



Texas Service Sector Outlook Survey

DALLAS FED

September 29, 2015

TEXAS SERVICE SECTOR ACTIVITY PICKS UP

Texas service sector activity increased in September, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, rose from 9.3 to 12.8.

Labor market indicators reflected slower employment growth and longer workweeks this month. The employment index fell from 6.1 to 2.2. The hours worked index edged up 2 points to 4.3 in September.

Perceptions of broader economic conditions reflected more optimism in September. The general business activity index ticked up from 2.1 to 3.6. The company outlook index rose slightly from 2.8 to 5.4, with 17 percent of respondents reporting that their outlook improved from last month, compared with 12 percent noting that it worsened.

Price and wage pressures increased this month. The selling prices index moved up from a reading near zero last month to 3 in September. The wages and benefits index rose from 12.9 to 16.2, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in September. The index of future general business activity was similar to last month at 9.8. The index of future company outlook rose 4 points to 16.1. Indexes of future service sector activity, such as future revenue and employment, also reflected more optimism this month.



RETAIL SALES REBOUND

Retail sales improved notably in September, according to business executives responding to the Texas Retail Outlook Survey. The sales index climbed back into positive territory, gaining more than 10 points to reach 7.1. Inventories decreased this month.

Labor market indicators were mixed in September. The employment index rose to a reading near zero, indicating retail jobs were unchanged this month. The hours worked index remained negative for a second consecutive month but edged up from -4.9 to -2.6, suggesting shorter workweeks.

Retailers' perceptions of broader economic conditions were largely unchanged from last month. The general business activity index remained near zero. The company outlook index reflected less optimism, falling 3 points to a reading near zero. Equal shares of respondents noted improved and worsened company outlooks over the prior month.

Retail price and wage pressures increased in September. The selling prices index jumped back into positive territory to a reading of 8.1, indicating retail prices increased this month. The wages and benefits index climbed 11 points to 12.6.

Retailers' perceptions of future broader economic conditions continued to reflect optimism in September. The index of future general business activity fell from 19.8 to 13.6. The index of future company outlook dipped from 22.9 to 17.4. 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 Sep. 15–23, and 269 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: October 27, 2015

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	12.8	9.3	+3.5	Increasing	71	27.9	57.0	15.1
Employment	2.2	6.1	-3.9	Increasing	67	11.8	78.6	9.6
Part-time employment	-1.4	4.4	-5.8	Decreasing	1	6.5	85.6	7.9
Hours worked	4.3	2.3	+2.0	Increasing	6	8.3	87.7	4.0
Wages and benefits	16.2	12.9	+3.3	Increasing	72	19.1	78.0	2.9
Input prices	16.7	17.1	-0.4	Increasing	77	23.0	70.7	6.3
Selling prices	3.0	-0.9	+3.9	Increasing	1	11.7	79.6	8.7
Capital expenditures	14.5	11.4	+3.1	Increasing	73	19.7	75.1	5.2
General Business Conditions								
Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	5.4	2.8	+2.6	Improving	6	17.1	71.2	11.7
General business activity	3.6	2.1	+1.5	Improving	5	15.9	71.8	12.3
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	35.5	35.2	+0.3	Increasing	79	49.4	36.6	13.9
Employment	24.9	20.9	+4.0	Increasing	78	34.4	56.1	9.5
Part-time employment	12.1	8.3	+3.8	Increasing	39	17.7	76.7	5.6
Hours worked	6.2	5.3	+0.9	Increasing	22	12.3	81.6	6.1
Wages and benefits	41.5	39.1	+2.4	Increasing	105	44.5	52.5	3.0
Input prices	40.6	44.8	-4.2	Increasing	105	44.6	51.4	4.0
Selling prices	25.4	23.1	+2.3	Increasing	77	32.9	59.6	7.5
Capital expenditures	26.7	22.6	+4.1	Increasing	78	33.2	60.3	6.5
General Business Conditions								
Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	16.1	12.0	+4.1	Improving	49	27.9	60.3	11.8
General business activity	9.8	9.7	+0.1	Improving	48	24.6	60.5	14.8

*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.

