Texas **Service Sector** Outlook Survey

December 29, 2020

Texas Service Sector Activity Grows Modestly as Year Ends

What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on the impact of COVID-19. Results for these questions from the Texas Manufacturing Outlook Survey, Texas Service Sector Outlook Survey and Texas Retail Outlook Survey have been released together.

Activity in the Texas service sector returned to positive territory 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 -0.7 in November to 4.2 in December, indicating a modest increase in activity.

Labor market indicators point to an increase in employment and hours worked. The employment index rose over four points to 5.1, while the part-time employment index advanced from -0.4 to 1.7. The hours worked index was mostly unchanged at 2.1.

Perceptions of broader business conditions remained subdued in December. The general business activity index continued to weaken, declining from -2.6 to -4.3. However, the company outlook index ticked up to positive territory, increasing from -0.8 to 0.7. The outlook uncertainty index remained positive but fell over 12 points to 5.2.

Price pressures increased slightly in December, while wage pressures eased. The selling prices index added two points to rise to 5.3—its highest reading since February—while the input prices index rose from 20.7 to 21.8. The wages and benefits index remained positive but fell from 11.2 to 8.6.

Respondents' expectations regarding future business activity reflected increased optimism compared with November. The future general business activity index advanced nearly eight points to 23.8, while the future revenue index similarly added eight points to rise to 42.3, its highest reading since the beginning of the COVID-19 pandemic. Other indexes of future service sector activity such as employment rose notably, suggesting expectations of improved activity going into 2021.

Texas Retail Outlook Survey

Texas Retail Sales Hold Steady

Retail sales activity was largely flat in December after posting a sizable decline in November, according to business executives responding to the Texas Retail Outlook Survey. The sales index, a key measure of state retail activity, rose from -6.5 to 0.8, with over a quarter of respondents noting increased sales. The inventory index flattened out, declining from 3.0 to -0.1.

Retail labor market indicators were mixed, with employment holding steady but average workweek length contracting. The employment index added nearly three points, rising from -2.4 to 0.3, and the part-time index added nearly six points, rising to 3.9. The hours worked index declined about two points to -4.0, suggesting that retailers continued to cut employee working hours on net.

Retailers' perceptions of broader business conditions were increasingly pessimistic in December. The general business activity index declined over 10 points to -14.6, with over a quarter of respondents noting weaker activity compared to November. The company outlook index fell two points to -2.1. The outlook uncertainty index plunged from 18.4 to 0.0, suggesting no net change in uncertainty.

Retail wage pressures held steady, while price pressures surged in December. The wages and benefits index was flat at 6.5, with just 10 percent of respondents noting an increase. The selling prices index rose from 13.9 to 20.3, while the input prices index surged from 20.3 to 35.4—the highest level in two and a half years.

Retailers' perceptions of future activity remained solidly optimistic in December. The future general business activity index rose slightly from 19.0 in November to 20.5 in December, while the future sales index ticked up from 29.0 to 31.8. Other indexes of future retail activity such as employment improved, pointing to expectations of solid expansion in 2021.

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: January 26, 2021

Data were collected December 14–22, and 228 Texas service sector and 52 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	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	4.2	–0.7	+4.9	10.7	1(+)	27.8	48.7	23.6
Employment	5.1	0.9	+4.2	5.9	4(+)	14.6	75.9	9.5
Part-Time Employment	1.7	–0.4	+2.1	1.2	1(+)	7.1	87.5	5.4
Hours Worked	2.1	2.6	–0.5	2.2	4(+)	8.8	84.5	6.7
Wages and Benefits	8.6	11.2	–2.6	13.8	7(+)	12.3	84.0	3.7
Input Prices	21.8	20.7	+1.1	24.8	8(+)	25.5	70.8	3.7
Selling Prices	5.3	3.3	+2.0	4.9	5(+)	15.0	75.3	9.7
Capital Expenditures	2.2	2.4	–0.2	9.6	4(+)	11.5	79.2	9.3

General Business Conditions

Current (versus previous month)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	0.7	–0.8	+1.5	4.8	1(+)	18.1	64.5	17.4
General Business Activity	–4.3	–2.6	–1.7	2.6	2(–)	17.8	60.1	22.1

Indicator	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	5.2	17.4	–12.2	12.8	3(+)	20.0	65.3	14.8

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

Indicator	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	42.3	34.4	+7.9	36.6	8(+)	56.1	30.1	13.8
Employment	31.7	22.8	+8.9	21.5	8(+)	40.3	51.1	8.6
Part-Time Employment	8.6	6.8	+1.8	6.3	5(+)	13.9	80.8	5.3
Hours Worked	12.5	6.9	+5.6	5.4	8(+)	17.8	76.9	5.3
Wages and Benefits	33.2	29.7	+3.5	35.5	8(+)	37.4	58.4	4.2
Input Prices	41.1	33.9	+7.2	43.3	168(+)	45.2	50.7	4.1
Selling Prices	27.9	20.4	+7.5	22.6	8(+)	35.4	57.1	7.5
Capital Expenditures	24.3	14.4	+9.9	22.9	7(+)	32.8	58.7	8.5

General Business Conditions
Future (six months ahead)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	22.5	16.2	+6.3	16.0	5(+)	35.1	52.3	12.6
General Business Activity	23.8	16.1	+7.7	12.7	5(+)	38.1	47.6	14.3

Texas Retail Outlook Survey

Business Indicators Relating to Facilities and Products in Texas

Retail (versus previous month)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	0.8	–6.5	+7.3	5.5	1(+)	27.7	45.3	26.9
Employment	0.3	–2.4	+2.7	1.7	1(+)	9.1	82.1	8.8
Part-Time Employment	3.9	–2.0	+5.9	–2.1	1(+)	7.8	88.2	3.9
Hours Worked	–4.0	–2.1	–1.9	–2.1	3(–)	6.6	82.8	10.6
Wages and Benefits	6.5	6.6	–0.1	9.1	5(+)	10.6	85.3	4.1
Input Prices	35.4	20.3	+15.1	18.8	8(+)	37.0	61.4	1.6
Selling Prices	20.3	13.9	+6.4	10.1	7(+)	25.5	69.3	5.2
Capital Expenditures	0.7	4.0	–3.3	7.3	2(+)	9.0	82.7	8.3
Inventories	–0.1	3.0	–3.1	2.4	1(–)	21.3	57.3	21.4
Companywide Retail Activity								
Companywide Sales	4.7	–9.6	+14.3	6.9	1(+)	26.6	51.5	21.9
Companywide Internet Sales	7.0	–5.4	+12.4	6.1	1(+)	18.7	69.6	11.7

General Business Conditions, Retail

Current (versus previous month)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	–2.1	–0.1	–2.0	3.2	2(–)	15.1	67.7	17.2
General Business Activity	–14.6	–4.2	–10.4	–1.1	2(–)	12.9	59.6	27.5

Outlook Uncertainty

Current (versus previous month)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	0.0	18.4	–18.4	10.1	1()	11.8	76.5	11.8

