



Texas Service Sector Outlook Survey

DALLAS FED

December 1, 2015

TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS

Texas service sector activity increased in November, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, rose slightly from 7.6 to 10.3.

Labor market indicators reflected faster employment growth and slightly longer workweeks this month. The employment index rose from 7 to 10.6. The hours worked index fell slightly from 3 to 1.5.

Perceptions of broader economic conditions continued to reflect optimism in November. The general business activity index dipped 2 points to 3.6. The company outlook index ticked up from 4.7 to 6.6, with 20 percent of respondents reporting that their outlook improved from last month, compared with 13 percent noting that it worsened.

Price pressures were unchanged, while wage pressures increased this month. The selling prices index held steady at 3.8 in November. The wages and benefits index edged up from 14.4 to 16.8, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in November. The index of future general business activity edged down from 12.8 to 11. The index of future company outlook inched down from 16.4 to 14.9. Indexes of future service sector activity, such as future revenue and employment, reflected more optimism this month.



RETAIL SALES GROWTH SLOWS

Retail sales continued to reflect expansion in November but at a slower pace than last month, according to business executives responding to the Texas Retail Outlook Survey. The sales index moved down from 8.9 to 5.6. Inventories increased at a slower pace this month.

Labor market indicators were mixed in November. The employment index declined from 7.9 to 1, indicating retail jobs were fairly unchanged from last month. After turning positive last month, the hours worked index plunged back into negative territory with a reading of -4.5, suggesting shorter workweeks.

Retailers' perceptions of broader economic conditions reflected less optimism in November. The general business activity index dropped 10 points to a reading near zero. The company outlook index fell sharply from 17.6 to 5, with 21 percent of respondents reporting that their outlook improved from last month, compared with 16 percent noting that it worsened.

Retail price and wage pressures eased this month. The selling prices index fell from 7.2 to 1.3. The wages and benefits index retreated from 17.3 to 5.2.

Retailers' perceptions of future broader economic conditions reflected less optimism in November. The index of future general business activity moved down from 17 to 11.5. The index of future company outlook also fell, from 28.3 to 19.5. 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 Nov. 16–24, and 276 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: December 29, 2015

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	10.3	7.6	+2.7	Increasing	73	32.9	44.5	22.6
Employment	10.6	7.0	+3.6	Increasing	69	17.9	74.8	7.3
Part-time employment	2.9	3.2	-0.3	Increasing	2	9.5	83.9	6.6
Hours worked	1.5	3.0	-1.5	Increasing	8	7.1	87.3	5.6
Wages and benefits	16.8	14.4	+2.4	Increasing	74	18.1	80.6	1.3
Input prices	21.1	18.1	+3.0	Increasing	79	24.7	71.7	3.6
Selling prices	3.8	3.4	+0.4	Increasing	3	12.1	79.6	8.3
Capital expenditures	6.6	10.1	-3.5	Increasing	75	15.5	75.7	8.9

General Business Conditions								
Current (versus previous month)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	6.6	4.7	+1.9	Improving	8	19.5	67.6	12.9
General business activity	3.6	5.6	-2.0	Improving	7	18.8	66.0	15.2

Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	43.5	37.6	+5.9	Increasing	81	55.8	31.9	12.3
Employment	27.6	25.0	+2.6	Increasing	80	35.3	57.1	7.7
Part-time employment	11.4	10.5	+0.9	Increasing	41	17.5	76.4	6.1
Hours worked	4.8	-0.1	+4.9	Increasing	1	10.7	83.4	5.9
Wages and benefits	41.2	36.0	+5.2	Increasing	107	43.6	54.0	2.4
Input prices	46.6	43.0	+3.6	Increasing	107	49.7	47.3	3.1
Selling prices	25.8	27.1	-1.3	Increasing	79	34.5	56.8	8.7
Capital expenditures	22.6	22.3	+0.3	Increasing	80	32.8	57.0	10.2

General Business Conditions								
Future (six months ahead)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	14.9	16.4	-1.5	Improving	51	29.4	56.1	14.5
General business activity	11.0	12.8	-1.8	Improving	50	24.7	61.6	13.7

*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.

