



# Texas Service Sector Outlook Survey

DALLASFED

November 29, 2016

## TEXAS SERVICE SECTOR ACTIVITY PICKS UP AND OPTIMISM GROWS

Texas service sector activity picked up in November, 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 9.9 in October to 13.7 in November.

Labor market indicators reflected faster employment growth and unchanged workweeks this month. The employment index moved up from 2.7 to 9.2. The hours worked index edged up from -1.4 to a reading near zero.

Perceptions of broader economic conditions reflected more optimism in November. The general business activity index advanced from 3.0 to 12.6. The company outlook index jumped from a reading near zero to 15.6, with 23 percent of respondents reporting that their outlook improved from last month and 7 percent noting it worsened.

Price pressures were unchanged, while wage pressures increased this month. The selling prices index was similar to last month at 4.4. The wages and benefits index rose from 12.8 to 19.1, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in November. The index of future general business activity soared 20 points to 29.1. The index of future company outlook rose sharply from 12.2 to 32.6. Indexes of future service sector activity, such as future revenue and employment, continued to reflect optimism this month.



## RETAIL SALES REBOUND

Retail sales climbed in November, according to business executives responding to the Texas Retail Outlook Survey. The sales index moved back into expansionary territory, surging from -6.6 in October to 13.2 in November. Inventories increased at a faster pace this month.

Labor market indicators were mixed again this month. The employment index rose from a reading near zero to 4.3, indicating retail employment increased. The hours worked index remained in negative territory for a fourth consecutive month but advanced from -12.1 to -2.6, suggesting workweeks shortened.

Retailers' perceptions of broader economic conditions improved markedly in November. The general business activity index rose sharply from -5.1 to 10.1. The company outlook index jumped 19 points to 13.5, with 19 percent of respondents reporting that their outlook improved from last month and 6 percent noting that it worsened.

Retail price and wage pressures increased. The selling prices index moved up from 4.7 to 9.3. The wages and benefits index shot up 14 points to 17.5, although the great majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions improved in November. The index of future general business activity surged from 4.2 to 19.9. The index of future company outlook rebounded from -1.3 to 28.6. 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:** December 28, 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 Nov. 14–22, 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.

## TEXAS SERVICE SECTOR OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Current (versus previous month)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	13.7	9.9	+3.8	Increasing	84	30.3	53.1	16.6
Employment	9.2	2.7	+6.5	Increasing	81	15.7	77.8	6.5
Part-time employment	2.6	1.4	+1.2	Increasing	5	8.1	86.4	5.5
Hours worked	0.8	-1.4	+2.2	Increasing	1	5.4	90.0	4.6
Wages and benefits	19.1	12.8	+6.3	Increasing	86	21.4	76.3	2.3
Input prices	24.4	23.3	+1.1	Increasing	91	26.4	71.6	2.0
Selling prices	4.4	3.7	+0.7	Increasing	9	11.1	82.2	6.7
Capital expenditures	5.0	3.6	+1.4	Increasing	87	13.3	78.4	8.3
<b>General Business Conditions</b>								
<b>Current (versus previous month)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	15.6	0.3	+15.3	Improving	5	22.8	70.0	7.2
General business activity	12.6	3.0	+9.6	Improving	3	20.7	71.2	8.1
<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Future (six months ahead)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	45.2	40.3	+4.9	Increasing	93	53.1	39.0	7.9
Employment	25.2	25.3	-0.1	Increasing	92	34.4	56.4	9.2
Part-time employment	9.5	5.9	+3.6	Increasing	53	16.6	76.3	7.1
Hours worked	6.9	4.1	+2.8	Increasing	3	11.2	84.5	4.3
Wages and benefits	43.6	38.9	+4.7	Increasing	119	47.0	49.6	3.4
Input prices	42.0	44.4	-2.4	Increasing	119	43.8	54.4	1.8
Selling prices	29.6	20.1	+9.5	Increasing	91	35.5	58.6	5.9
Capital expenditures	26.3	18.8	+7.5	Increasing	92	34.6	57.2	8.3
<b>General Business Conditions</b>								
<b>Future (six months ahead)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	32.6	12.2	+20.4	Improving	9	38.4	55.8	5.8
General business activity	29.1	9.1	+20.0	Improving	5	35.4	58.3	6.3

\*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.

