



Texas Service Sector Outlook Survey

DALLASFED

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TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS

Texas service sector activity increased in April, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, rose from 6.4 to 10.6, its highest reading this year.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index moved up from 1.1 to 6.3. The hours worked index was similar to last month at 2.5.

Perceptions of broader economic conditions remained mixed in April. The general business activity index was negative for a fourth consecutive month, unchanged from March at -3.7. The company outlook index rose from 3.1 to 7.3, with 17 percent of respondents reporting that their outlook improved from last month and 9 percent noting that it worsened.

Price pressures increased, while wage pressures were unchanged this month. The selling prices index edged up from 4.1 to 6.5. The wages and benefits index held steady at 16.9, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in April. The index of future general business activity was similar to last month at 2.3. The index of future company outlook rose from 9.9 to 14.6. Indexes of future service sector activity, such as future revenue and employment, remained in solid positive territory this month.



RETAIL SALES REBOUND

Retail sales grew in April, according to business executives responding to the Texas Retail Outlook Survey. After two consecutive months in negative territory, the sales index advanced from -3.1 to 7.0. Inventories increased, reversing a three-month negative trend.

Labor market indicators reflected stable employment and shorter workweeks. The employment index edged up from -3.7 to a reading near zero. The hours worked index remained negative for a second consecutive month but rose from -7.1 to -2.7.

Retailers' perceptions of broader economic conditions were mixed again this month. The general business activity index fell sharply from reading of zero to -11.4. The company outlook index remained positive but dipped to 4.1, with 19 percent of respondents reporting that their outlook improved from last month and 15 percent noting that it worsened.

Retail price pressures increased, while wage pressures eased in April. The selling prices index rose from 3.8 to 11.7, its highest reading since November 2014. The wages and benefits index edged down from 11.3 to 9.0.

Retailers' perceptions of future broader economic conditions reflected more optimism this month. The index of future general business activity edged up from 7.6 to 9.5. The index of future company outlook advanced from 12.7 to 22.2. Indexes of future retail sector activity remained in solid positive territory 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 April 12–20, and 298 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: June 1, 2016

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	10.6	6.4	+4.2	Increasing	77	27.9	54.8	17.3
Employment	6.3	1.1	+5.2	Increasing	74	15.4	75.5	9.1
Part-time employment	1.6	-0.3	+1.9	Increasing	1	9.7	82.2	8.1
Hours worked	2.5	3.3	-0.8	Increasing	10	8.2	86.1	5.7
Wages and benefits	16.9	16.7	+0.2	Increasing	79	19.5	77.9	2.6
Input prices	21.0	17.2	+3.8	Increasing	84	24.7	71.6	3.7
Selling prices	6.5	4.1	+2.4	Increasing	2	13.2	80.1	6.7
Capital expenditures	11.1	7.6	+3.5	Increasing	80	18.0	75.1	6.9
General Business Conditions								
Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	7.3	3.1	+4.2	Improving	2	16.7	73.9	9.4
General business activity	-3.7	-3.8	+0.1	Worsening	4	12.5	71.2	16.2
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	41.5	41.8	-0.3	Increasing	86	54.2	33.1	12.7
Employment	19.0	25.9	-6.9	Increasing	85	28.5	62.0	9.5
Part-time employment	7.0	9.0	-2.0	Increasing	46	14.9	77.2	7.9
Hours worked	6.2	5.8	+0.4	Increasing	6	10.1	86.0	3.9
Wages and benefits	36.7	41.4	-4.7	Increasing	112	40.5	55.8	3.8
Input prices	37.4	37.5	-0.1	Increasing	112	41.2	54.9	3.8
Selling prices	22.8	21.8	+1.0	Increasing	84	28.2	66.4	5.4
Capital expenditures	17.6	15.8	+1.8	Increasing	85	25.7	66.2	8.1
General Business Conditions								
Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	14.6	9.9	+4.7	Improving	2	27.1	60.4	12.5
General business activity	2.3	1.5	+0.8	Improving	2	20.4	61.5	18.1

*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.