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

Indicator	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	31.8	29.0	+2.8	31.9	8(+)	50.1	31.6	18.3
Employment	21.5	16.9	+4.6	11.9	8(+)	31.5	58.5	10.0
Part-Time Employment	–0.8	5.9	–6.7	0.6	1(–)	8.4	82.4	9.2
Hours Worked	1.8	2.4	–0.6	2.7	8(+)	12.3	77.2	10.5
Wages and Benefits	32.2	26.7	+5.5	26.9	8(+)	37.3	57.7	5.1
Input Prices	53.0	42.9	+10.1	32.6	8(+)	56.9	39.2	3.9
Selling Prices	47.0	38.8	+8.2	28.7	8(+)	52.9	41.2	5.9
Capital Expenditures	20.0	14.3	+5.7	16.8	7(+)	30.0	60.0	10.0
Inventories	12.0	21.9	–9.9	8.4	8(+)	32.1	47.7	20.1
Companywide Retail Activity								
Companywide Sales	29.4	23.3	+6.1	30.3	8(+)	42.3	44.9	12.9
Companywide Internet Sales	33.3	18.4	+14.9	21.7	9(+)	39.4	54.5	6.1

General Business Conditions, Retail
Future (six months ahead)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	24.3	17.5	+6.8	16.7	8(+)	33.8	56.7	9.5
General Business Activity	20.5	19.0	+1.5	12.5	5(+)	36.3	47.9	15.8

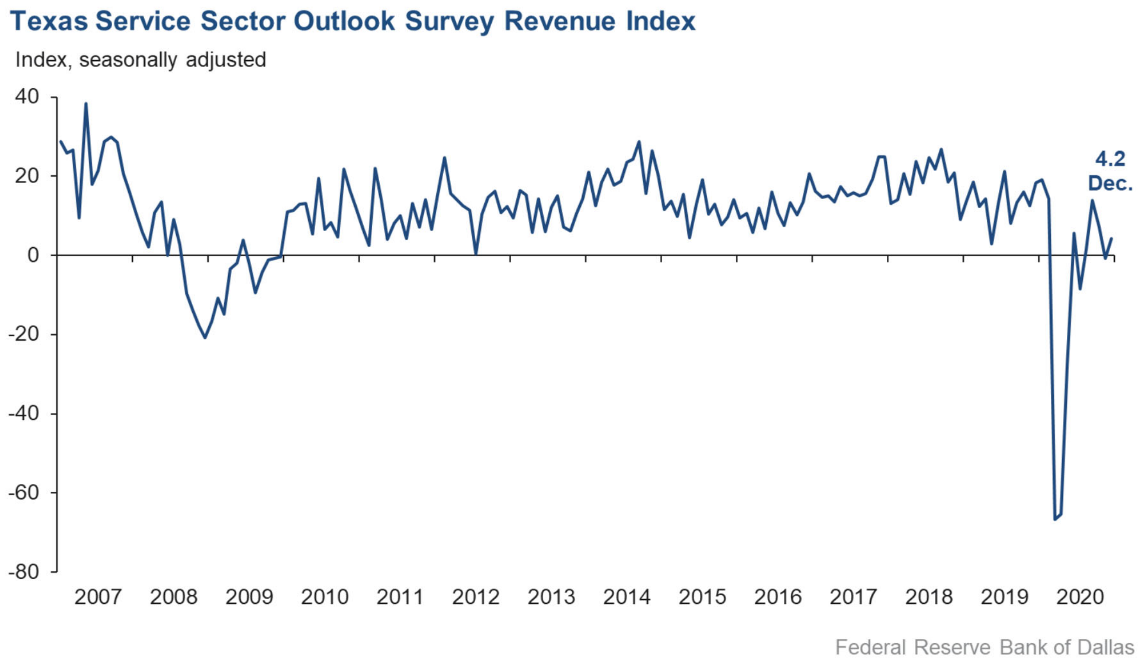
*Shown is the number of consecutive months of expansion or contraction in the underlying indicator. Expansion is indicated by a positive index reading and denoted by a (+) in the table. Contraction is indicated by a negative index reading and denoted by a (–) in the table.

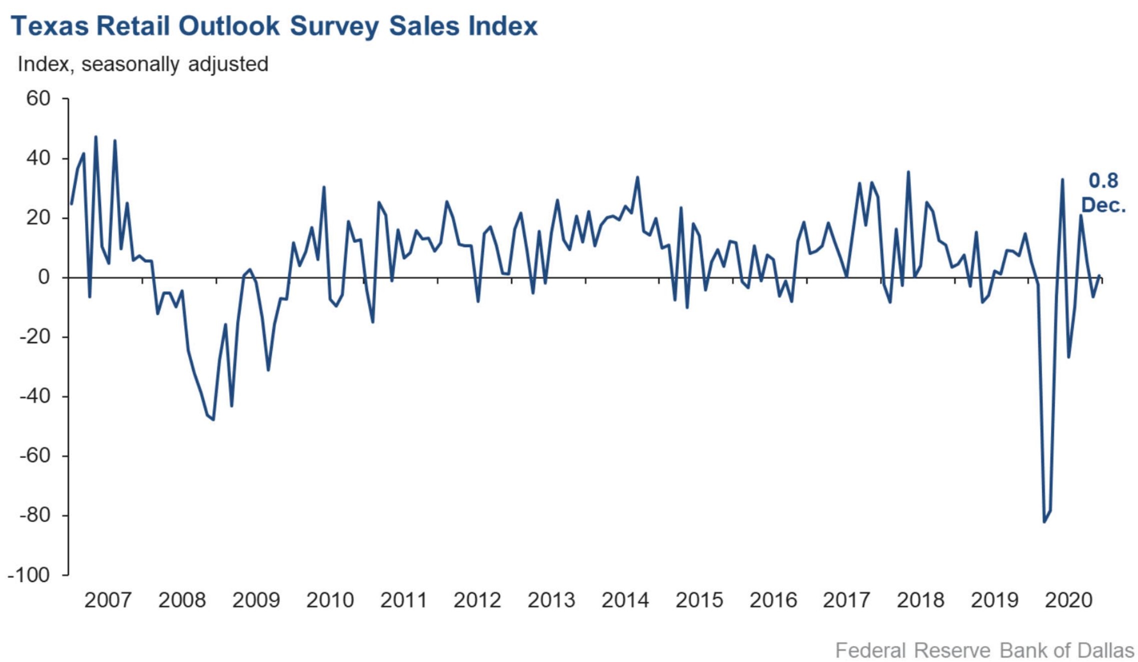
**Shown is the number of consecutive months of improvement or worsening in the underlying indicator. Improvement is indicated by a positive index reading and denoted by a (+) in the table. Worsening is indicated by a negative index reading and denoted by a (–) in the table.

†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

December 29, 2020

Comments from Survey Respondents

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

Utilities

- There is more bad debt.

Truck Transportation

- If Biden becomes president, then we are in a terrible position.

Support Activities for Transportation

- The market is very busy at present. We're uncertain what things will look like mid-first quarter 2021.

