



Texas **Service Sector** Outlook Survey

January 28, 2020

Texas Service Sector Activity Growth Steady

The Texas service sector began 2020 growing at a similar pace as the end of 2019, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, was mostly unchanged at 18.8 in January, compared with 17.9 in December.

Labor market indicators reflected increased employment growth and slightly longer workweeks this month. The employment index ticked up from 5.5 to 8.4, suggesting a slight acceleration in hiring, although the part-time employment index fell to a near-zero reading. The hours worked index was generally unchanged at 3.3.

Perceptions of broader business conditions further improved in January. The general business activity index dipped from 13.5 to 11.1 but was still well above its 2019 average. The company outlook index increased from 11.3 to 12.5, its highest reading since 2018. The outlook uncertainty index increased over six points to 7.5, although it remains well below last year's average.

Price pressures increased in January, while wage pressures flattened out. The wages and benefits index was unchanged at 19.4, while the input prices index ticked up from 25.7 to 27.0. The selling prices index surged 10 points to 16.9, its highest reading since May 2018.

Respondents' expectations regarding future business conditions improved compared with December. The future company outlook index picked up over four points to 19.7, while the future general business activity index was unchanged at 17.6. Other indexes of future service sector activity, such as revenue and employment, increased notably and suggested expectations of further growth over the next six months.



Texas **Retail** Outlook Survey

Retail Sales Growth Moderates

Growth in retail sales decelerated in January, according to business executives responding to the Texas Retail Outlook Survey. The sales index remained in positive territory but declined from 13.5 in December to 4.8 in January. Inventories increased, with the index dipping four points to 9.6.

Retail labor market indicators suggested a leveling off in employment and longer workweeks in January. The employment index dipped from 2.5 to 1.0, indicating very little change in net employment compared with December. The part-time employment index plunged over 18 points to -8.7, a 12-month low. The hours worked index fell six points to 4.7.

Retailers' perceptions of broader business conditions tempered in January, and uncertainty increased. The general business activity index fell over 10 points to -2.1, indicating that a slightly larger share of businesses said current conditions were worsening than said they were improving. The company outlook index plunged from 15.0 to 0.2, while the outlook uncertainty index surged from -9.5 to 8.5.

Retail price pressures increased moderately, while wages pressures softened in January. The input prices index rose over four points to 25.0, while the selling prices index picked up nearly five points to 23.2—its highest reading since late 2018. The wages and benefits index slumped nearly 13 points from 25.1 to 12.2.

Retailers' perceptions of future business conditions continued to indicate improvement this month. The future general business activity index fell from 14.0 to 8.9—still above the average for 2019—and the future company outlook index was mostly unchanged at 14.8. Other indexes of future retail activity, such as sales and employment, moderated but were also around last year's averages, suggesting expectations for continued growth over the next six months.

The Texas Retail Outlook Survey is a component of the Texas Service Sector Outlook Survey that uses information only from respondents in the retail and wholesale sectors.

Next release: February 25, 2020

Data were collected January 14–22, and 239 Texas service sector and 47 retail sector 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 | Jan Index | Dec Index | Change | Series Average | Trend* | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|----------------------|-----------|-----------|--------|----------------|--------|----------------------|-----------------------|----------------------|
| Revenue | 18.8 | 17.9 | +0.9 | 12.2 | 122(+) | 32.0 | 54.8 | 13.2 |
| Employment | 8.4 | 5.5 | +2.9 | 6.7 | 119(+) | 17.3 | 73.8 | 8.9 |
| Part-Time Employment | 0.6 | 2.3 | -1.7 | 1.8 | 2(+) | 6.4 | 87.8 | 5.8 |
| Hours Worked | 3.3 | 4.1 | -0.8 | 2.8 | 39(+) | 8.8 | 85.7 | 5.5 |
| Wages and Benefits | 19.4 | 19.2 | +0.2 | 14.7 | 128(+) | 21.7 | 76.1 | 2.3 |
| Input Prices | 27.0 | 25.7 | +1.3 | 25.4 | 129(+) | 30.2 | 66.6 | 3.2 |
| Selling Prices | 16.9 | 6.9 | +10.0 | 5.5 | 3(+) | 21.5 | 73.9 | 4.6 |
| Capital Expenditures | 10.1 | 11.8 | -1.7 | 10.8 | 125(+) | 16.7 | 76.5 | 6.6 |

