



Texas Service Sector Outlook Survey

DALLAS FED

March 29, 2016

TEXAS SERVICE SECTOR ACTIVITY INCREASES AT A SLOWER PACE

What's New This Month

Is your Texas-based company interested in becoming a survey panelist, or do you know a company in Texas that would like to be a survey panelist? Find more information about enrolling in the survey and answers to commonly asked questions in our Texas Business Outlook Surveys flyer. Beginning this month, a link to the Texas Business Outlook Surveys flyer can be found online at the link located above the right-hand corner of the Current Report.

Texas service sector activity continued to reflect expansion in March, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, moved down from 9.7 to 6.4, indicating activity increased but at a slower pace than in February.

Labor market indicators reflected slight employment growth and longer workweeks this month. The employment index was similar to last month but up slightly to 1.1. The hours worked index edged up 2 points to 3.3.

Perceptions of broader economic conditions were mixed in March. The general business activity index remained negative for a third consecutive month but rose sharply from -19.2 to -3.8. After two consecutive negative readings, the company outlook index advanced into positive territory to a reading of 3.1, with 15 percent of respondents reporting that their outlook improved from last month and 12 percent noting that it worsened.

Price pressures increased, while wage pressures eased this month. The selling prices index rose from a reading near zero to 4.1. The wages and benefits index fell from 20.6 to 16.7, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions improved in March. After two consecutive months in negative territory, the index of future general business activity climbed to 1.5. The index of future company outlook rose from a reading near zero to 9.9. Indexes of future service sector activity, such as future revenue and employment, remained in solid positive territory this month.



RETAIL SALES REMAIN WEAK

Retail sales continued to contract in March, according to business executives responding to the Texas Retail Outlook Survey. The sales index remained negative but edged up from -5.1 to -3.1. Inventories fell for a third consecutive month.

Labor market indicators declined. The employment index retreated into negative territory, falling from 4.8 to -3.7 this month, suggesting net layoffs in retail. The hours worked index plunged 10 points to -7.1, indicating shorter workweeks.

Retailers' perceptions of broader economic conditions were mixed this month. The general business activity index surged 26 points to a reading of zero. The company outlook index rebounded from negative territory to 6.4, with 19 percent of respondents reporting that their outlook improved from last month and 13 percent noting that it worsened.

Retail prices increased, while wage pressures eased in March. After two consecutive negative readings, the selling prices index rose 11 points to 3.8. The wages and benefits index edged down from 16.2 to 11.3.

Retailers' perceptions of future broader economic conditions improved this month. After two consecutive months in negative territory, the index of future general business activity shot up 26 points to 7.6. The index of future company outlook rebounded from -3.8 to 12.7. 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.

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 March 15–23, and 292 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: April 26, 2016

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas									
Current (versus previous month)									
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	6.4	9.7	-3.3	Increasing	76	27.2	52.0	20.8	
Employment	1.1	0.5	+0.6	Increasing	73	13.5	74.1	12.4	
Part-time employment	-0.3	-0.6	+0.3	Decreasing	2	6.3	87.1	6.6	
Hours worked	3.3	1.3	+2.0	Increasing	9	8.4	86.5	5.1	
Wages and benefits	16.7	20.6	-3.9	Increasing	78	19.2	78.3	2.5	
Input prices	17.2	18.6	-1.4	Increasing	83	21.3	74.6	4.1	
Selling prices	4.1	-0.2	+4.3	Increasing	1	12.2	79.7	8.1	
Capital expenditures	7.6	9.1	-1.5	Increasing	79	15.6	76.4	8.0	
General Business Conditions									
Current (versus previous month)									
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	3.1	-6.3	+9.4	Improving	1	14.9	73.3	11.8	
General business activity	-3.8	-19.2	+15.4	Worsening	3	13.1	70.0	16.9	
Business Indicators Relating to Facilities and Products in Texas									
Future (six months ahead)									
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Revenue	41.8	31.6	+10.2	Increasing	85	52.5	36.8	10.7	
Employment	25.9	18.0	+7.9	Increasing	84	34.0	57.9	8.1	
Part-time employment	9.0	4.2	+4.8	Increasing	45	14.6	79.8	5.6	
Hours worked	5.8	3.5	+2.3	Increasing	5	10.5	84.8	4.7	
Wages and benefits	41.4	35.3	+6.1	Increasing	111	43.9	53.6	2.5	
Input prices	37.5	33.3	+4.2	Increasing	111	41.3	55.0	3.8	
Selling prices	21.8	17.6	+4.2	Increasing	83	30.0	61.8	8.2	
Capital expenditures	15.8	16.6	-0.8	Increasing	84	25.5	64.9	9.7	
General Business Conditions									
Future (six months ahead)									
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company outlook	9.9	-0.1	+10.0	Improving	1	24.5	60.9	14.6	
General business activity	1.5	-11.0	+12.5	Improving	1	21.0	59.5	19.5	

*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.