Warehousing and Storage

- We believe the recovery we have seen over the past several months will be sustained in December but believe that we will still have some retracement in the volume of crude oil exports in 2021, so our 2021 budget reflects a decrease from 2020 actual results. We will not be reducing head count nor reducing our level of maintenance and capital spending, however, as we do expect a bump up in 2022 and a return to 2020 levels by 2023.

Publishing Industries (Except Internet)

- Budget uncertainty in federal budgets and some international clients near term has slowed expected orders for this month. Also, past uncertainty for small business support has created more business and planning risk for us, as with many small organizations.

Data Processing, Hosting and Related Services

- A combination of the holidays and the election results has made business managers more hesitant to make purchasing decisions. This has caused us to put our hiring plans on hold until we get more visibility as to how long the hesitation will last.

Credit Intermediation and Related Activities

- The uncertainty for the future will be hard to determine due to the potential political changes and the possible regulatory changes. The Paycheck Protection Program has resulted in a positive impact to most banks' bottom lines with the collection of fees from the SBA (Small Business Administration). Deposits are elevated but interest expense has decreased with low rates paid on deposits. Interest margins are being reduced, and the only opportunity to offset the trend is to increase the volume of earning assets. Reducing noninterest expense will be included in some strategies. The status of retail, manufacturing, transportation, agriculture and consumer spending will be a critical measurement in determining the compensatory impact of the state of the economy in 2021.
- Not having a package from the government passed gives pause to us because we can see a domino effect in all sectors until the vaccine is fully implemented. We continue to see the hotel, restaurant, convention and leisure activity areas hit the hardest and expect no recovery for them until 2022. Unemployment is still of great concern.

- The general activity level is slightly down during the past six weeks. Customers indicate concerns relative to possible tax law changes and regulatory changes beginning in 2021, depending on the election outcome. Our clients are typically making decisions relative to long-term capital needs related to commercial real estate, so uncertainty is a dampening factor. Our six-month outlook is influenced by two main factors: A resolution of some of the perceived political risk related to tax policy and an expectation that regulatory oversight in the banking sector is likely to include increased reserves for CRE (commercial real estate) loans, which will eventually cause borrowers to favor sourcing loans from the life insurance sector, which is where our focus is concentrated.
- Our nonprofit was just awarded a big $3 million grant. Our garage business is performing well. We're hopeful that we have finally secured a refinance option for our real estate. Things are looking better!

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

- The vaccine rollout, we expect, will improve the business climate in second quarter 2021 going forward.
- Our history in this business has been as a supplier of services to the oil and gas industry, which is down significantly. We are down along with the industry. These are hard times.
- We have closed the firm.

Insurance Carriers and Related Activities

- COVID-19 is hitting East Texas like the rest of the country, so uncertainty has increased in the past month. But, with the vaccine approved over the weekend, there is renewed optimism that the end of this pandemic is closer. Plus, with the Electoral College [vote], hopefully some of the political rhetoric will subside.

Real Estate

- We have had some big real estate purchases [in which] buyers agree to close on properties in 2020 instead of January 2021, [avoiding] unknown possible tax exposure. This has been a good December.
- The two vaccines have been great news for our employees and agents—[they have] much more positive attitudes.

Rental and Leasing Services

- For U.S. capital goods suppliers, the problem with growing anything next year is going to be getting ahold of the capital goods. Supply lines are shot to hell, and there are far fewer vendors for our manufacturers to purchase components from worldwide. Assuming the Republicans hold the Senate, I think next year will be about flat with this year. If [they don't], then all bets are off. We will cut another 100 employees and bunker down!
- The live events industry will be the last industry to return to normal. Thirty percent of our industry is gone, and another 60 percent will go out of business by February without relief.

Professional, Scientific and Technical Services

- It is very difficult to determine what the real estate market will look like in six months, but we are more optimistic with the approval of the vaccine. There are two major questions we are facing in the real estate market. First, how quickly will the office, hotel and retail markets recover. Secondly, what is the incoming administration going to do with the capital gains rate and tax-deferred exchanges. These issues could make or break not only the real estate market but the recovery of the economy.
- We are now expecting to best last year's numbers for gross revenue and net income to the partners. Collections have remained good, though we obviously had a slowdown in work in the spring.
- Our costs are going up, including labor, but selling prices are not increasing. That means we will be squeezed on margin in 2021. We would like to know if this is a broader trend than just our consulting business.

- More closures of restaurants and retail establishments in states such as California cause more uncertainty in our outlook. As long as most restaurants and retailers in most states can stay open, our outlook will remain the same or possibly improve.
- 2020 actually ended up being a strong year for us because we had several contracts already in the pipeline, and our nonprofit partners leaned on us for communications plans, fundraising and general support as they had to pivot program delivery in many cases. However, we have a much leaner pipeline going into 2021, as we know nonprofits are so focused on keeping their programs afloat during a time of great need.
- We need to restore trust in government and need to get the vaccine working and dispensed. We need to get through this to the other side.
- Clarification and protection on tax implications of PPP [Paycheck Protection Program] loans are important for next year's budget planning.
- Without the ability to freely meet with prospects wanting or needing to transition out of their businesses, it is virtually impossible to obtain businesses to sell. Some consulting work along the lines of helping price businesses for sale or helping to decide if the businesses should remain open appears to be a possible revenue opportunity going forward.
- I have hope that there will be improvement after the first of the year, based on the vaccine being widely available and administered by summer. This would improve the energy business and, therefore, my consulting opportunities.
- The economy is getting stronger, showing signs we are getting out of the COVID-19 situation. Many small-sized customers are doing larger purchases like the old days for their IT needs.

Management of Companies and Enterprises

- The Federal Reserve is artificially manipulating interest rates by buying up investment securities. They need to let normal supply and demand dictate where interest rates should be. They are risking another banking crisis for banks with interest rate risk.

Administrative and Support Services

- Fear of COVID-19 has had an impact on our customer base.
- There appears to be significant political risk related to the passage of stimulus 2.0. Otherwise, low interest rates, a relatively high unemployment rate and slowing economic growth are the current reality.
- With the release of the first COVID-19 vaccine, and two more right behind it, there is light at the end of the pandemic tunnel. A stimulus deal looks possible this month. We will still need more aid to the unemployed and small businesses impacted by COVID-19, but that's a 2021 issue. Things are looking up!
- We continue to have employee issues stemming from COVID-19 and lack of applicants.
- The new stimulus bill was just passed, but I've yet to see if our company will benefit. It is so difficult to stay in business when we were provided PPP loans to cover eight weeks of the virus when it will last a year.
- Needless to say, the speculation of a future increase in the number of employees and improved revenue is as a result of the availability of the COVID-19 vaccine.
- Recruiting activity related to hiring professionals for Texas companies had increased in November and has slightly softened in December. We are unsure if that is related to the uptick in COVID-19 cases, the holidays, delay in approving additional financial support from Congress, or just a settling down of demand. We are cautiously optimistic demand for our services will continue to increase in the first and second quarter of 2021 as companies realize they will need talent to regain market share and increase profitability.

Educational Services

- Passage of the latest COVID relief bill gives us direct benefits that will improve our outlook for January and the following months.

