



Texas **Service Sector** Outlook Survey

August 1, 2017

Texas Service Sector Activity Strengthens

Texas service sector activity continued to reflect expansion in July, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, edged up one point to 15.7 in July.

Labor market indicators reflected slower employment growth and longer workweeks this month. The employment index moved down four points to 7.5. The hours worked index rose from 4.3 to 8.1.

Perceptions of broader economic conditions continued to reflect optimism in July. The general business activity index held steady at 10.5. The company outlook index fell from 14.2 to 7.9, with 19 percent of respondents reporting that their outlook improved from last month and 12 percent noting it worsened.

Price pressures increased while wage pressures eased this month. The selling prices index moved up from 6.0 to 10.4. The wages and benefits index moved down three points to 16.1, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions continued to reflect optimism in July. The index of future general business activity rose slightly to 23.0. The index of future company outlook fell three points to 23.1. Indexes of future service sector activity, such as future revenue and employment, also continued to reflect optimism this month.



Texas **Retail** Outlook Survey

Retail Sales Decline

Retail sales fell in July for the first time in nine months, according to business executives responding to the Texas Retail Outlook Survey. The sales index moved down five points to -1.1 in July. Inventories increased at a slower pace this month.

Labor market indicators were mixed this month. The employment index plunged 10 points to a reading near zero, suggesting retail employment was unchanged on net. The hours worked index rebounded to positive territory to a reading of 3.3, suggesting workweeks lengthened in July.

Retailers' perceptions of broader economic conditions reflected less optimism in July. The general business activity index fell from 9.6 to 4.3. The company outlook index retreated to a reading near zero, as the share of respondents reporting that their outlook improved from last month equaled the share noting that it worsened.

Retail price and wage pressures increased. The selling prices index advanced seven points to 10.3. The wages and benefits index edged up from 15.3 to 17.7, although the majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions reflected less optimism in July. The index of future general business activity fell five points to 15.4. The index of future company outlook dropped 13 points to 9.9. Indexes of future retail sector activity mostly 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: August 29, 2017

Data were collected July 18–26, and 285 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	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	15.7	14.8	+0.9	Increasing	92	30.9	53.9	15.2
Employment	7.5	11.9	-4.4	Increasing	89	15.3	76.9	7.8
Part-Time Employment	5.1	5.9	-0.8	Increasing	13	7.6	89.9	2.5
Hours Worked	8.1	4.3	+3.8	Increasing	9	11.7	84.7	3.6
Wages and Benefits	16.1	19.5	-3.4	Increasing	94	17.9	80.4	1.8
Input Prices	18.2	23.3	-5.1	Increasing	99	20.5	77.1	2.3
Selling Prices	10.4	6.0	+4.4	Increasing	17	14.3	81.8	3.9
Capital Expenditures	10.1	9.5	+0.6	Increasing	95	17.6	74.9	7.5

General Business Conditions Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	7.9	14.2	-6.3	Improving	13	19.4	69.0	11.5
General Business Activity	10.5	10.1	+0.4	Improving	11	20.8	68.9	10.3

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	45.8	45.6	+0.2	Increasing	101	55.5	34.8	9.7
Employment	24.9	27.7	-2.8	Increasing	100	34.5	55.9	9.6
Part-Time Employment	5.3	6.2	-0.9	Increasing	61	13.2	78.9	7.9
Hours Worked	4.9	7.2	-2.3	Increasing	11	10.1	84.7	5.2
Wages and Benefits	40.2	43.2	-3.0	Increasing	127	42.2	55.8	2.0
Input Prices	37.9	42.5	-4.6	Increasing	127	41.6	54.6	3.7
Selling Prices	25.0	27.1	-2.1	Increasing	99	30.4	64.2	5.4
Capital Expenditures	23.7	22.8	+0.9	Increasing	100	31.0	61.7	7.3