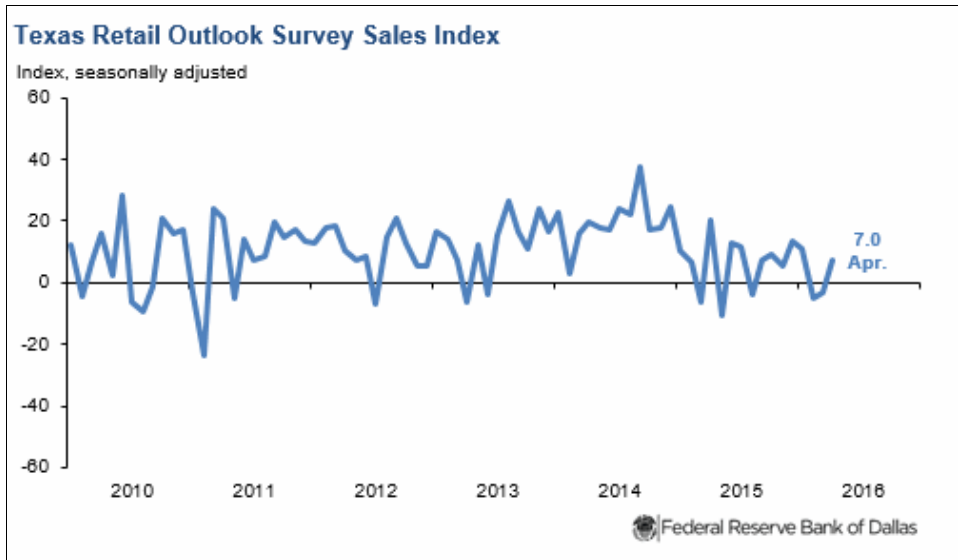
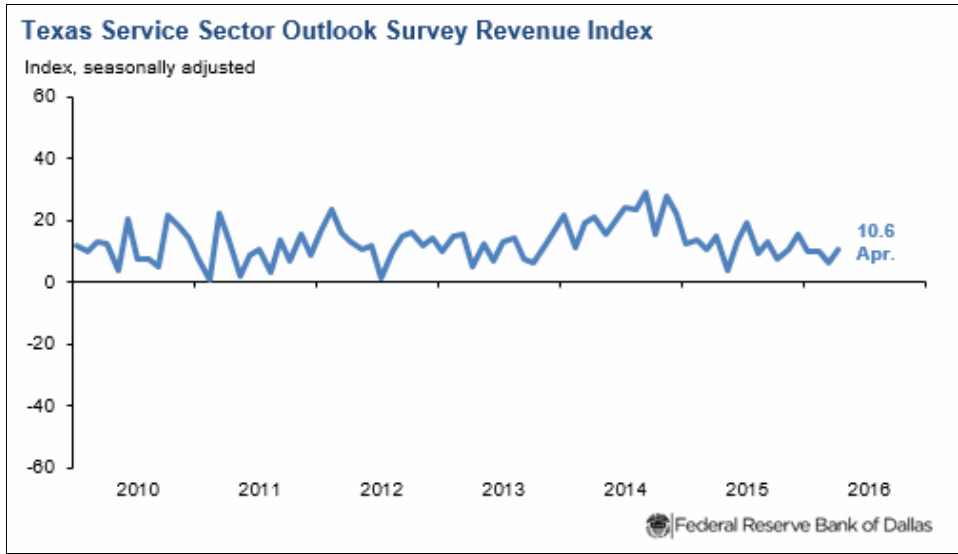
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	7.0	-3.1	+10.1	Increasing	1	30.4	46.1	23.4
Employment	-0.8	-3.7	+2.9	Decreasing	2	7.7	83.8	8.5
Part-time employment	0.0	-3.7	+3.7	No Change	1	8.0	84.0	8.0
Hours worked	-2.7	-7.1	+4.4	Decreasing	2	7.7	81.9	10.4
Wages and benefits	9.0	11.3	-2.3	Increasing	72	11.7	85.6	2.7
Input prices	18.3	4.9	+13.4	Increasing	3	23.0	72.3	4.7
Selling prices	11.7	3.8	+7.9	Increasing	2	21.1	69.5	9.4
Capital expenditures	5.9	5.4	+0.5	Increasing	4	13.7	78.4	7.8
Inventories	3.5	-8.5	+12.0	Increasing	1	25.2	53.1	21.7
Companywide Retail Activity								
Sales	9.8	4.7	+5.1	Increasing	11	31.6	46.6	21.8
Internet sales	-4.2	3.0	-7.2	Decreasing	1	9.5	76.8	13.7
Catalog sales	-6.9	8.5	-15.4	Decreasing	1	6.9	79.3	13.8
General Business Conditions, Retail Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	4.1	6.4	-2.3	Improving	2	18.7	66.7	14.6
General business activity	-11.4	0.0	-11.4	Worsening	1	11.8	65.0	23.2
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	44.8	37.3	+7.5	Increasing	86	58.3	28.2	13.5
Employment	6.9	11.8	-4.9	Increasing	14	18.8	69.3	11.9
Part-time employment	-0.1	2.0	-2.1	Decreasing	1	10.4	79.1	10.5
Hours worked	3.3	2.1	+1.2	Increasing	2	11.6	80.1	8.3
Wages and benefits	24.5	30.1	-5.6	Increasing	88	32.0	60.5	7.5
Input prices	36.0	27.2	+8.8	Increasing	84	40.0	56.0	4.0
Selling prices	34.7	26.5	+8.2	Increasing	84	36.7	61.2	2.0
Capital expenditures	12.0	7.4	+4.6	Increasing	61	20.0	72.0	8.0
Inventories	8.9	11.0	-2.1	Increasing	2	34.4	40.2	25.5
Companywide Retail Activity								
Sales	36.4	38.3	-1.9	Increasing	85	49.9	36.5	13.5
Internet sales	17.2	30.0	-12.8	Increasing	85	22.9	71.4	5.7
Catalog sales	2.5	8.3	-5.8	Increasing	15	9.7	83.1	7.2
General Business Conditions, Retail Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	22.2	12.7	+9.5	Improving	2	30.7	60.8	8.5
General business activity	9.5	7.6	+1.9	Improving	2	22.8	63.9	13.3

