



Texas **Service Sector** Outlook Survey

June 27, 2017

Texas Service Sector Activity Continues to Expand

Texas service sector activity continued to reflect expansion in June albeit at a slightly slower pace, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, ticked down one point to 14.8 in June.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index moved up four points to 11.9. The hours worked index rose slightly from 2.1 to 4.3.

Perceptions of broader economic conditions reflected more optimism in June. The general business activity index edged up from 7.7 to 10.1. The company outlook index advanced seven points to 14.2, its highest reading in five months, with 23 percent of respondents reporting that their outlook improved from last month and 8 percent noting it worsened.

Price pressures eased while wage pressures increased this month. The selling prices index fell slightly from 8.1 to 6.0. The wages and benefits index edged up from 16.9 to 19.5, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions also reflected more optimism in June. The index of future general business activity inched up from 18.9 to 21.1. The index of future company outlook rose three points to 26.2. 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 Slower Pace

Retail sales grew in June at a slower pace than last month, according to business executives responding to the Texas Retail Outlook Survey. The sales index fell from 10.1 in May to 3.5 in June, its lowest reading in eight months. Inventories increased at a faster pace this month.

Labor market indicators were mixed this month. The employment index rebounded to positive territory to a reading of 10.1, suggesting retail employment increased on net. The hours worked index remained in negative territory, falling one point to -2.7, suggesting workweeks shortened again in June.

However, retailers' perceptions of broader economic conditions improved in June. The general business activity index surged 12 points to 9.6, its highest reading in five months. The company outlook index also jumped 12 points coming in at 12.8, with 21 percent of respondents reporting that their outlook improved from last month and 8 percent noting that it worsened.

Retail price pressures eased while wage pressures increased. The selling prices index fell from 7.8 to 3.1. The wages and benefits index rose from 11.7 to 15.3, although the majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions reflected more optimism in June. The index of future general business activity shot up 15 points to 20.5. The index of future company outlook jumped from 11.2 to 22.9. 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: August 1, 2017

Data were collected June 13–21, 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

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

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	14.8	15.9	-1.1	Increasing	91	30.5	53.8	15.7
Employment	11.9	7.7	+4.2	Increasing	88	19.3	73.3	7.4
Part-Time Employment	5.9	5.7	+0.2	Increasing	12	8.0	89.9	2.1
Hours Worked	4.3	2.1	+2.2	Increasing	8	10.1	84.1	5.8
Wages and Benefits	19.5	16.9	+2.6	Increasing	93	21.3	76.9	1.8
Input Prices	23.3	25.5	-2.2	Increasing	98	25.1	73.1	1.8
Selling Prices	6.0	8.1	-2.1	Increasing	16	11.2	83.6	5.2
Capital Expenditures	9.5	20.9	-11.4	Increasing	94	15.1	79.3	5.6

General Business Conditions Current (versus previous month)

Indicator	Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	14.2	7.1	+7.1	Improving	12	22.6	69.1	8.4
General Business Activity	10.1	7.7	+2.4	Improving	10	20.8	68.5	10.7

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

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	45.6	47.0	-1.4	Increasing	100	54.6	36.3	9.0
Employment	27.7	21.7	+6.0	Increasing	99	35.2	57.3	7.5
Part-Time Employment	6.2	8.3	-2.1	Increasing	60	14.1	78.0	7.9
Hours Worked	7.2	6.1	+1.1	Increasing	10	12.1	83.0	4.9
Wages and Benefits	43.2	43.0	+0.2	Increasing	126	45.0	53.2	1.8
Input Prices	42.5	45.5	-3.0	Increasing	126	44.0	54.5	1.5
Selling Prices	27.1	28.7	-1.6	Increasing	98	32.7	61.7	5.6
Capital Expenditures	22.8	23.5	-0.7	Increasing	99	28.6	65.5	5.8

General Business Conditions Future (six months ahead)

Indicator	Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	26.2	23.2	+3.0	Improving	16	37.0	52.2	10.8
General Business Activity	21.1	18.9	+2.2	Improving	16	30.5	60.1	9.4

