



Texas Service Sector Outlook Survey

DALLAS FED

January 27, 2015

TEXAS SERVICE SECTOR ACTIVITY INCREASES AT A SLOWER PACE AS OPTIMISM WANES

What's New This Month

This month's survey data include annual seasonal factor revisions. In January of each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Service Sector Outlook Survey after calculating new seasonal adjustment factors. Annual seasonal revisions result in slight changes in the seasonally adjusted series. Read more information on seasonal adjustment at www.dallasfed.org/microsites/research/surveys/tmos/seasonal.cfm.

Texas service sector activity expanded at a slower pace in January, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, dropped from 22.2 to 12.1, its lowest reading in 11 months.

Labor market indicators reflected slower employment growth and slightly longer workweeks. The employment index fell from 14.3 in December to 5.8 in January. The hours worked index moved down from 7.2 to 1.3 this month.

Perceptions of broader economic conditions were mixed in January. The general business activity index plunged into negative territory to a reading of -2.8, its lowest reading since October 2011. The company outlook index retreated from 9 to 0.3, indicating company outlook was unchanged from last month. Seventeen percent of respondents reported that their outlook improved from last month and an equal share noted that it worsened.

Price and wage pressures eased this month. The selling prices index moved down 4 points to 2.8, indicating prices increased at a slower pace than last month. The wages and benefits index dipped from 17 to 13.5, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in January. The index of future general business activity remained positive but fell sharply from 16.9 to 6.1. The index of future company outlook declined 11 points to 8.8. Indexes of future service sector activity, such as future revenue and employment, remained in solid positive territory this month.



RETAIL SALES CONTINUE TO GROW

Retail sales increased at a slower pace in January, according to business executives responding to the Texas Retail Outlook Survey. The sales index remained positive but fell sharply from 24.3 to 10.6, its lowest reading in 11 months. Inventories were relatively unchanged from last month.

Labor market indicators were mixed in January. The employment index plunged into negative territory to a reading of -1.4, indicating retail jobs decreased slightly this month. The hours worked index edged down from 6.1 to 2.9, suggesting slightly longer workweeks, although the great majority of firms continued to note no change.

Retailers' perceptions of broader economic conditions were mixed this month. The general business activity index plunged from 16.3 to 0.8. The company outlook index retreated into negative territory to -1.7, with 10 percent of respondents noting an improved company outlook over the prior month, compared with 12 percent reporting their outlook had worsened.

Retail prices fell while wage pressures eased this month. The selling prices index declined into negative territory to a reading of -2.3. The wages and benefits index edged down from 16.8 to 12.9, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions reflected less optimism in January. The future general business activity index dropped from 20.8 to 12.1. The index of future company outlook fell sharply from 25.7 to 11.3. Indexes of future retail sector activity remained in solid positive territory 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.

The Dallas Fed conducts the Texas Service Sector Outlook Survey monthly to obtain a timely assessment of the state's service sector activity. Data were collected Jan. 13–21, and 230 Texas business executives responded to the survey. 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.

Next release: February 24, 2015

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	12.1	22.2	-10.1	Increasing	63	30.6	51.0	18.5
Employment	5.8	14.3	-8.5	Increasing	59	12.6	80.4	6.8
Part-time employment	1.0	3.5	-2.5	Increasing	15	7.3	86.4	6.3
Hours worked	1.3	7.2	-5.9	Increasing	14	8.5	84.2	7.2
Wages and benefits	13.5	17.0	-3.5	Increasing	64	16.2	81.1	2.7
Input prices	11.4	19.9	-8.5	Increasing	69	19.6	72.2	8.2
Selling prices	2.8	6.9	-4.1	Increasing	50	11.2	80.3	8.4
Capital expenditures	7.5	9.3	-1.8	Increasing	65	17.7	72.1	10.2
General Business Conditions								
Current (versus previous month)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	0.3	9.0	-8.7	Improving	30	17.0	66.3	16.7
General business activity	-2.8	12.1	-14.9	Worsening	1	14.5	68.2	17.3
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	33.6	42.9	-9.3	Increasing	71	49.0	35.7	15.4
Employment	24.8	24.7	+0.1	Increasing	70	36.6	51.6	11.8
Part-time employment	9.0	8.5	+0.5	Increasing	31	17.7	73.6	8.7
Hours worked	5.1	4.1	+1.0	Increasing	14	11.7	81.7	6.6
Wages and benefits	43.3	41.5	+1.8	Increasing	97	46.0	51.3	2.7
Input prices	38.2	37.8	+0.4	Increasing	97	43.2	51.8	5.0
Selling prices	25.6	26.7	-1.1	Increasing	69	35.1	55.5	9.5
Capital expenditures	22.2	21.4	+0.8	Increasing	70	35.3	51.6	13.1
General Business Conditions								
Future (six months ahead)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	8.8	19.8	-11.0	Improving	41	29.5	49.8	20.7
General business activity	6.1	16.9	-10.8	Improving	40	24.8	56.5	18.7

*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.

