

## Texas Service Sector Outlook Survey

December 28, 2016

### Texas Service Sector Activity Strengthens Further and Optimism Increases

Texas service sector activity increased in December, 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 13.7 in November to 20.6 in December.

Labor market indicators reflected somewhat slower employment growth and longer workweeks this month. The employment index dipped from 9.2 to 7.8. The hours worked index edged up from a reading near zero to 4.1.

Perceptions of broader economic conditions reflected more optimism in December. The general business activity index advanced from 12.6 to 19.4. The company outlook index rose 5 points to 20.6, with 28 percent of respondents reporting that their outlook improved from last month and 8 percent noting it worsened.

Price pressures increased, while wage pressures were unchanged this month. The selling prices index advanced 8 points to 12.6. The wages and benefits index held steady at 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 December. The index of future general business activity jumped to an all-time high reading of 39.8. The index of future company outlook moved up from 32.6 to 39, its highest reading since July 2014. Indexes of future service sector activity, such as future revenue and employment, also reflected more optimism this month.

## Texas Retail Outlook Survey

December 28, 2016

### Retail Sales Continue to Grow

Retail sales picked up in December, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose 6 points to 19.2. Inventories increased at a slower pace this month.

Labor market indicators improved this month. The employment index advanced 8 points to 12.3, indicating retail employment increased at a faster pace. The hours worked index rebounded from negative territory to 4.1, suggesting workweeks lengthened.

Retailers' perceptions of broader economic conditions reflected more optimism in December. The general business activity index rose from 10.1 to 19.4. The company outlook index climbed 10 points to 23.7, with 31 percent of respondents reporting that their outlook improved from last month and 7 percent noting that it worsened.

Retail price pressures increased, while wage pressures eased slightly. The selling prices index edged up from 9.3 to 10.7. The wages and benefits index fell slightly from 17.5 to 16.3, although the great majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions reflected more optimism in December. The index of future general business activity surged 22 points to an all-time high of 41.9. The index of future company outlook shot up from 28.6 to 44.9. Indexes of future retail sector activity also 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.**

**Next release:** January 31, 2017

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 Dec. 13–21, and 299 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

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Historical data are available from January 2007 to the most current release month.

## Business Indicators Relating to Facilities and Products in Texas

Current (versus previous month)

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	20.6	13.7	+6.9	Increasing	85	38.2	44.3	17.6
Employment	7.8	9.2	-1.4	Increasing	82	17.8	72.2	10.0
Part-Time Employment	0.8	2.6	-1.8	Increasing	6	6.7	87.4	5.9
Hours Worked	4.1	0.8	+3.3	Increasing	2	8.7	86.7	4.6
Wages and Benefits	19.1	19.1	0.0	Increasing	87	22.2	74.7	3.1
Input Prices	30.5	24.4	+6.1	Increasing	92	32.1	66.3	1.6
Selling Prices	12.6	4.4	+8.2	Increasing	10	18.4	75.8	5.8
Capital Expenditures	10.4	5.0	+5.4	Increasing	88	15.5	79.4	5.1

## General Business Conditions

Current (versus previous month)

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	20.6	15.6	+5.0	Improving	6	28.2	64.2	7.6
General Business Activity	19.4	12.6	+6.8	Improving	4	27.2	65.0	7.8

**Business Indicators Relating to Facilities and Products in Texas  
Future (six months ahead)**

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	% Reporting		
						Increase	No Change	Decrease
Revenue	55.3	45.2	+10.1	Increasing	94	62.5	30.3	7.2
Employment	31.7	25.2	+6.5	Increasing	93	39.8	52.0	8.1
Part-Time Employment	10.4	9.5	+0.9	Increasing	54	15.9	78.6	5.5
Hours Worked	8.1	6.9	+1.2	Increasing	4	12.5	83.1	4.4
Wages and Benefits	44.0	43.6	+0.4	Increasing	120	46.1	51.8	2.1
Input Prices	53.9	42.0	+11.9	Increasing	120	55.3	43.3	1.4
Selling Prices	34.9	29.6	+5.3	Increasing	92	39.4	56.1	4.5
Capital Expenditures	30.5	26.3	+4.2	Increasing	93	35.2	60.2	4.7