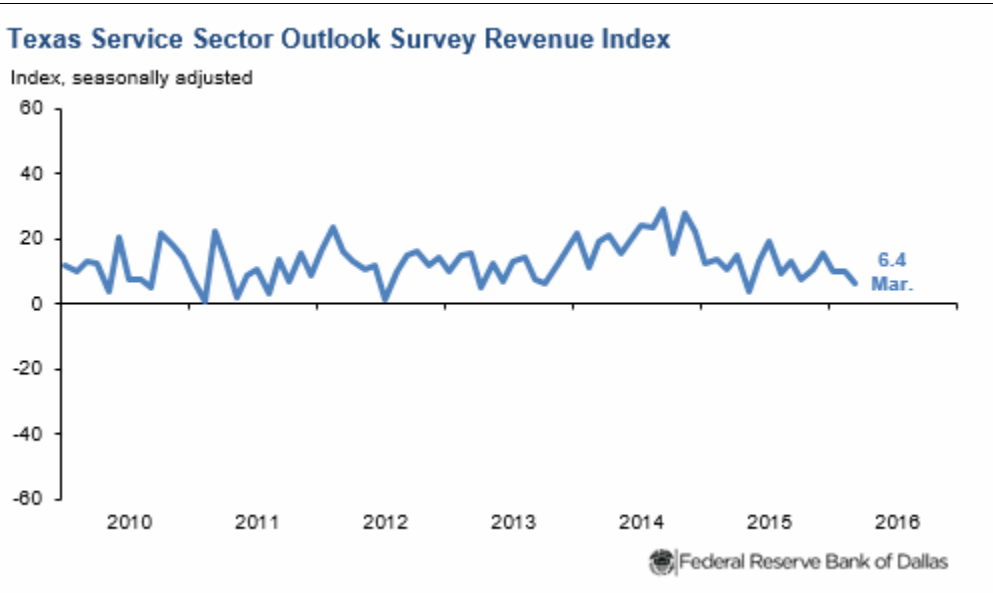
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	-3.1	-5.1	+2.0	Decreasing	2	21.4	54.1	24.5
Employment	-3.7	4.8	-8.5	Decreasing	1	3.9	88.5	7.6
Part-time employment	-3.7	0.0	-3.7	Decreasing	1	3.7	88.9	7.4
Hours worked	-7.1	3.1	-10.2	Decreasing	1	0.6	91.7	7.7
Wages and benefits	11.3	16.2	-4.9	Increasing	71	17.3	76.7	6.0
Input prices	4.9	2.9	+2.0	Increasing	2	12.1	80.7	7.2
Selling prices	3.8	-7.2	+11.0	Increasing	1	17.3	69.2	13.5
Capital expenditures	5.4	6.8	-1.4	Increasing	3	14.5	76.4	9.1
Inventories	-8.5	-1.7	-6.8	Decreasing	3	19.7	52.1	28.2
Companywide Retail Activity								
Sales	4.7	5.7	-1.0	Increasing	10	23.7	57.3	19.0
Internet sales	3.0	0.9	+2.1	Increasing	7	12.7	77.6	9.7
Catalog sales	8.5	-5.0	+13.5	Increasing	1	11.4	85.7	2.9
General Business Conditions, Retail Current (versus previous month)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	6.4	-2.2	+8.6	Improving	1	19.0	68.4	12.6
General business activity	0.0	-26.1	+26.1	No Change	1	18.8	62.4	18.8
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	37.3	27.5	+9.8	Increasing	85	51.5	34.3	14.2
Employment	11.8	1.2	+10.6	Increasing	13	22.9	66.0	11.1
Part-time employment	2.0	2.0	0.0	Increasing	7	11.1	79.8	9.1
Hours worked	2.1	-2.1	+4.2	Increasing	1	9.3	83.5	7.2
Wages and benefits	30.1	21.4	+8.7	Increasing	87	34.3	61.5	4.2
Input prices	27.2	17.6	+9.6	Increasing	83	34.5	58.2	7.3
Selling prices	26.5	19.0	+7.5	Increasing	83	34.0	58.5	7.5
Capital expenditures	7.4	12.1	-4.7	Increasing	60	22.2	63.0	14.8
Inventories	11.0	-4.4	+15.4	Increasing	1	34.2	42.6	23.2
Companywide Retail Activity								
Sales	38.3	29.0	+9.3	Increasing	84	48.4	41.5	10.1
Internet sales	30.0	20.5	+9.5	Increasing	84	32.5	65.0	2.5
Catalog sales	8.3	2.8	+5.5	Increasing	14	11.4	85.5	3.1
General Business Conditions, Retail Future (six months ahead)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	12.7	-3.8	+16.5	Improving	1	29.2	54.3	16.5
General business activity	7.6	-18.3	+25.9	Improving	1	28.9	49.8	21.3

