to a reading near zero, indicating prices were unchanged from last month. The wages and benefits index held steady at 20.4, suggesting labor costs increased at the same pace as in December, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in January. The index of future general business activity fell sharply into negative territory to a reading of -8.1. The index of future company outlook dropped 7 points to 2.3. Indexes of future service sector activity, such as future revenue and employment, also reflected less optimism this month.



#### RETAIL SALES CONTINUE TO GROW

Retail sales increased at a slower pace in January, according to business executives responding to the Texas Retail Outlook Survey. The sales index moved down from 14.9 to 11.0. After three consecutive months of increase, inventories fell this month.

Labor market indicators reflected faster employment growth and longer workweeks. The employment index rose from 1.6 to 5.3. The hours worked index remained positive for a second consecutive month but edged down from 7.6 to 6.1.

Retailers' perceptions of broader economic conditions were mixed this month. The general business activity index was negative for a third consecutive month but moved up from -8.4 to -4.8. The company outlook index rose from zero to 6.8, with 18 percent of respondents reporting that their outlook improved from last month and 11 percent noting that it worsened.

Retail prices declined, while wage pressures increased in January. The selling prices index plunged from a reading near zero to -14.3. The wages and benefits index rose from 10.6 to 17.8.

Retailers' perceptions of future broader economic conditions were also mixed this month. The index of future general business activity fell sharply into negative territory to a reading of -9.0. The index of future company outlook advanced from 3.7 to 13.0. Indexes of future retail sector activity generally declined but remained solidly positive 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 Jan. 12–20, and 266 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:** March 1, 2016

## TEXAS SERVICE SECTOR OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Current (versus previous month)</b>								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	10.0	15.2	-5.2	Increasing	74	30.2	49.7	20.2
Employment	10.0	11.5	-1.5	Increasing	71	18.2	73.6	8.2
Part-time employment	1.8	3.9	-2.1	Increasing	4	7.6	86.6	5.8
Hours worked	3.5	6.5	-3.0	Increasing	7	10.2	83.2	6.7
Wages and benefits	20.4	20.8	-0.4	Increasing	76	23.6	73.3	3.2
Input prices	13.2	23.3	-10.1	Increasing	81	23.7	65.9	10.5
Selling prices	0.7	6.5	-5.8	Increasing	5	13.4	74.0	12.7
Capital expenditures	2.2	7.3	-5.1	Increasing	77	14.9	72.4	12.7
<b>General Business Conditions</b>								
<b>Current (versus previous month)</b>								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-5.8	3.4	-9.2	Worsening	1	15.3	63.7	21.1
General business activity	-10.4	2.3	-12.7	Worsening	1	13.8	62.1	24.2
<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Future (six months ahead)</b>								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	30.4	39.6	-9.2	Increasing	83	47.6	35.2	17.2
Employment	18.9	26.6	-7.7	Increasing	82	31.3	56.2	12.4
Part-time employment	2.0	8.4	-6.4	Increasing	43	12.5	77.0	10.5
Hours worked	1.9	9.2	-7.3	Increasing	3	9.8	82.3	7.9
Wages and benefits	40.6	40.7	-0.1	Increasing	109	45.3	50.1	4.7
Input prices	36.3	42.4	-6.1	Increasing	109	42.7	50.9	6.4
Selling prices	19.6	19.7	-0.1	Increasing	81	29.8	59.9	10.2
Capital expenditures	16.8	20.4	-3.6	Increasing	82	28.2	60.4	11.4
<b>General Business Conditions</b>								
<b>Future (six months ahead)</b>								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	2.3	9.4	-7.1	Improving	53	21.3	59.7	19.0
General business activity	-8.1	5.8	-13.9	Worsening	1	15.8	60.3	23.9

