



Texas Service Sector Outlook Survey

DALLASFED

December 29, 2015

TEXAS SERVICE SECTOR ACTIVITY STRENGTHENS FURTHER

Texas service sector activity increased again in December, 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 10.3 to 15.2.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index edged up from 10.6 to 12.3. The hours worked index moved up 5 points to 6.6.

Perceptions of broader economic conditions continued to reflect optimism in December. The general business activity index held steady at 3.3. The company outlook index was similar to last month at 5.7, with 18 percent of respondents reporting that their outlook improved from last month, compared with 13 percent noting that it worsened.

Price and wage pressures increased this month. The selling prices index rose slightly from 3.8 to 6.1. The wages and benefits index rose from 16.8 to 21, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in December. The index of future general business activity fell 3 points to 7.9. The index of future company outlook moved down from 14.9 to 10.7. Indexes of future service sector activity, such as future revenue and employment, also reflected less optimism this month.



RETAIL SALES PICK UP

Retail sales increased in December, according to business executives responding to the Texas Retail Outlook Survey. The sales index advanced 8 points to 13.6. Inventories increased at a slower pace this month.

Labor market indicators reflected slight employment growth and longer workweeks. The employment index was similar to last month at 1.7 in December. The hours worked index rebounded into positive territory, advancing more than 10 points to 5.9.

Retailers' perceptions of broader economic conditions were mixed this month. The general business activity index fell 4 points to -4.9. The company outlook index remained positive but edged down from 5 to 3.1, with 16 percent of respondents reporting that their outlook improved from last month, compared with 13 percent noting that it worsened.

Retail price pressures eased, while wage pressures increased in December. The selling prices index dipped into negative territory with a reading of -1.5. The wages and benefits index rose from 5.2 to 10.7.

Retailers' perceptions of future broader economic conditions reflected less optimism this month. The index of future general business activity moved down from 11.5 to 7.1. The index of future company outlook fell sharply from 19.5 to 2.6. 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 Dec. 14–22, and 280 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: January 26, 2016

TEXAS SERVICE SECTOR OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	15.2	10.3	+4.9	Increasing	74	33.4	48.5	18.2
Employment	12.3	10.6	+1.7	Increasing	70	20.1	72.1	7.8
Part-time employment	4.0	2.9	+1.1	Increasing	3	9.6	84.8	5.6
Hours worked	6.6	1.5	+5.1	Increasing	9	10.2	86.2	3.6
Wages and benefits	21.0	16.8	+4.2	Increasing	75	23.1	74.8	2.1
Input prices	23.3	21.1	+2.2	Increasing	80	29.3	64.7	6.0
Selling prices	6.1	3.8	+2.3	Increasing	4	12.2	81.7	6.1
Capital expenditures	7.3	6.6	+0.7	Increasing	76	15.4	76.5	8.1
General Business Conditions								
Current (versus previous month)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	5.7	6.6	-0.9	Improving	9	18.4	68.9	12.7
General business activity	3.3	3.6	-0.3	Improving	8	16.4	70.5	13.1
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	39.6	43.5	-3.9	Increasing	82	52.3	35.0	12.7
Employment	25.9	27.6	-1.7	Increasing	81	36.0	53.9	10.1
Part-time employment	8.8	11.4	-2.6	Increasing	42	16.3	76.2	7.5
Hours worked	9.7	4.8	+4.9	Increasing	2	15.5	78.7	5.8
Wages and benefits	40.1	41.2	-1.1	Increasing	108	42.9	54.3	2.8
Input prices	42.4	46.6	-4.2	Increasing	108	47.7	47.0	5.3
Selling prices	20.0	25.8	-5.8	Increasing	80	29.7	60.6	9.7
Capital expenditures	20.4	22.6	-2.2	Increasing	81	30.4	59.5	10.0
General Business Conditions								
Future (six months ahead)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	10.7	14.9	-4.2	Improving	52	26.9	56.9	16.2
General business activity	7.9	11.0	-3.1	Improving	51	24.4	59.0	16.5

*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.

