



Texas **Service Sector** Outlook Survey

Texas Service Sector Activity Increases Again, but at a Slower Pace

April 25, 2017

Texas service sector activity increased in April, albeit at a slower pace than 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, edged down three points to 12.1 in April.

Labor market indicators reflected slower employment growth and slightly longer workweeks this month. The employment index remained positive but fell from 8.1 to 4.5. The hours worked index dipped three points to 3.5.

Perceptions of broader economic conditions continued to reflect optimism in April. The general business activity index fell from 13.2 to 9.0. The company outlook index was relatively unchanged from last month at 10.9, with 21 percent of respondents reporting that their outlook improved from last month and 10 percent noting it worsened.

Price pressures increased, while wage pressures were unchanged this month. The selling prices index rose four points to 7.2, indicating prices increased at a faster pace than last month. The wages and benefits index held steady at 15.5, suggesting labor costs increased at the same pace as last month, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected slightly less optimism in April. The index of future general business activity ticked down to 20.6. The index of future company outlook edged down three points to 25.3. Indexes of future service sector activity, such as future revenue and employment, continued to reflect optimism this month.



Texas **Retail** Outlook Survey

Retail Sales Expand at a Faster Pace

April 25, 2017

Retail sales picked up in April, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose three points to 13.7 in April. Inventories increased at a slower pace this month.

Labor market indicators were mixed this month. The employment index, largely unchanged from last month, posted a second consecutive positive reading at 3.0, indicating retail employment increased on net. The hours worked index edged up from -1.5 to a reading near zero, suggesting workweeks were unchanged in April.

Retailers' perceptions of broader economic conditions continued to reflect optimism in April. The general business activity index came in at a reading of 2.6, similar to March. The company outlook index rebounded from negative territory to 9.4, with 20 percent of respondents reporting that their outlook improved from last month and 11 percent noting that it worsened.

Retail prices held steady, while wage pressures eased. The selling prices index moved up from -5.3 to a reading near zero. The wages and benefits index remained positive but fell slightly from 12.0 to 9.4, although the majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions reflected more optimism in April. The index of future general business activity edged up from 8.1 to 9.9. The index of future company outlook moved up from 12.0 to 16.3. 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: May 31, 2017

Data were collected April 11–19, and 295 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

April 25, 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	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (Months)	% Reporting		
						Increase	No Change	Decrease
Revenue	12.1	15.2	-3.1	Increasing	89	29.0	54.1	16.9
Employment	4.5	8.1	-3.6	Increasing	86	15.3	73.9	10.8
Part-time Employment	3.0	4.1	-1.1	Increasing	10	7.9	87.2	4.9
Hours Worked	3.5	6.5	-3.0	Increasing	6	8.0	87.4	4.5
Wages and Benefits	15.5	15.7	-0.2	Increasing	91	18.0	79.5	2.5
Input Prices	26.9	19.7	+7.2	Increasing	96	28.8	69.4	1.9
Selling Prices	7.2	3.1	+4.1	Increasing	14	13.2	80.8	6.0
Capital Expenditures	13.2	11.3	+1.9	Increasing	92	19.1	75.0	5.9

General Business Conditions Current (versus previous month)

Indicator	Mar Index	Change	Indicator Direction*	Trend** (Months)	% Reporting			
					Improved	No Change	Worsened	
Company Outlook	10.9	10.3	+0.6	Improving	10	20.5	69.8	9.6
General Business Activity	9.0	13.2	-4.2	Improving	8	21.0	67.0	12.0

**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	No Change	Decrease
Revenue	47.3	47.8	-0.5	Increasing	98	55.8	35.7	8.5
Employment	24.5	26.6	-2.1	Increasing	97	33.6	57.3	9.1
Part–Time Employment	8.9	12.5	-3.6	Increasing	58	14.4	80.1	5.5
Hours Worked	11.6	8.3	+3.3	Increasing	8	14.5	82.6	2.9
Wages and Benefits	42.3	38.5	+3.8	Increasing	124	44.7	52.9	2.4
Input Prices	46.5	42.3	+4.2	Increasing	124	48.1	50.3	1.6
Selling Prices	25.0	27.6	-2.6	Increasing	96	32.3	60.4	7.3
Capital Expenditures	27.0	25.1	+1.9	Increasing	97	32.2	62.5	5.2