General Business Conditions Future (six months ahead)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	23.1	26.2	-3.1	Improving	17	34.5	54.1	11.4
General Business Activity	23.0	21.1	+1.9	Improving	17	31.3	60.3	8.3

Texas Retail Outlook Survey

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	-1.1	3.5	-4.6	Decreasing	1	20.1	58.7	21.2
Employment	-0.1	10.1	-10.2	Decreasing	1	5.2	89.5	5.3
Part-Time Employment	7.5	10.3	-2.8	Increasing	6	11.3	84.9	3.8
Hours Worked	3.3	-2.7	+6.0	Increasing	1	9.8	83.7	6.5
Wages and Benefits	17.7	15.3	+2.4	Increasing	77	21.0	75.7	3.3
Input Prices	13.1	13.0	+0.1	Increasing	18	17.4	78.3	4.3
Selling Prices	10.3	3.1	+7.2	Increasing	3	18.6	73.0	8.3
Capital Expenditures	9.2	5.2	+4.0	Increasing	12	14.8	79.6	5.6
Inventories	6.0	10.8	-4.8	Increasing	10	22.1	61.8	16.1
Companywide Retail Activity								
Companywide Sales	-5.3	13.9	-19.2	Decreasing	1	11.9	70.9	17.2
Companywide Internet Sales	3.7	18.4	-14.7	Increasing	6	14.2	75.3	10.5

General Business Conditions, Retail
Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-0.7	12.8	-13.5	Worsening	1	16.2	66.9	16.9
General Business Activity	4.3	9.6	-5.3	Improving	2	17.0	70.2	12.7

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	28.4	37.5	-9.1	Increasing	101	44.7	38.9	16.3
Employment	7.5	18.6	-11.1	Increasing	2	19.7	68.1	12.2
Part-Time Employment	-3.9	-1.0	-2.9	Decreasing	2	10.8	74.5	14.7
Hours Worked	-4.2	0.6	-4.8	Decreasing	1	5.9	84.0	10.1
Wages and Benefits	29.9	32.4	-2.5	Increasing	103	32.7	64.5	2.8
Input Prices	28.3	35.1	-6.8	Increasing	99	34.0	60.4	5.7
Selling Prices	26.4	36.9	-10.5	Increasing	99	32.1	62.3	5.7
Capital Expenditures	15.1	12.3	+2.8	Increasing	10	22.6	69.8	7.5
Inventories	7.1	11.5	-4.4	Increasing	9	23.5	60.1	16.4
Companywide Retail Activity								
Companywide Sales	31.4	27.2	+4.2	Increasing	100	39.9	51.6	8.5
Companywide Internet Sales	11.8	23.7	-11.9	Increasing	12	20.6	70.6	8.8

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	9.9	22.9	-13.0	Improving	8	24.5	60.9	14.6
General Business Activity	15.4	20.5	-5.1	Improving	11	27.3	60.8	11.9

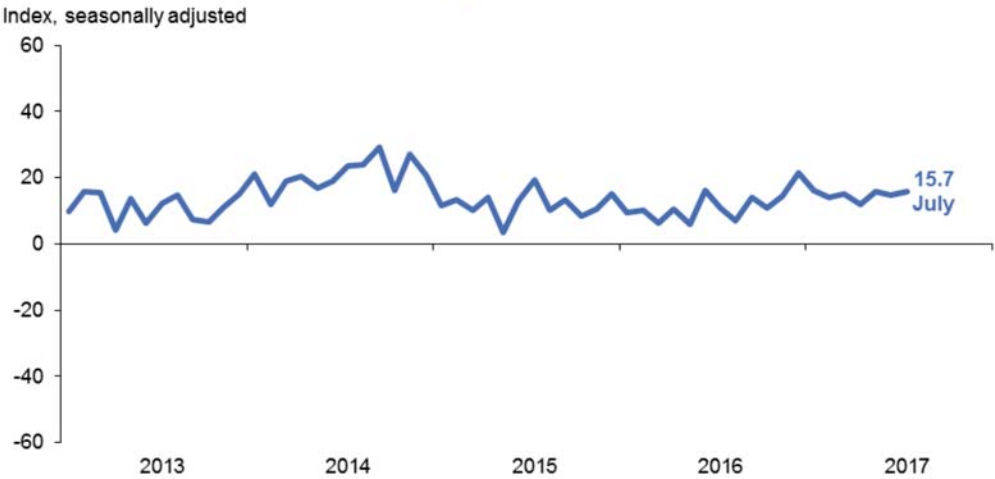
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

