



Texas **Service Sector** Outlook Survey

Texas Service Sector Activity Remains Solid

March 28, 2017

Texas service sector activity grew 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, rose slightly from 14.1 in February to 15.2 in March.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index edged up 2 points to 8.1. The hours worked index at 6.5 was similar to last month.

Perceptions of broader economic conditions reflected slightly less optimism in March. The general business activity index dipped from 15.6 to 13.2. The company outlook index fell slightly to 10.3, with 19 percent of respondents reporting that their outlook improved from last month and 9 percent noting it worsened.

Price and wage pressures eased this month. The selling prices index edged down 2 points to 3.1. The wages and benefits index remained positive but ticked down to 15.7, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in March. The index of future general business activity declined 9 points to 22.3. The index of future company outlook fell slightly to 28.4. Indexes of future service sector activity, such as future revenue and employment, continued to reflect optimism this month.



Texas **Retail** Outlook Survey

Retail Sales Pick Up

Retail sales increased at a faster pace in March, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose from 6.9 in February to 10.3 in March. Inventories increased at a slower pace this month.

Labor market indicators were mixed this month. The employment index rebounded to positive territory, rising 6 points to 2.7, indicating retail employment increased on net. The hours worked index dipped from a reading near zero to -1.5, suggesting workweeks shortened.

Retailers' perceptions of broader economic conditions reflected less optimism in March. The general business activity index moved down from 8.4 to 3.0. The company outlook index dropped into negative territory to -1.3, with 11 percent of respondents reporting that their outlook improved from last month and 12 percent noting that it worsened.

Retail prices decreased, while wage pressures eased. The selling prices index plunged into negative territory to -5.3, its lowest reading in over a year. The wages and benefits index remained positive but fell 8 points to 12.0, although the majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions reflected less optimism in March. The index of future general business activity retreated from 30.7 to 8.1. The index of future company outlook fell sharply from 28.5 to 12.0. 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.

Next release: April 25, 2017

Data were collected Mar. 14–22, and 302 Texas business executives responded to the survey. The Dallas Fed conducts the Texas Service Sector Outlook Survey monthly to obtain a timely assessment of the state's service sector activity. 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

March 28, 2017

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	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	15.2	14.1	+1.1	Increasing	88	30.1	55.0	14.9
Employment	8.1	5.9	+2.2	Increasing	85	15.6	76.9	7.5
Part-Time Employment	4.1	3.7	+0.4	Increasing	9	8.2	87.7	4.1
Hours Worked	6.5	6.9	-0.4	Increasing	5	11.6	83.2	5.1
Wages and Benefits	15.7	17.3	-1.6	Increasing	90	18.4	78.9	2.7
Input Prices	19.7	25.4	-5.7	Increasing	95	23.1	73.4	3.4
Selling Prices	3.1	5.2	-2.1	Increasing	13	10.3	82.5	7.2
Capital Expenditures	11.3	9.8	+1.5	Increasing	91	16.5	78.3	5.2

General Business Conditions Current (versus previous month)

Indicator	Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	10.3	12.0	-1.7	Improving	9	18.8	72.8	8.5
General Business Activity	13.2	15.6	-2.4	Improving	7	21.8	69.7	8.6

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting		
						% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	47.8	47.5	+0.3	Increasing	97	55.5	36.8	7.7
Employment	26.6	28.4	-1.8	Increasing	96	35.8	55.0	9.2
Part-Time Employment	12.5	13.0	-0.5	Increasing	57	18.0	76.5	5.5
Hours Worked	8.3	10.7	-2.4	Increasing	7	13.9	80.5	5.6
Wages and Benefits	38.5	42.4	-3.9	Increasing	123	41.7	55.1	3.2
Input Prices	42.3	44.8	-2.5	Increasing	123	43.7	54.9	1.4
Selling Prices	27.6	28.0	-0.4	Increasing	95	31.9	63.8	4.3
Capital Expenditures	25.1	26.5	-1.4	Increasing	96	29.6	65.8	4.5

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting		
						% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	28.4	29.6	-1.2	Improving	13	36.0	56.4	7.6
General Business Activity	22.3	31.5	-9.2	Improving	13	30.9	60.4	8.6