Ambulatory Health Care Services

- CMS [Centers for Medicare & Medicaid Services] just published a rate reduction of 10 percent effective Jan. 1, 2021. This will impact us tremendously. This year we are fortunate to break even; last year our profit margin was 16 percent. This will be challenging for us, even though we are used to deflation.
- With the arrival of the vaccination for the health care providers, this gives us a sense of predictability to this environment.

Hospitals

- Approval of the first vaccine and success of monoclonal antibody treatment for COVID-19 have markedly increased optimism for 2021.

Social Assistance

- The biggest issue is hiring enough employees for warehouse and retail stores. We believe unemployment policies are keeping many out of the market.

Performing Arts, Spectator Sports, and Related Industries

- Government control of the economy and spending are out of control. Government is the problem.

Amusement, Gambling and Recreation Industries

- We see downward trends due to the continuation of COVID-19.

Accommodation

- Discussions regarding a significant and comprehensive federal infrastructure bill give us reason to be more optimistic about the future. Our lodging business will certainly benefit from nationwide investment in transportation, 5G [fifth generation wireless technology], renewable energy and education.
- January and February look bleak for lodging. Without the holiday season to spur leisure travel and [with] COVID still preventing business travel and group meetings and conventions, occupancies will be very low. Hopefully the vaccine begins to build consumer and traveler confidence as the year progresses.

Food Services and Drinking Places

- We are afraid of the Biden administration and what it will do to small business.
- I am short 1,000 employees! It is very difficult to hire.
- Does anyone get what 1,000 small businesses going under looks like?
- I am still waiting on [our partner's] corporate office to allow me to go back to my hot dog stands and work.

Personal and Laundry Services

- Work-from-home is negatively affecting our business. Men are getting less-frequent haircuts. People who are unemployed or underemployed also are getting fewer haircuts. We have also seen some people a bit demoralized with the pandemic, resulting in less attention to appearance. New trends are emerging of nonjudgment of appearance, so natural looks are trending, resulting in less haircuts.

Merchant Wholesalers, Durable Goods

- Our confidence in future increases in sales is based on the vaccine effectively allowing manufacturing businesses to return to normal in approximately six months' time. We do not expect increases in the next couple of months. Our outlook would change if there were problems with the vaccine.

- Logistics constraints are becoming an increasing problem in coordinating shipments between various shipping methods. Availability of containers and increased costs through the various shipping methods and vendors are starting to have a more broad impact.

Merchant Wholesalers, Nondurable Goods

- November was a good month, and December is continuing the trend. If restaurants stay open next year, the first two quarters of 2021 look strong.

Motor Vehicle and Parts Dealers

- There is a definite increase in COVID infection rates—we are hoping it doesn't have an impact on sales.
- Currently and for the foreseeable future, we are forced to do business with far less sellable inventory than is normal. It is likely to be late spring before the distribution chains return to normal.
- Inventory of new and used cars and trucks is very low and will likely not recover until third quarter 2021. The positive is that our inventory costs are substantially less.

Building Material and Garden Equipment and Supplies Dealers

- Steel prices have increased rapidly over the past 45 days. In addition, steel supply is also constrained as companies have been increasing inventories in reaction to the price increases. Though the initial material increases spark a surge of purchases in the short term, the long-term effect will be a decrease in sales. People will wait until prices come down before purchasing.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Christopher Slijk at christopher.slijk@dal.frb.org.

Texas **Business** Outlook Surveys

Special Questions

December 28, 2020

For this month's survey, Texas business executives were asked supplemental questions on the impacts of COVID-19, as well as wages and prices. Results below include responses from participants of all three surveys: Texas Manufacturing Outlook Survey, Texas Service Sector Outlook Survey and Texas Retail Outlook Survey.

Texas Business Outlook Surveys

Data were collected December 14–22, and 380 Texas business executives responded to the surveys.

1. How do your firm's current revenues compare with a typical December? For example, if revenues are down 20 percent from normal, enter 80 percent. If revenues are up 20 percent, enter 120 percent.

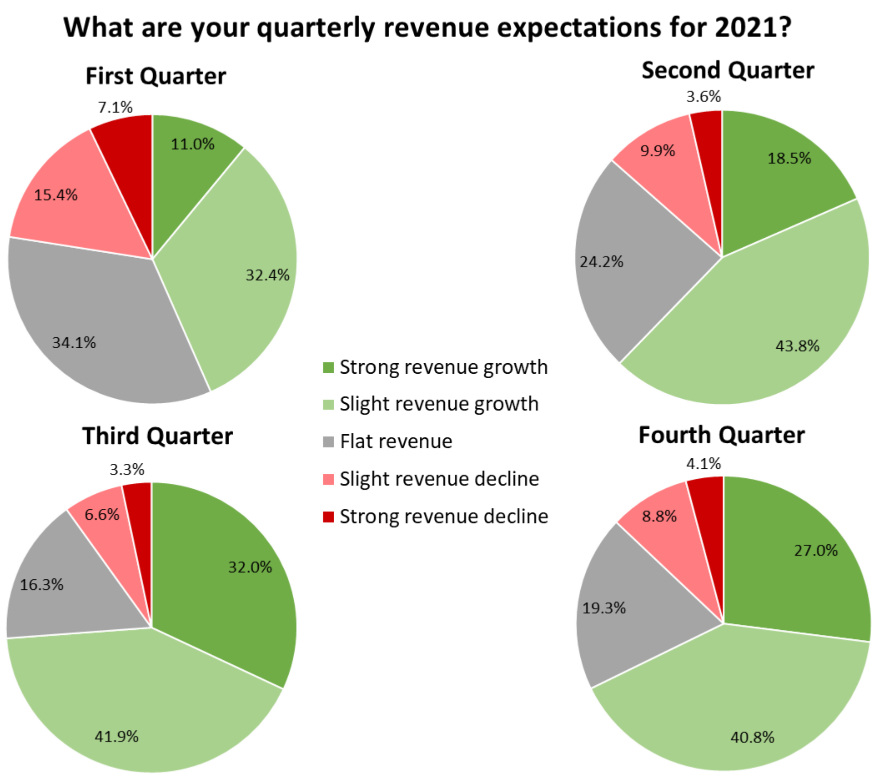
Share of firms reporting reduced revenues	81.2	75.6	74.2	68.3	62.0	63.7	58.7
Average revenue decline (Y/Y)	-38.3	-32.4	-29.1	-29.9	-31.3	-28.7	-28.8
Share of firms reporting increased revenues	10.2	13.7	15.5	18.3	21.0	19.9	24.2
Average revenue increase (Y/Y)	20.1	20.2	23.3	17.6	20.6	17.7	18.4
Share of firms reporting no change in revenues	8.6	10.6	10.3	13.4	17.0	16.4	17.1

NOTES: 356 responses. In past months the question wording was adjusted to reference the respective month of comparison. Averages are calculated as trimmed means with the lowest and highest 7.5 percent of responses omitted. Average revenue decline is calculated using only responses from firms that reported reduced revenues. Average revenue increase is calculated using only responses from firms that reported increased revenues.