Texas Service Sector Outlook Survey

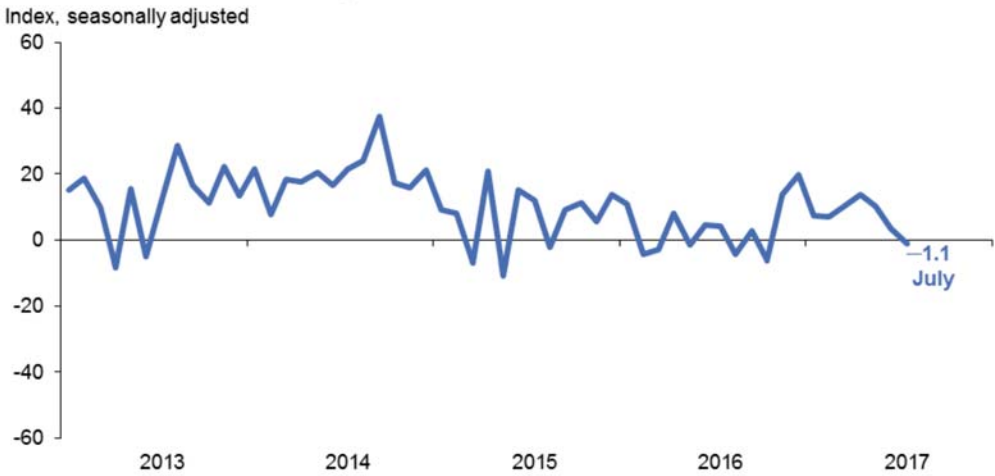
Texas Service Sector Outlook Survey Revenue Index



Federal Reserve Bank of Dallas

Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index



Federal Reserve Bank of Dallas

Texas Service Sector Outlook Survey

August 1, 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 business activity has been influenced by the start of construction on the wind generator projects. Frac sand demand continues to be steady due to the increase in drilling in the Permian and Trans Pecos basins. Truck traffic has increased due to demand for frac sand and limestone for construction coming out of the mining quarry on the county line. Loan demand is steady, primarily related to commercial real estate projects coming out of the metropolitan markets.
- We are having a record year in loan production.

Insurance Carriers and Related Activities

- No significant catalysts are anticipated that would alter our outlook at this time.

Real Estate

- Deteriorating conditions in the construction lending market are holding back new development projects and related transactions.
- While business is decent, it should be much better given the income reports, low gas prices and high savings rates, so we are focused on working and growing our business.

Data Processing, Hosting and Related Services

- Summer months are typically lower in gaining new purchase agreements. In general though, it seems that businesses are requiring more and more due diligence prior to making a purchasing decision, mostly due to regulatory requirements (and perceptions/interpretations of regulatory requirements).

Professional, Scientific and Technical Services

- Proposals for new work remain down 10 to 15 percent. In the past, this has indicated decreasing construction.
- We are becoming increasingly concerned that legislative issues in Austin and Washington will have a negative impact on the U.S. and Texas economies. That said, our practice department chairs are still predicting sustained client work levels and that we will meet projected budgets through year end.
- What appears to be total dysfunction in Washington, D.C., continues to be of great concern. Few of us have much confidence in this administration's ability to actually advance any constructive agenda, and we continue to watch and wait for negative impacts on the business environment. So far, it has been somewhat immune, but we are not confident that will last much longer. At some point, particularly if the Fed does begin to move rates more aggressively and follow a tighter monetary policy into 2018, we could see GDP growth rates contract and business begin to suffer as a result.