*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

- > The South Texas Coastal Bend area continues to adjust to the energy collapse. The fallout is still working its way through energy and service companies and is also affecting cities' tax revenues. Business conditions remain somewhat pessimistic; however, the results of this collapse are much better than previous collapses. Banking conditions are essentially flat, but problem loans seem to be stabilizing.

Insurance Carriers and Related Activities

- > We are in a holding pattern until we see how presidential politics shapes up.

Real Estate

- > While our business outlook remains solid, I am concerned that as we move closer to the elections, all the vitriol among the candidates will erode confidence and hamper the economy. I am also very concerned about international economies, their debt issues and the potential for spillover to the U.S. economy.
- > Capital expenditures are related to hail damage to roofs of properties. One new tenant is responsible for the increase in selling prices.
- > We still feel uncomfortable with the economy. The election year may be the issue. The more expensive homes—over \$1.5 million—are slow.

Rental and Leasing Services

- > Our forecast for unit sales of construction machinery in 2015 was down 8 percent, and that was about what we saw. Our forecast for this year is down another 12 percent; so far, that looks light. Our forecast for 2017 is down another 20 percent.

Professional, Scientific and Technical Services

- > The decline in commercial orders that we have been experiencing the past nine months has eased, but our revenue has begun to decrease. Even though our residential division remains strong, the overall profitability of our company declined slightly in the first quarter. We can definitely feel the commercial market easing and attribute a lot of it to the price of oil and lenders tightening their lending requirements. New loans for development of apartments have all but dried up unless it is an A+ location. The next few months will tell us how the market will react to the issues and which way we are headed.
- > It is challenging to get financing for fairly straightforward activities that were easy in the past.
- > Business is stable, not great. We anticipate about the same over next six months. Increases will be slight. Part-time employees will be summer interns.
- > April was better, but only due to one-time events. The commercial real estate business in the Houston area is still reeling from the sustained decrease in energy pricing. Business in Central Texas and the Dallas–Fort Worth area are helping to fill the void but not at the required levels to sustain our business in the near term.
- > Even with all the bad news out there, we are doing better than expected. First quarter is always slow, but we are profitable through February and we have not been in the last few years.

Management of Companies and Enterprises

- > We need a lot of regulatory relief. The bad thing is that it seems like most people agree, but it keeps getting worse.
- > Increased regulations are causing a decrease in income and an increase in expenses.
- > Lower oil and gas prices are having a stronger negative effect on business and the general economy.
- > In South Texas, we would definitely benefit if we saw oil prices stabilize in the mid-\$40s to \$50. We are seeing housing inventories increase to 5.4 months from 4.3. Sales are down about 16 percent year over year. However, sales prices are up 8 percent. Mortgage loan demand is soft. Commercial loan demand is average.
- > Federal policies and regulations continue to have a huge impact on our business as well as our customers' businesses. There is a tremendous amount of capital sitting on the sidelines.

