



# Texas Service Sector Outlook Survey

DALLAS FED

May 27, 2015

## TEXAS SERVICE SECTOR ACTIVITY INCREASES AT A SLOWER PACE AS OUTLOOKS IMPROVE

Texas service sector activity continued to reflect expansion in May but at a slower pace than in April, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, dropped from 14.6 to 3.8, its lowest reading in almost three years.

Labor market indicators reflected faster employment growth and slightly longer workweeks. The employment index ticked up a point to 8.9 in May. The hours worked index remained positive but fell slightly from 4.7 to 1.9 this month.

Perceptions of broader economic conditions improved in May. The general business activity index turned positive and came in at 1.1 after two consecutive months in negative territory. The company outlook index edged up from 4.5 to 6.9 this month. About 19 percent of respondents reported that their outlook improved from last month while 12 percent noted that it worsened.

Price and wage pressures were unchanged this month. The selling prices index was similar to last month at 3.6, indicating prices increased at the same pace as in April. The wages and benefits index held steady at 16.1, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in May. The index of future general business activity rose from 6.2 to 10.6. The index of future company outlook moved up from 10.2 to 15. Indexes of future service sector activity, such as future revenue and employment, also reflected more optimism.



## RETAIL SALES FALL

Retail sales contracted in May, according to business executives responding to the Texas Retail Outlook Survey. The sales index plunged back into negative territory, dropping 31 points to -10.7, its lowest reading in more than four years. Inventories increased at a faster pace this month.

Labor market indicators worsened in May. The employment index dipped into negative territory to -0.9, indicating retail jobs decreased this month. The hours worked index also moved into negative territory, retreating from 6.4 to -5.8.

Retailers' perceptions of broader economic conditions reflected optimism this month. The general business activity index rose from 0.3 to 3.9. The company outlook index remained positive but fell 5 points to 6.4, with 19 percent of respondents noting an improved company outlook over the prior month, compared with 13 percent reporting their outlook had worsened.

Retail price pressures increased while wage pressures eased in May. The selling prices index rose slightly from 5.7 to 8.3. The wages and benefits index edged down from 12.7 to 10.2, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions reflected more optimism in May. The index of future general business activity ticked up from 13.3 to 14.6, its highest reading so far this year. The index of future company outlook advanced from 12.1 to 23.2. 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 May 12–20, and 240 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:** June 30, 2015

## TEXAS SERVICE SECTOR OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Current (versus previous month)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	3.8	14.6	-10.8	Increasing	67	25.9	52.0	22.1
Employment	8.9	7.9	+1.0	Increasing	63	18.0	72.9	9.1
Part-time employment	4.5	3.9	+0.6	Increasing	19	9.6	85.3	5.1
Hours worked	1.9	4.7	-2.8	Increasing	2	8.4	85.1	6.5
Wages and benefits	16.1	16.2	-0.1	Increasing	68	19.8	76.5	3.7
Input prices	18.8	19.3	-0.5	Increasing	73	22.2	74.4	3.4
Selling prices	3.6	3.4	+0.2	Increasing	54	10.5	82.6	6.9
Capital expenditures	13.0	7.1	+5.9	Increasing	69	20.6	71.8	7.6

<b>General Business Conditions</b>								
<b>Current (versus previous month)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	6.9	4.5	+2.4	Improving	2	18.5	69.9	11.6
General business activity	1.1	-1.0	+2.1	Improving	1	15.3	70.5	14.2

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Future (six months ahead)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	33.8	32.1	+1.7	Increasing	75	47.5	38.8	13.7
Employment	25.9	20.4	+5.5	Increasing	74	34.3	57.3	8.4
Part-time employment	9.2	7.0	+2.2	Increasing	35	16.1	77.0	6.9
Hours worked	2.8	4.3	-1.5	Increasing	18	9.6	83.6	6.8
Wages and benefits	35.2	38.9	-3.7	Increasing	101	38.7	57.8	3.5
Input prices	39.8	40.4	-0.6	Increasing	101	42.4	54.9	2.6
Selling prices	19.8	21.5	-1.7	Increasing	73	28.4	63.0	8.6
Capital expenditures	22.8	24.3	-1.5	Increasing	74	30.5	61.8	7.7