\*\*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	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	13.2	-6.6	+19.8	Increasing	1	31.2	50.8	18.0
Employment	4.3	0.7	+3.6	Increasing	5	9.1	86.1	4.8
Part-time employment	-1.6	1.7	-3.3	Decreasing	1	8.2	82.0	9.8
Hours worked	-2.6	-12.1	+9.5	Decreasing	4	3.2	91.0	5.8
Wages and benefits	17.5	3.5	+14.0	Increasing	79	19.0	79.5	1.5
Input prices	18.0	10.0	+8.0	Increasing	10	23.8	70.4	5.8
Selling prices	9.3	4.7	+4.6	Increasing	9	18.9	71.5	9.6
Capital expenditures	1.6	6.7	-5.1	Increasing	4	11.1	79.4	9.5
Inventories	3.4	1.4	+2.0	Increasing	2	18.9	65.6	15.5
<b>Companywide Retail Activity</b>								
Sales	12.6	1.8	+10.8	Increasing	3	27.4	57.8	14.8
Internet sales	16.9	8.5	+8.4	Increasing	3	18.9	79.1	2.0
<b>General Business Conditions, Retail Current (versus previous month)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	13.5	-5.6	+19.1	Improving	1	19.0	75.5	5.5
General business activity	10.1	-5.1	+15.2	Improving	1	20.6	68.9	10.5
<b>Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	34.6	16.6	+18.0	Increasing	93	45.7	43.2	11.1
Employment	7.1	10.8	-3.7	Increasing	21	19.8	67.4	12.7
Part-time employment	4.8	-0.7	+5.5	Increasing	1	13.9	77.0	9.1
Hours worked	3.2	-2.4	+5.6	Increasing	1	12.1	79.0	8.9
Wages and benefits	38.9	27.9	+11.0	Increasing	95	42.5	53.9	3.6
Input prices	31.2	22.8	+8.4	Increasing	91	36.1	59.0	4.9
Selling prices	41.6	19.3	+22.3	Increasing	91	43.3	55.0	1.7
Capital expenditures	27.9	8.8	+19.1	Increasing	2	36.1	55.7	8.2
Inventories	6.9	-4.8	+11.7	Increasing	1	24.1	58.7	17.2
<b>Companywide Retail Activity</b>								
Sales	34.4	24.4	+10.0	Increasing	92	42.4	49.5	8.0
Internet sales	25.7	17.9	+7.8	Increasing	4	31.4	62.9	5.7
<b>General Business Conditions, Retail Future (six months ahead)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	28.6	-1.3	+29.9	Improving	0	33.2	62.2	4.6
General business activity	19.9	4.2	+15.7	Improving	3	31.2	57.5	11.3

