



## Texas Service Sector Outlook Survey

### Texas Service Sector Activity Picks Up

May 31, 2017

Texas service sector activity increased 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, rose four points to 15.9 in May.

Labor market indicators reflected faster employment growth and slightly longer workweeks this month. The employment index moved up from 4.5 to 7.7. The hours worked index remained positive but fell slightly to 2.1.

Perceptions of broader economic conditions reflected slightly less optimism in May. The general business activity index edged down from 9.0 to 7.7. The company outlook index dipped four points to 7.1, with 19 percent of respondents reporting that their outlook improved from last month and 12 percent noting it worsened.

Price and wage pressures increased this month. The selling prices index edged up one point to 8.1. The wages and benefits index rose slightly from 15.5 to 16.9, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions also reflected slightly less optimism in May. The index of future general business activity ticked down to 18.9. The index of future company outlook edged down two points to 23.2. Indexes of future service sector activity, such as future revenue and employment, continued to reflect optimism this month.



## Texas Retail Outlook Survey

### Retail Sales Increase but at a Slower Pace

May 31, 2017

Retail sales grew in May, albeit at a slower pace than last month, according to business executives responding to the Texas Retail Outlook Survey. The sales index fell from 13.7 in April to 10.1 in May. Inventories increased at a slower pace this month.

Labor market indicators worsened this month. The employment index dropped six points to -3.0, suggesting retail employment decreased on net. The hours worked index fell slightly from a reading near zero to -1.7, suggesting workweeks shortened in May.

Retailers' perceptions of broader economic conditions reflected less optimism in May. The general business activity index moved down five points into negative territory to a reading of -2.6. The company outlook index fell to a reading near zero, with 17 percent of respondents reporting that their outlook improved from last month and 16 percent noting that it worsened.

Retail price and wage pressures increased. The selling prices index advanced from a reading near zero to 7.8. The wages and benefits index rose slightly from 9.4 to 11.7, although the majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions reflected less optimism in May. The index of future general business activity fell from 9.9 to 5.4. The index of future company outlook moved down five points to 11.2. 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.**

**Next release:** June 27, 2017

Data were collected May 16–24, and 293 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

May 31, 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	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	15.9	12.1	+3.8	Increasing	90	32.5	50.9	16.6
Employment	7.7	4.5	+3.2	Increasing	87	16.0	75.7	8.3
Part-Time Employment	5.7	3.0	+2.7	Increasing	11	10.4	84.9	4.7
Hours Worked	2.1	3.5	-1.4	Increasing	7	9.4	83.3	7.3
Wages and Benefits	16.9	15.5	+1.4	Increasing	92	19.0	78.9	2.1
Input Prices	25.5	26.9	-1.4	Increasing	97	27.5	70.5	2.0
Selling Prices	8.1	7.2	+0.9	Increasing	15	11.3	85.5	3.2
Capital Expenditures	20.9	13.2	+7.7	Increasing	93	23.8	73.4	2.9

## General Business Conditions Current (versus previous month)

Indicator	Index	Apr		Indicator Direction*	Trend** (Months)	% Reporting		
		Index	Change			Improved	No Change	Worsened
Company Outlook	7.1	10.9	−3.8	Improving	11	18.7	69.7	11.6
General Business Activity	7.7	9.0	−1.3	Improving	9	19.6	68.6	11.9

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

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	47.0	47.3	−0.3	Increasing	99	54.6	37.7	7.6
Employment	21.7	24.5	−2.8	Increasing	98	31.6	58.6	9.9
Part-Time Employment	8.3	8.9	−0.6	Increasing	59	14.0	80.3	5.7
Hours Worked	6.1	11.6	−5.5	Increasing	9	9.8	86.5	3.7
Wages and Benefits	43.0	42.3	+0.7	Increasing	125	45.4	52.2	2.4
Input Prices	45.5	46.5	−1.0	Increasing	125	47.8	50.0	2.3
Selling Prices	28.7	25.0	+3.7	Increasing	97	34.2	60.3	5.5
Capital Expenditures	23.5	27.0	−3.5	Increasing	98	29.8	63.9	6.3

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

Indicator	Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	23.2	25.3	−2.1	Improving	15	35.3	52.7	12.1
General Business Activity	18.9	20.6	−1.7	Improving	15	29.8	59.3	10.9