**General Business Conditions  
Future (six months ahead)**

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	% Reporting		
						Improved	No Change	Worsened
Company Outlook	39.0	32.6	+6.4	Improving	10	46.1	46.8	7.1
General Business Activity	39.8	29.1	+10.7	Improving	6	45.7	48.5	5.9

# Texas Retail Outlook Survey

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Historical data are available from January 2007 to the most current release month.

## Business Indicators Relating to Facilities and Products in Texas Retail (versus previous month)

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	19.2	13.2	+6.0	Increasing	2	38.8	41.7	19.6
Employment	12.3	4.3	+8.0	Increasing	6	17.6	77.1	5.3
Part-Time Employment	-1.6	-1.6	0.0	Decreasing	2	11.1	76.2	12.7
Hours Worked	4.1	-2.6	+6.7	Increasing	1	8.8	86.5	4.7
Wages and Benefits	16.3	17.5	-1.2	Increasing	80	20.5	75.3	4.2
Input Prices	28.5	18.0	+10.5	Increasing	11	31.6	65.3	3.1
Selling Prices	10.7	9.3	+1.4	Increasing	10	23.4	63.9	12.7
Capital Expenditures	10.9	1.6	+9.3	Increasing	5	15.6	79.7	4.7
Inventories	1.4	3.4	-2.0	Increasing	3	21.4	58.6	20.0
<b>Companywide Retail Activity</b>								
Companywide Sales	27.4	12.6	+14.8	Increasing	4	36.7	54.0	9.3
Companywide Internet Sales	22.6	16.9	+5.7	Increasing	4	25.1	72.4	2.5

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

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	23.7	13.5	+10.2	Improving	2	31.0	61.7	7.3
General Business Activity	19.4	10.1	+9.3	Improving	2	31.3	56.8	11.9

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

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	% Reporting		
						Increase	No Change	Decrease
<b>Retail Activity in Texas</b>								
Sales	47.7	34.6	+13.1	Increasing	94	54.7	38.3	7.0
Employment	28.0	7.1	+20.9	Increasing	22	34.1	59.8	6.1
Part-Time Employment	13.4	4.8	+8.6	Increasing	2	20.6	72.2	7.2
Hours Worked	11.9	3.2	+8.7	Increasing	2	18.6	74.7	6.7
Wages and Benefits	40.8	38.9	+1.9	Increasing	96	44.3	52.1	3.5
Input Prices	50.0	31.2	+18.8	Increasing	92	53.2	43.5	3.2
Selling Prices	44.3	41.6	+2.7	Increasing	92	49.2	45.9	4.9
Capital Expenditures	24.6	27.9	-3.3	Increasing	3	32.8	59.0	8.2
Inventories	12.7	6.9	+5.8	Increasing	2	28.6	55.5	15.9
<b>Companywide Retail Activity</b>								
Companywide Sales	50.0	34.4	+15.6	Increasing	93	56.8	36.4	6.8
Companywide Internet Sales	32.6	25.7	+6.9	Increasing	5	32.6	67.4	0.0

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

Indicator	Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	% Reporting		
						Improved	No Change	Worsened
Company Outlook	44.9	28.6	+16.3	Improving	1	48.5	47.9	3.6
General Business Activity	41.9	19.9	+22.0	Improving	4	48.7	44.5	6.8

\*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.

\*\*Number of months moving in current direction.