*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

- Our ability to gain market share with existing employees is currently driving our revenue increases. General economic activity remains positive, and most of our clients' revenue is flat to increasing. Capital spending continues.
- The compensatory impact of the slowdown in the economy—specifically in the oil and gas industry and mining—is showing up in our markets to some extent. The election jambalaya is creating some distress on attitudes, and the negative economic impact of the Affordable Care Act has really started to be realized. The folks that have to pay for their insurance and groceries while maintaining a job are the most affected. The people who charge all their cost of living to the tax payers through government programs continue without any concern except the fear of a change in the White House.
- Increased competition with very liberal loan terms—i.e., no debt service coverage ratio requirements—is being seen more often.
- In the Corpus Christi area, business in the energy industry continues to decline and spill over to other parts of the economy.

Securities, Commodity Contracts and Other Financial Investments and Related Activities

- Increased proposed rules and regulations will not allow us to service smaller clients and will increase our cost to provide the same level of service to existing clients. It will require a significant change in our business model.
- The selling prices of both oil and natural gas have severely affected the business. A significant part of our markets has dried up based on the demand for oil and gas industry services. The outlook seems to be more long-term than short-term.

Real Estate

- The housing market continues to be strong in San Antonio, but I am still cautious because of oil and the presidential election year.

Rental and Leasing Services

- Sales revenue ended up 5 percent in 2015, which is poor for our 56-year-old family-owned construction company. We have averaged up 17 percent per year the last 15 years. So far this year, we are up 7 percent. I do not see that improving throughout 2016 very much. Our construction machinery dealership and rental company have been significantly impacted by the oil patch meltdown. Our rental business was down 17 percent in 2015, and we are already down another 19 percent in 2016. The oil bust is a definite net negative to our business. Our forecast for unit sales this year is down 12 percent, and we think another 22 percent in 2017.

Professional, Scientific and Technical Services

- We continue to focus on macroeconomic issues and commodity prices in particular. We believe U.S. and global economic challenges remain, and we are managing our business very carefully as a result. We don't trust unemployment numbers, and our local economy is worse than the overall economy in general. While we aren't necessarily concerned about a recession in the U.S., we do think growth will be very low, 2 percent or less. Global issues could no doubt impact and bring down more, or at a minimum restrain, U.S. growth. The political environment is creating a need for caution as well, and how the races at the presidential level develop could create more issues.
- Many smaller companies like ours rely heavily on previous years' profits for capital reinvestment. It's frustrating to be profitable enough to pay hundreds of thousands of dollars in taxes yet barely be able to keep up with the capital expenses related to growth. If we were taxed less, we could facilitate faster growth and as such, ultimately produce more jobs, revenue and taxes over the long haul. Credit is not our preferred method of financing growth. Perhaps if more companies didn't have to, they would be on more stable footing and the workforce would be more stable.
- We are still seeing a lot of activity in the commercial and residential real estate markets, but orders are still trending lower in the commercial sector. The residential market is a bright spot for us, with orders remaining strong even with the lack of inventory. We do not think we have seen the full impact of lower oil prices in this state, but it is coming. We are also watching the 10-year rate very closely, because as it begins to rise it could have a major impact on the overall growth of the market. Even with lower oil prices and possible interest rate increases, we still feel the economy will continue to expand, just at a slower pace.
- We have a growing concern that the marketplace has peaked or is very close to it.
- Election turmoil is hurting us all. Fortunately, the stock market is stabilizing, but energy costs remain a huge negative.
- We are going through seasonal slowness, which happens every first quarter.

Management of Companies and Enterprises

- The timber market is off due to natural gas prices, weather and limited construction.
- Agriculture and energy commodity prices are impacting many of our customers. While we have no direct interest in the oil patch, the domino effect is being felt by our customers and ultimately our business. The constant barrage of new regulations is grinding the business climate downward at a very fast pace.