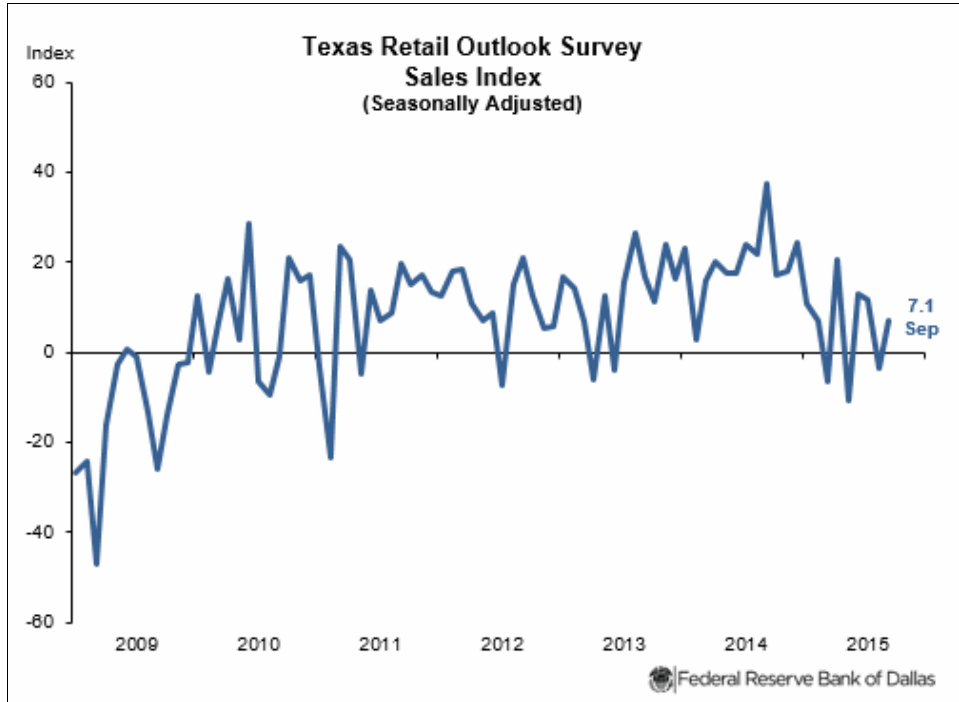
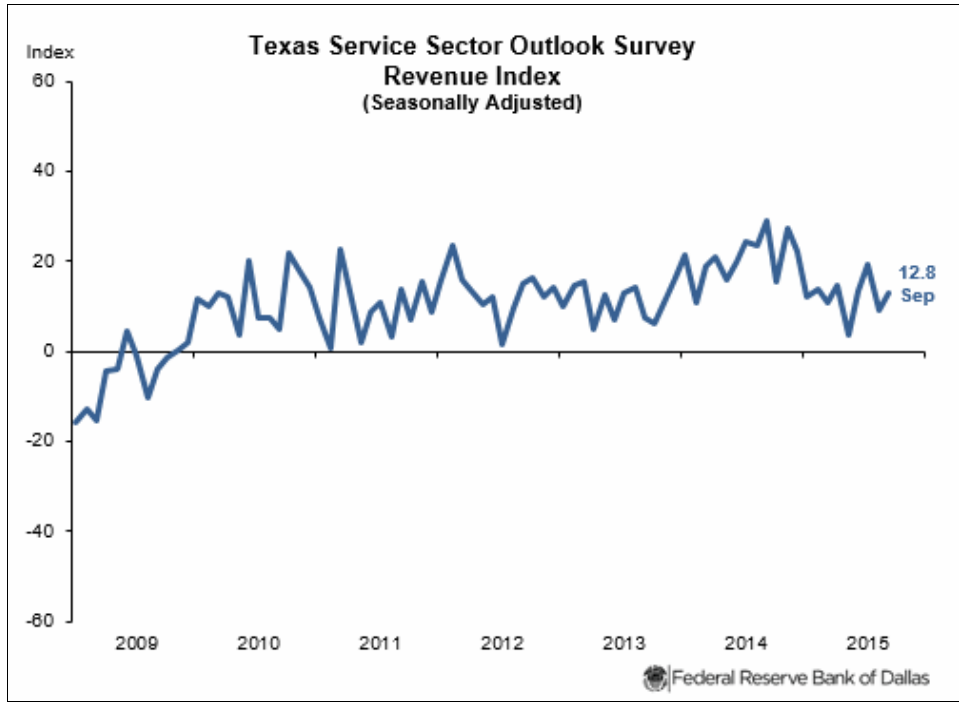
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	7.1	-3.6	+10.7	Increasing	1	27.3	52.5	20.2
Employment	-0.3	-4.2	+3.9	Decreasing	2	10.3	79.1	10.6
Part-time employment	-5.9	5.5	-11.4	Decreasing	1	7.8	78.4	13.7
Hours worked	-2.6	-4.9	+2.3	Decreasing	2	6.7	84.0	9.3
Wages and benefits	12.6	1.6	+11.0	Increasing	55	18.7	75.2	6.1
Input prices	0.4	-2.1	+2.5	Increasing	1	16.2	68.0	15.8
Selling prices	8.1	-3.6	+11.7	Increasing	1	21.9	64.3	13.8
Capital expenditures	9.4	8.7	+0.7	Increasing	23	22.6	64.2	13.2
Inventories	-2.2	8.5	-10.7	Decreasing	1	23.0	51.8	25.2
Companywide Retail Activity								
Sales	14.5	5.0	+9.5	Increasing	4	31.9	50.7	17.4
Internet sales	8.4	-2.4	+10.8	Increasing	1	15.5	77.4	7.1
Catalog sales	5.9	8.8	-2.9	Increasing	6	8.8	88.2	2.9
General Business Conditions, Retail Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	0.2	3.3	-3.1	Improving	6	18.2	63.8	18.0