\*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	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	11.0	14.9	-3.9	Increasing	5	33.7	43.6	22.7
Employment	5.3	1.6	+3.7	Increasing	4	10.1	85.0	4.8
Part-time employment	2.1	3.7	-1.6	Increasing	2	6.3	89.6	4.2
Hours worked	6.1	7.6	-1.5	Increasing	2	14.2	77.7	8.1
Wages and benefits	17.8	10.6	+7.2	Increasing	69	21.2	75.4	3.4
Input prices	-7.6	6.2	-13.8	Decreasing	1	11.7	69.0	19.3
Selling prices	-14.3	-0.8	-13.5	Decreasing	2	8.5	68.7	22.8
Capital expenditures	2.0	0.0	+2.0	Increasing	1	12.2	77.6	10.2
Inventories	-16.3	1.1	-17.4	Decreasing	1	18.0	47.6	34.3
Companywide Retail Activity								
Sales	17.8	20.3	-2.5	Increasing	8	33.9	50.0	16.1
Internet sales	9.5	11.8	-2.3	Increasing	5	14.5	80.5	5.0
Catalog sales	-6.3	2.8	-9.1	Decreasing	1	3.1	87.5	9.4

### General Business Conditions, Retail Current (versus previous month)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	6.8	0.0	+6.8	Improving	1	18.1	70.7	11.3
General business activity	-4.8	-8.4	+3.6	Worsening	3	14.0	67.2	18.8

### Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	26.9	35.9	-9.0	Increasing	83	45.4	36.1	18.5
Employment	9.5	10.0	-0.5	Increasing	11	19.9	69.6	10.4
Part-time employment	3.8	6.1	-2.3	Increasing	5	16.5	70.8	12.7
Hours worked	-2.5	9.2	-11.7	Decreasing	1	10.6	76.4	13.1
Wages and benefits	24.7	32.2	-7.5	Increasing	85	33.6	57.6	8.9
Input prices	20.9	24.0	-3.1	Increasing	81	31.3	58.3	10.4
Selling prices	22.9	23.6	-0.7	Increasing	81	33.3	56.3	10.4
Capital expenditures	8.3	7.2	+1.1	Increasing	58	20.8	66.7	12.5
Inventories	10.0	6.5	+3.5	Increasing	74	26.7	56.6	16.7
Companywide Retail Activity								
Sales	30.8	41.2	-10.4	Increasing	82	44.1	42.6	13.3
Internet sales	27.0	14.7	+12.3	Increasing	82	27.0	73.0	0.0
Catalog sales	5.5	5.7	-0.2	Increasing	12	8.9	87.6	3.4

### General Business Conditions, Retail Future (six months ahead)

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	13.0	3.7	+9.3	Improving	82	25.9	61.2	12.9
General business activity	-9.0	4.5	-13.5	Worsening	1	12.7	65.6	21.7

\*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 Service Sector Outlook Survey Revenue Index

Index, seasonally adjusted



### Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



## COMMENTS FROM SURVEY RESPONDENTS

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

### Credit Intermediation and Related Activities

- > The anxiety of global unrest continues to impact economic growth and increase the pessimism of clients.

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

- > The prices of oil and natural gas are significant factors in our operating businesses. Both of these business sectors have seen their selling prices decline 70 percent in the last year. This morning's forecast says prices could fall another 10 percent. We are adjusting to customer demand for operating equipment, which has decreased to match the selling prices of their products.
- > The stock market selloff is hurting our business.
- > Our industry is closely tied to financial markets. Increased volatility generally leads to a decline in interest and activity with our clients.

### Insurance Carriers and Related Activities

- > The stock market drop will definitely affect economic activity, and the Texas energy sector is bound to worsen in 2016.

### Real Estate

- > Continued volatility in the stock market, the Syrian mess, the Oregon militia problem and presidential politics continue to dominate the news and hamper consumer confidence and investment. We continue to see good capital investment and low unemployment, but consumers at the tenant level still seem to be focusing on the negative news from around the world and ignoring the local positives.

### Professional, Scientific and Technical Services

- > Continued low energy prices have stalled the Houston-area commercial real estate market. However, the Dallas-Fort Worth, Austin and San Antonio markets are strong, so we are striving for more business in those areas.
- > Although our revenue has remained high, we have seen a moderate decline in new orders for commercial transactions over the past four months. The residential market has remained strong due to lower interest rates and lack of supply for new homes. This leads us to believe that the price of oil and the volatility in the stock market may be causing commercial real estate investors to take a second look before entering into contracts. We will have a better view of where this market is headed once we have a full quarter of data to review.
- > We are concerned about oil prices, but so far we have not seen an effect.
- > Clients' attitudes toward spending have become very cautious and conservative. Inventory of available improved residential and commercial real estate for sale has decreased and demand has increased, causing an increase in rents and lowering profit expectations for business owners. Clients involved in the oil equipment supply industry have significantly curtailed their business. They are relying mainly on repair services for income. Clients in the medical field are witnessing exponential increases in business.