<b>General Business Conditions</b>								
<b>Future (six months ahead)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	15.0	10.2	+4.8	Improving	45	28.7	57.6	13.7
General business activity	10.6	6.2	+4.4	Improving	44	24.5	61.6	13.9

\*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.

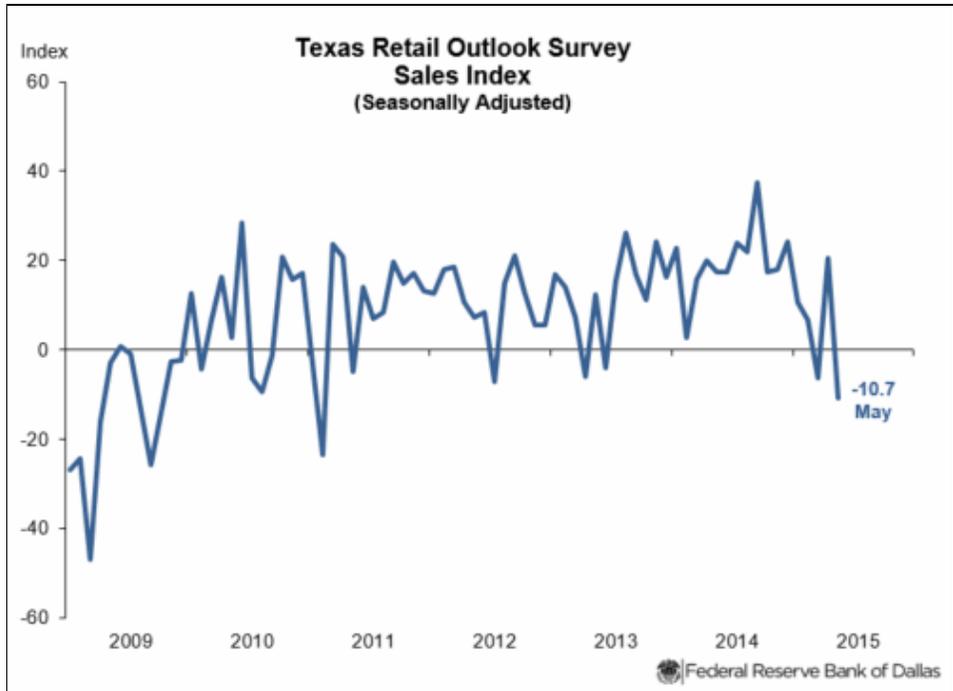
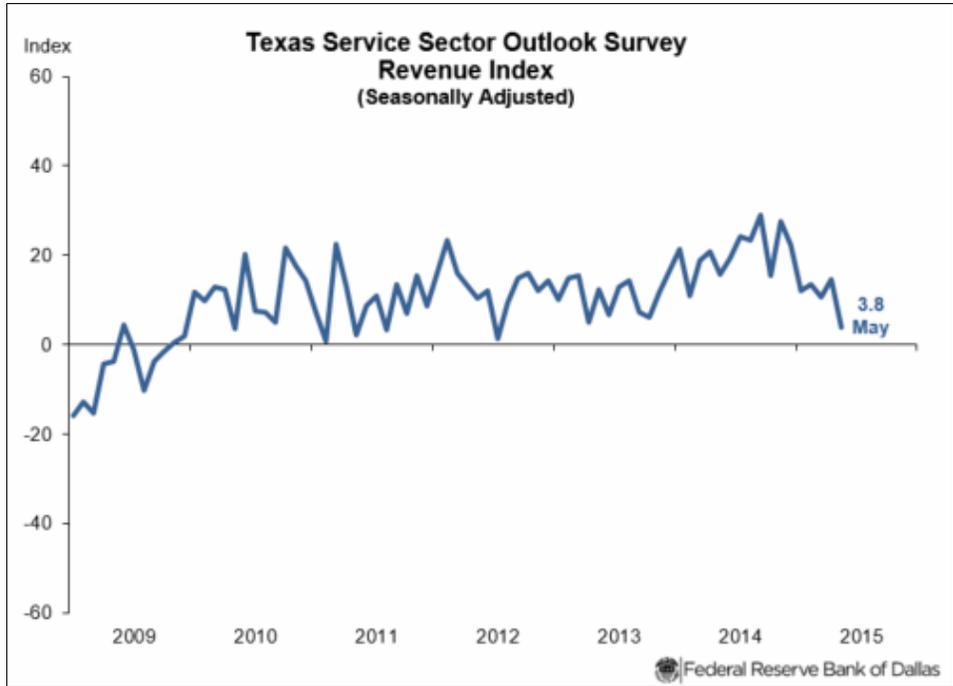
## TEXAS RETAIL OUTLOOK SURVEY