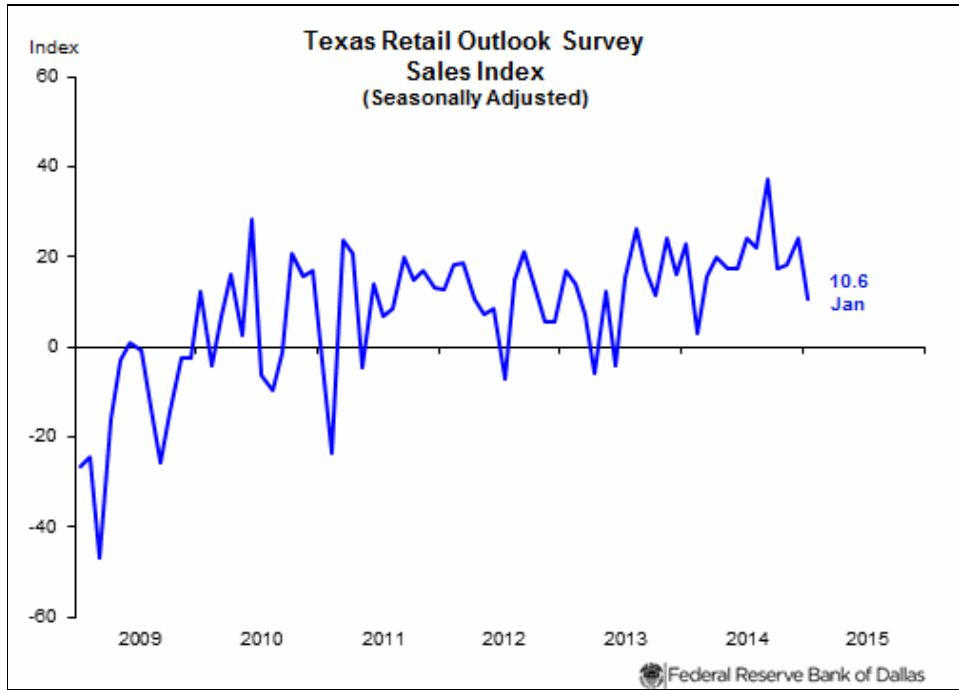
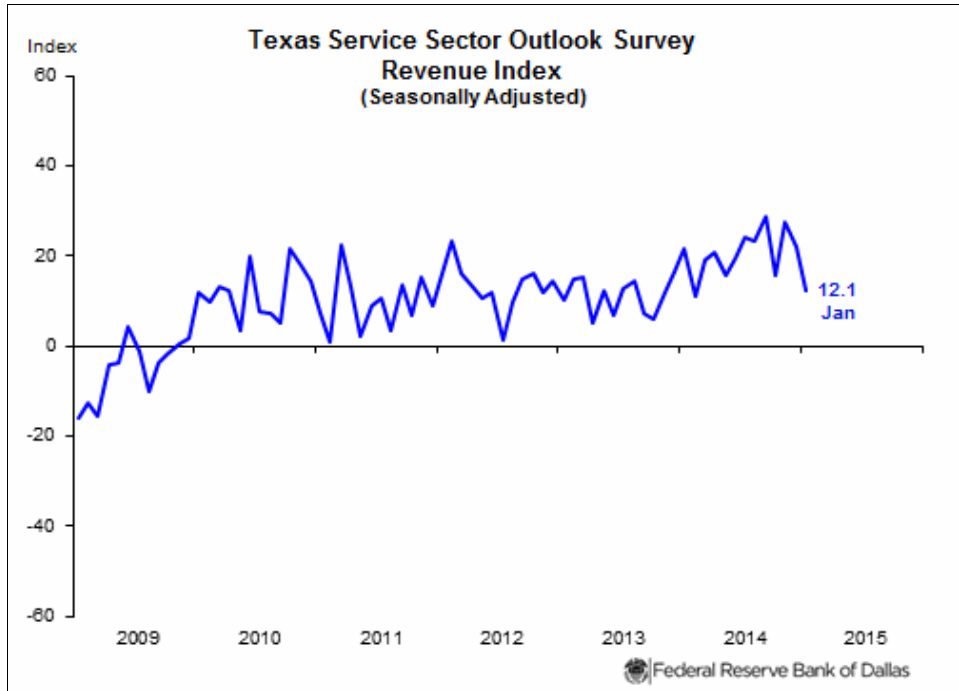
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	10.6	24.3	-13.7	Increasing	19	28.6	53.4	18.0
Employment	-1.4	13.4	-14.8	Decreasing	1	3.6	91.4	5.0
Part-time employment	-1.9	1.8	-3.7	Decreasing	1	5.9	86.3	7.8
Hours worked	2.9	6.1	-3.2	Increasing	2	8.5	85.9	5.6
Wages and benefits	12.9	16.8	-3.9	Increasing	47	12.9	87.1	0.0
Input prices	-0.7	6.8	-7.5	Decreasing	1	11.9	75.6	12.6
Selling prices	-2.3	3.9	-6.2	Decreasing	1	14.2	69.3	16.5
Capital expenditures	1.9	13.5	-11.6	Increasing	15	15.4	71.2	13.5
Inventories	-1.6	23.5	-25.1	Decreasing	1	20.2	58.0	21.8
Companywide Retail Activity								
Sales	16.6	21.8	-5.2	Increasing	21	30.3	56.0	13.7
Internet sales	12.2	6.7	+5.5	Increasing	20	18.2	75.8	6.0
Catalog sales	3.0	14.3	-11.3	Increasing	2	9.1	84.8	6.1
General Business Conditions, Retail Current (versus previous month)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	-1.7	10.0	-11.7	Worsening	1	10.0	78.3	11.7