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

Indicator	Mar Index	Change	Indicator Direction*	Trend** (Months)	% Reporting			
					Improved	No Change	Worsened	
Company Outlook	25.3	28.4	-3.1	Improving	14	34.0	57.3	8.7
General Business Activity	20.6	22.3	-1.7	Improving	14	29.9	60.8	9.3

Texas Retail Outlook Survey

April 25, 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	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (Months)	% Reporting		
						Increase	No Change	Decrease
Retail Activity in Texas								
Sales	13.7	10.3	+3.4	Increasing	6	33.4	46.9	19.7
Employment	3.0	2.7	+0.3	Increasing	2	9.3	84.4	6.3
Part-Time Employment	8.5	10.2	-1.7	Increasing	3	11.9	84.7	3.4
Hours Worked	0.5	-1.5	+2.0	Increasing	1	6.4	87.7	5.9
Wages and Benefits	9.4	12.0	-2.6	Increasing	74	13.8	81.8	4.4
Input Prices	24.3	13.6	+10.7	Increasing	15	29.5	65.3	5.2
Selling Prices	-0.8	-5.3	+4.5	Decreasing	2	14.7	69.8	15.5
Capital Expenditures	11.4	10.0	+1.4	Increasing	9	18.0	75.4	6.6
Inventories	6.2	10.1	-3.9	Increasing	7	27.1	52.0	20.9
Companywide Retail Activity								
Companywide Sales	11.7	12.0	-0.3	Increasing	7	28.3	55.1	16.6
Companywide Internet Sales	12.1	24.3	-12.2	Increasing	3	21.9	68.2	9.8

General Business Conditions, Retail

Current (versus previous month)

Indicator	Mar Index	Change	Indicator Direction*	Trend** (Months)	% Reporting			
					Improved	No Change	Worsened	
Company Outlook	9.4	-1.3	+10.7	Improving	1	20.4	68.6	11.0
General Business Activity	2.6	3.0	-0.4	Improving	6	20.5	61.6	17.9

**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	No Change	Decrease
Retail Activity in Texas								
Sales	34.9	28.6	+6.3	Increasing	98	45.9	43.0	11.0
Employment	4.9	7.5	-2.6	Increasing	26	19.2	66.5	14.3
Part-Time Employment	0.1	1.6	-1.5	Increasing	6	12.8	74.5	12.7
Hours Worked	6.7	0.8	+5.9	Increasing	6	12.7	81.3	6.0
Wages and Benefits	29.7	24.8	+4.9	Increasing	100	31.8	66.1	2.1
Input Prices	32.8	35.6	-2.8	Increasing	96	39.7	53.4	6.9
Selling Prices	13.8	20.7	-6.9	Increasing	96	31.0	51.7	17.2
Capital Expenditures	14.3	18.9	-4.6	Increasing	7	25.0	64.3	10.7
Inventories	15.0	10.6	+4.4	Increasing	6	34.2	46.5	19.2
Companywide Retail Activity								
Companywide Sales	32.9	29.5	+3.4	Increasing	97	41.8	49.4	8.9
Companywide Internet Sales	18.9	35.1	-16.2	Increasing	9	27.0	64.9	8.1

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

Indicator	Mar Index	Index	Change	Indicator Direction*	Trend** (Months)	% Reporting		
						Improved	No Change	Worsened
Company Outlook	16.3	12.0	+4.3	Improving	5	25.5	65.3	9.2
General Business Activity	9.9	8.1	+1.8	Improving	8	23.7	62.5	13.8

*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.

