



Texas **Service Sector** Outlook Survey

August 29, 2017

Texas Service Sector Activity Continues to Increase

Texas service sector activity continued to reflect expansion in August, 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, edged down slightly from 15.7 in July to 14.2 in August.

Labor market indicators reflected slower employment growth and longer workweeks this month. The employment index moved down three points to 4.6. The hours worked index was unchanged at 8.3.

Perceptions of broader economic conditions reflected more optimism in August. The general business activity index moved up from 10.5 to 15.1. The company outlook index advanced from 7.9 to 15.5, with 23 percent of respondents reporting that their outlook improved from last month and 8 percent noting it worsened.

Price and wage pressures eased this month. The selling prices index fell six points to 4.7. The wages and benefits index edged down a point to 14.8, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions continued to reflect optimism in August. The index of future general business activity fell slightly to 21.3. The index of future company outlook rose three points to 26.2. 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 Rebound

Retail sales improved notably in August after falling last month, according to business executives responding to the Texas Retail Outlook Survey. The sales index surged 18 points to 16.9 in August. Inventories increased at a faster pace this month.

Labor market indicators were mixed again this month. The employment index held steady at a reading near zero, suggesting retail employment was unchanged on net. The hours worked index advanced eight points to 11.3, suggesting workweeks lengthened in August.

Retailers' perceptions of broader economic conditions reflected more optimism in August. The general business activity index rose from 4.3 to 9.7. The company outlook index jumped from a reading near zero to 8.6, with 21 percent of respondents reporting that their outlook improved from last month and 12 percent noting it worsened.

Retail price pressures increased while wage pressures eased this month. The selling prices index rose from 10.3 to 18.1. The wages and benefits index moved down four points to 13.6, although the majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions continued to reflect optimism in August. The index of future general business activity fell slightly from 15.4 to 11.6. The index of future company outlook moved up eight points to 17.9. Indexes of future retail sector activity reflected more 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: September 26, 2017

Data were collected Aug. 15–23, 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	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	14.2	15.7	-1.5	Increasing	93	30.7	52.8	16.5
Employment	4.6	7.5	-2.9	Increasing	90	15.5	73.6	10.9
Part-Time Employment	3.4	5.1	-1.7	Increasing	14	8.6	86.2	5.2
Hours Worked	8.3	8.1	+0.2	Increasing	10	11.3	85.7	3.0
Wages and Benefits	14.8	16.1	-1.3	Increasing	95	17.9	79.0	3.1
Input Prices	25.6	18.2	+7.4	Increasing	100	26.2	73.2	0.6
Selling Prices	4.7	10.4	-5.7	Increasing	18	12.3	80.1	7.6
Capital Expenditures	14.7	10.1	+4.6	Increasing	96	19.8	75.2	5.1

General Business Conditions Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.5	7.9	+7.6	Improving	14	23.0	69.4	7.5
General Business Activity	15.1	10.5	+4.6	Improving	12	22.7	69.7	7.6

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	44.3	45.8	-1.5	Increasing	102	55.0	34.3	10.7
Employment	26.4	24.9	+1.5	Increasing	101	33.8	58.8	7.4
Part-Time Employment	6.4	5.3	+1.1	Increasing	62	14.3	77.7	7.9
Hours Worked	6.8	4.9	+1.9	Increasing	12	10.8	85.2	4.0
Wages and Benefits	40.4	40.2	+0.2	Increasing	128	43.1	54.2	2.7
Input Prices	42.4	37.9	+4.5	Increasing	128	43.9	54.6	1.5
Selling Prices	26.2	25.0	+1.2	Increasing	100	32.5	61.2	6.3
Capital Expenditures	22.9	23.7	-0.8	Increasing	101	31.3	60.3	8.4

General Business Conditions Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	26.2	23.1	+3.1	Improving	18	35.4	55.5	9.2
General Business Activity	21.3	23.0	-1.7	Improving	18	29.9	61.5	8.6

Texas Retail Outlook Survey

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	16.9	-1.1	+18.0	Increasing	1	34.0	49.0	17.1
Employment	-0.6	-0.1	-0.5	Decreasing	2	8.6	82.2	9.2
Part-Time Employment	1.7	7.5	-5.8	Increasing	7	8.5	84.7	6.8
Hours Worked	11.3	3.3	+8.0	Increasing	2	16.2	78.9	4.9
Wages and Benefits	13.6	17.7	-4.1	Increasing	78	18.0	77.6	4.4
Input Prices	26.6	13.1	+13.5	Increasing	19	29.8	67.0	3.2
Selling Prices	18.1	10.3	+7.8	Increasing	4	25.6	66.9	7.5
Capital Expenditures	21.7	9.2	+12.5	Increasing	13	21.7	78.3	0.0
Inventories	23.5	6.0	+17.5	Increasing	11	35.7	52.1	12.2
Companywide Retail Activity								
Companywide Sales	10.7	-5.3	+16.0	Increasing	1	26.5	57.7	15.8
Companywide Internet Sales	18.1	3.7	+14.4	Increasing	7	20.5	77.1	2.4