# Texas Retail Outlook Survey

May 31, 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	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	10.1	13.7	-3.6	Increasing	7	30.4	49.2	20.3
Employment	-3.0	3.0	-6.0	Decreasing	1	5.9	85.2	8.9
Part-Time Employment	9.8	8.5	+1.3	Increasing	4	13.1	83.6	3.3
Hours Worked	-1.7	0.5	-2.2	Decreasing	1	9.9	78.5	11.6
Wages and Benefits	11.7	9.4	+2.3	Increasing	75	17.9	75.9	6.2
Input Prices	17.3	24.3	-7.0	Increasing	16	22.9	71.5	5.6
Selling Prices	7.8	-0.8	+8.6	Increasing	1	17.6	72.6	9.8
Capital Expenditures	11.3	11.4	-0.1	Increasing	10	19.4	72.6	8.1
Inventories	2.6	6.2	-3.6	Increasing	8	20.1	62.4	17.5
<b>Companywide Retail Activity</b>								
Companywide Sales	13.1	11.7	+1.4	Increasing	8	32.8	47.6	19.7
Companywide Internet Sales	13.3	12.1	+1.2	Increasing	4	20.2	72.9	6.9

## General Business Conditions, Retail

Current (versus previous month)

Indicator	Index	Apr		Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting	
		Index	Change				No Change	Worsened
Company Outlook	0.8	9.4	−8.6	Improving	2	17.0	66.8	16.2
General Business Activity	−2.6	2.6	−5.2	Worsening	1	13.1	71.2	15.7

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

							%	
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	31.3	34.9	−3.6	Increasing	99	47.4	36.4	16.1
Employment	−4.6	4.9	−9.5	Decreasing	1	14.0	67.4	18.6
Part-Time Employment	1.1	0.1	+1.0	Increasing	7	12.3	76.5	11.2
Hours Worked	−5.0	6.7	−11.7	Decreasing	1	7.3	80.4	12.3
Wages and Benefits	27.1	29.7	−2.6	Increasing	101	32.0	63.0	4.9
Input Prices	36.1	32.8	+3.3	Increasing	97	44.3	47.5	8.2
Selling Prices	29.5	13.8	+15.7	Increasing	97	39.3	50.8	9.8
Capital Expenditures	9.8	14.3	−4.5	Increasing	8	26.2	57.4	16.4
Inventories	9.5	15.0	−5.5	Increasing	7	27.2	55.1	17.7
Companywide Retail Activity								
Companywide Sales	35.2	32.9	+2.3	Increasing	98	46.2	42.8	11.0
Companywide Internet Sales	11.4	18.9	−7.5	Increasing	10	20.5	70.5	9.1

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

Indicator	Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting		
						% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	11.2	16.3	-5.1	Improving	6	29.9	51.4	18.7
General Business Activity	5.4	9.9	-4.5	Improving	9	23.8	57.8	18.4

\*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.

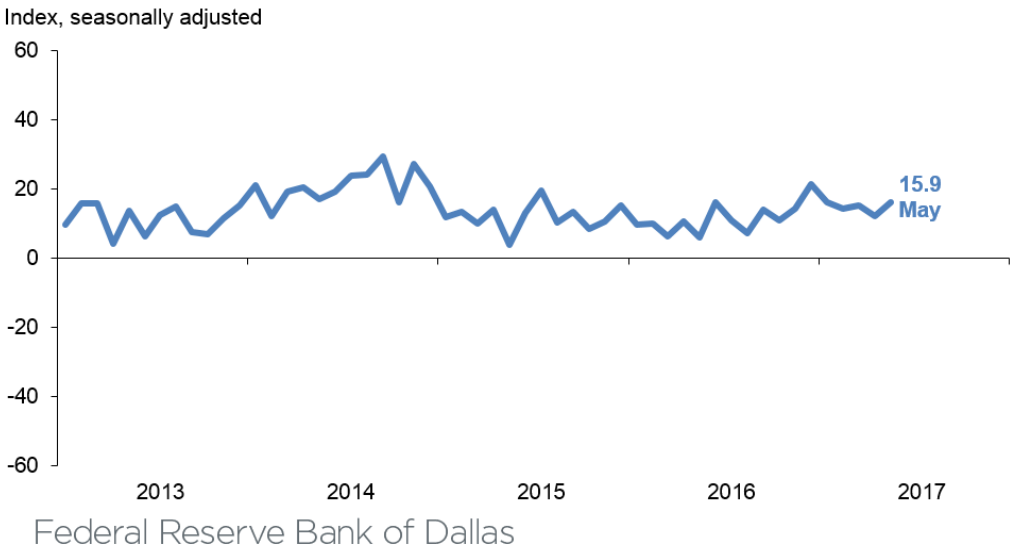
\*\*Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

