



# Texas Service Sector Outlook Survey

DALLAS FED

June 1, 2016

## TEXAS SERVICE SECTOR ACTIVITY INCREASES AT A SLOWER PACE AS OUTLOOK WORSENS

Texas service sector activity continued to reflect expansion in May, 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 10.6 in April to 5.8 in May, its lowest reading in a year.

Labor market indicators were mixed this month. The employment index remained positive but edged down from 6.3 to 4.5, indicating slower employment growth. The hours worked index fell almost 4 points into negative territory to a reading of -1.3, suggesting shorter workweeks.

Perceptions of broader economic conditions worsened in May. The general business activity index was negative for a fifth consecutive month, declining from -3.7 in April to -7.1 in May. The company outlook index retreated 10 points into negative territory to a reading of -2.9, with 13 percent of respondents reporting that their outlook improved from last month and 16 percent noting that it worsened.

Price and wage pressures eased this month. The selling prices index fell slightly from 6.5 to 4.4. The wages and benefits index dipped from 16.9 to 14.7, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in May. The index of future general business activity inched down from 2.3 to 1.3. The index of future company outlook fell from 14.6 to 6.3. Indexes of future service sector activity, such as future revenue and employment, also reflected less optimism this month.



## RETAIL SALES DECLINE

Retail sales fell in May, according to business executives responding to the Texas Retail Outlook Survey. The sales index retreated almost 10 points back into negative territory to a reading of -2.8. After increasing last month, inventories declined.

Labor market indicators were mixed this month. The employment index rose slightly from a reading near zero to 1.4, indicating net hiring among retailers. The hours worked index remained negative for a third consecutive month and fell from -2.7 to -9.5.

Retailers' perceptions of broader economic conditions declined in May. The general business activity index remained negative for a second consecutive month and edged down further from -11.4 to -13.3. The company outlook index dropped almost 6 points into negative territory to a reading of -1.6, with 15 percent of respondents reporting that their outlook improved from last month and 17 percent noting that it worsened.

Retail price pressures eased, while wage pressures were unchanged. The selling prices index moved down from 11.7 to 5.3. The wages and benefits index was similar to last month at 8.5.

Retailers' perceptions of future broader economic conditions reflected less optimism this month. The index of future general business activity plunged from 9.5 into negative territory to a reading of -3.3. The index of future company outlook dropped 13 points to 9.2. Indexes of future retail sector activity also reflected less 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 May 17–25, and 286 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 28, 2016

## TEXAS SERVICE SECTOR OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Current (versus previous month)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	5.8	10.6	-4.8	Increasing	78	28.0	49.8	22.2
Employment	4.5	6.3	-1.8	Increasing	75	14.4	75.7	9.9
Part-time employment	1.6	1.6	0.0	Increasing	2	7.1	87.4	5.5
Hours worked	-1.3	2.5	-3.8	Decreasing	1	6.7	85.3	8.0
Wages and benefits	14.7	16.9	-2.2	Increasing	80	18.3	78.1	3.6
Input prices	19.9	21.0	-1.1	Increasing	85	24.5	70.9	4.6
Selling prices	4.4	6.5	-2.1	Increasing	3	12.5	79.4	8.1
Capital expenditures	9.5	11.1	-1.6	Increasing	81	17.0	75.6	7.5
<b>General Business Conditions</b>								
<b>Current (versus previous month)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-2.9	7.3	-10.2	Worsening	1	13.2	70.7	16.1
General business activity	-7.1	-3.7	-3.4	Worsening	5	11.5	69.9	18.6
<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Future (six months ahead)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	33.5	41.5	-8.0	Increasing	87	46.6	40.4	13.1
Employment	18.7	19.0	-0.3	Increasing	86	29.1	60.5	10.4
Part-time employment	6.6	7.0	-0.4	Increasing	47	14.2	78.2	7.6
Hours worked	1.5	6.2	-4.7	Increasing	7	8.5	84.5	7.0
Wages and benefits	37.0	36.7	+0.3	Increasing	113	39.7	57.6	2.7
Input prices	37.6	37.4	+0.2	Increasing	113	40.8	56.0	3.2
Selling prices	19.8	22.8	-3.0	Increasing	85	28.0	63.8	8.2
Capital expenditures	23.6	17.6	+6.0	Increasing	86	30.7	62.2	7.1
<b>General Business Conditions</b>								
<b>Future (six months ahead)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	6.3	14.6	-8.3	Improving	3	23.2	59.9	16.9
General business activity	1.3	2.3	-1.0	Improving	3	20.7	59.9	19.4

\*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.