General Business Conditions, Retail
Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	8.6	-0.7	+9.3	Improving	1	21.0	66.6	12.4
General Business Activity	9.7	4.3	+5.4	Improving	3	17.5	74.7	7.8

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	34.4	28.4	+6.0	Increasing	102	48.1	38.3	13.7
Employment	19.1	7.5	+11.6	Increasing	3	26.3	66.5	7.2
Part-Time Employment	-2.0	-3.9	+1.9	Decreasing	3	12.2	73.6	14.2
Hours Worked	3.8	-4.2	+8.0	Increasing	1	10.0	83.8	6.2
Wages and Benefits	30.3	29.9	+0.4	Increasing	104	34.9	60.4	4.6
Input Prices	43.9	28.3	+15.6	Increasing	100	47.4	49.1	3.5
Selling Prices	36.2	26.4	+9.8	Increasing	100	43.1	50.0	6.9
Capital Expenditures	22.8	15.1	+7.7	Increasing	11	28.1	66.7	5.3
Inventories	15.0	7.1	+7.9	Increasing	10	26.0	63.0	11.0
Companywide Retail Activity								
Companywide Sales	34.9	31.4	+3.5	Increasing	101	42.3	50.3	7.4
Companywide Internet Sales	23.7	11.8	+11.9	Increasing	13	26.3	71.1	2.6

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	17.9	9.9	+8.0	Improving	9	29.0	59.9	11.1
General Business Activity	11.6	15.4	-3.8	Improving	12	22.0	67.6	10.4

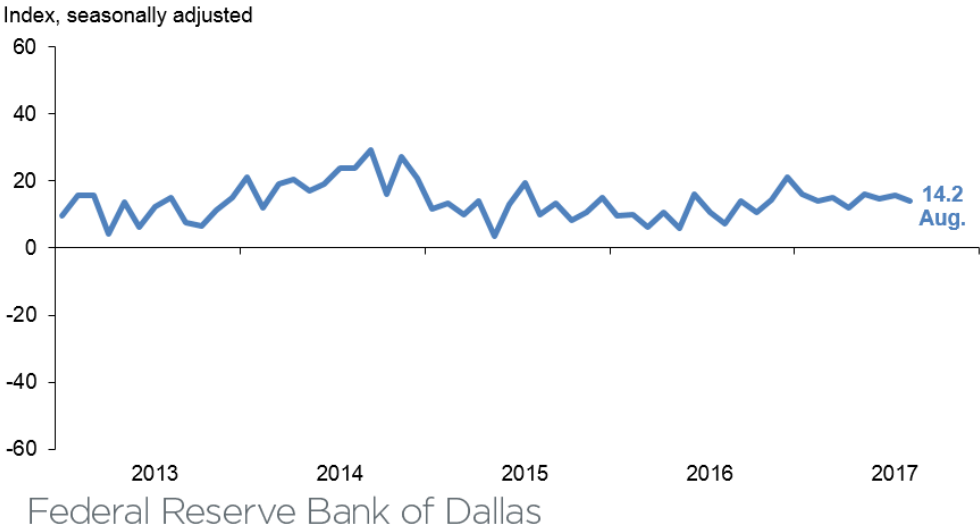
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