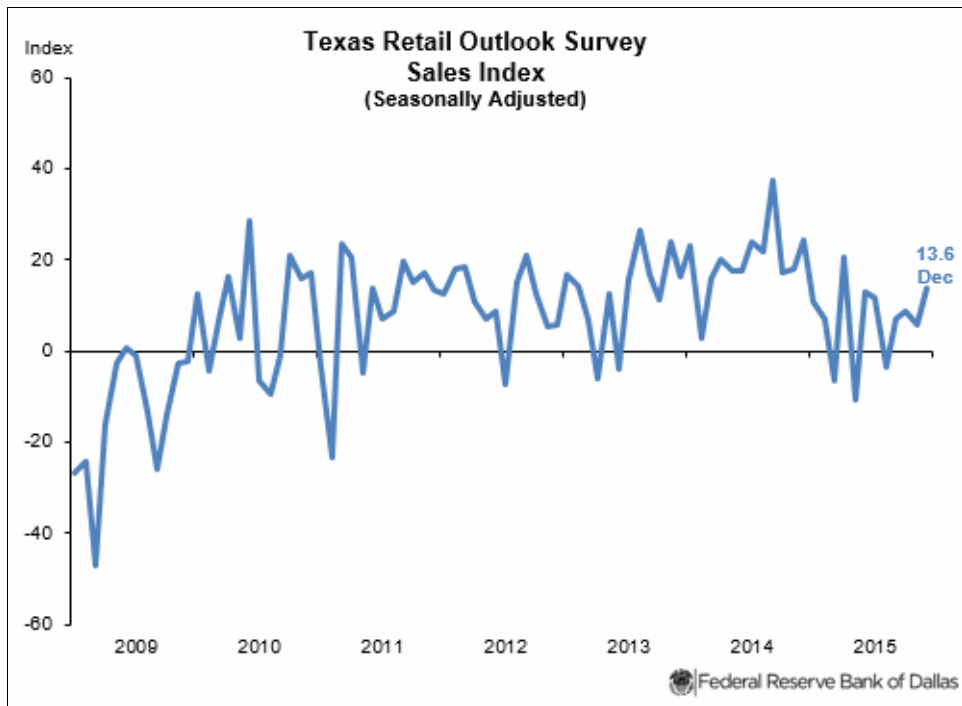
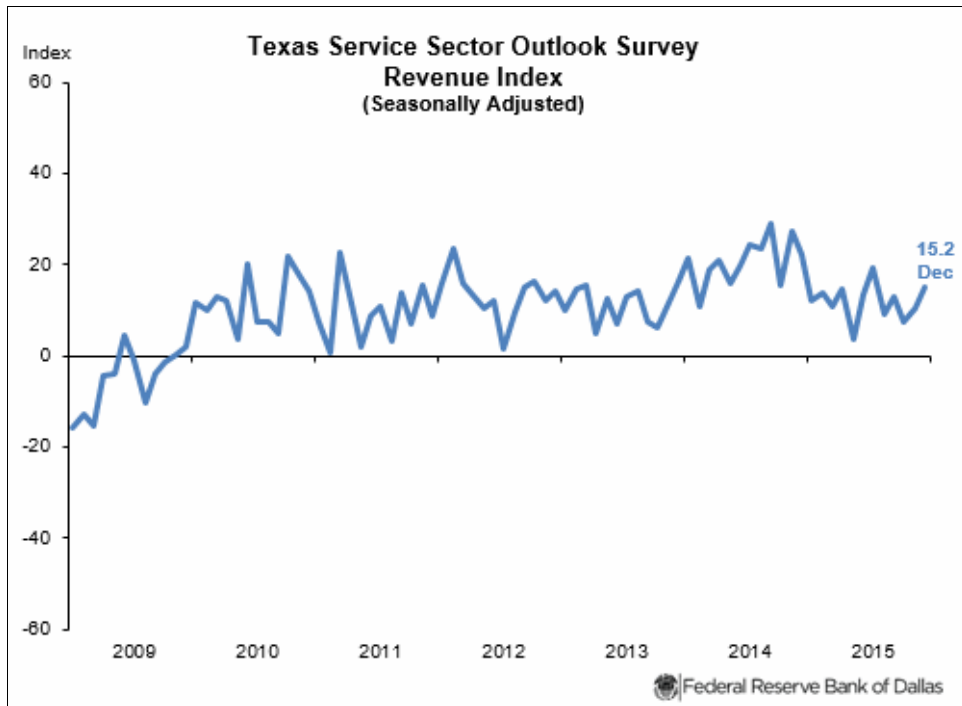
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	13.6	5.6	+8.0	Increasing	4	35.6	42.4	22.0
Employment	1.7	1.0	+0.7	Increasing	3	11.0	79.7	9.3
Part-time employment	3.7	-3.6	+7.3	Increasing	1	9.3	85.2	5.6
Hours worked	5.9	-4.5	+10.4	Increasing	1	8.2	89.5	2.3
Wages and benefits	10.7	5.2	+5.5	Increasing	58	13.6	83.5	2.9
Input prices	6.8	16.2	-9.4	Increasing	4	19.6	67.6	12.8
Selling prices	-1.5	1.3	-2.8	Decreasing	1	11.9	74.7	13.4
Capital expenditures	0.0	6.9	-6.9	No Change	1	10.7	78.6	10.7
Inventories	1.1	3.4	-2.3	Increasing	3	20.6	59.9	19.5
Companywide Retail Activity								
Sales	22.1	15.2	+6.9	Increasing	7	38.1	46.0	16.0
Internet sales	10.4	4.4	+6.0	Increasing	4	14.9	80.6	4.5
Catalog sales	2.8	-11.1	+13.9	Increasing	1	5.6	91.7	2.8
General Business Conditions, Retail Current (versus previous month)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	3.1	5.0	-1.9	Improving	9	16.1	71.0	13.0
General business activity	-4.9	-0.9	-4.0	Worsening	2	10.8	73.5	15.7