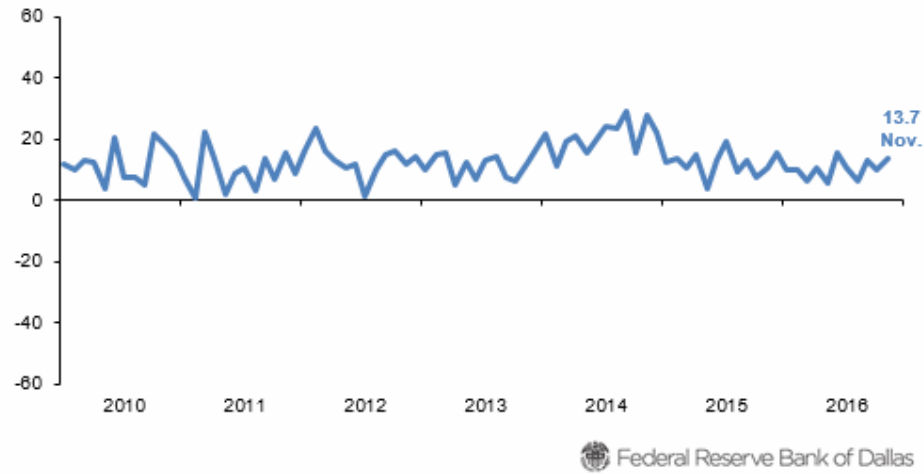
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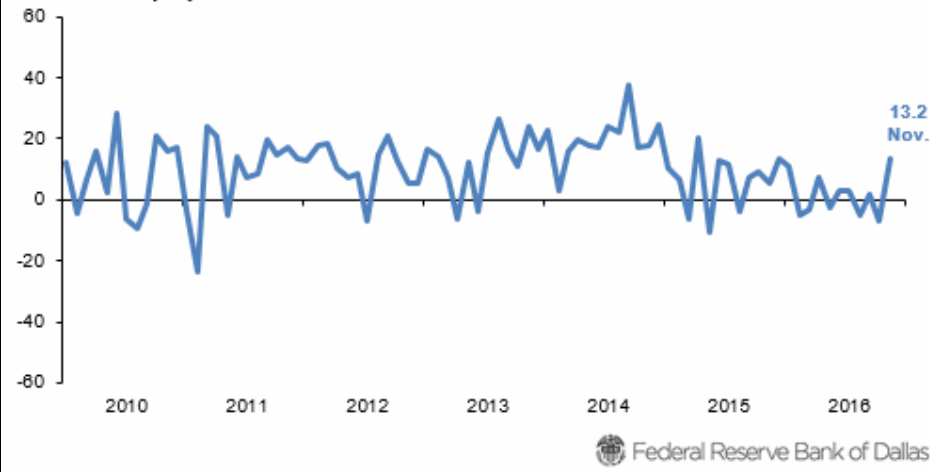
### Texas Service Sector Outlook Survey Revenue Index

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.

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

- > Strong construction and positive attitudes are overcoming oil and cattle declines.
- > The oil and gas service industry is still down without much hope of a better market until late next year. Continued cost increases—i.e., health insurance, taxes, federal and local regulations—just keep coming. Regulations are particularly tough and expensive just now.

### Insurance Carriers and Related Activities

- > I think the election results will greatly improve the level of business activity for the near term.
- > We are still having some issues with energy clients that we have, and contractors' activities are kind of slow. We remain hopeful going into 2017.

### Credit Intermediation and Related Activities

- > A change of administration in the future has improved the attitude of most people in our markets and has substantially reduced the anxiety. Hunting season has increased traffic but not greatly increased retail sales, which is normally the case. It has been reported that stores with sporting goods are down, and taxidermists report that they are caught up for once, which reflects a downturn in spending as far back as last year. However, the demand for hunting leases was up this year, mainly based on the promise of good antler development due to very good weather conditions providing additional recovery from the drought. Cattle prices continue to be down but that provides the opportunity for producers with capital or ability to leverage to buy replacements at a reasonable price. The outlook for basic agricultural commodities does not look good, especially with the cost of inputs to grow the produce continuing to increase.
- > Hopefully, the election results will improve the economy.

### Real Estate

- > Single-family residential sales activity was considerably slower leading up to the election. We have seen it recover somewhat since the election. On the other hand, commercial activity began increasing in the fourth quarter, which is somewhat unusual. We are cautiously optimistic about 2017 considering the new administration's growth agenda, although we are already seeing a bump in 30-year mortgage rates.
- > With the election behind us, the cabinet appointments will now be the focus, and if they are acceptable, the climate will improve as will business. Generally, the lack of negative advertising telling us the country is in the tank alone should improve business.