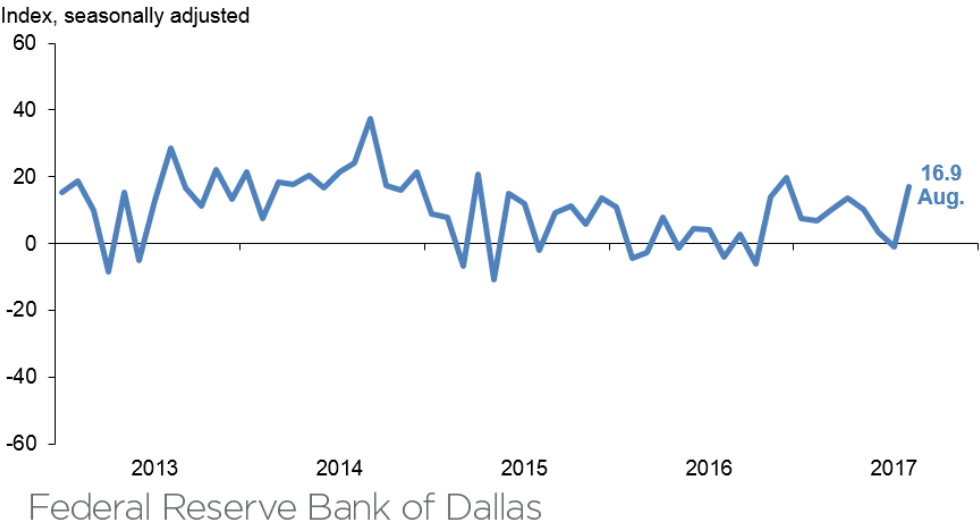
Texas Service Sector Outlook Survey

Texas Service Sector Outlook Survey Revenue Index



Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index



Texas Service Sector Outlook Survey

August 29, 2017

Comments from Survey Respondents

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

Credit Intermediation and Related Activities

- Weather conditions have improved, with rain greatly influencing the livestock markets. Cattle prices are steady to strong and influenced by the announcement of new markets opening up for U.S. beef imports and restricting imports from countries that were discovered to be working with unacceptable practices. Frac sand mining business continues to grow, driving the demand for truck and rail transportation. The hunting market is beginning to ramp up, with the prospect of a healthy deer herd and turkey flock drawing in more hunters.
- The South Texas economy continues to improve, driven primarily by industrial expansion and port petroleum volumes.

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

- Business seems to have been a little stronger over the past month or so than four months prior to that. Perhaps the "fence sitting" or "wait and see" attitude of individuals following the election has run its course. Going forward, because we are in the asset management business, we feel that current asset valuation levels are at the higher end of normal. A pullback or correction in stocks would make our business more challenging over the next six months. On the other hand, an increase in events like private business sales could offset this.
- Oil and gas industries continue in a lackluster mode. Continuing cost increases are evident in property taxes, insurance and required government relations.

Real Estate

- My sentiments regarding six months out are likely for more than six months, but I am simply concerned about how fast wages and other costs are rising and will adversely impact the business.

Telecommunications

- The economy in Houston continues to become worse due to the oil market. There is an increase in home vacancies and the length of time to sell homes priced \$200,000 and above. There is no end in sight.

Data Processing, Hosting and Related Services

- We sell a software product that generates additional revenue for our clients. Sales cycles continue to be long, primarily because of regulatory due diligence requirements and approvals (even though many of those don't matter to the purchase or use of our products).

Professional, Scientific and Technical Services

- There was a slight uptick in future work, but not enough to offset the last four to six months of decreasing projects in the pipeline.
- The confidence in government is likely to influence business spending and the state of the economy. It's concerning.
- We have had to lease more space and expand. It may be temporary, but we could not accommodate all of the work with the space we had.
- Weak oil and gas exploration continues to hurt our business. Global competition in fertilizer manufacturing has cut fertilizer industry margins, causing a downturn in spending from that sector. Petrochemical and specialty chemical sectors are the bright spots due to the need for plastics and other raw materials for consumer goods. The midstream (pipeline) sector has improved since the low early in the year.
- I am still concerned that the current political environment will negatively impact the economy and the appetite for business. However, our business lines are still confident that the momentum during the first seven months of the year will carry us through year-end.
- The business climate has improved in the U.S. and other geographies—the Middle East and Europe are two improved areas we see among our customers. Our largest buyers have started buying more consistently than in the past.

Management of Companies and Enterprises

- Below is a quote from an Aug. 15 *USA Today* article, and I believe this is the problem all businesses in this country now experience and it is not getting any better. “If bigger government, higher taxes, larger subsidies, more regulations and double-digit minimum wages led to better middle-class incomes, the U.S. would be experiencing the fastest wage growth in its history. However, they don’t, and we’re not.”