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	36.7	37.3	-0.6	Increasing	82	48.0	40.7	11.3
Employment	10.2	18.2	-8.0	Increasing	10	22.1	66.0	11.9
Part-time employment	7.7	14.4	-6.7	Increasing	4	15.5	76.7	7.8
Hours worked	10.2	3.7	+6.5	Increasing	2	17.5	75.2	7.3
Wages and benefits	29.9	31.0	-1.1	Increasing	82	31.7	66.5	1.8
Input prices	24.0	41.0	-17.0	Increasing	80	33.3	57.4	9.3
Selling prices	23.6	36.3	-12.7	Increasing	80	34.5	54.5	10.9
Capital expenditures	7.2	23.2	-16.0	Increasing	57	23.6	60.0	16.4
Inventories	5.5	26.8	-21.3	Increasing	73	24.5	56.5	19.0
Companywide Retail Activity								
Sales	39.0	37.2	+1.8	Increasing	81	49.3	40.4	10.3
Internet sales	14.7	28.2	-13.5	Increasing	81	17.1	80.5	2.4
Catalog sales	6.6	12.3	-5.7	Increasing	11	6.6	93.4	0.0
General Business Conditions, Retail Future (six months ahead)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	2.6	19.5	-16.9	Improving	81	21.5	59.6	18.9
General business activity	7.1	11.5	-4.4	Improving	9	26.6	53.9	19.5