### Administrative and Support Services

- > Low fuel prices continue to impact sales in the public transportation industry.
- > Many are worried about the impact terrorist threats could have on the overall global economy. China is heavily weighing on capital market activity. In the U.S., while job growth is positive, there are many people who are significantly underemployed and are fighting to stay afloat.
- > Overall, we are losing some large customers due to cutbacks. There are still positives in the real estate market, but manufacturing, retail and oil-related markets are hurting our outlook.
- > The industrial sector continues its decline of new and in-service parts requiring nondestructive testing. The aviation sector has picked up in the North Texas area in regard to maintenance, but there is tremendous pressure to lower the selling price of our services to win the bids that are being received. We see no change in this until the presidential candidates are pared down to the nominees from each party; no one quite knows how to plan for the future until that picture is more clear.

### Publishing Industries (except Internet)

- > So far this year, where monies are budgeted by our targeted clients, we are getting sales. Where monies are not already a line item in the budget, sales are difficult to win. Purchase decisions with any perceived risk are down, even when returns are guaranteed. This gives us a feeling that people are afraid of losing their jobs right now or there's indecision in the marketplace.

### Telecommunications

- > The Houston business market will continue to be impacted by the low price of oil, which reduces growth in our business. Also, the Federal Communications Commission continues to ignore pricing challenges created by programmers and broadcasters that impact consumers and broadband companies.

## Educational Services

- > The drop in oil prices is being felt in some sectors of the economy, while other sectors not impacted by the fall in oil prices continue to do well.

## Ambulatory Health Care Services

- > Revenue will drop from December as patients slow due to restarting yearly deductibles. 2016 has a drop in Medicare fees, which will decrease revenue both now and through all of 2016. Wages will be steady, but benefit costs are expected to increase due to health care premiums for employees rising.
- > Every January, the federal government reduces our Medicare reimbursement rates, and many commercial insurers follow suit. This means every year, we have to do more for less. The market for patients is very competitive. Very few players have enough market concentration to have any leverage for negotiating rates with the payors. Home health care remains the least costly method of caring for the chronically ill elderly patient, but it is becoming more difficult as a business each year. We expect that there will be more consolidation in this segment of the industry as smaller providers go out of business or are sold to larger providers.
- > Price increases from the Centers for Medicare and Medicaid Services for certain tests will increase revenue modestly. We have picked up a few new hospital clients and are seeing growth in volume from a large existing client—both of which will increase revenue. Wages and benefits are increasing; we are using a 2.5 percent merit increase pool for 2016, which is the same as 2015.

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

- > The low price of oil has had a major impact on our business.

## Food Services and Drinking Places

- > The Affordable Care Act has added a huge burden with reporting requirements.
- > Sales have continued to be flat in January. There has also been very little movement in labor costs or cost of goods sold. Capital expenditures continue to be high for our new restaurant. We are very close to opening that unit, so our expenditures for capital may drop back to normal very soon. In our six-month horizon, we will have a higher number of employees and an increase in revenue because of the new restaurant. Whether revenue is going to improve aside from opening the new restaurant and whether or not business conditions will improve are subjects of ongoing debate at this time, but we are still cautiously optimistic that we are in a short-term soft period and that we will return to more solid growth in revenue as spring approaches.

## Support Activities for Transportation

- > We changed our health benefits as of Jan. 1, moving from a premium plan to a lesser plan.

## Motor Vehicle Parts Dealers

- > Oil prices are increasingly impacting our business. An increasing number of customers are delaying or canceling purchases. We are not in a desperate situation but are measurably affected.
- > We are laying off employees due to low crude oil prices beginning to have a negative effect on sales, and our expectation is for slightly lower sales volume in 2016.

## Food and Beverage Stores

- > January always brings fewer sales. The Super Bowl is one week later this year, which will affect sales. We have experienced less-severe weather this year versus last year.

## Gasoline Stations

- > A majority of our sales revenue is from motor fuel. The current decline in prices has very negatively impacted total sales dollars, but gallons and margins are up. It is a deceptive decline.

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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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