Administrative and Support Services

- Low fuel prices continue to impact sales in the public transportation industry.
- There is a great deal of concern around the macro economy. There is also concern about a substantial rise in inflation and paying more for the same services that are not improved or different in any way.
- Texas as a state continues to grow but at an uneven pace. We continue to see weakness in the west due to oil prices and conditions starting to turn lower in Houston. Austin and DFW have strength, while DFW may have some overbuilding in the short run on office and multifamily where budgets are being reviewed constantly due to competitive factors.
- The aviation sector has had the largest revenue increase with the greatest increase seen in corporate flight departments. Aircraft seem to be utilized more at this time than the same time last year. The airline sector is still flat, due to the replacing of the older aircraft fleet with new aircraft that do not require nondestructive testing inspections. The industrial/manufacturing sector has remained flat. We do not predict a change to that market until after the presidential elections or the price of crude oil increases to \$48 per barrel. Rail car tankers have decreased their need for nondestructive testing inspections dramatically from the same time last year. The demand for transportation of crude has slowed to a point where no pickup until 2018 is predicted. Machine shops have remained flat. There has been no change in demand for their products, and therefore no demand for the nondestructive testing inspection process. We do see this sector changing positive sooner than oil and gas though. The military aircraft sector remains positive. The training aircraft are being utilized more, due to military commanders retiring aircraft sooner and keeping fewer aircraft in a green condition, deferring heavy maintenance until the last available hour of usable time has been used.

Publishing Industries (except Internet)

- There is an incredible amount of uncertainty in the market. Buying decisions are taking longer than usual, or are put on hold. Many of our clients are drastically cutting new technology purchases and/or delaying projects. Too many are deciding to make do with what they already have, even when new technologies are guaranteed to improve their revenues and productivity.

Telecommunications

- The business climate in Houston continues to be a challenge, and a significant number of homes for sale are being purchased by investors to lease. Our concern is as home ownership drops, then homebuilding will slow, which reduces our ability to sell our products and services in one sector of our business. Also, renters are less likely to invest in home automation and permanent security solutions. There's also a significant amount of vacant commercial buildings and suites.

Educational Services

- Recruiting and retaining qualified part-time staff—particularly in lower-paying positions—is becoming increasingly difficult. The market for those individuals is significantly tightening. The sustained decline in energy prices is also beginning to show, as that market begins to tighten. We're also hearing that energy-related industries are beginning to tie down in anticipation of a sustained low energy price environment.
- We are seeing an increase in logistics activity in consumer spending. We are seeing some softening in industrial construction and commercial. Defense construction seems flat. We are seeing an increase in health care and education construction and spending.

Ambulatory Health Care Services

- Business activity is holding steady for now. However, as oil activity continues to dwindle and commodity prices remain low, elective surgeries may decline.
- Patients in my dental practice appear to be more willing to accept my recommendations for treatment, especially for elective dental procedures, than they have in the past.
- We were just approved for a large national payer contract that should be completed in 60 to 90 days. We expect revenue six months out to be improving. We are using a 2.5 percent merit pool, which will make wages slightly higher six months out. We did not go higher, as we never froze or reduced salaries over the past four to five years as many in health care did.

Museums, Historical Sites, and Similar Institutions

- January, February and March have been outstanding months for the museum. A lot of this is attributed to our location. Spring break also gives us a real shot in the arm to kick off the spring season.

Accommodation

- We are struggling to find employees in the downtown market, hence the increase of part-time positions. At the moment, we are seeing signs of increased costs, especially in food. Thus far all are manageable. While we are softer in March than hoped, it was not unforeseen. We remain optimistic that we will achieve our expected annual budget.

Food Services and Drinking Places

- We are down in sales so far in March. I believe some of the spring breaks in Texas are in different weeks this year, so this may even out by the end of the month. Still, overall sales seem to have softened, particularly in our Houston and Corpus stores. We will be opening two new stores in Texas in the next six months. New growth is the only reason for the increases

noted. I don't expect an increase in same store sales.

- Our business has increased significantly in the past three months in spite of the drop in local economic activity. Our restaurant probably benefits from being a lower-priced place to eat.
- Sales have been very flat recently. We were actually down in our core concept last month and are just barely up this month despite price increases compared with last year of 1.25 percent. The number of employees is up, and capital expenditures are down in the six-month horizon because of the new restaurant we will be opening some time in the next couple of weeks. Employee count will stay about the same other than the new employees for the new restaurant. Capital expenditures will be returning to a more normal level upon completion of the new restaurant.

Pipeline Transportation

- Regulatory approval delays and permit denials are the main factors affecting project viability. A number of projects have recently been deferred or cancelled, which leads to fewer opportunities in a highly competitive marketplace.

Merchant Wholesalers, Durable Goods

- Semiconductor activity is increasing, and greater marketing activity has increased our future prospects as well.
- It feels like the general outlook is getting better as oil prices rise, albeit slowly. Forward looking, we have oil prices up about \$10.00 per barrel by year-end, which should help the overall Texas economy.
- The increase in crop moisture helps drive our market in spite of low commodity prices.
- Both residential and commercial construction are progressing strongly. We've noticed slower activity in West Texas, the Texas Panhandle and Houston.

Motor Vehicle Parts Dealers

- We are being impacted by the oil pricing issue. There is a definite slowdown in buying among our customers.

Building Material and Garden Equipment and Supplies Dealers

- Things are just flat. There's no vibrancy in the business environment.

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/.