2. What change do you expect in your firm's revenue in 2021 compared with 2020 levels?

Increase	66.7
Decrease	15.8
No change	17.5
By what percentage?	
Average among respondents noting an increase	29.6
Average among respondents noting a decrease	18.1

NOTES: 360 responses. Averages are calculated as trimmed means with the lowest and highest 5 percent of responses omitted.



NOTE: 364 responses.
SOURCES: Federal Reserve Bank of Dallas, Texas Business Outlook Surveys.

3. How does your firm's current employee head count compare with February (pre-COVID)? For example, if head count is down 20 percent from February, enter 80 percent. If head count is up 20 percent, enter 120 percent. Please exclude any changes due to typical seasonality.

Share of firms reporting reduced head count	43.0	51.2	51.4	49.2	51.1	47.3
Average head count decline (compared with Feb. 2020 levels)	-26.5	-25.4	-27.2	-30.6	-28.4	-25.4
Share of firms reporting increased head count	12.3	14.0	15.4	17.5	13.2	18.7
Average head count increase (compared with Feb. 2020 levels)	10.8	15.6	21.0	14.8	15.2	13.8
Share of firms reporting no change in head count	44.6	34.8	33.2	33.3	35.7	34.1

NOTES: 364 responses. Averages are calculated as trimmed means with the lowest and highest 7.5 percent of responses omitted. Average head count decline is calculated using only responses from firms that reported reduced head count. Average head count increase is calculated using only responses from firms that reported increased head count.

4. What change do you expect in your firm's head count in 2021 compared with its current level?

Increase	51.6
Decrease	10.1
No change	38.3
By what percentage?	
Average among respondents noting an increase	24.6
Average among respondents noting a decrease	16.0

NOTE: 368 responses. Averages are calculated as trimmed means with the lowest and highest 5 percent of responses omitted.

5. What annual percent change in wages and input prices did your firm experience in 2020, and what do you expect for 2021? Also, by how much did your firm change selling prices in 2020, and by how much do you expect to change selling prices in 2021?

Wages	2.1	4.3
Input prices (excluding wages)	2.7	3.7
Selling prices	1.1	3.4

NOTE: 328 responses. Shown are trimmed means with the lowest and highest 5 percent of responses omitted.

6. Are there structural changes your firm has made or plans to make as a result of the COVID-19 pandemic that you expect to be permanent?

Yes	52.3
No	47.7

NOTE: 369 responses.

6a. Please specify any changes, and whether it is an increase or decrease.

	Dec. '20 (percent)		
Telecommuting	67.4	98.2	1.8
Technology adoption	60.5	100.0	0.0
Business travel	50.5	4.2	95.8
Office space	40.0	16.4	83.6
Contactless product/service delivery	40.0	98.4	1.6
Other new product/service offerings	28.4	93.6	6.4
Other	8.9		

NOTES: 190 responses. This question was only posed to those indicating they've made or plan to make structural changes.

Survey respondents were given the opportunity to provide comments. These comments can be found on the individual survey Special Questions results pages.

Texas Manufacturing Outlook Survey

Data were collected December 14–22, and 110 Texas manufacturers responded to the survey.

1. How do your firm's current revenues compare with a typical December? For example, if revenues are down 20 percent from normal, enter 80 percent. If revenues are up 20 percent, enter 120 percent.

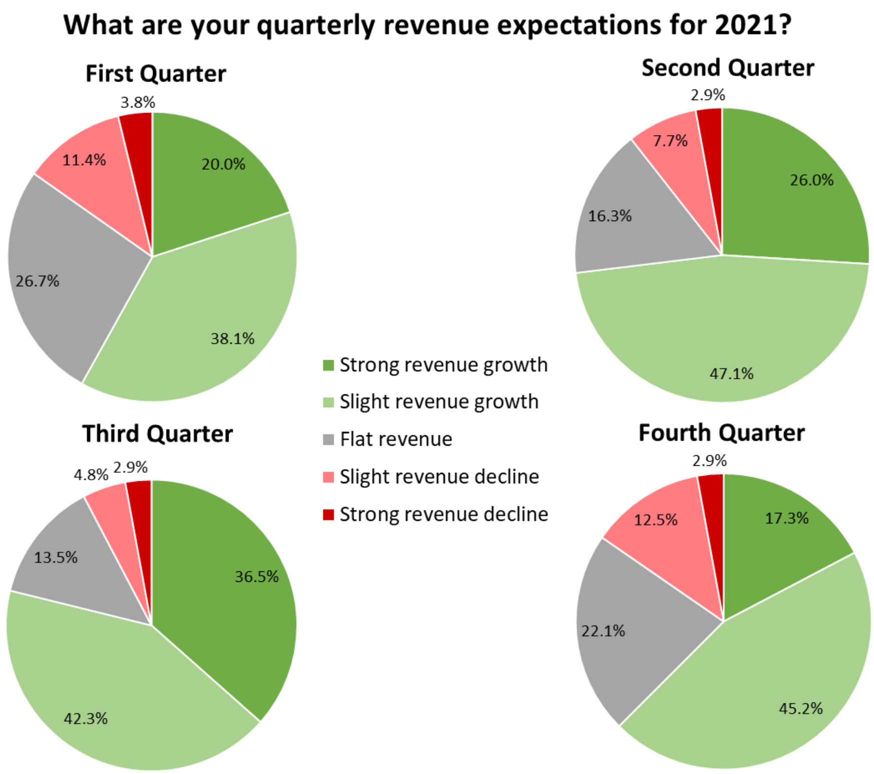
Share of firms reporting reduced revenues	78.0	70.6	73.8	68.6	60.8	57.7	49.0
Average revenue decline (Y/Y)	-38.6	-34.4	-30.5	-28.7	-28.9	-30.7	-28.4
Share of firms reporting increased revenues	16.5	16.5	19.4	20.0	23.5	29.8	38.2
Average revenue increase (Y/Y)	19.1	20.6	27.3	24.6	22.5	19.3	17.3
Share of firms reporting no change in revenues	5.5	12.8	6.8	11.4	15.7	12.5	12.7

NOTES: 102 responses. In past months the question wording was adjusted to reference the respective month of comparison. Averages are calculated as trimmed means with the lowest and highest 7.5 percent of responses omitted. Average revenue decline is calculated using only responses from firms that reported reduced revenues. Average revenue increase is calculated using only responses from firms that reported increased revenues.

2. What change do you expect in your firm's revenue in 2021 compared with 2020 levels?

Increase	75.0
Decrease	11.5
No change	13.5
By what percentage?	
Average among respondents noting an increase	30.6
Average among respondents noting a decrease	22.8

NOTES: 104 responses. Averages are calculated as trimmed means with the lowest and highest 5 percent of responses omitted.



NOTE: 105 responses.
SOURCES: Federal Reserve Bank of Dallas, Texas Manufacturing Outlook Survey.

3. How does your firm's current employee head count compare with February (pre-COVID)? For example, if head count is down 20 percent from February, enter 80 percent. If head count is up 20 percent, enter 120 percent. Please exclude any changes due to typical seasonality.