### Professional, Scientific and Technical Services

- > While expectations are that with the new administration business will be better, I do not see that as the oil price will stay flat and the appointments being made to head various agencies will meet considerable resistance.
- > Very mixed views right now as we process the change in the administration. The market is clearly indicating a favorable view of economic growth along with increased inflation and interest rates. I am somewhat skeptical the improved economy occurs at the pace some right now believe it will. Energy is up right now as well, but again, need to watch a while.
- > The uncertainty about policies that may be implemented by the new administration has brought new investments to a standstill in the Borderland.
- > With the election finally behind us, we will just have to wait and see how the real estate community is affected. We expect to see an elevation in general business activity over the next six months, but only time will tell how much the new administration will be able to ignite the economy.
- > Hopefully some needless regulatory costs can be decreased with our new administration. That's the one thing this economy needs most.
- > We are seeing a stronger 2017 in the sales and revenue we can generate.
- > Election results have placed more uncertainty on the outlook. We are waiting to see what the new administration actually does.
- > With the election over, we will see how things develop. I believe everyone is hesitant until the new administration reveals its strategy. We are in a holding pattern.
- > We continue to see a decrease in future activity. If you take away a few large projects, construction activity appears to be slowing.

### Management of Companies and Enterprises

- > There is too much government regulation.
- > We are hoping the new administration will stifle regulations on banks and let us get back to the business of serving our customers instead of dealing with endless regulations.

### Administrative and Support Services

- > Slight increase in revenue and employees is no indicator of an increase in demand, which is very soft.
- > Recent election results should benefit the general economy.
- > I think many Americans and Texans are feeling uneasy about the surprising results of the election and as a result are feeling skittish about spending as they fear jobs cuts are coming. It is hard to predict how the new administration will positively or negatively impact job growth, but low visibility to possible future economic policy changes warrants a pullback on spending for many U.S. companies who are bracing for the changes this administration could make. People are watching industries that might be heavily impacted (positively or negatively), and there is general concern as it relates to the fear of the unknown. People are also fearful of how the

new administration will impact our ability to work with other countries around the world, which could grossly impact general business activity. With anemic job growth and wage growth relative to increasing housing costs in North Texas, it would be interesting to watch the resiliency of our region. Texas has a resilient economy and we are well-diversified across multiple industries, but there is more concern about how changes may impact the rest of the country and the world. In my opinion, I think Texas will be similar to the China analogy we see—Texas will continue to grow overall, but the growth rate will slow.

- > Although business will grow, it is growing through new services as we adjust to a tightening market that is focused on expense control.
- > The overall feeling of our customers has dramatically increased in a positive way since the last survey. The purchasing departments and owners that I speak with are more optimistic going into the first quarter of 2017. Our industrial customer request for quotes (RFQ) have increased 23 percent in the last two weeks. Our capture percentage has increased to 78 percent. Machine shops specializing in oil field components are the one exception with no increase in RFQs from this area. Our aviation customers' RFQs have remained steady overall with a 4 percent increase in new customers submitting RFQs.

### **Ambulatory Health Care Services**

- > We are hopeful that the new administration can make some modifications in the deadly Affordable Care Act (ACA) mandates. Both Centers for Medicare & Medicaid Services and the ACA are pushing for inpatient health care via multiple mechanisms. As an outpatient imaging facility that provides high-quality imaging using state of the art equipment at the lowest price, there should be room for us in the new health care paradigm.
- > Health care services in West Texas are independent of the energy sector here. Our business models are impacted by Centers for Medicare & Medicaid Services funding models. Uncertain is the word that describes the imminent future of many small, medium and large enterprises providing services in the for-profit as well as the not-for-profit sector. Significant levels of health care business consolidation are driven by the need for improved outcomes for dollars spent and accelerated cloud-based technology solutions facilitating large institutions offering niche services in health care.
- > We expect the normal end-of-year rush before deductibles reset. Benefit costs will rise. Revenue has some uncertainty due to the new Medicare payment system.
- > Outlook remains the same as in the previous month. Revenues will be lower over next six months due to 2017 Medicare reimbursement. Headcount (wages and benefits) will increase over next six months related to new product line launch in first quarter 2017. Capital expenditures will increase as a result of launching a new product line.