# Texas Service Sector Outlook Survey

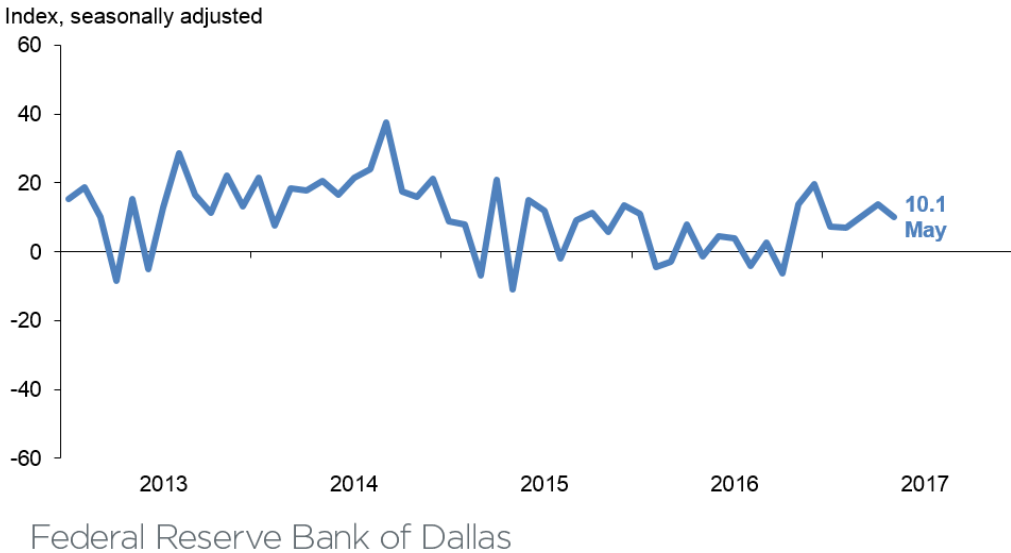
May 31, 2017

## Texas Service Sector Outlook Survey Revenue Index



# Texas Retail Outlook Survey

## Texas Retail Outlook Survey Sales Index



# Texas Service Sector Outlook Survey

May 31, 2017

## Comments from Survey Respondents

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

### Credit Intermediation and Related Activities

- The increase in oil production has increased the demand for frac sand, which has increased trucking activity. The price of beef has had positive gains, and goat and sheep prices have held steady. There is increased optimism that regulatory relief may be on the verge of becoming a reality if Congress can form some bipartisan support.

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

- Business activity is moving upward, but things like regulations, taxes and insurance, i.e., health and property, and all the rest continue their move upward. It is hard to get these increases into selling prices.

### Insurance Carriers and Related Activities

- There seems to be a mild improvement in optimism in Texas since the legislature is almost finished for two years and energy prices are ticking up a bit.

### Real Estate

- While business is decent, all the border discussions and immigration issues and questions about health care have dampened customer sentiment, and I think are slowing growth in the market and slowing consumer spending, especially on big-ticket items.
- There seems to be a lot of uncertainty. People are talking about North Korea and the tweets of President Trump. It is causing anxiety among buyers of high-end properties. The lower interest rates continue to help first-time homebuyers.

### Telecommunications

- The Houston economy is still down due to oil prices, but we continue to incur growth, just at a slower pace. The Federal Communications Commission needs to reduce regulation to include terminating the ability of programmers to bundle their services and best-favored contract clauses for huge companies.

### Data Processing, Hosting and Related Services

- In general, customers and prospects are optimistic but still a bit hesitant to make purchase decisions. Unknowns about how government policies will affect employers seem to be making businesses hold back the reins at this time.

### Professional, Scientific and Technical Services

- We are seeing a lot of uncertainty in the development/construction area. Construction of retail is nonexistent. Based on new project-design inventory, new construction should see a falloff in three to six months if there is no change in the current pattern.
- Confidence in the government seems to be diminishing. Thus, the confidence level of business is affected. We see a much longer decision period, thus, negatively affecting the sales cycle.
- We are still very nervous regarding the president's effect on the legal services industry. The year started with high expectations regarding health care, tax, regulatory and trade reform, which would generally lead to an increase in legal services work. The first two quarters have been strong, but sustainability is in question because of the lack of the administration to be able to effect the expected changes. However, our clients are still speaking positively about the market, and our group leaders overseeing various lines of practice believe things are sustainable.
- Even though our revenue is ahead of 2016, we are very cautious about the remainder of the year. With the issues surrounding the president, we will definitely remain this way until things settle down.

### Management of Companies and Enterprises



- We have too many useless government regulations that drag us down and cost us money. So many of the regulations do nothing except add paperwork.
- Primarily, new employees are being added to strictly handle regulatory monitoring and accumulation of data. Compliance and regulations are choking the business industry.