General business activity	0.8	16.3	-15.5	Improving	21	13.0	74.9	12.2
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	20.5	39.5	-19.0	Increasing	71	40.7	39.1	20.2
Employment	12.9	10.9	+2.0	Increasing	61	29.4	54.2	16.5
Part-time employment	4.1	8.6	-4.5	Increasing	19	19.2	65.6	15.1
Hours worked	-0.7	-0.7	0.0	Decreasing	2	12.1	75.1	12.8
Wages and benefits	37.7	40.5	-2.8	Increasing	71	40.1	57.5	2.4
Input prices	22.0	28.6	-6.6	Increasing	69	34.0	54.0	12.0
Selling prices	30.7	28.6	+2.1	Increasing	69	42.9	44.9	12.2
Capital expenditures	22.0	16.0	+6.0	Increasing	46	34.0	54.0	12.0
Inventories	0.3	19.3	-19.0	Increasing	62	28.5	43.3	28.2
Companywide Retail Activity								
Sales	13.3	46.9	-33.6	Increasing	70	34.7	43.8	21.4
Internet sales	14.7	24.4	-9.7	Increasing	70	23.5	67.6	8.8
Catalog sales	-1.3	18.9	-20.2	Decreasing	1	5.4	87.9	6.7
General Business Conditions, Retail Future (six months ahead)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	11.3	25.7	-14.4	Improving	70	26.3	58.7	15.0
General business activity	12.1	20.8	-8.7	Improving	40	29.7	52.7	17.6