### **Hospitals**

- > The election has provided a spring in the step for rural health care providers—opportunities quite possibly down the road.
- > I expect the election outcome to favorably impact economic conditions by second quarter 2017.

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

- > It might look odd that the cost of wages and benefits are increasing, and yet we predict the cost to provide services to remain the same. This is because we are seeing a decrease in the cost of food; however, there is still a big labor shortage in Austin, particularly with experienced chefs and cooks. Therefore, we are having to increase our wages and benefits to attract and to keep these employees. The selling prices will need to increase to cover the increases in taxes and insurance. Lots of factors play into the selling prices at the moment.

### **Accommodation**

- > A lot of uncertainty with the results of the election. Too soon to tell where we are headed. Good news is that end of the year is performing as expected and that we have a strong group base in first quarter on which to build.
- > We are unsure of the implications of the election on our business levels, but we do know that the Fair Labor Standards Act action to make managers overtime-eligible that will hit Dec. 1 will increase our labor expenses.

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

- > Annual pay increases will be given in January. Sales prices will be increased to cover this cost.
- > Our sales have been somewhat unpredictable, up one day and down the next but with a slight cast toward down. Roughly a week ago we hit the point in our calendar when there is normally a large seasonal increase in sales. We are falling woefully short of that, making only about half of the normal jump in sales. I hate to come to that conclusion, but, at this point, I would have to say that we are most likely looking at a very flat to sharply down holiday season compared with last year. Our average workweek and number of employees are about the same because the stores have not adequately responded to the sales shortfall and are running way over budgeted labor percent targets. Wage and benefit costs are also projected to be up in the six-month horizon because we have a substantial increase coming on Jan. 1 for the employee health benefits (8 percent), and wages are finally trending up by more than 2 percent.

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

- > This election outcome has introduced a great uncertainty to us. We are not sure what spending and taxing policies will be.

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

- > Prepresidential election, we saw a decrease of orders, and after the election three weeks of pent-up demand was ordered that day. Not sure what the driver could have been.
- > We are hopeful that the new administration will ease the regulatory burden on the oil and gas business, thus our optimism for six months hence.

## Motor Vehicle Parts Dealers

- > Higher interest rates are anticipated and that will negatively impact business. We anticipate the new administration to be probusiness and to get relief from some of the existing regulatory requirements and favorable changes in the Affordable Care Act and income tax. The economy will dramatically improve once programs are implemented. Our industry has peaked, and we should expect automobile sales to be flat or decrease slightly—the degree will be determined by manufacturers' spend on incentives. The natural market will not be as strong as it has been the last two years.
- > We are in the heavy-duty truck business. The industry is down overall, and we are no exception.

## Building Material and Garden Equipment and Supplies Dealers

- > Activity seems to be increasing postelection.
- > Think with the new administration we can change things for business. When the economy gets recharged, everyone will benefit; we just need to hope they do it without extreme debt. I am very happy now as I think this is the best thing for this country in over 30 years.

## Gasoline Stations

- > Our decline from October to November is in part due to gasoline price decreases and the annual trend of about a 10 percent drop in sales after the daylight saving time change.

## Clothing and Clothing Accessories Stores

- > Strong dollar/weak peso continue to hurt our border stores. Fair Labor Standards Act is horrible for most retailers. Lack of job growth in oil corridor continues to impact us with lower sales in those markets. If lower sales persist in November and December, it will result in planning lower capital expenditures and lower inventories next year.

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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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