Texas Retail Outlook Survey

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

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	3.5	10.1	-6.6	Increasing	8	25.9	51.7	22.4
Employment	10.1	-3.0	+13.1	Increasing	1	17.5	75.1	7.4
Part-Time Employment	10.3	9.8	+0.5	Increasing	5	15.5	79.3	5.2
Hours Worked	-2.7	-1.7	-1.0	Decreasing	2	7.1	83.1	9.8
Wages and Benefits	15.3	11.7	+3.6	Increasing	76	18.4	78.5	3.1
Input Prices	13.0	17.3	-4.3	Increasing	17	20.1	72.8	7.1
Selling Prices	3.1	7.8	-4.7	Increasing	2	14.5	74.1	11.4
Capital Expenditures	5.2	11.3	-6.1	Increasing	11	13.8	77.6	8.6
Inventories	10.8	2.6	+8.2	Increasing	9	28.3	54.2	17.5
Companywide Retail Activity								
Companywide Sales	13.9	13.1	+0.8	Increasing	9	30.3	53.3	16.4
Companywide Internet Sales	18.4	13.3	+5.1	Increasing	5	28.6	61.2	10.2

General Business Conditions, Retail Current (versus previous month)

Indicator	Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	12.8	0.8	+12.0	Improving	3	21.0	70.8	8.2
General Business Activity	9.6	-2.6	+12.2	Improving	1	18.7	72.2	9.1

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

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	37.5	31.3	+6.2	Increasing	100	49.0	39.4	11.5
Employment	18.6	-4.6	+23.2	Increasing	1	29.7	59.2	11.1
Part-Time Employment	-1.0	1.1	-2.1	Decreasing	1	9.3	80.4	10.3
Hours Worked	0.6	-5.0	+5.6	Increasing	1	8.3	84.0	7.7
Wages and Benefits	32.4	27.1	+5.3	Increasing	102	34.2	64.0	1.8
Input Prices	35.1	36.1	-1.0	Increasing	98	38.6	57.9	3.5
Selling Prices	36.9	29.5	+7.4	Increasing	98	40.4	56.1	3.5
Capital Expenditures	12.3	9.8	+2.5	Increasing	9	21.1	70.2	8.8
Inventories	11.5	9.5	+2.0	Increasing	8	29.5	52.5	18.0
Companywide Retail Activity								
Companywide Sales	27.2	35.2	-8.0	Increasing	99	37.2	52.8	10.0
Companywide Internet Sales	23.7	11.4	+12.3	Increasing	11	23.7	76.3	0.0

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

Indicator	Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	22.9	11.2	+11.7	Improving	7	33.7	55.5	10.8
General Business Activity	20.5	5.4	+15.1	Improving	10	28.8	62.9	8.3

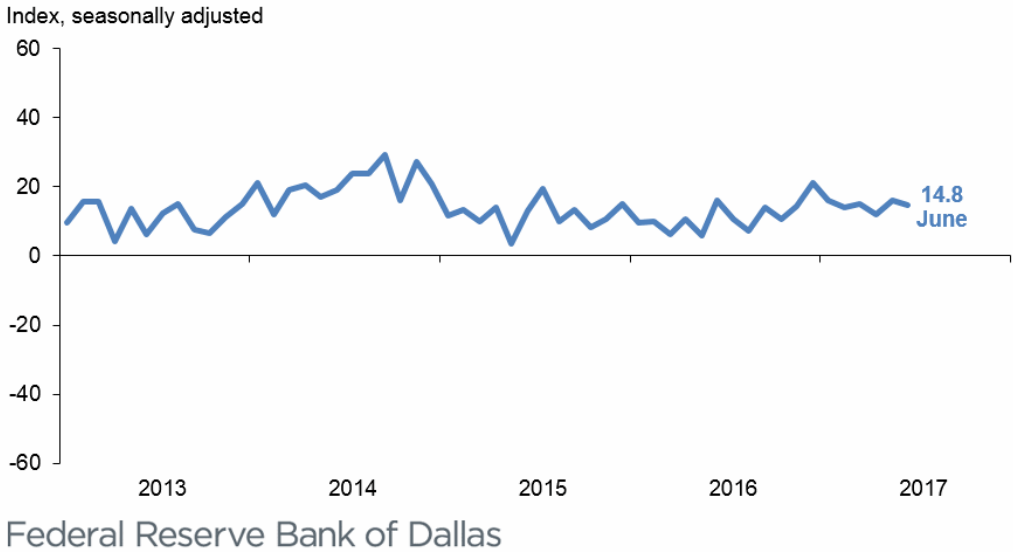
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