Administrative and Support Services

- > The airline industry is starting to feel more and more rocky. In the housing industry, supply/demand continues to be a major problem, and finding skilled labor for construction is a major problem. The cost of living in DFW is rising much faster than wages, and DFW is pricing low-wage workers out of living in DFW. In the upcoming election, hopefully someone takes it seriously that the cost of living is rising, student loans are suffocating our most valuable talent prospects and responsible millennials who grew up during the recession are decreasing spending to plan and pay down outstanding student loan debts.
- > Low fuel prices continue to impact sales in the public transportation industry.
- > The aviation sector has seen drastic increases in requests for quoting of future work in all areas except military operations. We are confident with stating a 26 percent increase in this sector for the last 30 days. The industrial sector has picked up 14 percent from the previous month, with transportation component part manufacturing leading this sector. The oil sector has continued to be a negative sales area for our nondestructive testing inspection sector. We have two existing customers asking to discuss new terms with us to help them through the next six months. My belief is that we will start to see customers who are direct vendors to oil producers start to file for bankruptcy protection at a faster rate in the next six months.

Telecommunications

- > We are experiencing challenges caused by oil industry layoffs, reduced homebuilding and office/retail vacancies. Sales pressure is mounting to meet financial goals with less opportunities as expected. The FCC [Federal Communications Commission] continues to ignore the high cost of programming that impacts pricing to consumers.

Ambulatory Health Care Services

- > The local economy is gradually pulling back, but nothing like in the 2008 recession. Unless oil and gas prices recover, I expect to see a more significant decline in elective surgeries over the next year.

Hospitals

- > Rural health care systems continue to struggle for razor-thin margins. Increased regulatory requirements and decreasing reimbursements continue to strain independent health care systems.

Nursing and Residential Care Facilities

- > The health care economy continues to be at risk due to the high percentage of uninsured patients, uncertainty about the status of the [Section] 1115 Medicaid Waiver and wage pressure.
- > We will be reducing the number of part-time employees and increasing the hours for the full-time employees. The overtime cost is less than the cost of health care.

Social Assistance

- > Local businesses are purchasing more of our office supplies, and the government customer budgets were in place a little earlier than normal this year.

Museums, Historical Sites and Similar Institutions

- > March attendance was the highest month in the history of the museum. April will be a little down, but that is expected. This will be a banner year for us.

Accommodation

- > March was not a good month for our business. We are looking at a good April to help offset. There were some very specific factors that impacted March that should not repeat, hence the reason we still feel good about our projections for the remainder of the year.

Food Services and Drinking Places

- > Joint employer and new overtime regulations will have a potentially devastating effect on the industry.
- > We still have a concentration of stores in the Permian Basin.
- > The increase in employees is because we opened our new restaurant. Other than that, our number of employees remained flat. Sales have been almost flat for the last two months in our core concept. It should be noted that part of the problem was the shift in Easter for our year-over-year comparisons. Capital expenditures are down because we finished the construction of the new restaurant and returned to normal levels of capital expenditures. On a positive note, the new restaurant has opened with extremely high sales. In just over two weeks, it has done \$250,000 in sales.

Support Activities for Transportation

- > We expect to complete three major capital projects by the end of the second quarter. The next major round of capital expenditures depends on actual receipt of approved funds from FEMA [Federal Emergency Management Agency]. Annual pay increases should occur in the second quarter, with an average increase of 1.5 percent.

Merchant Wholesalers, Durable Goods

- > A lot depends on our growing moisture conditions.

Merchant Wholesalers, Nondurable Goods

- > It feels like business never came back after spring break. We are wondering if cutbacks in the oil sector are taking hold in our customer base and we are now feeling the effects. If things stay slow, we may have to take measures to reduce costs and/or head count.

Motor Vehicle Parts Dealers

- > Energy industry contraction and resultant layoffs are definitely beginning to affect our sales volumes.
- > Our business continues to be impacted by the oil situation. The reduced level is resulting in diminished business overall.

Building Material and Garden Equipment and Supplies Dealers

- > Sales are slower but not as slow as expected. We put up a help-wanted ad. There are hundreds of oil workers looking for work, but most are inexperienced at my needs. We hired eight or 10 this year.
- > Business is steady and prices are stable. Margins are taking a hit due to increased overhead and regulations.

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/.