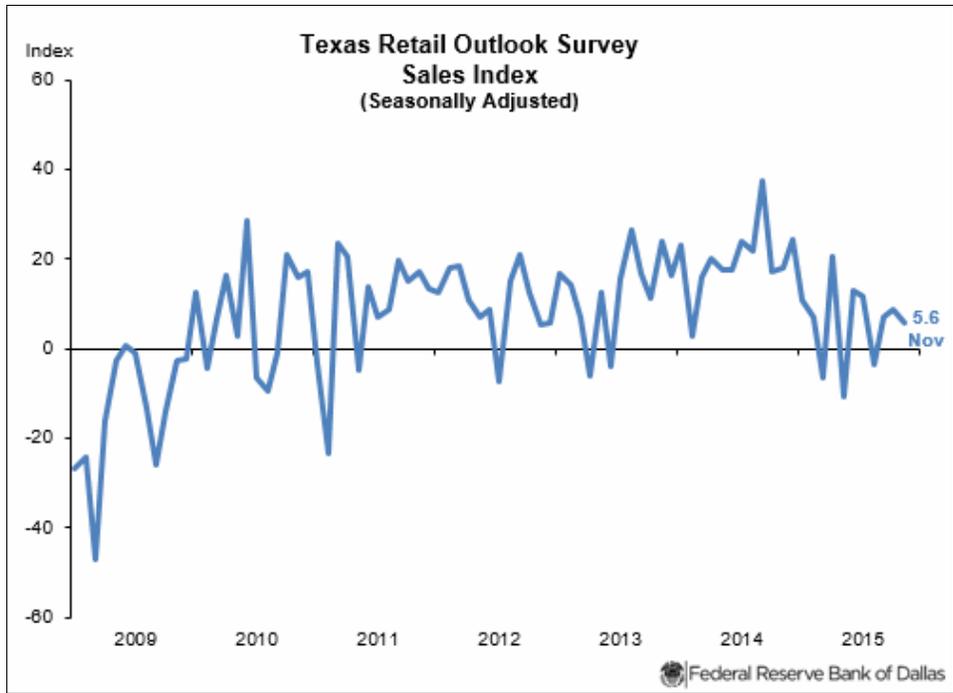
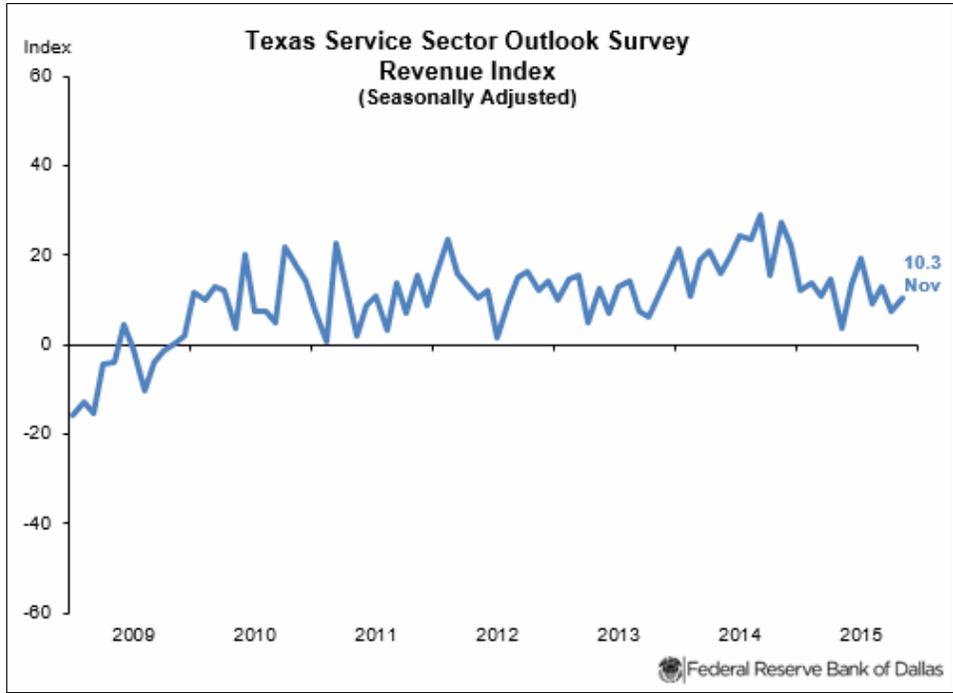
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	5.6	8.9	-3.3	Increasing	3	30.5	44.6	24.9
Employment	1.0	7.9	-6.9	Increasing	2	10.5	80.0	9.5
Part-time employment	-3.6	10.2	-13.8	Decreasing	1	10.7	75.0	14.3
Hours worked	-4.5	7.8	-12.3	Decreasing	1	4.4	86.7	8.9
Wages and benefits	5.2	17.3	-12.1	Increasing	57	6.9	91.4	1.7
Input prices	16.2	9.7	+6.5	Increasing	3	21.8	72.6	5.6
Selling prices	1.3	7.2	-5.9	Increasing	3	16.4	68.5	15.1
Capital expenditures	6.9	14.3	-7.4	Increasing	25	19.0	69.0	12.1
Inventories	3.4	6.1	-2.7	Increasing	2	25.2	53.0	21.8
Companywide Retail Activity								
Sales	15.2	23.5	-8.3	Increasing	6	32.1	51.0	16.9
Internet sales	4.4	15.6	-11.2	Increasing	3	12.1	80.2	7.7
Catalog sales	-11.1	2.9	-14.0	Decreasing	1	0.0	88.9	11.1
General Business Conditions, Retail Current (versus previous month)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	5.0	17.6	-12.6	Improving	8	20.7	63.6	15.7