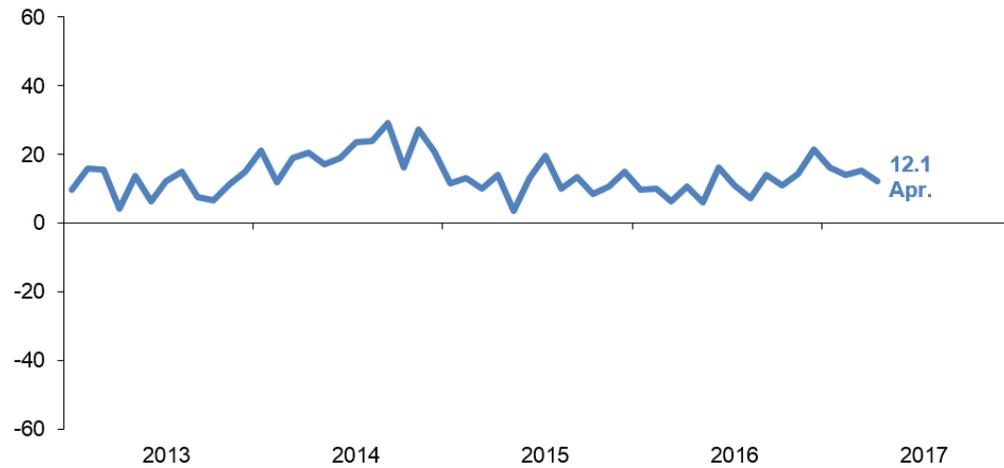
Data have been seasonally adjusted as necessary.

Texas Service Sector Outlook Survey

April 25, 2017

Texas Service Sector Outlook Survey Revenue Index

Index, seasonally adjusted

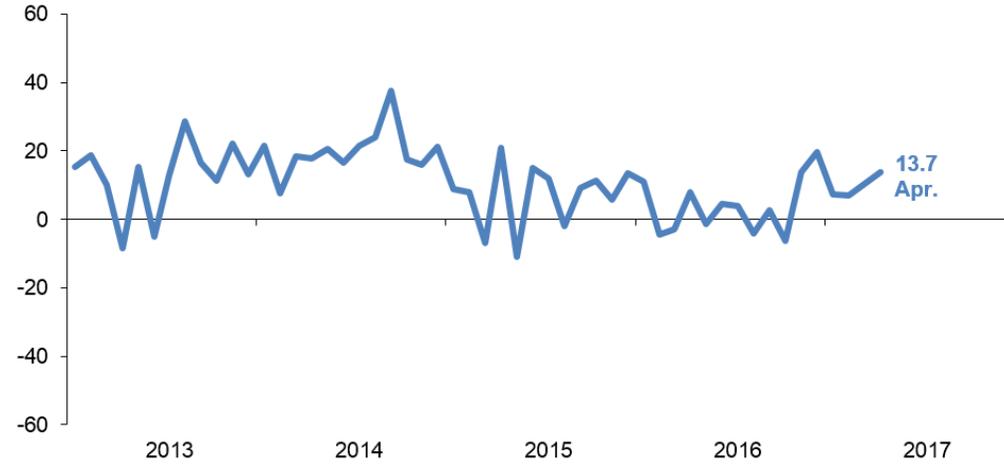


Federal Reserve Bank of Dallas

Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

Texas Service Sector Outlook Survey

April 25, 2017

Comments from Survey Respondents

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

Credit Intermediation and Related Activities

- Business activity levels remain generally robust. Productivity/efficiencies, however, do not seem to be strong enough to improve bottom lines.
- We just raised an initial public offering at half of our expected price range, so I can't say the capital markets are great.
- Fracking activity continues to increase, mainly in the Permian Basin.

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

- Overall business conditions are better. We are still fighting the increases in the same places—insurance, regulation, etc.—but business conditions are better based on the price of petroleum products.

Real Estate

- We need to repair roofs from hail damage last April.

Rental and Leasing Services

- The President Trump bump is over.

Telecommunications

- We would like to see President Trump deliver on his promise of less regulation and taxes for corporations. The Federal Communications Commission is still burying the telecom industry with 20-year-old regulations.

Professional, Scientific and Technical Services

- There is a lot of activity coming out of Q1. We are waiting to see how it carries into Q2 and the summer months. We do expect things to taper off but they're solid now.
- The oil and gas market is picking up, with several new pipelines being discussed.
- Decisions are taking much longer. The climate politically is stabilizing but is not great.
- We have seen a slight uptick in future construction work in April relative to the last four to six months, but it is still behind the previous three to four years by about 8 to 10 percent.
- Even though orders for commercial transactions have slowed, we are still very bullish on the DFW real estate market. Residential orders are down as well, but this is mainly due to a supply issue. We feel that the second half of this year will be significantly better than the first half because interest rates look to remain flat and apartment leasing is still running at a good pace.
- Market uncertainty is still keeping our outlook very conservative. That said, we had a very strong first quarter, and our second quarter has started well, too.