General Business Conditions

Current (versus previous month)

| Indicator | Jan Index | Dec Index | Change | Series Average | Trend** | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
|---------------------------|-----------|-----------|--------|----------------|---------|----------------------|-----------------------|----------------------|
| Company Outlook | 12.5 | 11.3 | +1.2 | 6.2 | 5(+) | 20.3 | 71.8 | 7.8 |
| General Business Activity | 11.1 | 13.5 | -2.4 | 4.0 | 8(+) | 19.6 | 71.9 | 8.5 |

| Indicator | Jan Index | Dec Index | Change | Series Average | Trend* | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|----------------------|-----------|-----------|--------|----------------|--------|----------------------|-----------------------|----------------------|
| Outlook Uncertainty† | 7.5 | 1.4 | +6.1 | 11.3 | 24(+) | 17.2 | 73.0 | 9.7 |

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

| Indicator | Jan Index | Dec Index | Change | Series Average | Trend* | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|-----------------------------|-----------|-----------|--------|----------------|--------|----------------------|-----------------------|----------------------|
| Revenue | 43.7 | 37.8 | +5.9 | 37.9 | 131(+) | 51.3 | 41.0 | 7.6 |
| Employment | 27.7 | 22.3 | +5.4 | 22.3 | 130(+) | 35.1 | 57.5 | 7.4 |
| Part-Time Employment | 9.9 | 8.7 | +1.2 | 6.7 | 7(+) | 15.8 | 78.3 | 5.9 |
| Hours Worked | 11.0 | 4.5 | +6.5 | 5.5 | 41(+) | 12.8 | 85.4 | 1.8 |
| Wages and Benefits | 40.7 | 39.4 | +1.3 | 36.5 | 157(+) | 42.6 | 55.4 | 1.9 |
| Input Prices | 41.4 | 46.6 | -5.2 | 44.4 | 157(+) | 43.3 | 54.7 | 1.9 |
| Selling Prices | 30.5 | 26.5 | +4.0 | 23.5 | 129(+) | 34.0 | 62.5 | 3.5 |
| Capital Expenditures | 25.5 | 29.0 | -3.5 | 24.2 | 130(+) | 32.2 | 61.1 | 6.7 |

General Business Conditions
Future (six months ahead)

| Indicator | Jan Index | Dec Index | Change | Series Average | Trend** | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
|----------------------------------|-----------|-----------|--------|----------------|---------|----------------------|-----------------------|----------------------|
| Company Outlook | 19.7 | 15.6 | +4.1 | 17.0 | 13(+) | 27.2 | 65.3 | 7.5 |
| General Business Activity | 17.6 | 17.6 | 0.0 | 13.6 | 5(+) | 25.7 | 66.2 | 8.1 |

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

| Indicator | Jan Index | Dec Index | Change | Series Average | Trend* | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|------------------------------------|-----------|-----------|--------|----------------|--------|----------------------|-----------------------|----------------------|
| Retail Activity in Texas | | | | | | | | |
| Sales | 4.8 | 13.5 | -8.7 | 6.9 | 5(+) | 27.2 | 50.4 | 22.4 |
| Employment | 1.0 | 2.5 | -1.5 | 2.4 | 4(+) | 11.8 | 77.4 | 10.8 |
| Part-Time Employment | -8.7 | 9.6 | -18.3 | -1.7 | 1(-) | 4.3 | 82.6 | 13.0 |
| Hours Worked | 4.7 | 10.7 | -6.0 | -1.2 | 2(+) | 14.0 | 76.7 | 9.3 |
| Wages and Benefits | 12.2 | 25.1 | -12.9 | 9.9 | 107(+) | 16.3 | 79.6 | 4.1 |
| Input Prices | 25.0 | 20.7 | +4.3 | 19.1 | 48(+) | 29.7 | 65.6 | 4.7 |
| Selling Prices | 23.2 | 18.4 | +4.8 | 10.5 | 34(+) | 30.2 | 62.8 | 7.0 |
| Capital Expenditures | -2.1 | 5.7 | -7.8 | 9.4 | 1(-) | 8.5 | 80.9 | 10.6 |
| Inventories | 9.6 | 13.6 | -4.0 | 3.9 | 2(+) | 26.6 | 56.4 | 17.0 |
| Companywide Retail Activity | | | | | | | | |
| Companywide Sales | 10.5 | 15.6 | -5.1 | 8.5 | 2(+) | 27.9 | 54.7 | 17.4 |
| Companywide Internet Sales | 1.9 | 14.8 | -12.9 | 7.0 | 21(+) | 13.9 | 74.1 | 12.0 |