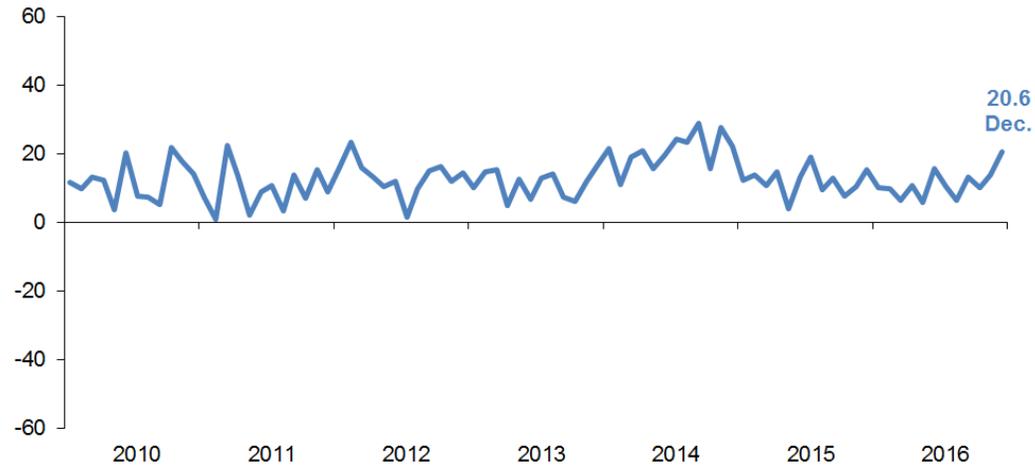
Data have been seasonally adjusted as necessary.

# Texas Service Sector Outlook Survey

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## Texas Service Sector Outlook Survey Revenue Index

Index, seasonally adjusted



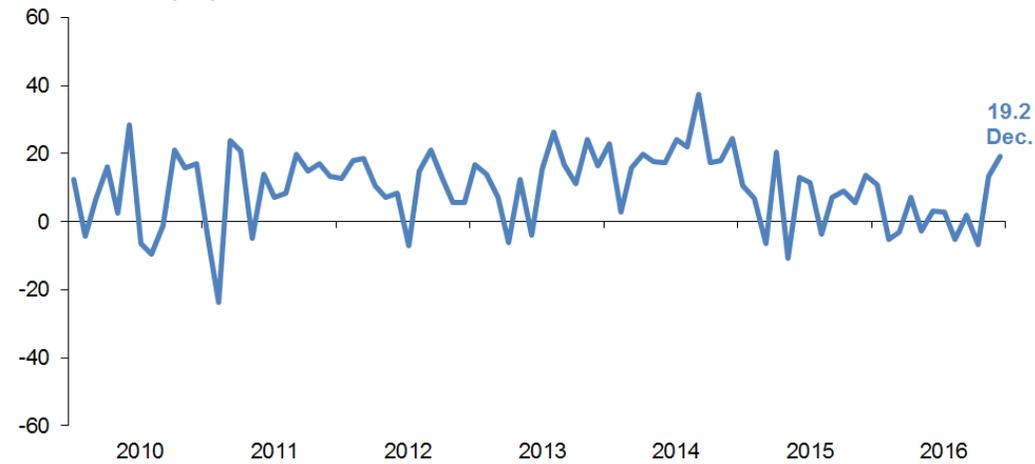
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# Texas Retail Outlook Survey

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## Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



# Texas Service Sector Outlook Survey

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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

There is general optimism from our clients on business expansions in Southwest U.S.

We are all waiting to see the real benefits of the election. Budget calculations reflect a downward trend in revenue, but philosophers are predicting better revenue. For our banks, it depends on loan demand, which may be impacted by interest rate environment. Investment portfolio yields should move up for the new administration honeymoon period.

Amazing how an election and an oil production agreement can change outlooks.

