Texas Service Sector Outlook Survey

DALLASFED

October 27, 2014

Special Questions

Data were collected Oct. 6–9, and 183 Texas business executives responded to the survey.

1. How do borrowing conditions facing your firm compare to those six months ago?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Eased substantially	1.1	1.9	2.7
Eased somewhat	11.1	8.7	11.0
No change	48.9	40.4	45.1
Tightened somewhat	7.8	10.6	6.0
Tightened substantially	3.9	3.1	2.2
Not applicable—haven't sought credit	27.2	35.4	33.0

2. How does the cost of credit compare to what it was six months ago?*

	Oct '13 (percent)	Oct '14 (percent)
Increased substantially	3.7	0.5
Increased somewhat	25.5	10.4
No change	31.1	48.6
Decreased somewhat	3.7	7.1
Decreased substantially	0.0	1.1
Not applicable—haven't sought credit	36.0	32.2

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	29.4	38.1	40.9
Some difficulty	23.3	10.0	12.7
Substantial difficulty	1.7	3.8	2.2
Extreme difficulty	5.0	2.5	1.1
Not applicable—haven't sought credit	40.6	45.6	43.1

4. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	36.3	36.3	38.5
Some difficulty	14.0	9.4	8.2
Substantial difficulty	1.1	0.6	2.2
Extreme difficulty	4.5	1.9	1.6
Not applicable—haven't sought credit	44.1	51.9	49.5

5. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes–significantly	5.0	2.5	3.8
Yes–somewhat	10.6	6.9	7.1
No	37.2	35.6	37.2
Not applicable–haven't had problems obtaining credit	9.4	12.5	12.0
Not applicable—haven't sought credit	37.8	42.5	39.9

6. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes–significantly	2.8	1.3	1.1
Yes–somewhat	10.6	5.6	6.0
No	42.5	40.0	44.3
Not applicable–haven't had problems obtaining credit	7.8	11.3	9.8
Not applicable—haven't sought credit	36.3	41.9	38.8

*Question added in 2013.

Special Questions Comments

These comments have been edited for publication.

Credit Intermediation and Related Activities

- We learned a long time ago that in downturns you can keep your staff and continue product development, or you can pay debt service. Now is not a time to borrow.
- We have seen a slight increase in loan demand, and basically the volume is at a level to offset paydowns on loans. Deposits continue to exceed expectations. Delinquencies are at a historical low, with consumer loan volume remaining steady but under projections. Most growth in loans has been in commercial real estate and development. We have been reissuing a lot of debit cards due to the multiple breaches that have been occurring at big retail chain stores, increasing costs to the bank for new cards and causing customers the inconvenience of delays in receiving the newly issued cards. Something must be done to require the retail stores to be held responsible for the breaches that they have.

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

- We put our longer-term financing in place about 14 months ago, based on the theory that rates would increase significantly. The rates are higher now, and the conditions of the loans are somewhat more stringent. We are not in the credit or short-term bank-financing market right now, nor do we intend to be in the near future.

Real Estate

- Our company hasn't sought credit, but our clients are dependent upon obtaining mortgage loans. Lately we've seen some additional tightening that has negatively impacted several clients.

Rental and Leasing Services

- The problem isn't credit, it's regulatory-induced inefficiencies that cost us profit, which would otherwise be used to grow our business and hire more people.

Professional, Scientific and Technical Services

- Credit is not a limiting factor to our business growth; however, regulation is a significant limiting factor.
- We don't use credit to finance our day-to-day operations. This is all funded with available capital. We do maintain a credit line at the bank, but we haven't drawn on it in at least seven years. When we have borrowed funds for capital improvement —e.g., leasehold improvements—several of our partners guarantee a portion of said obligation. We have good, long-time banking relationships and would not expect any problems with borrowing funds if needed and justifiable.
- We have plenty of capital but cannot find good places to put it to use.

Administrative and Support Services

- We have a long-standing banking relationship and have not had to seek a new credit facility.
- We still do not know about the ramifications of the Affordable Care Act. Health insurance is the most worrisome segment of our business right now.
- We would not be surprised for nontraditional lending sources to step forward for qualified applicants, some with a slightly lower score and some with a smaller down payment.
- We maintain discussions with lending institutions, and they are still tight on their non-real-estate lending requirements. Any lending we look for is based on cash flow, and those terms are difficult. Banks have cut back on inventory and even receivables as collateral.