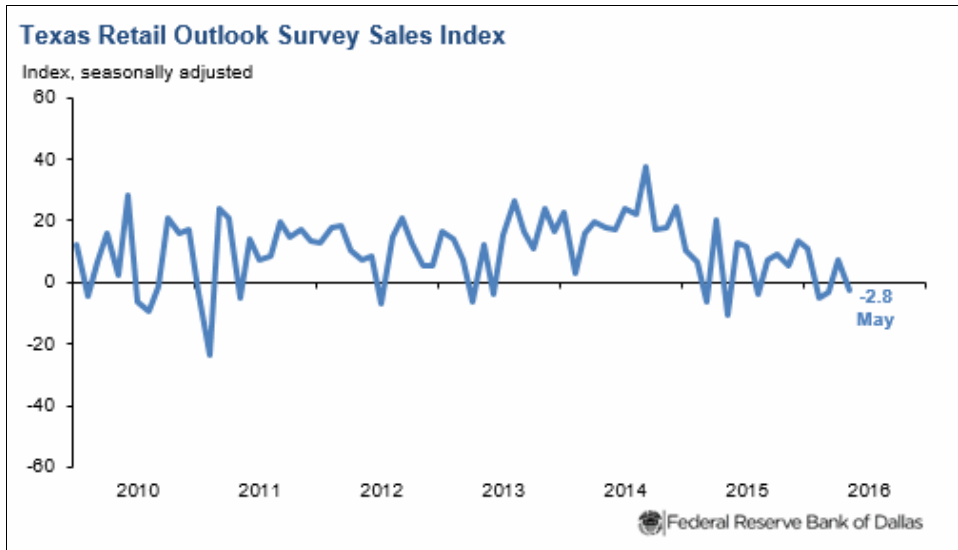
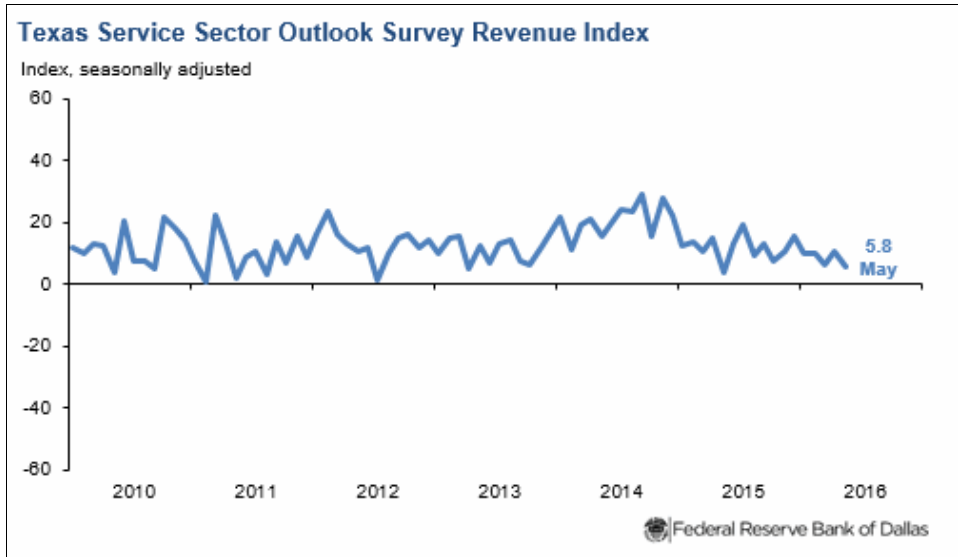
## TEXAS RETAIL OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	-2.8	7.0	-9.8	Decreasing	1	25.6	45.9	28.4
Employment	1.4	-0.8	+2.2	Increasing	1	8.7	84.0	7.3
Part-time employment	0.0	0.0	0.0	No Change	2	7.7	84.6	7.7
Hours worked	-9.5	-2.7	-6.8	Decreasing	3	3.6	83.3	13.1
Wages and benefits	8.5	9.0	-0.5	Increasing	73	13.5	81.5	5.0
Input prices	17.7	18.3	-0.6	Increasing	4	24.6	68.5	6.9
Selling prices	5.3	11.7	-6.4	Increasing	3	18.1	69.1	12.8
Capital expenditures	15.4	5.9	+9.5	Increasing	5	23.1	69.2	7.7
Inventories	-2.4	3.5	-5.9	Decreasing	1	21.6	54.4	24.0
<b>Companywide Retail Activity</b>								
Sales	8.3	9.8	-1.5	Increasing	12	24.2	59.9	15.9
Internet sales	5.0	-4.2	+9.2	Increasing	1	13.3	78.4	8.3
Catalog sales	-6.5	-6.9	+0.4	Decreasing	2	0.0	93.5	6.5
<b>General Business Conditions, Retail Current (versus previous month)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-1.6	4.1	-5.7	Worsening	1	15.2	68.0	16.8
General business activity	-13.3	-11.4	-1.9	Worsening	2	12.5	61.7	25.8
<b>Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	27.0	44.8	-17.8	Increasing	87	42.9	41.2	15.9
Employment	5.7	6.9	-1.2	Increasing	15	17.0	71.8	11.3
Part-time employment	-2.1	-0.1	-2.0	Decreasing	2	8.7	80.5	10.8
Hours worked	-0.7	3.3	-4.0	Decreasing	1	8.3	82.7	9.0
Wages and benefits	27.5	24.5	+3.0	Increasing	89	31.6	64.3	4.1
Input prices	35.3	36.0	-0.7	Increasing	85	43.1	49.0	7.8
Selling prices	31.4	34.7	-3.3	Increasing	85	39.2	52.9	7.8
Capital expenditures	20.0	12.0	+8.0	Increasing	62	28.0	64.0	8.0
Inventories	3.8	8.9	-5.1	Increasing	3	24.3	55.3	20.5
<b>Companywide Retail Activity</b>								
Sales	27.9	36.4	-8.5	Increasing	86	41.2	45.5	13.3
Internet sales	15.1	17.2	-2.1	Increasing	86	24.2	66.7	9.1
Catalog sales	-4.2	2.5	-6.7	Decreasing	1	4.4	87.0	8.6
<b>General Business Conditions, Retail Future (six months ahead)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	9.2	22.2	-13.0	Improving	3	25.8	57.6	16.6
General business activity	-3.3	9.5	-12.8	Worsening	1	21.5	53.7	24.8