General business activity	-0.5	-0.2	-0.3	Worsening	2	17.8	63.8	18.3
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	31.9	30.7	+1.2	Increasing	79	46.8	38.2	14.9
Employment	17.5	9.3	+8.2	Increasing	7	27.4	62.6	9.9
Part-time employment	4.0	-5.0	+9.0	Increasing	1	9.9	84.2	5.9
Hours worked	2.3	3.8	-1.5	Increasing	4	11.5	79.3	9.2
Wages and benefits	33.1	30.2	+2.9	Increasing	79	34.3	64.5	1.2
Input prices	32.0	25.5	+6.5	Increasing	77	38.0	56.0	6.0
Selling prices	36.0	23.6	+12.4	Increasing	77	40.0	56.0	4.0
Capital expenditures	24.5	21.8	+2.7	Increasing	54	28.6	67.3	4.1
Inventories	20.6	12.3	+8.3	Increasing	70	35.4	49.7	14.8
Companywide Retail Activity								
Sales	35.1	36.0	-0.9	Increasing	78	48.3	38.5	13.2
Internet sales	18.5	22.2	-3.7	Increasing	78	21.1	76.3	2.6
Catalog sales	12.6	7.2	+5.4	Increasing	8	15.6	81.4	3.0
General Business Conditions, Retail Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	17.4	22.9	-5.5	Improving	78	28.5	60.4	11.1
General business activity	13.6	19.8	-6.2	Improving	6	25.8	62.0	12.2