*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

- > December will be less productive for the bank and very busy for customers, especially retail activity on a local level. Traffic will increase with the continued throngs of hunters and Christmas shoppers coming to the area. Lower fuel prices and mild weather will stimulate more travel.
- > Borrowing demand remains strong for auto and home improvements. Energy sector issues have had minimal impact on the consumers we serve. Continued downward pressure on oil prices is worrisome for the long-term impact on the Houston economy. We expect the anticipated rate increase would have minimal impact on consumer demand for big-ticket items.

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

- > The reduction in oil and natural gas prices has caused a significant reduction in our business. These areas represent 60 to 65 percent of the business. What business we now have is based on emergency operations and regulations. This business is now at significantly lower selling prices. We do not see an uptick until the pricing improves. We do not see a pricing improvement. In fact, we look for further deterioration based on normal activity and the lifting of sanctions on Iran, which could cause oil production dumped on the open market. The overall situation is not good, especially our higher cost of insurance, regulation, etc.

Insurance Carriers and Related Activities

- > Holidays are the main reason for a slight decrease, but we are not worried because beginning Jan. 1, everything comes back to normal and our services and workweek hours ramp up.

Funds, Trusts and Other Financial Vehicles

- > Our workweek is down due to the holidays. Activity is up for year-end closings and in anticipation of an interest rate increase.

Real Estate

- > The retail real estate market is holding strong as leasing activity continues to be steady. Retailers continue to struggle with trying to address multichannel retail and control costs with the addition of health insurance requirements. We think the government needs to offer businesses some tax break for providing health insurance or we will see increased unemployment, and employees with low education will be replaced, for example, by automated tellers and cashiers, defeating the good that getting the insurance provides.
- > Texas is a great place to live, and San Antonio continues to get better for business.

Professional, Scientific and Technical Services

- > Financing has tightened for our clients in the small-business sector. Without affordable financing, some projects have been placed on hold or terminated. Clients who come in for estate planning have smaller portfolios, as they have exited the stock market due to volatility and invested in cash or low-interest-paying products.
- > Although we are having a record year, we are experiencing a slowdown in commercial real estate business activity in the fourth quarter. Orders and closings remain strong in the residential sector but could be impacted in the first quarter of next year when the Consumer Financial Protection Bureau grace period ends. Increasing interest rates, oil prices and the overall saturation in the multifamily sector could also have a negative impact on the commercial markets. We are not forecasting a collapse, just a slowdown in overall business activity for 2016.
- > Fears because of continued unrest and the decline of gas prices, as well as the upcoming election, are going to wreak havoc on our economic stability. Concern is growing. Small business is at a distinct disadvantage.

Management of Companies and Enterprises

- > We are still waiting to see if the drop in oil prices will have a bigger impact on Texas than it has so far.
- > The agricultural economy and oil and gas slowdown are filtering through the economy at this time. Continued additions of new regulations such as the TRID [mortgage disclosure rules] have us rethinking doing any mortgage-related products whatsoever. We are not sure who is going to do rural market credit; few of these applicants would qualify for the secondary market. Our country has been regulated to death, and it shows in businesses' reluctance to even want to expand.

Administrative and Support Services

- > We don't expect to see an increase in business activity until after the elections. The increase in revenue we expect is based on actions we are taking to increase our business, regardless of the level of activity.
- > Low fuel prices continue to impact sales in the public transportation industry.
- > There is still the issue where business is improving but wages are stagnant, while rent and other housing costs continue to climb. Also, there is a shortage of qualified talent with appropriate aptitude. However, we also commonly see talent apply for positions where either their talent is not accurately assessed by the enterprise HR systems or the candidates are trying to make jumps from setbacks and lower-level jobs they were forced to take during the recession.

- > The Affordable Care Act is hurting us terribly. The fact is that most of our employees don't want to pay for health care. Most won't even use what we are offering.
- > We are seeing moderate retail sales affect our business with retailers. Manufacturing firms are still reluctant to spend money. Low oil prices are affecting our West Texas operations. We do see some positive results in the real estate sector as new buildings come on line.
- > The machine shop suppliers to the industrial and oil sectors continue to decrease monthly. Major customers have dramatically slowed down on orders placed to their machining suppliers, which in turn has impacted our nondestructive testing functions. The aircraft maintenance sector has slowed from November, but we believe it is a seasonal matter due to the holidays and the lower utilization of corporate aircraft.

Publishing Industries (Except Internet)

- > This year, it feels like more companies than normal are trying to make 2015 financials look better, as evidenced by multiple new orders expected by year-end that have been postponed into next year and by current clients trying to cut expenses this month or pushing payments into early next year.