Share of firms reporting reduced head count	42.6	52.5	47.6	43.6	49.0	48.1
Average head count decline (compared with Feb. 2020 levels)	-20.7	-23.0	-23.9	-22.9	-24.5	-25.6
Share of firms reporting increased head count	15.7	21.2	21.9	16.8	17.3	24.5
Average head count increase (compared with Feb. 2020 levels)	9.2	22.5	17.1	13.1	22.0	18.8
Share of firms reporting no change in head count	41.7	26.3	30.5	39.6	33.7	27.4

NOTES: 106 responses. Averages are calculated as trimmed means with the lowest and highest 7.5 percent of responses omitted. Average head count decline is calculated using only responses from firms that reported reduced head count. Average head count increase is calculated using only responses from firms that reported increased head count.

4. What change do you expect in your firm's head count in 2021 compared with its current level?

Increase	56.1
Decrease	11.2
No change	32.7
By what percentage?	
Average among respondents noting an increase	22.2
Average among respondents noting a decrease	13.5

NOTES: 107 responses. Averages are calculated as trimmed means with the lowest and highest 5 percent of responses omitted.

5. What annual percent change in wages and input prices did your firm experience in 2020, and what do you expect for 2021? Also, by how much did your firm change selling prices in 2020, and by how much do you expect to change selling prices in 2021?

Wages	3.3	4.2
Input prices (excluding wages)	3.0	4.6
Selling prices	1.6	3.9

NOTES: 101 responses. Shown are trimmed means with the lowest and highest 5 percent of responses omitted.

6. Are there structural changes your firm has made or plans to make as a result of the COVID-19 pandemic that you expect to be permanent?

Yes	40.2
No	59.8

NOTE: 107 responses.

6a. Please specify any changes, and whether it is an increase or decrease.

	Dec. '20 (percent)		
Telecommuting	75.6	96.7	3.3
Business travel	68.3	7.1	92.9
Technology adoption	58.5	100.0	0.0
Other new product/service offerings	31.7	91.7	8.3
Office space	29.3	0.0	100.0
Contactless product/service delivery	24.4	90.0	10.0
Other	12.2		

NOTES: 41 responses. This question was only posed to those indicating they've made or plan to make structural changes.

Special Questions Comments

These comments have been edited for publication.

Chemical Manufacturing

- We've noticed we are able to conduct the same level of business with fewer employees. We have already eliminated 8 percent of remote positions and will evaluate more reductions by focusing on essential business activities.

Plastics and Rubber Products Manufacturing

- 2020 has been challenging for the oil industry. Pre-COVID, we were already seeing a pullback in the market as inventory levels began to reach peak. Then COVID hit and consumption dropped considerably. Domestic oil production is down 60 percent versus this time last year. However, things are beginning to rebound. Four months ago, analysts were predicting an average onshore rig count of approximately 280 around this time, with the average next year being around that same number. Fast forward to December, and now we're sitting at 338 (which is an increase over last week). Is a rebound due soon? Could it just be optimism with the incoming president-elect and the possibility of a vaccine for COVID? Only time will tell.

Primary Metal Manufacturing

- High-rise construction will slow markedly in the second half [of 2021].

Fabricated Metal Manufacturing

- We expect sales and profits to be below normal for the first two quarters of 2021 but expect the second half of the year to improve significantly.
- For the steel construction markets, there has been a significant uptick in demand that coincides with a reduction in supply. This has led to shortages and allocations resulting in significantly higher steel prices. Also, it is very difficult to hire in today's environment. The additional COVID relief recently announced will prolong this difficulty. Hopefully the vaccine will help keep the existing workforce healthy.

Machinery Manufacturing

- I want my country back. COVID is being used to harm small companies. Embedded corruption is destroying "blue collar" faith in our institutions. Our judicial system has failed. Our election system has failed. Our media has failed. The rule of law has collapsed. Economic instability is a major concern for 2021 due to these issues.
- Our company had a significant layoff which may continue into the first quarter of next year unless sales improve significantly.
- We will continue to vertically integrate our company, albeit at a much slower pace. We will continue to pay off debt and reduce expenses at an aggressive pace. We will only hire salespeople who can contribute to sales immediately. We've eliminated the bottom 10 percent of our employees and hope to replace them with better-quality personnel to improve our company performance. These are desperate times, and we can only afford the very best people.
- We are managing rapid expansion, which is a challenge within itself.

Computer and Electronic Product Manufacturing

- Watch a lack of confidence in manufacturing go through the roof; going from pro-business to against business is not the best government policy.

Transportation Equipment Manufacturing

- We may make structural changes based on economic threats and reality. COVID is going away.

Food Manufacturing

- We will have reduced group meetings and remain strong on anti-COVID practices. We do not admit nonemployees into the facility. We will not make the vaccine mandatory, though we will encourage it. We are an essential service.

Texas Service Sector Outlook Survey

Data were collected December 14–22, and 270 Texas business executives responded to the survey.

1. How do your firm's current revenues compare with a typical December? For example, if revenues are down 20 percent from normal, enter 80 percent. If revenues are up 20 percent, enter 120 percent.

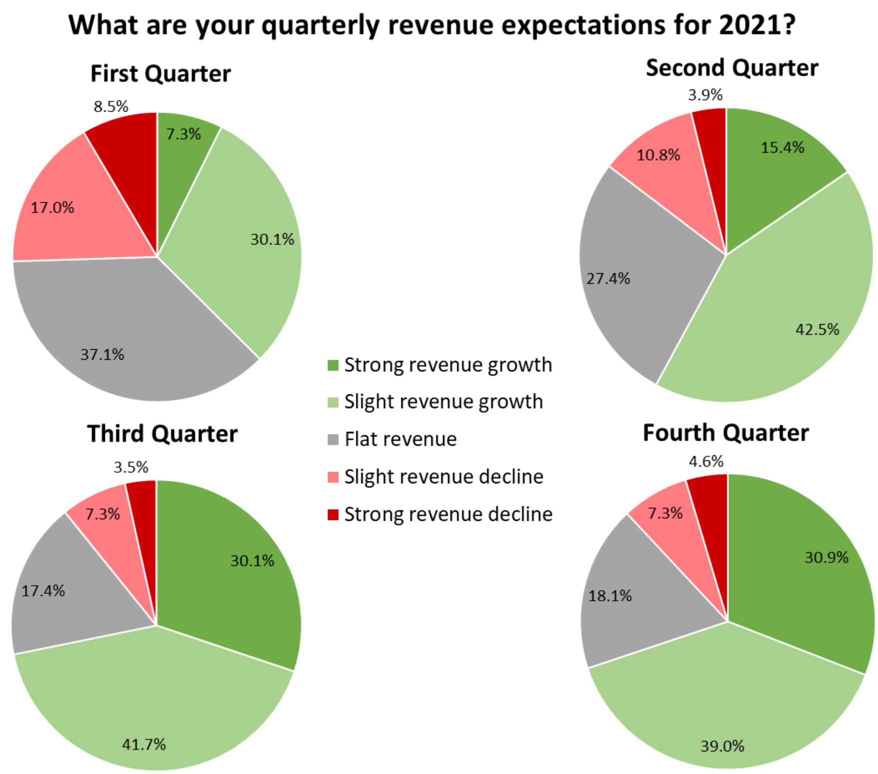
Share of firms reporting reduced revenues	82.5	77.6	74.4	68.2	62.5	66.0	62.6
Average revenue decline (Y/Y)	-38.4	-31.8	-28.7	-30.5	-32.5	-28.1	-29.3
Share of firms reporting increased revenues	7.7	12.6	14.1	17.7	20.1	16.0	18.5
Average revenue increase (Y/Y)	23.1	21.9	23.1	16.6	19.7	16.4	21.0
Share of firms reporting no change in revenues	9.9	9.7	11.6	14.1	17.5	17.9	18.9

NOTES: 254 responses. In past months the question wording was adjusted to reference the respective month of comparison. Averages are calculated as trimmed means with the lowest and highest 7.5 percent of responses omitted. Average revenue decline is calculated using only responses from firms that reported reduced revenues. Average revenue increase is calculated using only responses from firms that reported increased revenues.