*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

- > A new construction project will bring a host of contractors and workers to the area for a year or so and result in four to five full-time job opportunities. Another potential project, if located in our area, would bring a flurry of activity and result in a substantial number of permanent jobs, gains in tax revenue and economic development funds as the structured abatements roll off. Cattle prices are backing off highs, but replacement cows are still a precious commodity, and total inventory of cattle is still below normal. Spanish goats are still bringing good prices.
- > Uncertainty in energy prices is still a concern in the Houston economy. Layoffs continue in that sector, and it appears this will continue through year-end. The credit union is somewhat insulated from a direct correlation to energy, but housing values and general economic activity will impact everyone if energy busts.

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

- > We are an investment advisory and investment banking firm. Recent market volatility has created uncertainty, which generally negatively impacts our business.
- > Our operating companies are fairly dependent on the oil and gas business. With the price of oil dropping from \$120/barrel to the \$40 to \$50/barrel range, the need for our services has decreased significantly. All of this comes at a time when federal regulations are demanding more expenditures for compliance. Business conditions are bad and could get worse during the balance of 2015 and in 2016.

Insurance Carriers and Related Activities

- > Training is being done on weekends to provide a better service to our clients.

Rental and Leasing Services

- > Business is bad.

Professional, Scientific and Technical Services

- > Decreasing energy sector employment is going to have a major impact on the Texas economy. The decrease in demand—coupled with excess regulation and regulatory compliance costs—is crippling small business.
- > The volatility of the stock market and the uncertainty in Asia are not helping. The immigrant crisis in Europe is most concerning. The world is operating at a high level of uncertainty.
- > With continuing downward pressure on oil prices, we are anticipating a slowdown in the Texas economy. The real estate market is still very strong in the Dallas–Fort Worth area, but if oil prices continue to fall, it will have a negative effect at some point.
- > There is tremendous uncertainty in the markets about a possible change to the interest rate by the Federal Reserve.
- > Because of client budget cuts, we have reduced our payroll.

Management of Companies and Enterprises

- > There is way too much government regulation.
- > Compliance is the single-largest restraint on our business and on our customers. There will be a point that we will exit this business because of this single issue.
- > In South Texas, the decline in drilling and production is offset by \$30 billion in construction of several new pipe, steel and natural gas processing plants. Long term, there will be a slowdown in the local economy after the onslaught of workers to build the plants leave the area.

Administrative and Support Services

- > Lower fuel prices continue to impact sales in the public transportation industry.
- > The slowdown in emerging markets and continued political unrest in the Middle East are cause for concern in many global corporations.
- > Consolidation within the industry should open some possibilities for business expansion. There is still a reluctance in the manufacturing and restaurant business sectors to spend money; however, the real estate market continues to show flexibility as competition for tenants heats up.
- > The transportation side of our business is still positive. Corporate aircraft flight departments seem to be spending more this year than the same time last year and not deferring maintenance like they have in the past. Rail car inspections have dramatically slowed down. Industrial manufacturing has remained steady in the government arena, and requests for quotes are still being sent to us for military manufacturing items. Smaller machine shops seem to be dropping off rather quickly, though, if they do not have a current military sales pipeline. Overall, our sales prices still need to be on the low side to compete and secure new work.

Broadcasting (Except Internet)

- > The general consensus in the energy sector in West Texas seems to be that we are facing low energy prices and reduced activity for the next two years. Even though the amount of oil and gas produced will be high, margins will continue to tighten. A reduction in development will slowly reduce general business activity in the area.

Telecommunications

- > We continue to experience high growth in customers and increased costs due to programming and broadcasters. We believe programming costs will only be reined in if programming is priced à la carte. The business climate is still good in the Houston area.

Educational Services

- > We are beginning to see the negative impact of lower oil prices and stock market volatility on revenue. Business activity remains about the same, but we have a higher level of concern for the future. We are increasing part-time staff due to the impact of increasing medical and other benefit costs.
- > Oil prices could impact income on our permanent endowment.