General Business Conditions, Retail
Current (versus previous month)

| Indicator | Jan Index | Dec Index | Change | Series Average | Trend** | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
|----------------------------------|-----------|-----------|--------|----------------|---------|----------------------|-----------------------|----------------------|
| Company Outlook | 0.2 | 15.0 | -14.8 | 4.4 | 4(+) | 12.4 | 75.4 | 12.2 |
| General Business Activity | -2.1 | 8.3 | -10.4 | 0.0 | 1(-) | 11.7 | 74.5 | 13.8 |

Outlook Uncertainty

Current (versus previous month)

| Indicator | Jan Index | Dec Index | Change | Series Average | Trend* | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|-----------------------------|-----------|-----------|--------|----------------|--------|----------------------|-----------------------|----------------------|
| Outlook Uncertainty† | 8.5 | -9.5 | +18.0 | 9.7 | 1(+) | 17.0 | 74.5 | 8.5 |

Business Indicators Relating to Facilities and Products in Texas, Retail

Future (six months ahead)

| Indicator | Jan Index | Dec Index | Change | Series Average | Trend* | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|------------------------------------|-----------|-----------|--------|----------------|--------|----------------------|-----------------------|----------------------|
| Retail Activity in Texas | | | | | | | | |
| Sales | 23.9 | 34.0 | -10.1 | 32.7 | 8(+) | 34.6 | 54.7 | 10.7 |
| Employment | 2.5 | 11.7 | -9.2 | 12.4 | 2(+) | 12.0 | 78.5 | 9.5 |
| Part-Time Employment | 6.4 | 15.4 | -9.0 | 0.8 | 2(+) | 10.5 | 85.4 | 4.1 |
| Hours Worked | 6.2 | 1.1 | +5.1 | 2.7 | 2(+) | 11.6 | 83.0 | 5.4 |
| Wages and Benefits | 31.5 | 33.4 | -1.9 | 27.4 | 133(+) | 33.9 | 63.7 | 2.4 |
| Input Prices | 36.9 | 44.0 | -7.1 | 33.2 | 129(+) | 39.1 | 58.7 | 2.2 |
| Selling Prices | 35.6 | 40.8 | -5.2 | 29.2 | 129(+) | 37.8 | 60.0 | 2.2 |
| Capital Expenditures | 17.4 | 16.3 | +1.1 | 18.3 | 2(+) | 21.7 | 73.9 | 4.3 |
| Inventories | 4.6 | 12.3 | -7.7 | 8.4 | 2(+) | 21.4 | 61.8 | 16.8 |
| Companywide Retail Activity | | | | | | | | |
| Companywide Sales | 25.3 | 27.7 | -2.4 | 31.1 | 130(+) | 31.2 | 62.9 | 5.9 |
| Companywide Internet Sales | 20.0 | 26.8 | -6.8 | 21.9 | 42(+) | 25.7 | 68.6 | 5.7 |

General Business Conditions, Retail

Future (six months ahead)

| Indicator | Jan Index | Dec Index | Change | Series Average | Trend** | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
|----------------------------------|-----------|-----------|--------|----------------|---------|----------------------|-----------------------|----------------------|
| Company Outlook | 14.8 | 13.9 | +0.9 | 17.3 | 5(+) | 23.0 | 68.8 | 8.2 |
| General Business Activity | 8.9 | 14.0 | -5.1 | 13.1 | 3(+) | 20.0 | 68.9 | 11.1 |

*Shown is the number of consecutive months of expansion or contraction in the underlying indicator. Expansion is indicated by a positive index reading and denoted by a (+) in the table. Contraction is indicated by a negative index reading and denoted by a (-) in the table.