2. What change do you expect in your firm's revenue in 2021 compared with 2020 levels?

Increase	63.3
Decrease	17.6
No change	19.1
By what percentage?	
Average among respondents noting an increase	29.1
Average among respondents noting a decrease	18.4

NOTES: 256 responses. Averages are calculated as trimmed means with the lowest and highest 5 percent of responses omitted.



NOTE: 254 responses.
SOURCES: Federal Reserve Bank of Dallas, Texas Service Sector Outlook Survey.

3. How does your firm's current employee head count compare with February (pre-COVID)? For example, if head count is down 20 percent from February, enter 80 percent. If head count is up 20 percent, enter 120 percent. Please exclude any changes due to typical seasonality.

Share of firms reporting reduced head count	43.2	50.7	52.8	51.3	51.9	46.9
Average head count decline (compared with Feb. 2020 levels)	-29.3	-26.7	-28.8	-33.1	-30.4	-25.3
Share of firms reporting increased head count	11.0	11.4	13.0	17.7	11.7	16.3
Average head count increase (compared with Feb. 2020 levels)	12.8	13.4	23.7	15.4	11.1	12.6
Share of firms reporting no change in head count	45.8	37.9	34.2	31.0	36.5	36.8

NOTES: 258 responses. Averages are calculated as trimmed means with the lowest and highest 7.5 percent of responses omitted. Average head count decline is calculated using only responses from firms that reported reduced head count. Average head count increase is calculated using only responses from firms that reported increased head count.

4. What change do you expect in your firm's head count in 2021 compared with its current level?

Increase	49.8
Decrease	9.6
No change	40.6
By what percentage?	
Average among respondents noting an increase	26.0
Average among respondents noting a decrease	19.9

NOTE: 261 responses. Averages are calculated as trimmed means with the lowest and highest 5 percent of responses omitted.

5. What annual percent change in wages and input prices did your firm experience in 2020, and what do you expect for 2021? Also, by how much did your firm change selling prices in 2020, and by how much do you expect to change selling prices in 2021?

Wages	1.3	4.4
Input prices (excluding wages)	2.6	3.2
Selling prices	0.8	3.2

NOTES: 227 responses. Shown are trimmed means with the lowest and highest 5 percent of responses omitted.

6. Are there structural changes your firm has made or plans to make as a result of the COVID-19 pandemic that you expect to be permanent?

Yes	57.3
No	42.7

NOTE: 262 responses.

6a. Please specify any changes, and whether it is an increase or decrease.

	Dec. '20 (percent)		
Telecommuting	65.1	98.8	1.3
Technology adoption	61.1	100.0	0.0
Business travel	45.6	2.9	97.1
Contactless product/service delivery	44.3	100.0	0.0
Office space	43.0	20.0	80.0
Other new product/service offerings	27.5	94.3	5.7
Other	8.1		

NOTES: 149 responses. This question was only posed to those indicating they've made or plan to make structural changes.

Special Questions Comments

These comments have been edited for publication.

Warehousing and Storage

- We expect to see diminished revenue in 2021 compared to 2020, for both us and our customers, and will respond with minimal wage increases and by holding our customer tariff flat. We do not expect to cut costs spent for maintenance and capital, however—nor do we expect to reduce head count, though we will remain flat after four years of double-digit head-count growth.

Publishing Industries (Except Internet)

- Traction this month seems to have hit a muddy, uncertain spot. Longer-term, we are still quite positive.

Broadcasting (Except Internet)

- Our selling prices are down 20 percent compared to 2019, and we expect that we will not recover pricing back to 2019 levels until fourth quarter 2021. However, we expect to add more customers beginning in June 2021 and, thereby, increase total revenues in 2021 over 2020.

Data Processing, Hosting, and Related Services

- Uncertainty about the economy is top of mind (as it's currently negatively impacting purchasing decisions). Significant plans to grow the company are pending as we see if the economy continues to grow. We are watching to see if regulations and government spending will increase (both of which slow our customers' purchasing decisions and our hiring decisions). We are keeping an eye on inflation as well.

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

- The IRS rules for PPP [Paycheck Protection Program] loan forgiveness will cause a major tax blow.

Real Estate

- Our company gave COVID bonuses this year.

Professional, Scientific and Technical Services

- Remote working from home due to COVID has proven to be very productive for our workforce. Now we, as the employer, will trust employees more to work from home, and a remote work option for the majority of days will always be available. Employees will choose which mix they like.
- COVID-19 has taught us that working remotely is a viable option for some of our processes. This is going to allow us to reduce our office footprint and increase our efficiencies. With the adoption of technology, our staff has seen a tremendous amount of time savings that they weren't willing to embrace pre-COVID.
- We expect most of our staff to return to offices, but we will allow more telecommuting than before, particularly in cities with heavy traffic/long commutes.
- PPP [the Paycheck Protection Program] did for us what it was supposed to do and allowed us to hang on to our people and complete the projects we had in hand through 2020. However, the continued impacts of COVID on the energy and commercial real estate industries have left us with very little backlog and reduced opportunities for new projects into 2021.
- As an independent consultant, I will continue to be a company of "one" that when help is needed, it will be of the contract (IRS 1099) variety. There will definitely be extremely limited face-to-face contact, and most meetings will be virtual.

Administrative and Support Services

- PPE [personal protection equipment] prices will continue to rise in 2021, I believe, for the first two quarters. Once the full effect of the vaccines is felt, we should see some sanity in the supply chain and people's perceptions of their personnel safety.
- We provide travel services to federal agencies and the Department of Defense. We have three contracts, and they are based on fixed pricing, and we have been providing our services for the last four months when they started to travel. Even during the pandemic, the agencies have been very active with requests for quotation, and we have been replying to all those that we qualified for. We have been productive in preparing the proposals and managing our contracts. These activities have kept us positive and energized.
- We are a high-personal-touch service and have had to adjust how we engage clients and deliver services as well as generate new business.

Ambulatory Health Care Services

- We currently have five of 130 employees out with COVID, so we are seeing a surge, but cases appear mild.
- COVID-19 has taught lessons that could be a permanent way of doing business. Leveraging technology and delivering services to changing customer expectations is the way to move forward.