Texas Retail Outlook Survey

March 28, 2017

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	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	10.3	6.9	+3.4	Increasing	5	31.0	48.3	20.7
Employment	2.7	-3.7	+6.4	Increasing	1	7.6	87.5	4.9
Part-Time Employment	10.2	5.1	+5.1	Increasing	2	13.6	83.1	3.4
Hours Worked	-1.5	0.3	-1.8	Decreasing	1	6.1	86.3	7.6
Wages and Benefits	12.0	20.4	-8.4	Increasing	73	16.4	79.2	4.4
Input Prices	13.6	29.4	-15.8	Increasing	14	21.5	70.6	7.9
Selling Prices	-5.3	25.8	-31.1	Decreasing	1	11.6	71.5	16.9
Capital Expenditures	10.0	6.9	+3.1	Increasing	8	16.7	76.7	6.7
Inventories	10.1	15.1	-5.0	Increasing	6	29.8	50.5	19.7
Companywide Retail Activity								
Companywide Sales	12.0	0.6	+11.4	Increasing	6	26.8	58.4	14.8
Companywide Internet Sales	24.3	11.1	+13.2	Increasing	2	30.2	63.9	5.9

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	-1.3	13.1	-14.4	Worsening	1	10.6	77.5	11.9
General Business Activity	3.0	8.4	-5.4	Improving	5	15.2	72.6	12.2

**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	28.6	44.1	-15.5	Increasing	97	41.5	45.5	12.9
Employment	7.5	19.4	-11.9	Increasing	25	18.3	70.9	10.8
Part-Time Employment	1.6	14.8	-13.2	Increasing	5	11.6	78.4	10.0
Hours Worked	0.8	5.0	-4.2	Increasing	5	10.3	80.2	9.5
Wages and Benefits	24.8	33.0	-8.2	Increasing	99	29.6	65.6	4.8
Input Prices	35.6	42.1	-6.5	Increasing	95	37.3	61.0	1.7
Selling Prices	20.7	35.7	-15.0	Increasing	95	29.3	62.1	8.6
Capital Expenditures	18.9	23.6	-4.7	Increasing	6	24.1	70.7	5.2
Inventories	10.6	18.4	-7.8	Increasing	5	27.8	55.0	17.2
Companywide Retail Activity								
Companywide Sales	29.5	41.4	-11.9	Increasing	96	39.5	50.5	10.0
Companywide Internet Sales	35.1	34.2	+0.9	Increasing	8	37.8	59.5	2.7

**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	12.0	28.5	-16.5	Improving	4	22.1	67.8	10.1
General Business Activity	8.1	30.7	-22.6	Improving	7	21.8	64.5	13.7

*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.

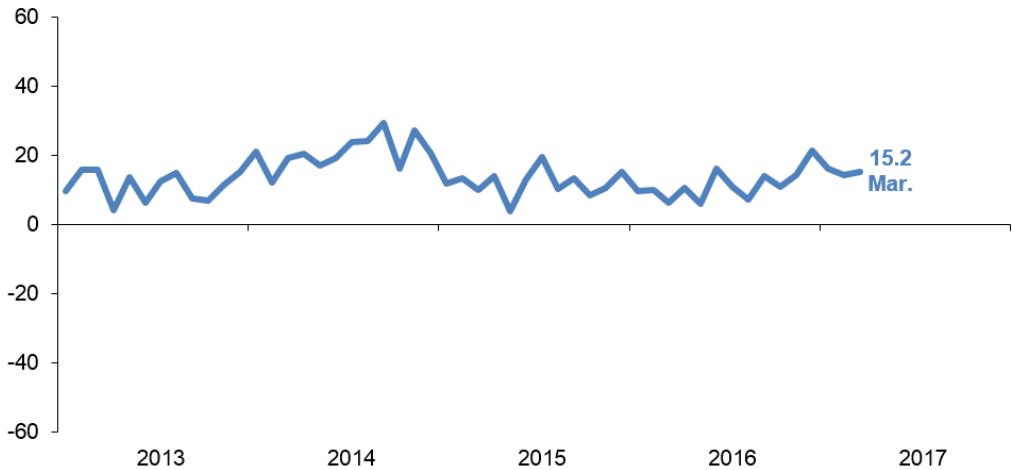
Data have been seasonally adjusted as necessary.