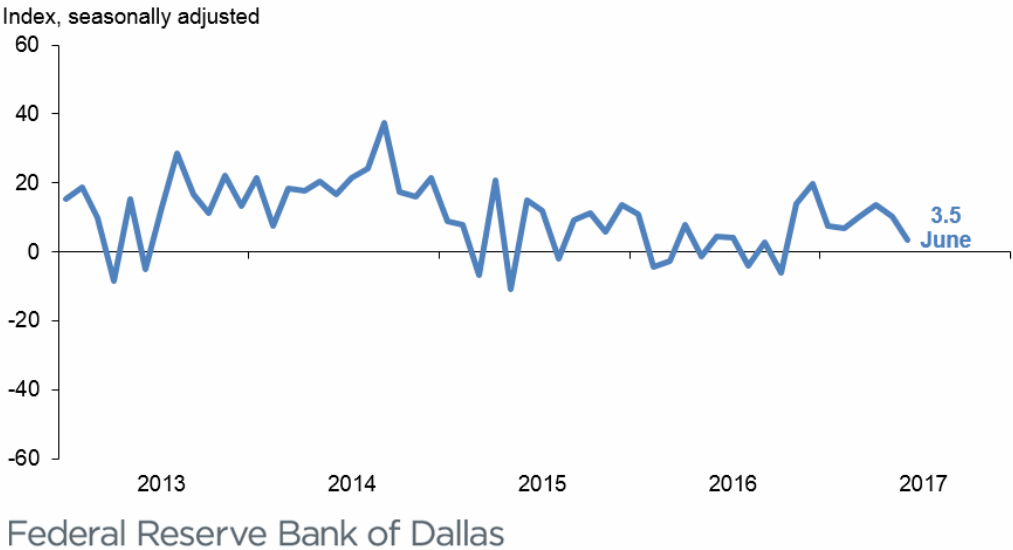
Texas Service Sector Outlook Survey

Texas Service Sector Outlook Survey Revenue Index



Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index



Texas Service Sector Outlook Survey

June 27, 2017

Comments from Survey Respondents

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

Credit Intermediation and Related Activities

- Activity seems to be picking up based on traffic counts and restaurant crowds. There is an increased number of construction crews due in part to infrastructure activity for a wind generator field in the county. Recent rains have been timely and the country looks good. There is a lot of outside activity by hunters getting hunting leases ready for hunting season. Railroad activity has increased—shipping sand and grain out.

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

- We do not anticipate much of a change in the economic outlook over the next six months. Still, our part of the economy is less than vigorous, and regulation expenses, along with property tax and health insurance expenses, continue to increase.

Telecommunications

- The Houston economy is still in a downturn and will only improve as the petrochemical and oil industry improve.

Data Processing, Hosting and Related Services

- Purse strings seem to be loosening as the economy appears to be improving, although due diligence requirements from prospects are generally increasing. We are hiring more sales people in anticipation of improved buying patterns. Then, we will add service and support employees in about six months as orders firm up.

Professional, Scientific and Technical Services

- While activity remains robust, especially in the mergers and acquisitions and private equity areas, we are still not convinced that it will be sustainable throughout the remainder of the year under the current global and domestic (including at the national and state level) geopolitical and economic circumstances.
- Political unrest and frustration over the lack of unity make everyone anxious. And the concern about the passage of the bathroom bill is real. That would hurt all of Texas.
- Oil and gas pipeline business has picked up in West Texas as well as some long-haul transmission lines from Permian Basin to Houston and the Corpus Christi area.

Management of Companies and Enterprises

- There seem to be headwinds to a complete recovery—a reluctance to invest in new projects. It seems as if the mood of the country is, let's wait. I think we as a nation are learning how to cope and manage the 24/7/365 news cycle and the sensationalism that follows the news. I believe that it's somehow slowing the business community down while it digests the data.
- There is too much government regulation. I heard of another community bank selling out. Community banks are needed in small communities, but they are struggling with regulatory burden. So much of the burden is not accomplishing anything. It's not just community banks. Small businesses of all kinds are struggling with government regulations. It has reached the point that it seems useless to complain.
- Federal overreach continues to be a total drag on the economy.