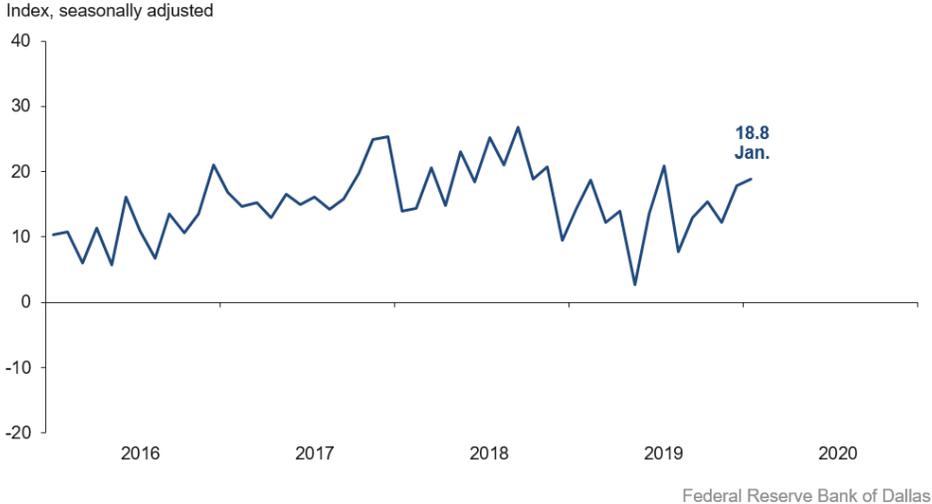
**Shown is the number of consecutive months of improvement or worsening in the underlying indicator. Improvement is indicated by a positive index reading and denoted by a (+) in the table. Worsening is indicated by a negative index reading and denoted by a (-) in the table.

†Added to survey in January 2018.

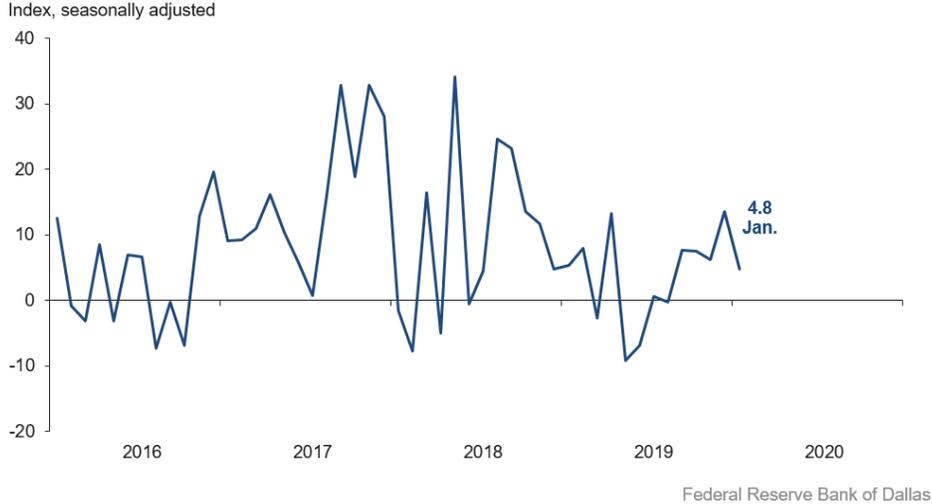
Data have been seasonally adjusted as necessary, with the exception of the outlook uncertainty index which does not yet have a sufficiently long time series to test for seasonality.

Texas Service Sector Outlook Survey

Texas Service Sector Outlook Survey Revenue Index



Texas Retail Outlook Survey Sales Index



Texas Service Sector Outlook Survey

January 28, 2020

Comments from Survey Respondents

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

Pipeline Transportation

- The energy space continues to face headwinds on uncertainty of global demand, increased competition and investor sentiment.

Support Activities for Transportation

- Trade wars are impacting us greatly in terms of both rates and volumes.
- We got a new contract and are probably getting another big one.

Warehousing and Storage

- Our organization is in the midst of unprecedented growth, generating record revenues for the full year 2019 that were up 25 percent from the prior year, and we are expected to add at least another 25 percent in 2020. We're primarily a liquid hydrocarbon port and are benefiting from the continued growth in production in West Texas which, while we expect it to slow in 2020 compared with 2019, will not have a direct impact at this time on the oil export component of our business.

Credit Intermediation and Related Activities

- Beginning in January, predicting the future performance is usually a best guess based on the past year's accomplishments. Budgets are usually conservative and a little pessimistic especially going into an election year. Business activities have improved with the support of several local, public and statewide infrastructure activities boosting economic impacts, including increased sales tax revenue. Loan activity has started to increase with several loans in the pipeline and funding coming online the latter part of January. Deposits increased over year-end 2018 by 10 percent and have been stable into January with anticipated increases in public funds as property, and ad valorem taxes are paid to the tax collector and distributed to the public entities.
- There is lots of regulatory noise in our subprime financial services space coming out of the House in DC.
- Either the stock market rally or the repo market debacle, or a combination of both, has caused a lack of liquidity. This lack of liquidity within the markets is being felt, even by companies that are not large.
- There have been potential clarifications in China trade activity and no negative energy market news.