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

Postelection, financial markets have picked up, which is generally good for our business. They seem to be discounting in the impact of the new administration's policies being implemented, specifically reduced corporate taxes, reduced complexity in regulation, increased spending on infrastructure projects, reduced personal taxes and thereby increased discretionary funds for consumers, all of which lend themselves to higher levels of economic activity, improving GDP and increased corporate earnings. As advisers, our concern for our clients is that markets not become unnecessarily exuberant, but rather settle in and allow some time to pass for policy implementation to be realized. The absence of that could leave financial markets finding themselves with extended valuations and in need of a repricing back down. We shall see.

This is business as usual now. Too much regulation and too much expense for our market that is tied to the oil and gas industries. Relief is not yet in sight.

### Insurance Carriers and Related Activities

Rising rates are causing lower mortgage origination expectations.

### Real Estate

We are in our honeymoon period with the new administration, and business is very optimistic on new policies (I think overly optimistic). I think if the new administration seriously attacks free trade, particularly with Mexico and China, our outlook could change quickly. I am very concerned about international events that could trigger weakness in the U.S. and am cautious that we are still very optimistic but the rest of the western world is having serious issues that I am surprised haven't spread to the U.S. I am grateful to live and work in Texas, since we seem to have been able to better survive the downturn and seem to be better positioned moving forward regardless of the politics.

We have experienced higher than normal commercial real estate activity during the fourth quarter of 2016. We won't really know how the increase in mortgage loan rates will impact the market until 2017. Appears the mortgage lenders have overreached in reaction to the bond market as we are seeing .25–.375 percent discounting from street rates.

### Publishing Industries (except Internet)

Businesses are generally more optimistic postelection. All are hoping for less regulation and a more pragmatic, respectful approach to business from the government. There is a wait-and-see attitude in the market, but there seems to be less fear about additional unknown regulatory costs.

### Telecommunications

Hopefully, the new administration follows through on its promises to eliminate waste, reduce regulations and improve the business environment.

### Professional, Scientific and Technical Services

We are investing in technology that will allow us to increase our revenues; we think there is a general slowdown in the land development market, but we do not foresee a big drop.

The threat of an interest hike appears to have moved some development off center.

We are an energy-based company; the price of oil and gas drives our service business.

Looks like the new administration has rejuvenated the real estate community's belief in the market, but with the 10-year continuing to climb, we will have to see how it affects lending and the market. All in all, we are looking forward to a prosperous 2017.

We think we will see increased activity in energy and other areas affected by the change in administration. Real estate work has continued to be strong, but some lawyers question how much longer it can go. Corporate work has been growing, and we expect that to continue.

My firm focuses on marketing to Hispanics. Perhaps it's a coincidence, but since the election, three of our biggest clients have decided to reduce or retire investment in ethnic marketing. That is having a direct impact on our revenues, and the trend appears likely to worsen before it stabilizes.

## **Management of Companies and Enterprises**

If the new administration does nothing but roll back the regulatory bureaucracy, it will have done a huge service to the entire country.

## **Administrative and Support Services**

We saw a slight uptick in November, but that was from opportunities carried over from October. Businesses are still not initiating anything new and are still foot-dragging on moving ahead with needs that have been contemplated for months.

Client business activity has been very good this year. Our largest problem has been staffing our offices with people who will stay with us after our intense training. I am afraid that we are feeling the effect of hiring millennials.

Since the election, we have seen a cautious pullback in some capital expenditure spending across various projects (we are also seeing some projects push out their timelines because of other rising costs and/or capital expenditure spending cuts). We also see an increase in general pricing for a number of services. It is certainly a cautious time, and many are worried about what will happen with both the global and U.S. economy with the new administration. Uncertain times are sometimes worse than bad news.

## **Ambulatory Health Care Services**

Seeing an early slowdown in patients this year compared with last.

Outlook remains the same as in the previous couple of months, with lower revenues resulting from decreased reimbursement for Medicare activity and higher headcount/wages related to new product line launch early in 2017. Capital expenditure increase is also related to new product launch.

There is a lot of competition in the dental service industry, especially in Texas. Hundreds of new dentists move to Texas from out of state each year, in addition to the few hundred dentists per year graduating from the Texas dental schools.