Management of Companies and Enterprises

- Overall business activity is slowing. Loan demand has retracted a good bit from the same time last year, and customers seem to be in a pay-down mode on loans at this time. Cattle lending is well below previous years with significant losses taken by producers over the last three years due to falling prices. Farming is concentrated in cotton on the High Plains of Texas this year with little diversification, which is a concern. No other crops seem to be able to show much, if any, ability for cash flow because of very low commodity prices.

Administrative and Support Services

- There is not much to be optimistic about. Hiring activity is very low.

- There has been a lot of rain, which slows us down.
- We continue to get mixed signals from our customers. They are seeing mixed results in their growth or are becoming hesitant to make decisions.
- Aircraft customers in corporate and general aviation have slowed somewhat on their requests for services. Lower utilization rates are the story that we are hearing for this slight decline. Machining operations continue to be flat. No major increase will be seen for the next two to three months. Overall, I am surprised by the remaining positive outlook of our customers overall in regard to the economy.

Educational Services

- I continue to be hopeful that tax reform will happen, because it's much needed. The infrastructure conversation during the presidential campaign really needs to materialize in the form of legislation, because it's much needed as well. I remain optimistic that these two things will occur during this calendar year, and this will give a boost to the economic climate around the country.

Ambulatory Health Care Services

- Higher revenues relate to increased activity expected from a large client. The launch of a new division is expected in mid third quarter, increasing revenues slightly with higher capital expenditures and headcount during the startup. Wages are also trending higher as the Dallas labor market tightens.
- A few key positions are being filled in April, increasing billable and grant revenues. The expenses for these positions will decrease as they have been filled with contract labor rather than employees.
- There has been a substantial increase in outpatient radiology referrals beginning in March. High-deductible policies have patients delaying care, it seems.
- Overall, health care service companies are facing challenging winds due to increasing deductibles from patient health insurance companies and aggressive marketing by Medicare managed care organizations that appears to mislead Medicare beneficiaries. On an individual company level, we are getting good growth due to the fact that we are quality-driven in all our efforts. Good-to-great growth is needed to stay ahead of a decreasing margin curve on the reimbursement end.

Nursing and Residential Care Facilities

- Business activity has definitely slowed over the past six to nine months. I don't see much positive change on the near-term horizon for our business. There is decent demand but too much new supply coming into the market.

Amusement, Gambling and Recreation Industries

- Overall, we have been surprised that the levels of our business have stayed strong. This is in light of many new restaurants in the downtown area.

Accommodation

- Inflation is definitely kicking in, especially in regard to produce.

Food Services and Drinking Places

- The labor pool for our sector has diminished greatly. We're having to pay more for less-qualified employees.
- The only impact for the next several months will be higher lettuce costs due to the flooding in California.

Pipeline Transportation

- The ongoing delay in appointing commissioners for vacant positions at the Federal Energy Regulatory Commission continues to delay project approvals. Opposition to energy projects continues to have a negative effect on investor confidence, causing investors to defer or cancel projects.

Merchant Wholesalers, Nondurable Goods

- The failure to revise or cancel the Affordable Care Act and the uncertainty of any tax reform continue to impact small- to medium-sized retailers. The March loss of 30,000 retail jobs [nationally] is indicative of the retail business outlook.

Motor Vehicle Parts Dealers

- New-vehicle unit sales peaked in 2016, and first quarter 2017 sales are down approximately 8 to 10 percent. Margins on new-vehicle sales continue to decline significantly.

Building Material and Garden Equipment and Supplies Dealers

- I think we need to be careful raising rates. I personally think another quarter this year is enough.

Clothing and Clothing Accessories Stores

- The reason for the increase in both input prices and selling prices six months from now is the fear of the border adjustment tax. Retailers and especially apparel retailers will be adversely impacted. The reason for generally no changes from March to April is the shift in the calendar for Easter.

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