Texas Service Sector Outlook Survey

March 28, 2017

Texas Service Sector Outlook Survey Revenue Index

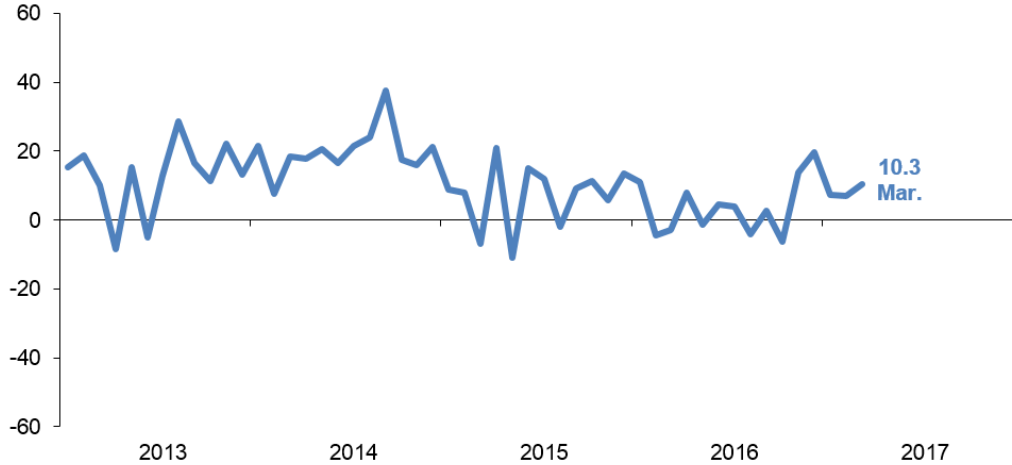
Index, seasonally adjusted



Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



Texas Service Sector Outlook Survey

March 28, 2017

Comments from Survey Respondents

These comments are from respondents' completed surveys and have been edited for publication.

Credit Intermediation and Related Activities

- The most recent economic event is the onset of construction of a wind farm in our area that has gradually increased business activity and demand for rent property, which is a very tight marketplace due to lack of availability of decent living spaces. There is a government-subsidized apartment complex being built, but it is only 40 percent complete. Loan demand has started to come back but very gradually, and most opportunities by volume are in markets outside our immediate trade area and closer to the metropolitan areas. Frac sand production has increased with the increase in drilling activity in the Permian Basin primarily. This has certainly helped the trucking business locally and of course the multiple sand plants mining and processing the sand. All eyes are on the state and national legislative processes hoping for real regulatory relief.

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

- More activity in oil and gas industries allows us to participate with more fabricating and services required. This has not affected the continued rising costs of regulations, insurance, etc.

Real Estate

- March has slowed. January and February were great months. We are not sure why the change in activity.
- Our outlook is the same, and the same is positive for our market. Low unemployment and new development are encouraging and we think these bode well for the market.

Telecommunications

- We are noticing in Houston customers are downgrading services to reduce charges. Our belief is the layoffs from the oil industry and supportive services have finally impacted our business. Severance allowances are running out for laid-off residents. Also, homebuilding in master planned communities have slowed. We believe revenue growth is possible but at a very reduced percentage to previous years.

Professional, Scientific and Technical Services

- We have seen a decline in our order count in February and the first part of March. With the 10-year rate continuing to climb and the Fed raising rates, we expect to see a slowdown in real estate transactions in the next few months. Once the market adjusts to these increases, we think business will level off or slightly increase in the second half of the year.
- Litigation is slower for us, but that is somewhat situational. Transactional work is about the same level as last year, albeit at higher rates.
- Job growth in Dallas is terrific. We are lucky to be in North Texas. Projects are taking longer to move forward and decisions are slow in coming. This is delaying business. If the new government could produce positive activity, I believe we would all benefit.
- Costs and wages continue to rise. There are labor shortages for experienced engineers and surveyors. Fees to do work go down or remain the same.
- We are affected by one large client that is experiencing supply chain issues. We should recover and increase business by the fourth quarter.
- General activity (proposals) for future work are about 15 to 20 percent below activity of the last two years.

Management of Companies and Enterprises

- We need relief from government regulations.
- Overall business conditions are flat to slightly improving. Regulatory burden is still a drag on our business and the entire economy of the country.