## **Nursing and Residential Care Facilities**

The health care marketplace continues to be unstable. With the recent presidential election, there is increased uncertainty about the future of the Affordable Care Act as well as funding for Medicare and Medicaid. With the Texas Legislature convening in early 2017, there is a high probability that funding for Medicaid will be reduced. Continued cost pressure exists related to employers seeking to contain benefit costs and health insurers. Many small hospitals depend on supplemental payment programs under the Medicaid 1115 Waiver, and this program will end in 2017.

## **Social Assistance**

I am bullish on the new administration strengthening our armed services, which should generate more demands for our military uniforms.

We are experiencing changes in executive/CEO position and with one of our major contractors.

## **Accommodation**

I have seen nothing to change my outlook for December or the next six months.

I am hopeful to see the economy improve, especially the oil and energy sector.

## **Food Services and Drinking Places**

Hopefully there will be fewer regulations.

The potential for a restaurant recession is definitely affecting our business. We went from five years of straight year-over-year growth to a 17 percent decline in year-over-year sales this year.

Sales have been down sharply compared with last year in December versus November. Wages and benefits were up significantly because we began paying insurance invoices for coverage beginning in January, and our stores did not react quickly enough to the lower than expected sales. The whole holiday season has been very disappointing. We are down significantly compared with last year. In the six-month horizon, we are still hopeful that things will at least level out. We have tended to hit the target in the slower parts of the year as adverse to the high points like the holiday season. So we expect to at least be even with last year beginning a week after New Year's Day. Wages are moving up now at more than 2 percent, and we expect cost of goods sold to start increasing, so I am showing cost increases in those areas. As a result we have a planned price increase in May. The size of the increase will be finalized when we get closer to that time.

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

The presidential election has lessened my confidence in the U.S. economy. Unfortunately, I don't believe the new administration will care if the economy dives or if it spikes. My confidence in government policies are at the lowest point in my 35-year business career.

## **Truck Transportation**

The environment for Dallas–Fort Worth is very robust and looking very good for 2017.

## **Pipeline Transportation**

The U.S. administration change should prove favorable for oil and gas business activity. If this forecast holds true, investor confidence should improve and the level of investment in energy infrastructure should increase.

## **Merchant Wholesalers, Durable Goods**

People seem to be very pessimistic.

A concerted inventory control/purchasing reengineering is expected to result in lower inventory values carried to satisfy demand. A new e-commerce solution will be rolled out in the first quarter of 2017, and we expect to capture market share.

## **Merchant Wholesalers, Nondurable Goods**

December revenue is down versus last year. Customers are spending less and are buying lower-priced products. Employees continue to be shifted to part-time. Business outlook is not encouraging. Increased internet sales have not offset decreased store sales. Sales tax revenue in Houston continues to decline, while property taxes are increasing almost 10 percent per year. Next year remains very questionable.

## **Motor Vehicle Parts Dealers**

Problems in the energy economy are still having an impact on our volume.

Consumer confidence is improving since the election is done.

Our situation reflects a specific product issue. The industry we are in is in a temporary soft situation, which will improve as the year goes by.

November closed very strong for us. We anticipate a good December. Generally, December's business is a little soft until the period following Christmas Day, then we enjoy an exceptionally brisk pace until end of year. The new administration's agenda as drafted gives us lots of reasons for optimism. We believe the business climate, and our business model, will be much more favorable in 2017 than what we experienced in the recent past. Obviously, timing of changes will determine financial impact.

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

The prospect of lower corporate tax is changing our behavior.

## **Clothing and Clothing Accessories Stores**

It has been a very competitive holiday season with retailers generally marking down goods early in order to avoid an over-inventory position. As a result of soft sales and lower sales, there will probably be some layoffs at the beginning of the year as well as a cutback in capital expenditures. Oil patch and the border remain challenging sales environments.

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).

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