General business activity	-0.9	9.2	-10.1	Worsening	1	19.6	59.9	20.5
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	37.3	38.7	-1.4	Increasing	81	52.4	32.5	15.1
Employment	18.2	10.6	+7.6	Increasing	9	27.2	63.7	9.0
Part-time employment	14.4	3.4	+11.0	Increasing	3	21.8	70.9	7.4
Hours worked	3.7	-6.1	+9.8	Increasing	1	13.5	76.7	9.8
Wages and benefits	31.0	23.4	+7.6	Increasing	81	31.7	67.6	0.7
Input prices	41.0	35.3	+5.7	Increasing	79	44.6	51.8	3.6
Selling prices	36.3	32.0	+4.3	Increasing	79	43.6	49.1	7.3
Capital expenditures	23.2	22.0	+1.2	Increasing	56	33.9	55.4	10.7
Inventories	26.8	19.4	+7.4	Increasing	72	34.9	57.0	8.1
Companywide Retail Activity								
Sales	37.2	38.0	-0.8	Increasing	80	45.7	45.8	8.5
Internet sales	28.2	17.1	+11.1	Increasing	80	28.2	71.8	0.0
Catalog sales	12.3	2.0	+10.3	Increasing	10	13.6	85.1	1.3
General Business Conditions, Retail Future (six months ahead)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	19.5	28.3	-8.8	Improving	80	33.1	53.3	13.6
General business activity	11.5	17.0	-5.5	Improving	8	24.9	61.7	13.4