Administrative and Support Services

- With all the good news about hiring, very little of it is in the high-tech field and IT. Companies are still not investing in upgrades or new systems at any faster pace than over the last few years.
- Things have slowed down quite a bit, which could be due to back to school/end of summer—hoping for a pickup starting in September.
- The general business climate seems to be tightening as we see more competition come into our business areas and our customers see more competition come into their markets. Consolidation has also resulted in larger vendors feeling the ability to raise prices. Freight is also affecting cost structure.
- The industrial workload for service calls changes on a biweekly basis now for industrial-type inspections as opposed to the past when it was more a seasonal change. It seems to be cycling quickly in the last two months. Our company planning is being challenged by the quick cycles. The aerospace sector has remained consistent; no reportable changes noted in either direction at this time. We have heard that the Brexit changes could affect this sector in regard to additional government reporting requirements costs. Oil industry suppliers have started to slowly increase their requests for quotes in the last month—not many commitments to the submitted quotes as of yet. Costs have increased from our vendors across the board; these costs will be absorbed as best we can, but I see a price change being implemented at the beginning of September 2017 to offset some of the increased cost.

Ambulatory Health Care Services

- Health care services’ clinical accountability is increasing (raising costs), and managed Medicare is discouraging service utilization in home health and hospice services as its model specifies high deductibles for patients. Therefore, the health care sector in general is seeing increasing cost of operations and decreasing revenue as a nationwide phenomenon in hospitals and other services. The obvious pathway to consolidation of service providers could be the intended streamlining of the health care system, with a few larger players and potential loss of jobs.
- Government services such as Medicare are on the decline.
- Bank support and financing continue to be limitations on growth.

Hospitals

- Rural health systems are continually being strained by regulation and reduced reimbursements—current legislation is detrimental to Texas independent rural health systems.

Nursing and Residential Care Facilities

- The uncertain future for federal health policy trends negatively for patient volume and revenue.

Social Assistance

- Plans on implementing incumbent worker training are underway to assist with the up-skilling of the workforce during low unemployment times, as well as for layoff aversion.

Amusement, Gambling, and Recreation Industries

- There is a new hotel opening soon in Austin. They are trying to hire 800 people. This is putting a terrific strain on the hospitality labor market. In addition, relatively unskilled workers can find numerous jobs in construction at high wages, but not very many benefits. There are hiring signs all over Austin.

Accommodation

- It is my view that people are getting more nervous about our economy as we get closer to fall. Between President Trump’s behavior, unemployment at low levels, our ongoing discussion about immigration and the stock market at all-time highs, how does one expect the economy to continue to grow?

Food Services and Drinking Places

- We need work visas to bring in labor. There is great concern about SB4 and what it will mean for immigrants. Some workers are asking for transfers to other states.
- Our comp sales have continued to be strong in 2017 year to date. There doesn't really seem to be an industry trend. I am not sure why we are doing better than most.
- Availability of an affordable workforce is becoming a challenge in some Texas markets.
- Revenue August to July is down a little in that our rate of increase has softened. We are still up over last year but not by as much. We were up by comfortably more than our price increases but, over the last couple of weeks, have slid to at or a little below our price increases. The time frame is too short to change our outlook for the six-month horizon. The reason for increases projected in the six-month horizon in the wages/benefits and selling prices categories is that we are seeing preliminary indications that we might have significant increases in the cost of our benefits in our Jan. 1, 2018, renewal. We tentatively have plans for a price increase in November to offset those increases if they materialize. Other than these two points, everything has been very static recently.
- Labor costs are high. Good employees are difficult to find.

Religious, Grantmaking, Civic, Professional, and Similar Organizations

- Business activity level is very good.

Utilities

- I have recently heard from a few customers that the domestic and international uncertainties are beginning to make them nervous, and they may begin updating budgets to reflect this uncertainty—reducing expenditures and retaining more cash.

Merchant Wholesalers, Durable Goods

- The economy and outlook appear to be improving and getting stronger.

Merchant Wholesalers, Nondurable Goods

- Commercial building vacancies continue to rise. Apartment rents are decreasing, and properties with problems are increasing. Growth of the Houston economy has no driver. Retail business is under extreme price pressure. There is nothing good.

Furniture and Home Furnishings Stores

- Business is staying strong in both retail and wholesale building materials and forecast to stay strong through October.

Building Material and Garden Equipment and Supplies Dealers

- Business is steady and up enough from the past years that profits are starting to return and debt getting paid down. There is still some nervousness surrounding the future with all the unrest both globally and at home. Much could happen that could change things quickly.
- I reluctantly put increase because it is getting much better, not that President Trump has done much yet but most business people are excited to have a businessman president. I have hired 20 more people and plan on 30 more by yearend. I have given everyone raises this year; it is helping everyone, not just the rich.

Gasoline Stations

- The convenience store business, travel and sales were impacted by an unusually wet August, especially on weekends.

Clothing and Clothing Accessories Stores

- Tax free weekend in Texas continues to stimulate buying for back to school items. The idea of not paying the government sales tax brings out the crowds better than most promotional events we internally create.

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