Museums, Historical Sites, and Similar Institutions

- We have reduced hours or days open to the public.

Accommodation

- We have implemented wage increases a result of California and Florida minimum-wage increases. Input cost increases are a result of COVID-related changes at hotels, including increased cleaning supplies, personal protective equipment and increased guest supplies.

Personal and Laundry Services

- I anticipate revenue to increase in 2021, but I am also an optimist. There is really too much uncertainty. So much of the boost in the economy is dependent on vaccines being effective. If there are any major issues with the vaccine process or side effects, I could see another 20 percent decline in business in 2021.

Utilities

- More employees are working from home.

Texas Retail Outlook Survey

Data were collected December 14–22, and 51 Texas retailers responded to the survey.

1. How do your firm's current revenues compare with a typical December? For example, if revenues are down 20 percent from normal, enter 80 percent. If revenues are up 20 percent, enter 120 percent.

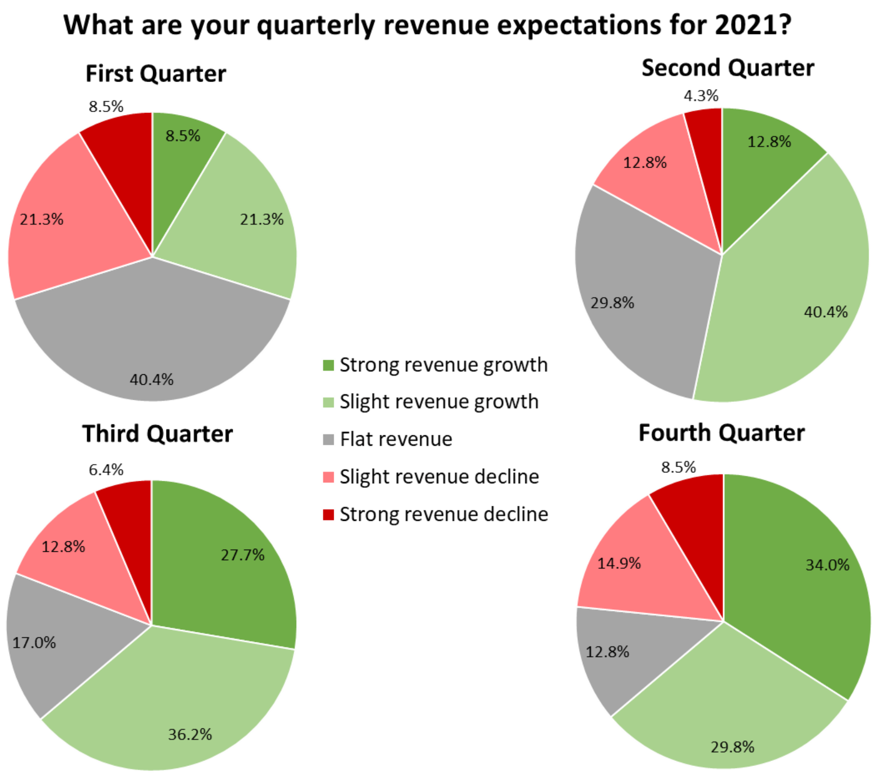
Share of firms reporting reduced revenues	90.7	78.4	76.0	67.9	58.5	66.7	64.6
Average revenue decline (Y/Y)	-35.0	-34.0	-21.1	-25.6	-28.5	-23.1	-18.1
Share of firms reporting increased revenues	1.9	15.7	18.0	18.9	22.6	20.8	14.6
Average revenue increase (Y/Y)	20.0	15.0	20.7	21.8	22.0	30.3	13.7
Share of firms reporting no change in revenues	7.4	5.9	6.0	13.2	18.9	12.5	20.8

NOTES: 48 responses. In past months the question wording was adjusted to reference the respective month of comparison. Averages are calculated as trimmed means with the lowest and highest 7.5 percent of responses omitted. Average revenue decline is calculated using only responses from firms that reported reduced revenues. Average revenue increase is calculated using only responses from firms that reported increased revenues.

2. What change do you expect in your firm's revenue in 2021 compared with 2020 levels?

Increase	57.1
Decrease	22.4
No change	20.4
By what percentage?	
Average among respondents noting an increase	27.3
Average among respondents noting a decrease	10.8

NOTES: 49 responses. Averages are calculated as trimmed means with the lowest and highest 5 percent of responses omitted.



NOTE: 47 responses.
SOURCES: Federal Reserve Bank of Dallas, Texas Retail Outlook Survey.

3. How does your firm's current employee head count compare with February (pre-COVID)? For example, if head count is down 20 percent from February, enter 80 percent. If head count is up 20 percent, enter 120 percent. Please exclude any changes due to typical seasonality.

Share of firms reporting reduced head count	41.2	52.0	45.3	53.7	46.9	39.6
Average head count decline (compared with Feb. 2020 levels)	-26.1	-17.4	-27.0	-31.2	-25.6	-16.9
Share of firms reporting increased head count	7.8	4.0	13.2	7.4	12.2	16.7
Average head count increase (compared with Feb. 2020 levels)	11.3	42.5	20.0	18.8	8.7	6.6
Share of firms reporting no change in head count	51.0	44.0	41.5	38.9	40.8	43.8

NOTES: 48 responses. Averages are calculated as trimmed means with the lowest and highest 7.5 percent of responses omitted. Average head count decline is calculated using only responses from firms that reported reduced head count. Average head count increase is calculated using only responses from firms that reported increased head count.

4. What change do you expect in your firm's head count in 2021 compared with its current level?

Increase	39.6
Decrease	8.3
No change	52.1
By what percentage?	
Average among respondents noting an increase	25.8
Average among respondents noting a decrease	32.5

NOTES: 48 responses. Averages are calculated as trimmed means with the lowest and highest 5 percent of responses omitted.

5. What annual percent change in wages and input prices did your firm experience in 2020, and what do you expect for 2021? Also, by how much did your firm change selling prices in 2020, and by how much do you expect to change selling prices in 2021?

Wages	1.1	3.0
Input prices (excluding wages)	3.3	2.6
Selling prices	2.4	2.9

NOTES: 48 responses. Averages are calculated as trimmed means with the lowest and highest 5 percent of responses omitted.

6. Are there structural changes your firm has made or plans to make as a result of the COVID-19 pandemic that you expect to be permanent?

Yes	51.0
No	49.0

NOTE: 49 responses.

6a. Please specify any changes, and whether it is an increase or decrease.

	Dec. '20 (percent)		
Technology adoption	79.2	100.0	0.0
Contactless product/service delivery	66.7	100.0	0.0
Telecommuting	37.5	100.0	0.0
Other new product/service offerings	37.5	100.0	0.0
Business travel	33.3	0.0	100.0
Office space	29.2	50.0	50.0
Other	0.0		

NOTES: 24 responses. This question was only posed to those indicating they've made or plan to make structural changes.

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- Pricing is commodity based.
- We're closing the business.

Building Material and Garden Equipment and Supplies Dealers

- We are using Teams for more of our meetings.

Questions regarding the Texas Business Outlook Surveys can be addressed to Emily Kerr at emily.kerr@dal.frb.org.