*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.

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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

- > Implementation of new TILA-RESPA Integrated Disclosures (TRID) regulations from the Consumer Financial Protection Bureau and seasonally slower winter months will provide for a difficult fourth quarter 2015 and first quarter 2016. We hope to see improved volume and smooth operations by spring 2016.
- > The rain has been a big boost to the attitude of agriculture producers and has influenced prices to some extent. The hunting industry is booming again with the beginning of deer season and the prospect of some very healthy antler development as a result of late spring rains promoting desirable nutritional resources for wildlife. This is a stimulus to many rural economies, and with prevalent drought conditions beginning in 2011 and not ending until recently with the onset of El Niño, hunting revenue—both direct and indirect—has been weak.

Real Estate

- > While we are doing well and continuing to grow our retail portfolio, we do not see leasing activity picking up as we would like it to. We are coming to the holiday season, which is not a good time for leasing, but even coming into the season we sense a softness in the market. While we remain optimistic, we also see the need for caution on the legislative front since there is a lot of pressure for increases in the minimum wage. This creates uncertainty, which will slow business growth in the coming year in our opinion. Combined with the presidential election and the lack of clarity on immigration, there are major clouds hanging over the business community, which will dampen growth.
- > The residential real estate market is now feeling the stress of lower oil prices and the accompanying job losses.

Rental and Leasing Services

- > The Texas economy definitely continues to soften from our perspective.

Professional, Scientific and Technical Services

- > Low commodity pricing is severely impacting our clients and our business. We are not very optimistic about 2016 at present.
- > Our clients are searching for alternative streams of income since the investment markets—stocks and bonds—are unstable. There is pressure on the expense side of finding suitable bank financing at affordable rates. This double pressure is forcing clients to limit new hires and consider increasing prices for their products and services.
- > There has been a noticeable drop in requests for new projects for October and November. This usually indicates a reduction in design for first quarter 2016 and a reduction in construction in the first and second quarters of 2016.
- > Business has picked up some and our backlog is growing, but competition is getting stiffer with price margins falling somewhat. Foreign competition is still migrating to Texas. Typically during an election year, business softens up somewhat and large expenditures seem to be placed on hold.

Management of Companies and Enterprises

- > There is too much government regulation. Some regulation is needed, but the average small business can't keep up with all the rules.

Administrative and Support Services

- > The machine shop and manufacturing side of oil field equipment suppliers continues to thin out. We have received a few more bankruptcy notices from former customers. The government sector of our services has slowed down since this time last year. Fewer overall flight hours are being flown for training and operations in the U.S. The civilian aerospace sector continues growing, with 3 percent growth from this same time last year. The structural welding sector has slowed down by 9 percent from this same time last year. We do not see much changing between now and the end of the year in all the sectors except corporate aviation, which should increase slightly.
- > Because of the diversity of our customer base and our locations throughout the Texas market, we see mixed results. We are seeing cuts in some industrial and manufacturing service. In general, West Texas has weakened while DFW and Austin remain stable.
- > The consumer climate has gone cold for holiday travel based on political election year chatter and world terror acts.
- > Low fuel prices continue to impact sales in the public transportation industry.
- > Our reduction in the average employee work week is for time lost during the Thanksgiving holiday. Costs are increasing, especially health insurance, but hourly wages are rising as well.
- > The Affordable Care Act is causing a great deal of problems—from compliance to making price adjustments with clients. We are forced to offer a minimum value policy or pay a penalty, and no insurance carrier will underwrite a staffing company's field employees, causing our rates to go up 50.4 percent from last year.
- > Wages are stagnant, and cost of living is outpacing wage increases. There are huge concerns over student loans, which heavily detract from disposable income.
- > It is extremely difficult to find employees—any kind of employee—in the Central Texas area.

Publishing Industries (except Internet)

- > Our clients are moving forward on projects with sensitivity to cost, but because they greatly need technology services that will allow them to make measurable improvements for 2016—especially in relation to organizational productivity—they are able to justify the outlay for such improvements.

Telecommunications

- > We are concerned about the Houston economy, the federal government and the FCC. We continually contact the FCC and our federal representatives concerning the escalating cost of programming, with little if any response. We would embrace à la carte pricing to consumers as a step in reducing charges to all end users and what consumers pay for video channels.

Educational Services

- > Our dependence on philanthropic revenue to replace declining contract revenue from the liminary services puts more pressure on our fundraising department to find new donors willing to support programs no longer funded by the services.