## **Administrative and Support Services**

- Contract staffing business is about the same—tough—demand for full-time employees has weakened again.
- Pending legislation in Austin could dramatically impact visitors and meetings in Dallas and the state, specifically, the "bathroom bill" and "sanctuary city" legislation.
- The work is there, but it's tough finding labor.
- Opportunities are everywhere.
- Customers are open to discussing service and products, but they are still slow to react. Companies are still running lean both in terms of expense allocation and employees. As a result, decisions are not made easily even when savings are presented. It is easier to not make a decision rather than study new alternatives. So, the process of selling continues to be extended and delayed.
- Aircraft inspections have remained consistent month to month from the beginning of this year. An increase in heavy inspections is forecasted for the third quarter. Industrial inspection activities have remained flat since March of this year. Requests for service quotes have been the main activity of late. Military inspections have remained unchanged since March.
- The climate for travel purchases is increasing on a last-minute consideration. The luxury products continue to be in demand, and alternatives to traditional modes of transportation are highly requested.

## **Educational Services**

- I'd like to see the legislative and executive branches move on health care, tax reform and infrastructure spend in this calendar year.

## **Ambulatory Health Care Services**

- Higher revenues in May and six months out relate to higher volumes and the launch of a new division in mid third quarter. The increase in employees relates to ramping up for the launch of the new division. The higher number of part-time employees relates to our summer help job program. Higher wages relate to ramping up for the launch of the new division and a tighter labor market. Higher capital expenditures relate to the launch of the new division.
- Limitations on the availability of capital and operational financing have become acute in the preceding three to four months. This has hindered growth substantially and even presented some challenges with day-to-day operations.
- We are expecting cost increases in the area of salaries as competition for qualified staff increases. The employment pool is shrinking, even for clerical positions.

## **Nursing and Residential Care Facilities**

- Uncertainty about congressional action on health reform continues to mitigate planning for growth or expansion in services. At the same time, we face competitive pressures for labor expense. We are projecting reduced payment/reimbursement for Medicare/Medicaid patient care services and an increase in bad debt/charity care expense.

## **Social Assistance**

- On the service side, there are additional linkages and coordination of service providers in the San Antonio region, achieving a more coordinated and less duplicative delivery system. On the business side, it is a difficult market for clean energy. Demand for IT training continues to increase.

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

- Our issues remain the same as last month. Parking during the day in downtown Austin is very challenging, and Austin does not have a good transit system to move people in and out of downtown. In addition, there are big hotels opening and more restaurants, so the hiring of qualified employees (particularly cooks) is very difficult.

## **Food Services and Drinking Places**

- Revenue is up because we are experiencing our first increase over last year on a same-store basis in several months. The time period is too short to be sure it is going to last, but the first three weeks of May are definitely up on a same-store basis. We are experiencing wage increases now at a higher percentage than we have over the last few years. We have crossed the line in the last year and actually showed a year-over-year increase last month of more than 2 percent for our restaurant hourly personnel except the food servers. We have fallen into a pattern of giving an annual review and salary increase to all our nonhourly restaurant employees (management, office, maintenance, etc.) at the start of our fiscal year (July 1). That is why I am showing an increase in the six-month horizon. We haven't determined the percent increase that will be given yet, but it will all hit in July. This includes about a quarter of our workforce. We took a 1 percent price increase beginning May 3. It will be six months before we consider another increase.
- The entry-level employment pool has tightened and wages are going up.
- The decline in employment is due to people quitting; we can't hold on to them.

## **Merchant Wholesalers, Durable Goods**

- I had optimism that many of President Trump's campaign initiatives like entitlement reform, tax reform, etc., would occur in 2017. With Congress proving ineffective, I am beginning to doubt whether they will occur or not, and that has caused my outlook to worsen from prior months of record-high optimism.
- The markets look like they are getting stronger, and the activity of business is improving slightly. Oil and gas markets are kind of up and down, although generally improving slightly. Road building, commercial construction and home building also appear to be strong with no tail-off in sight.
- We are experiencing very dry weather conditions, which will generate less disposable income for most of our customer base.

## **Merchant Wholesalers, Nondurable Goods**

- The Affordable Care Act continues to be a concern. Conversion of employees to part time is critical. The Wall Street and Main Street economies are not the same. Main Street has not recovered. There is continuing pressure in the retail area.

## **Motor Vehicle Parts Dealers**

- The truck industry is stuck on neutral overall. The industry expects to see a rebound late in the year.

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

- Things started picking up in all my companies. In April, the sand pit got some large contracts. Home sales had a nice jump—21 sales compared to 14 last year, and wholesale plant sales picked up, but I don't think it's time to raise rates much.

## **Clothing and Clothing Accessories Stores**

- Sales in the oil patch and at stores near the Mexican border are still running down but have stabilized and are no longer accelerating downward.

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).