*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.

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COMMENTS FROM SURVEY RESPONDENTS

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

Credit Intermediation and Related Activities

- > The slowdown in oil exploration will begin having a compensatory impact on some businesses in our area. Layoffs in the West Texas oil fields will bring laborers back this way looking for jobs. It is hard to say at this stage how much of an impact a slowdown in oil exploration will have, but there are fewer fracking sand trucks on the highways now.
- > What was a very promising outlook for our business has become clouded over the past two months as we see continuing and increased challenges to the economy. The local economy is being impacted, with massive layoffs in the energy sector. While oil and gas is a smaller share of Houston's economic base compared to the 1980s and 1990s, this will begin to really impact housing and credit risk in our market. Continued employment growth across the broad economy might keep us going, but chances of deflationary pressures seem to be growing as well. There is more uncertainty for what we will see in 2015 than one quarter ago.

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

- > Oil price declines have hurt optimism. We expect a drag on employment and retail sales.
- > Our company has a high percentage of business in the oil and gas industry. Our trend will very likely follow oil and gas pricing, which is down. We are already feeling the effects of reduced orders and requests—in some cases demands—for lowering our selling prices.

Insurance Carriers and Related Activities

- > We think energy prices will negatively impact the Southwest and, in particular, Texas.

Publishing Industries (except Internet)

- > Health care costs continue to rise, faster than what we can make up in revenues. This will slow our hiring at all levels inside the company.

Telecommunications

- > We are very concerned about the effect the price of oil will have on Houston market growth.

Rental and Leasing Services

- > We realize energy prices are a cost of input to most businesses and so the decline is a good thing. However, our business revenue is one-third to one-half directly or indirectly related to the energy ecosystem.

Professional, Scientific and Technical Services

- > We perform engineering for the oil and gas sector. The downturn in oil prices will impact project starts.
- > We are very concerned about the current trend in oil prices and the impact it is likely to have on the Houston economy in particular. We are also concerned about the global implications to our business, which is very focused on energy. Once prices stabilize, we should see some pickup in business, but likely at lower levels than we have seen.
- > January is always slow, and client budget cuts will reduce our revenue.
- > Coming off one of the best years in the real estate industry coupled with the price of oil decreasing by 50 percent, we are a little concerned about the Texas market in 2015. We do not anticipate a large decrease, but we will have to wait and see how much the drop in oil will affect our market.
- > The change in oil prices will have a significant negative impact on our clients' revenues.
- > Oil prices below \$50 per barrel are looking likely to have some adverse effects on commercial real estate, which directly affect our engineering business. How bad and for how long are the questions for now.

Management of Companies and Enterprises

- > Oil and gas industry pricing was a rising tide and now it's a receding tide. It will affect all of our sectors of business.
- > We feel there is too much government regulation.

Administrative and Support Services

- > Oil prices continue to stall capital spending in our industry. We expect spending to rebound this year but are fearful that smaller operations may not be able to survive a prolonged period of low oil prices. We're being more assertive in accounts receivable collections for these customers, and we are probably not alone, which may exacerbate their cash flow issues.
- > Our office in Houston is being affected by the drop in oil prices.

Ambulatory Health Care Services

- > The cost of medical insurance will drive up costs and will contribute to a lack of salary increases. Potential large Medicare fee cuts would adversely affect our ability to provide medical services.

Hospitals

- > The cost of providing health care in a rural setting is increasing, while reimbursements are declining. Texas' decision to not participate in the Marketplace Exchange is costing rural areas opportunities to insure.

Nursing and Residential Care Facilities

- > The health care industry remains under stress and will experience continued financial and regulatory pressure for the foreseeable future.

Amusement, Gambling, and Recreation Industries

- > Our business depends on a healthy business environment. If the cost of oil stays low, some of our costs will decrease, which is a positive, but the big picture will be challenging if layoffs occur and oil companies stop buying equipment.

Accommodation

- > The price of oil is having a material impact on one of our significant clients.

Food Services and Drinking Places

- > We had a good month in revenue, which was up 5.5 percent. Hours worked increased instead of number of employees. In January, we took the hit for our employee benefits renewal, which increased around 40 percent, primarily due to increased medical coverage because of the Affordable Care Act. The cost of goods sold was lower because of a 1.3 percent price increase we took in mid-December. However, we have large input cost increases—mostly in protein—hitting during January as we renew expired contracts; this will probably raise our cost for cost of goods sold back to where it was before the price increase. We have begun work on a new store so capital expenditures are up. We are optimistic at this point about continued growth in revenue, and we are projecting a higher employee count because the new store will open. We expect cost of goods sold to increase over the next six months, and we are tentatively planning a price increase for May 2015.

Repair and Maintenance

- > We are in an oil-producing area, so the lower prices are having a negative influence on overall employment in the area. We anticipate a steady to slightly increased work flow because some of our clients are insulated from the oil price decreases.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- > Our business is affected negatively by the continuing decline in crude oil prices.

Support Activities for Transportation

- > Lower oil prices will decrease revenue.

Merchant Wholesalers, Durable Goods

- > Good moisture for most all growing areas is positive for agribusiness. Prices are currently very negative to business growth.

Merchant Wholesalers, Nondurable Goods

- > We are concerned about how things in the oil patch will affect our business six months from now. We are tightening the belt in preparation for a slight falloff in business.

Motor Vehicle Parts Dealers

- > We are expecting the net effect of lower crude oil prices to be slightly negative.
- > Lower oil prices will affect drilling and fracking in the Eagle Ford and have a negative effect on our business.
- > We are seeing a normal decline in January compared with December.

Building Material and Garden Equipment and Supplies Dealers

- > We are a little worried about oil prices and how they will affect the economy, but so far things are still good.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org. The Texas Service Sector Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tssos/.