Administrative and Support Services

- We still do not see increased investment from large or small businesses. IT hiring for full-time positions is still soft.

- The corporate aircraft sector has increased in total inspections performed per increased hours flown. There seems to be an increasing trend of more maintenance performed on older aircraft. The heavy commercial aircraft sector has remained flat, with no increase in inspection callouts for maintenance, repair and overhaul. We have seen an increase for some independent operators for field inspections at remote locations. The industrial sector showed improvement in regard to finished items in the military and automobile areas. We expect inspection of machined parts to increase as more activity on requests for quote is seen as of June 2017. The oil and gas sector remains flat. No changes have been seen or are on the horizon so far, as future quoting of work is relatively nonexistent at this time. At some point, the existing oil and gas infrastructure will be required by calendar time to be inspected and/or repaired.

Ambulatory Health Care Services

- Uncertainty over the Affordable Care Act and what changes will occur has put any expansion on hold. Medical providers do not know how changes in insurance coverage will impact patients.
- Home health services are being battered by increasing clinical requirements that are fundamentally on the inpatient side but now being applied to home-based health services. Increasing penetration of managed Medicare taking over traditional Medicare patients continues to fragment patient-centered care; it is now turning out to be insurance payer-centric services causing operational/financial challenges to the home health agencies, including a lot of surprises to the insurance subscribers due to the service-specific deductibles, which are being absorbed by the home health agencies, causing financial challenges.
- Higher revenues six months out relate to the launch of a new division mid third quarter. The increase in employees relates to ramping up for the launch of the new division. The number of part-time employees will decrease six months out related to the end of our summer-help program. Average workweeks will potentially increase several months out related to the new division launch activities. Wages and benefits will increase as employees are hired for the new division from a tighter labor market in Dallas. Capital expenditures will begin to decrease from prior periods since most expenditures related to division launch are complete.

Hospitals

- Health care is over 20 percent of the economy in many rural towns. Rural health care systems are being squeezed by regulatory requirements, increased costs, reduced reimbursements and reduced funding. Margins are very thin. It is critical for rural communities to have independent health care.

Social Assistance

- While business activity continues to appear to be on the rise, federal funding in support of or allocated to promote these activities is expected to decrease.

Amusement, Gambling and Recreation Industries

- There are so many new restaurants and hotels opening in Austin that it remains very difficult to hire skilled employees and retain them. Therefore, we will need to increase wages to continue to compete. In addition, the construction business in Austin is very hot, and they are willing to pay a lot of money right now for manual-/semi-skilled employees. This also puts a strain on employee availability. In addition, there is immigration back to Mexico along with tighter border controls, leaving another layer of labor shortages. The above, coupled with the increases in property taxes and health insurance, is creating a difficult time in Austin to do business.

Food Services and Drinking Places

- In the short term, things have been improving. Sales are up. The trend isn't long enough yet that we want to shift our six-month forecast to reflect more optimism, but if things continue on the current line through July, we will have to start considering the shift to better revenue as an indicator that the longer term horizon might also have improved. We're showing increased cost in wages and benefits because wages are finally beginning to move up if you consider a subset of our employees. Very close to half of the hourly personnel in our company are tipped employees making \$2.13 per hour, and their wages do not change. However, the wages for the nontipped hourly restaurant employees are now consistently moving up at an annual rate slightly over 2 percent. It is still the case that when you look at our total wage rate, that the rate of increase appears much lower because of the large percentage of employees receiving no change in base pay. With regard to the rest of our employees, our fiscal year begins in July and we tend to have a once-a-year review of wages for all those positions. We will have a corporate decision within the next month about wage increases for all management and nonrestaurant (office, maintenance, etc.) personnel. That decision has not been made yet, but it is likely to be at or above 2 percent.
- We have had to raise entry-level wages to \$11 and \$12 an hour to attract good high school and college-age workers in certain markets. I see no relief in sight.

Clothing and Clothing Accessories Stores

- Sales continue to decline at the store level. The result is that we will plan lower inventories and reduce capital expenditures where appropriate.
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Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.