\*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

- > We are seeing some slowdown in mature company capital expenditures.
- > Industrial activity has seen little change with consumer activity remaining steady. Commercial real estate in metropolitan markets continues to expand. The mortgage markets are below historical activity in rural markets but remain steady in metropolitan markets. Opportunities for expansion of aggregate industry look promising with primary focus in mining limestone for transportation construction, roads and bridges. Cattle continue to decline but may improve with an increase in export demand. The goat market is still at historical highs with steady demand. Abundant rainfall has influenced potential yields with the start of wheat harvest, but price is relatively weak.
- > In my area we continue to work through the energy fallout. The next six months should clarify the outcome.

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

- > While business growth is encouraging and our markets continue to be healthy, our revenue growth is coming from new business rather than from price increases. When this is considered in light of increasing personnel costs as well as costs attributed to regulatory compliance, there is downward pressure on margins.
- > The oil and gas sector is directly affecting the business with really no let up in sight. Regulations, taxes, health insurance—all costs just keep rising.

### Insurance Carriers and Related Activities

- > The level of business activity depends on the industry. Construction is slow in East Texas; sales and tourism seem to be busier.

### Real Estate

- > Hail damage in San Antonio will result in some capital improvements over the next six months.
- > Our sense is that the market is steady but not strengthening; we are looking for improvement as we go into the summer months, but the uncertainty and negativity from the presidential election is keeping businesses on edge and very cautious in their long-term commitments. The good news is we don't see the market getting overexuberant, but we are seeing lenders starting to take on riskier debt, which is a little worrisome.
- > The residential real estate market is beginning to show signs of confidence concerns in the upper end. Lower-end and first-time buyer markets are suffering from very low inventory in both resale and new home product.

### Rental and Leasing Services

- > We were up 7.5 percent for the year through March. April alone put us down 2 percent year to date. That is what is going on out here in the real world ... dang little! We are a 56-year-old family-owned company that averages 17 percent growth per year. This economy is in and headed deeper into the tank faster than all the talking heads can spin their silly data and metrics to portray the story most beneficial to whatever lines their pockets best today. That said, Texas and our commodity-driven markets may set us apart as some sort of dark anomaly.

### Professional, Scientific and Technical Services

- > We've had a slight increase in revenue. A new client was onboarded, and we had startup activity.
- > Unless the commercial real estate market is just taking a breath, we think we are in the beginning stages of a slowdown. Business activity has remained strong, but the number of cancelled orders is beginning to show signs that investors are looking more closely at their transactions before they move forward to close. While the daily orders are down in our commercial division, the residential division remains very strong. Orders are on pace with 2015, and revenue is slightly up. We anticipate that the residential market will remain strong for the foreseeable future while the commercial market continues to cool. Everyone needs to keep in mind that we are coming off two of the biggest commercial years in the history of the DFW market and that this market is still a great market, just not as strong as 2014 and 2015.
- > Elections, unprofessional politics, political unrest, terrorist activity, stock market—all make people nervous and they don't spend money. We need strength, stability and common sense in the nation. And a new proposal to pay overtime for salaried workers will send small business reeling. Not a positive at all.
- > We don't know what happened, but we are very busy with new opportunities. A week ago this was not the case. It's like someone flipped a switch.