Telecommunications

- > The price of oil and the chilling effects of the Affordable Care Act, Federal Communications Commission regulations and actions of Congress have finally negatively impacted our business. We need less regulation—allow oil to be sold overseas—and the ability to sell programming to customers using an à la carte pricing model.

Educational Services

- > Lower fuel prices are the current drivers on the cost side. Our outlook in the intermediate term is that fuel prices will continue to be low and contribute to overall cost savings.
- > We recently had a \$465 million bond issue passed for new construction and renovations on our three campuses over the next five years.

Ambulatory Health Care Services

- > A key issue affecting this company right now is the growing scarcity of IT staff at a tolerable salary and cost. The growth in the Dallas-area industry, while welcome as a whole, has tipped the supply of skilled computer programmers and developers from precarious to endangered.
- > December will see an increase as patients try to get in before deductibles restart in January. The six-month forecast worsens as Medicare payments are scheduled to decrease and some drop in economic activity due to oil and gas prices will start showing up.

Nursing and Residential Care Facilities

- > The health care environment is heavily influenced by seasonal variation, the regulatory environment and continuing implementation of the Affordable Care Act. Increasing uncertainty about changing payment systems—particularly reduced payment to providers—and limited access to insurance products for low-income individuals in the state of Texas place hospitals and physicians at risk of failure.

Social Assistance

- > Military contracts are picking up.

Amusement, Gambling and Recreation Industries

- > The costs of our primary food and beverage items have remained about the same or have gone down slightly. The costs of taxes, parking and insurance have dramatically increased. This is certainly going to affect our capital expenditure decisions going forward. We are also looking at increasing the number of part-time employees in order to get some of the insurance and employee benefits costs under control.

Food Services and Drinking Places

- > We should have two new locations in Texas opening in the first half of 2016. We are taking a very modest price increase in January to cover raises.
- > We are doing very well right now. After a very slow fall, sales have recently picked up quite a bit. We are relatively optimistic this will continue into the six-month horizon. Our number of employees is steady despite the sales increase. The sales increase is solid, but not enough to make us need more employees. There is a short-term increase in the hours being worked. We will have an increase in the six-month horizon because we will be opening a new restaurant in late January or early February. Wages and benefits are still only growing very slowly—slightly under 2 percent per year. Cost of goods has taken a sharp turn up. This will probably be the only month where we see such a sharp increase—over 0.5 percent—since the driving factor is a number of annual contracts that expired on key products. Capital expenditures are still high for the new restaurant. The recent upturn in sales has somewhat improved both our current evaluation of the outlook and our future expectations.
- > Beef prices have come down.
- > We are a little more concerned in our outlook. The increase in revenue is due to the holiday season.

Repair and Maintenance

- > Non-oil and gas-related sectors are doing well in our area.

Support Activities for Transportation

- > Our wages and benefits costs decreased due to a reduction in health benefits costs. We switched from a high-end health care plan to a self-insured plan, with a 40 percent reduction in our costs, a substantial increase in premium costs to employees and a reduction in covered health care benefits.

Merchant Wholesalers, Durable Goods

- > We see a national slowdown driven by fundamentals and commodity pricing drops—especially oil—over the next six months. We still believe home and apartment construction will be good in Texas during the next six months and improve further in the last quarter of 2016.

Motor Vehicle Parts Dealers

- > Low oil prices continue to negatively affect our sales and profitability.

Food and Beverage Stores

- > We are looking forward to strong Christmas and New Year's sales. Our sales comparison versus last year is up against some significant weather-related selling.

General Merchandise Stores

- > Unseasonably warm weather is having a significant impact on driving traffic and sales.

Nonstore Retailers

- > Some of our expectations for increased net sales are related to a project to bring efficiencies to delivering our product as well as to improved accuracy surrounding our cash-collection procedures. However, we are also adding new business. Thus, our outlook for our own company is positive.

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/.