<b>Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	-10.7	20.5	-31.2	Decreasing	1	20.4	48.5	31.1
Employment	-0.9	2.4	-3.3	Decreasing	1	9.1	80.9	10.0
Part-time employment	1.8	7.2	-5.4	Increasing	2	7.4	87.0	5.6
Hours worked	-5.8	6.4	-12.2	Decreasing	1	3.9	86.4	9.7
Wages and benefits	10.2	12.7	-2.5	Increasing	51	15.3	79.6	5.1
Input prices	4.1	4.5	-0.4	Increasing	4	11.1	81.9	7.0
Selling prices	8.3	5.7	+2.6	Increasing	2	16.7	75.0	8.4
Capital expenditures	14.0	12.3	+1.7	Increasing	19	17.5	78.9	3.5
Inventories	12.2	10.9	+1.3	Increasing	2	32.7	46.7	20.5
<b>Companywide Retail Activity</b>								
Sales	-4.4	34.4	-38.8	Decreasing	1	22.4	50.8	26.8
Internet sales	5.2	15.6	-10.4	Increasing	24	15.2	74.8	10.0
Catalog sales	5.4	11.4	-6.0	Increasing	2	8.1	89.2	2.7
<b>General Business Conditions, Retail Current (versus previous month)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	6.4	11.4	-5.0	Improving	2	19.2	68.0	12.8
General business activity	3.9	0.3	+3.6	Improving	2	20.8	62.3	16.9
<b>Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	31.1	33.9	-2.8	Increasing	75	43.6	43.8	12.5
Employment	14.1	15.3	-1.2	Increasing	3	25.7	62.7	11.6
Part-time employment	3.4	-3.6	+7.0	Increasing	1	14.2	75.0	10.8
Hours worked	-1.2	7.1	-8.3	Decreasing	1	12.0	74.8	13.2
Wages and benefits	24.0	31.8	-7.8	Increasing	75	28.6	66.9	4.6
Input prices	16.7	30.9	-14.2	Increasing	73	24.1	68.5	7.4
Selling prices	23.7	34.5	-10.8	Increasing	73	27.3	69.1	3.6
Capital expenditures	20.0	21.8	-1.8	Increasing	50	25.5	69.1	5.5
Inventories	16.9	13.6	+3.3	Increasing	66	29.9	57.1	13.0
<b>Companywide Retail Activity</b>								
Sales	25.3	33.3	-8.0	Increasing	74	37.8	49.6	12.5
Internet sales	30.0	22.5	+7.5	Increasing	74	30.0	70.0	0.0
Catalog sales	9.6	11.4	-1.8	Increasing	4	10.8	88.0	1.2
<b>General Business Conditions, Retail Future (six months ahead)</b>								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	23.2	12.1	+11.1	Improving	74	31.2	60.8	8.0
General business activity	14.6	13.3	+1.3	Improving	2	26.2	62.2	11.6

\*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

- > The number of layoffs locally has increased due primarily to the lag in the impact from the slowdown in oil exploration. Good moisture has greatly improved the outlook for agriculture. Wet weather has delayed the early wheat harvest and planting of milo and cotton.
- > The local economy is still vibrant with minimal impacts from commodity prices thus far.