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

- As a financial services company, we benefited from the strong market valuation increases in 2019. However, I am cautiously optimistic for 2020. I believe consumer confidence, if it worsens, will slow economic activity and slow our ability to grow and hire.

Real Estate

- Economic news of Central Texas development has spurred increases in the number of commercial appraisals we have seen over the last four months.
- The weather has been good. People are happy to have the holidays behind them and are out looking at houses.

Professional, Scientific and Technical Services

- We are hoping that momentum experienced in third and fourth quarter 2019 carries into the first half of the year. We are also looking forward to clarity about the direction of the Democratic party with a nominee so we enter third quarter with some idea of what might happen that supports a favorable business cycle, or perhaps disrupts it. Either way, we will know and can plan accordingly. It is sure to be an unpleasant ride.
- Although our political climate is a mess, the real estate industry seems to remain stable. We enjoyed a very robust fourth quarter for both the commercial and residential side of our business, and January is starting out strong. This is an election year, so we will have to wait and see how it plays out.
- 2019 saw an uptick in demand for our services and better rates, so we had a very good year despite higher costs. In 2020, we will likely see higher rates, but I would be surprised if demand was as hot for us as in 2019. Real estate and corporate work were very strong in 2019. This has been a very strong run for real estate and one wonders how long it can go on.

- We are a supplier in the automotive industry supply chain. Auto sales are down, and we are starting to feel the pinch.
- We feel pretty bullish as the year starts. We finished 2019 with momentum and have maintained that momentum. The resolution of the trade issues and the certainty now around Brexit have been helpful, too.

Management of Companies and Enterprises

- The six-month forecast is based on election season, which will slow our business some.
- The improving trade tariffs seem to be positive news for our customers and vendors.

Administrative and Support Services

- Election year expectations are that increases in interest rates are unlikely. However, overall business sentiment is still clouded by international and trade issues and their impact on consumer and business costs.
- Our core business services provided have increased 29 percent since early December. We are taking bookings for inspections out to mid-February at this time. Overall, it has been a positive 45 days. We think that this trend will continue. All sectors of our requested inspection services have increased except for oilfield work. We do not see this changing in the near future.
- January has been very wet and production slow. Sales are good.

Ambulatory Health Care Services

- Monthly economic limerick: Trade deal one done and now on to two; biggest issue is specific issues are few; no more manipulating yuan; suddenly Swiss franc is on; anxiety high but storm clouds likely through.
- We are seeing a slowdown related to patients with high-deductible insurance plans delaying care. This is a seasonal issue; we typically recover in the March–April time frame.
- Medicare Advantage plans have been very effective in demonstrating cost and utilization growth control at great cost to the seniors in home health services. MA plans continue to add low-cost services while tightening complex care issues that appear to be the greatest need for our seniors. MA plans need to be held responsible for outcomes and not rewarded for denial of desperately needed services.

Amusement, Gambling and Recreation Industries

- There seems to be a shift going on in Austin from the established businesses to the glitzy new and national ones. Some of the usual suspects are at play—increases in property taxes, general doing-business increases, loss of parking, real and perceived problems with the homeless in downtown Austin, etc. Several old restaurants and retail stores have gone out of business in the last several months. This is in conjunction with the brutally rapid increase in construction of high-rise buildings in the downtown area and around the Domain. Although change is inevitable, the problem is the new people and businesses do not understand the city, and Austin is slowly losing its soul and sense of community.

Food Services and Drinking Places

- We took a price increase in January and also gave raises.
- December is a holiday month. If business isn't good, the economy isn't going well.

Merchant Wholesalers, Nondurable Goods

- Our restaurant customers continue to be steady. We are bringing on a new customer in first quarter 2020 that will grow our revenue by 25 percent.

Motor Vehicle and Parts Dealers

- Following the year-end rush, things were quiet for a week or so but seem to be picking up now that January is half gone.

Clothing and Clothing Accessories

- As we transition from a department store to an off-price store, we will be decreasing our e-commerce transactions.
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