Administrative and Support Services

- Our increase in revenue is a result of closing a higher percentage of the deals, not an increase in opportunity. Business is still soft. We haven't seen any increases in the pace of activities.
- We need H2B workers.
- Aircraft inspections for July have increased over June in the commercial and private sectors. No change was seen in the manufacturing of aircraft components at this time. The industrial sector's demand for machined-part inspections has decreased from May and June, with no increase in inspection demand expected in the short term. The military sector has remained unchanged since April.
- The business climate seems to be restraining some, with businesses taking longer to make decisions or just not making decisions. We continue to grow but at a slower pace. Product costs continue to rise and insurance costs as well.

- Uncertainty regarding the Affordable Care Act and Medicare fee schedules for 2017 increase the likelihood of increased benefit costs and potential revenue decline beginning in the first quarter of 2018 for the medical field.
- Lower revenues in July versus June are related to the loss of a large client. We expect this to be offset within six months with new-client gains and the launch of a new division. Employee counts are increasing as a result of the new division launch. The number of part-time employees will decrease six months out related to the end of our summer-help program. Average workweeks will likely increase several months out related to new division launch activities. Wages and benefits will increase related to new division employees and the tight labor market. Capital expenditures will decrease from prior periods as we approach year end but will pick up again at the start of 2018.

Hospitals

- Our hospital and other Texas hospitals will be facing decreases in federal and state Medicaid supplemental funding.
- Actions being taken by Congress will hurt rural hospitals in Texas. The non-Medicaid expansion will hurt Texas—increased regulation and consolidation is shrinking the window for success of local health systems.

Nursing and Residential Care Facilities

- Continued uncertainty about federal health legislation and the future of the Affordable Care Act is destabilizing the health care employment sector. Uncertainty about Texas funding and support of Medicaid also creates headwinds for future sector growth.
- Excessive regulations continue to drive operating expenses up. Cuts to current Medicaid benefits for intellectually disabled adults will make finding quality employees virtually impossible.

Accommodation

- Our business drops in July, but I am seeing a larger drop than anticipated. It is as though customers are preparing for something to happen within our economy. With all that is going on in Washington, D.C., and Texas politics, it is no wonder this is the case.

Food Services and Drinking Places

- Things seem to be picking up. Our sales have continued to improve over the last month. The increase over last year is still fairly small, but it is an increase. We haven't seen much in cost of goods sold or wage increases over the last month, but we expect increases in coming months, particularly in wages as it is getting harder and harder to recruit people. We expect to take a price increase in November. The size of the increase has not been determined yet.
- It is very difficult getting entry-level employees. We are starting high school and college-age workers at \$10 to \$12 an hour.

Utilities

- As environmental regulations look to be relaxed in the near future, I expect to see a decline in the cost of electricity. Coal plants that were on the margin and on the verge of being retired appear to be staying online longer than previously anticipated. This should hold energy prices down (natural gas and electricity).

Pipeline Transportation

- Uncertainty around oil prices continues to be a concern for our business.

Repair and Maintenance

- Continued softness in the oil patch, uncertainties with the direction of government regulations, tax code, etc., have led to a huge slowdown in capital spending.

Merchant Wholesalers, Durable Goods

- A large segment of our customer base—industrial contractors performing maintenance/repair work in the petrochemical industry—is not as busy in 2017 as it was in 2016. We see this slowdown continuing through the remainder of 2017.

Motor Vehicle Parts Dealers

- The industry (truck dealers) is in a lull overall. Product issues in our make have hurt us. We are struggling to maintain our present business levels.

Building Material and Garden Equipment and Supplies Dealers

- Commercial construction activity has slowed over the past two months.
 - We have improved a little. It is hard to expand when we cannot find help—trying to find a real mechanic. I pay them \$70,000 to \$90,000 per year. Right now, most good trades are hard to find.
-

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