### Management of Companies and Enterprises

- > There is way too much government regulation. There needs to be some regulation, but some of it can't be accomplishing anything except to drive up our cost of doing business.

### Administrative and Support Services

- > We are seeing a general slowing in our aviation, industrial and government sectors in regards to requests for quotes vs. captured quotes. Current customers are requesting extended payment terms at this time. We are hoping that a positive mood change of business owners will improve the outlook for the last quarter of the year.
- > The significant and prolonged rainfall has really impacted our production. In many instances we are at a halt on projects. We have a very large backlog. There is a severe shortage of qualified applicants for jobs. Many applicants are just going through the motions to maintain their government benefits. They are not serious.

- > We are finding it very difficult to hire good qualified full-time employees for our five offices in South Central Texas. We have been in business for 37 years and have faced this same situation many times, and it is usually at this time of year. We feel that the second half of 2016 will be very good, and our business will increase in proportion to our success in hiring very good full-time employees, who will enjoy working with us and feel that a good career has been found.
- > The new FLSA [Fair Labor Standards Act] standards will be a larger negative impact to employers than even the ACA [Affordable Care Act] is. Employees, too!
- > We have seen an uptick in hiring for full-time positions, but contract hiring is at an all-time low. Overtime has been trending downward or flat for the last 12 months. Businesses don't seem to be making investments in newer, upgraded IT systems.
- > Low fuel prices continue to impact sales in the public transportation industry.

### **Publishing Industries (except Internet)**

- > The regulatory environment is having an impact on business decisions. Decision-makers are afraid to say "go" on projects due to the unknowns of what regulators may do, or what they may interpret differently in the near future. Few are willing to take risks on new technology purchases.

### **Telecommunications**

- > We are experiencing the effects of the oil and petroleum industry recession in Houston. Home, apartment and business vacancies are rising, while the cost to provide services continues to increase. The FCC [Federal Communications Commission] continues to ignore the rising cost to provide customers programming/video.

### **Educational Services**

- > This is a seasonal adjustment—we had a nice increase in the first quarter and a softer April and May from our clients. We are hoping this is only an adjustment in timing. We believe it is.

### **Ambulatory Health Care Services**

- > Local sales tax revenue was up over last year, but lower than the state average. This may continue to decline with commodities and oil and gas remaining low.
- > New pricing with a major managed care company will reduce average reimbursement for procedures. Capital expenditures increases are from expanding testing lines requiring acquisition of new instrumentation.
- > Health care is super challenging right now. Providers are competing hard for patients, while payors (Medicare, Medicaid and commercial insurance) keep cutting our rates and adding more requirements. With the new Department of Labor rules, our costs will probably go up after Dec. 1, as many more employees will be nonexempt.

### **Hospitals**

- > Rural hospitals continue to see decreases in reimbursements and federal funding. Mandates continue to increase the costs of health care without funding. Rural hospitals will struggle to remain independent and provide for the communities we serve without interventions and assistance.

### **Amusement, Gambling, and Recreation Industries**

- > Weather has been the only problem as it is unseasonably colder and wetter.

### **Food Services and Drinking Places**

- > The DOL [Department of Labor] announcement for minimum threshold for overtime will have a significant negative impact on our business.
- > Sales are slightly better than they were in April. The new restaurant, which is also a new concept, is doing very well. Our core concept is very slightly up so far in May whereas it was actually down in April, but the increase is still running well below the price increases we have in place. It is too soon to say we have really turned the corner and are going to go back to positive sales compared with last year. Costs are still well in control. There is a very slight uptick in wages for hourly employees, but we are still running under 1 percent increase year over year. Looking at a shorter horizon, we have probably increased at about a 1.5 percent annual rate over the last two or three months.
- > We will open one new location in El Paso in May. Another new store will open in Del Rio in late June or early July. This is the reason for the increases. Overall business seems to have softened somewhat, although not dramatically. Cheese prices have dropped, which is helping our margins. We are currently running 20 percent below the same month last year.

### **Truck Transportation**

- > While business has been stable to improved, we are seeing more margin pressure than ever before—from regulation requirements to competitive intensity. We are seeing an extreme use of contractors as competitors work to avoid expense beyond direct expense to do a particular job.

### **Merchant Wholesalers, Durable Goods**

- > We are in the process of strengthening our online presence though a complete rebuild of our website. This project will enhance the customer's online experience.

### **Motor Vehicle Parts Dealers**

- > The oil price situation has leveled out, albeit at a lower level than a year or two ago.

> Based on our sales, it is my opinion that the decline in the energy industry is the cause of our small sales decline.

### **Building Material and Garden Equipment and Supplies Dealers**

> Business activity is not great but not bad. Steady but still long-term uncertainties on the horizon.

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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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