Ambulatory Health Care Services

- > We anticipate significant delays in reimbursement after the ICD-10 [medical classification] coding system implementation and are holding off on much-needed capital spending until cash flow is restored.
- > Additional compliance requirements in the health care sector are adding significant operational cost while there is a general trend of declining reimbursements. Increasing emphasis on quality and patient satisfaction is leading to significant cost increases in operations. We have also seen many home health and hospice services owners closing down or consolidating. Unfortunately, consolidation closes the door on many entry-level jobs in smaller communities across the country, impacting many of the staff who do not have higher education to seek alternative careers.
- > Our decrease in part-time help is seasonal. By 2016, we expect to pay more for health benefits. We also expect to see a slowdown in 2016 as the area economy may be dragged down by low oil, natural gas and agricultural commodity prices. If the strike at one of the three largest employers in the area drags out, it will have an impact on the local economy.
- > We are a service business in which growth is dependent upon most patients consciously borrowing to pay for the services over time. We are particularly sensitive to changes in consumer confidence, and anything that shakes consumers up shows up immediately as reduced potential patients and lower revenues.

Social Assistance

- > Government military spending is forecast to be much less for the next six to nine months.

Amusement, Gambling and Recreation Industries

- > There has been an interesting trend in hiring employees lately. Many organizations have only hired part-time employees so that they do not have to provide health insurance. Employees now are trying to put together two or three jobs and juggling schedules to make ends meet. We have not seen a reduction in the cost to provide goods with the decrease in gasoline prices. However, lower gas prices have been good for employees. Long-term, we feel there will be an overall slowdown.

Food Services and Drinking Places

- > Federal regulations continue to make it very difficult for small businesses to make a profit.
- > Our new store opening in early 2016 will increase revenues, wages, etc. We will increase prices in January 2016 to cover the increases in health care costs and wages.
- > We had been posting solid increases over last year—which were well above the price increases we have in place—for quite a few months, but in the last four weeks, we are up by less than 0.5 percent. The number of both full- and part-time employees will be up in six months because we are opening a new restaurant. We are expecting wage and benefit costs to be up in the six-month horizon because we have already been warned that the annual health insurance renewal is going to be very substantial. Wages have moved slightly but are still very stable despite our low local unemployment rate. This month is the first in quite some time where we saw cost of goods jump—we are more than 0.3 percent over August.
- > The Affordable Care Act is getting worse; the reporting requirements are not feasible or reasonable.
- > The drop in oil prices is definitely affecting the restaurant business in North Texas.

Repair and Maintenance

- > There is still a lot of damage to overcome within the oil services sector. There seem to be some signs of life, with smaller capital projects popping up before the end of the year.

Support Activities for Transportation

- > We are reducing our health care benefits and shifting more cost to employees. This is effectively reducing rank-and-file net pay by 6.5 to 8 percent as employees will be paying a higher percentage of coverage, including higher copays and higher deductibles. We anticipate pay increases to be in the 1.5 to 2.5 percent range, which will not offset higher medical insurance costs paid by employees. We anticipate capital expenditures to increase as the port finally receives payments stemming from damages incurred during Hurricane Ike.

Merchant Wholesalers, Durable Goods

- > We are feeling the changes in the energy market. We have experienced downturns in the past and are optimistic the market will recover to some degree over the next 18 months.

Merchant Wholesalers, Nondurable Goods

- > The slowdown in the oil patch is beginning to take its toll on our customers. We anticipate a slowdown in our business and will be quick to react in regard to headcount, inventories and employee hours. We will not wait for things to get better.

Motor Vehicle Parts Dealers

- > Customer hesitation has increased, particularly in oil-related industries, resulting in a slight downturn in our business. We expect this weakness to accelerate in the short term.
- > We are making adjustments to offset the decline in Eagle Ford drilling.

Food and Beverage Stores

- > Competition has been more intense. The new chip credit card procedure may have some impact in the future.
- > Sales and prices are down due to the decline in fuel cost and retail price. Margins are better, so profits are up in opposition to this decline.

Health and Personal Care Stores

- > The oil and gas industry decline is being felt.

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/.