Nursing and Residential Care Facilities

- While our organization has not sought credit, we have considered refinancing existing debt. Our perception is that borrowing conditions have eased slightly, but there is still a great deal of instability in the market.

Food Services and Drinking Places

- We have obtained some financing in the last six months—primarily for a new restaurant we opened and a couple of remodels of existing units—but we used existing lines of credit arranged some time back and did not need to add to them.

Truck Transportation

- Our business is fast and furious. We increased our policy on deposits and now have a much tighter visibility of receivable aging. In terms of operating capital, we are growing, yet doing so within cash flow. We have met with our bank and easily received approval for an increased line of credit should it be necessary to fill gaps in cash flow. They did gripe about new regulation for reserves against unused line of credit dollars. We talked this past week about financing one of our existing buildings that has a large amount of equity tied up and a low amount of remaining debt. The conversation was easy, comfortable, and positive.

Texas Retail Outlook Survey

DALLASFED

October 27, 2014

Special Questions

Data were collected Oct. 6–9, and 47 Texas retailers responded to the survey.

1. How do borrowing conditions facing your firm compare to those six months ago?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Eased substantially	4.1	0.0	4.3
Eased somewhat	14.3	17.9	10.9
No change	55.1	43.6	52.2
Tightened somewhat	10.2	7.7	6.5
Tightened substantially	2.0	0.0	0.0
Not applicable—haven't sought credit	14.3	30.8	26.1

2. How does the cost of credit compare to what it was six months ago?*

	Oct '13 (percent)	Oct '14 (percent)
Increased substantially	0.0	2.1
Increased somewhat	33.3	14.9
No change	20.5	55.3
Decreased somewhat	12.8	6.4
Decreased substantially	0.0	0.0
Not applicable—haven't sought credit	33.3	21.3

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	38.8	43.6	54.3
Some difficulty	26.5	10.3	15.2
Substantial difficulty	2.0	2.6	0.0
Extreme difficulty	8.2	0.0	0.0
Not applicable—haven't sought credit	24.5	43.6	30.4

4. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
No difficulty	49.0	48.7	59.6
Some difficulty	14.3	5.1	8.5
Substantial difficulty	2.0	2.6	2.1
Extreme difficulty	8.2	0.0	0.0
Not applicable—haven't sought credit	26.5	43.6	29.8

5. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes–significantly	6.1	0.0	2.1
Yes–somewhat	14.3	5.3	6.4
No	42.9	39.5	51.1
Not applicable–haven't had problems obtaining credit	16.3	21.1	19.1
Not applicable—haven't sought credit	20.4	34.2	21.3

6. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?

	Oct '12 (percent)	Oct '13 (percent)	Oct '14 (percent)
Yes–significantly	6.1	0.0	0.0
Yes–somewhat	16.3	5.1	8.5
No	44.9	46.2	57.4
Not applicable–haven't had problems obtaining credit	12.2	15.4	12.8
Not applicable—haven't sought credit	20.4	33.3	21.3

*Question added in 2013.

Special Questions Comments

These comments have been edited for publication.

Motor Vehicle and Parts Dealers

- Availability of credit has not been an issue, and terms have been shortened.

Building Material and Garden Equipment and Supplies Dealers

- We have been hiring and are planning to purchase new equipment, but we do not plan to borrow to do so.

Food and Beverage Stores

- We operate public companies, and credit is wide open for us and ridiculously cheap. Our concern is that mortgage credit is almost unobtainable for low- and middle-income borrowers, which is keeping home construction restrained and reducing our sales from the employees who work in construction-related trades—a key segment of our customer base.

Nonstore Retailers

- We have a long-term relationship with our banker and have a working capital line secured by cash. Our recent credit experience was for a mortgage on a building that we occupy—our fourth such transaction since 2006. Since we have an excellent record with our bank on our working capital line as well as several mortgages in place, we may have had an easier time obtaining credit than other businesses.