Administrative and Support Services

- We are seeing a slowdown in U.S. travel (which is a sign of overall business health). Unfortunately, there is tremendous uncertainty surrounding the current administration's position on immigration and its recent attempts to implement travel bans impacting predominately Muslim countries. While the six named countries account for little U.S. travel spend, a wider message has been sent to global businesses and travelers that the U.S. is becoming increasingly more difficult to work with. We are finding we are losing deals because of increased fear and uncertainty, and we have recently announced job cuts and expect stagnant wages in 2017 as a result. If we see any wage increases this year, it will be at least 1 to 2 points less than inflation increases. Overall, we have concerns about the macroeconomy and the U.S. ability to increase their global footprint.
- There's been a slight uptick in interest in full-time employees. Contract opportunities still remain weak, and customers are still reluctant to invest in new IT systems.
- Although price increases for our cost of service continue, there is a recognition by most customers that we can pass these costs along. The restaurant business is a mixed bag, with some showing good success and others cutting back service to save costs.
- The overall conditions for our company have changed. Especially active of late are the requests for quotes from aircraft maintenance, repair and overhaul and smaller industrial machine shops.
- As a multicity temporary staffing service, recruiting of temporary employees is a very important aspect of our business. Recruiting is currently difficult due to the tight labor market in our area.

Educational Services

- We lost a major client that will be exiting over the next two years.

Ambulatory Health Care Services

- Business activity is settling in after the inauguration. We are now waiting to learn the effect of repealing the Affordable Care Act if the legislation is successful.
- Higher revenues related to increased activity are expected from a large client starting within six months. The launch of a new product line will be delayed but will not have significant impact on 2017 revenue/profit.
- Independent of the political environment in D.C., the Centers for Medicare & Medicaid Services (CMS) has been working on lowering hospitalization expenditure. In that context, home health services have been receiving increasingly more complex patients discharged to home. CMS is also discouraging admissions to nursing homes as they have not shown any improvement in a patient's health status. Therefore, home health companies are receiving more acute (sicker) patients who require higher-quality health resources and expense for supplies while the reimbursement continues to tighten up.

Hospitals

- Reduction in reimbursement and increased regulatory requirements continue to stress rural hospitals.

Amusement, Gambling and Recreation Industries

- Our biggest issue remains the low number of skilled workers available to hire in the hospitality field. We are also concerned about big, new properties opening in downtown Austin in the near future. Parking is also a critical issue that the city refuses to address.

Accommodation

- With so much uncertainty about this current administration and what they are actually about, I feel this is beginning to have a negative impact on customers' outlooks. I don't even know what to believe these days regarding what is coming out of Washington. Inflation is starting to be felt in the commodities we purchase, and labor is very tight.

Food Services and Drinking Places

- Still a very soft economy in our area.
- We are still trapped in a negative comparison to last year. We had a short blip in the middle of spring break where we exceeded last year's sales, but we fell back for the last weekend and have continued our previous below-last-year performance in the couple days since the end of spring break.
- We are having to pay between \$10 and \$12 an hour to attract entry-level students to work part time.

Repair and Maintenance

- Lower oil prices for the foreseeable future have diminished optimism in the oil sector in our area.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- There has been a recent decline in preschool enrollment.

Merchant Wholesalers, Durable Goods

- Good rains in most of Texas ag production areas have helped recently.
- Housing demand and construction remains red hot in North Texas and other areas throughout Texas. Houston is still the market that is the slowest due to the energy sector.

Motor Vehicle Parts Dealers

- Margins are declining and fixed expenses have been increasing over the past several years.
- We are highly dependent on the oil industry sector. The outlook fluctuations have triggered caution in the industry.
- Even though energy industry activity has picked up in Houston, auto and truck sales are still depressed compared with Dallas–Fort Worth and Austin–San Antonio. Transaction prices on new vehicle sales are declining, and margins are low single digits.

Building Material and Garden Equipment and Supplies Dealers

- Lumber prices and interest rates are going up, while sales are slowing. It is not looking good. I hope oil goes up.
- Business is so good right now it makes one nervous. It seems to be solid going forward when looking at what is in the pipeline.

Clothing and Clothing Accessories Stores

- Retail store sales remain very sluggish.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.