Ambulatory Health Care Services

- > The business outlook for Texas will worsen due to decreased revenues in the oil and gas business. The business outlook for Dallas will improve due to diversity of the Dallas economy.
- > We purchased a new medical imaging machine and were able to negotiate a very low price with extended warranty. It is definitely a buyer's market in outpatient imaging. We have never seen pricing this aggressive.
- > Because of changes to Medicare and Medicaid programs, there has been continued pressure on payments and increasing costs due to quality compliance.
- > Medicare fee reductions will spread to private payers, resulting in lower reimbursements, while at the same time government regulations will increase costs.

Nursing and Residential Care Facilities

- > Health care economic performance continues to be subject to volatility and uncertainty about future payment systems. The larger economy has been impacted by increased global terrorism and recent volatility in the U.S. stock market.

Amusement, Gambling and Recreation Industries

- > Our main problems continue to be the lack of parking and mass transportation in Austin. This has particularly had an impact on our lunch business. In addition, there are a lot of new hotels opening in downtown Austin, so the labor pool is challenged. Also, we have not seen a significant decrease in our cost of goods sold with the prices of oil and gas decreasing.

Accommodation

- > The ongoing oil slump in Houston and the Eagle Ford is negatively impacting business travel and tourism in San Antonio.

Food Services and Drinking Places

- > We are still very oil price related.
- > Revenue is still up slightly more than our price increases, but our margin is down to 0.2 percent. Our number of employees will be up in the six-month horizon because we will be opening a new restaurant. Wages continue to show very slow increases—less than 2 percent per year. We are in the process of our annual benefits renewal and, surprisingly, were able to renew our whole program at last year's levels. Cost of goods have started to increase—up about 0.4 percent in November vs. October. Selling prices are up because of the cost of goods increases mostly; the increase will net out to about 1 percent. Capital expenditures are high—the same as in the last few months—because of the cost of building the new store. Everything seems to have gotten a little softer, affecting our outlook. We don't expect things to get a whole lot worse but, at this point, we are expecting a very mediocre holiday season—not down, but not going anywhere.

Repair and Maintenance

- > As a service company dependent on the weather, we normally experience a slow fourth quarter. Our fourth quarter this year will be much better because of an increased number of residential and light commercial equipment replacement sales.

Merchant Wholesalers, Durable Goods

- > We've seen dynamic improvement in construction since July and August and are seeing some labor shortages.

Motor Vehicle Parts Dealers

- > We are impacted by the oil situation. We have been able to make up for the shortfall to date but are not optimistic about being able to do more of it.
- > Being located in Houston, we are beginning to feel the effects of low crude oil and natural gas prices and the employee layoffs in the energy sector. While auto and truck sales in October were up year over year, the increase was less than the other major markets in Texas. While 2016 should continue to be robust for auto and truck sales, we do expect the Houston market to underperform compared with DFW and Austin/San Antonio.
- > The dramatic drop in Chinese commodity prices for steel, aluminum, tires and wheels, as well as a drop in the yuan, has reduced the cost of Chinese components and resale items to lows we have not seen since the Great Recession.
- > Government calculated inflation may be minimal, but "street" inflation is climbing. A majority of our costs from a year ago are greater now. Were it not for cheap gas and diesel as well as interest rates, profits would be affected negatively in a very substantial

way. Current interest rates are not sustainable in the long run. However, slow and moderate interest increases can be adjusted for in a healthy way. Fast and larger interest increases would be devastating.

Building Material and Garden Equipment and Supplies Dealers

- > Business is not great but it's not bad either. Business is flat, but we are still able to be somewhat profitable, although expected increases in health care and general insurance will squeeze profits even more. It is tough to really feel comfortable about the overall picture.
- > Business is getting slow; hopefully the big projects in this area get moving.

Food and Beverage Stores

- > Sixty-five to 75 percent of our sales are of retail gasoline, so while prices are down and impacting sales, our volumes, in gallons, and profits are up.
- > The holiday season will provide more sales and employment opportunities. We anticipate a slight drop-off beginning January 2016.

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/.