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

- > Job growth is slowing as energy-related job losses pull down other areas. Good moisture has helped farming and ranching.
- > Our operations are heavily involved in the oil and gas equipment business. Oil and natural gas pricing is beginning to affect the demand for our services. Our customers are requesting, and in some cases demanding, a reduction in pricing in addition to quick turnaround times. At the same time, health care insurance premiums are rising, and additional regulations are requiring considerable expense. Tough markets and tough and expensive regulations are difficult right now.

### Real Estate

- > We believe we are currently working off of pent-up demand that will likely be mostly complete by the fourth quarter of the year.

### Rental and Leasing Services

- > We have 22 heavy equipment stores across Texas. More than half are impacted by low oil prices and the reduced number of rigs drilling. Huge capital investments in equipment rental fleets have stopped cold, and those fleets need to shrink 25 to 30 percent to increase utilization to an acceptable return on investment. Non-oil industries are still good, which is understandable as oil is a cost of input to them. However, those industries do not make as many capital investments in, or rent as much, heavy equipment. The oil industry slowdown will be a net negative for our industry and our company. If bonus depreciation tax incentives are slow to pass again in 2015, or fail to pass at all, reasons for customers to make capital investments in heavy construction equipment in any industry will be significantly reduced.

### Professional, Scientific and Technical Services

- > We are watching the market carefully given current oil prices. Activity seems stable at present, although markedly lower than last year. We expect a slower year in 2015 than 2014.
- > Design and construction are still strong. We have observed no change in activity.
- > Because of oil prices, layoffs are occurring or being considered, and the flow through the economy could be significant.
- > Our revenue for the month of April was up over last year. Even though this market has been hot for the past three years, we feel confident that the economic strength of the market will continue for the foreseeable future. This confidence is due in a large part to strong population growth that continues to outpace supply.
- > April picked up, but May is slow. We are concerned that summer may be very slow.

### Management of Companies and Enterprises

- > Regulator expense is increasing without increased income to offset it. Across the board, our customers are all dealing with increased regulatory expenses. There are complaints about getting permits, permission and project approvals.
- > There is too much government regulation. We could help our customers a lot better if we had common sense regulations.
- > Our customers are very uncertain about the business climate. Customers that are doing well have pulled in their horns because of overregulation and uncertainty of what government may do. Two of our businesses are at 49 employees and need to expand but have each said they will never have 50 employees and deal with more regulations from the Affordable Care Act. Federal regulations are pretty much choking the life out of the business sector.

### Administrative and Support Services

- > We are heavily dependent on weather. 2015 has been rough for our business.
- > We are seeing budgets being tightened as costs rise for various industries. Sales need to rise to offset anticipated increased costs of product.

### Telecommunications

- > Oil prices are still a concern in Houston, and the costs of programming from the major players are reducing margins and stifling growth.

### Publishing Industries (except Internet)

- > We are encountering substantial challenges in recruiting new employees to semiskilled positions in our rural area. This is particularly so for sales representation.

### Religious, Grantmaking, Civic, Professional and Similar Organizations

- > Our business is dependent on the health of the oil and gas industry. With oil prices starting to increase, our business outlook is not worsening, but it is too early to see it as improving either.

## Educational Services

- > As a state-supported institution of higher education, we will see relatively flat state appropriations, flat tuition and slight increases in other funding sources. In order to provide salary increases to staff and to make progress on academic programs and research priorities, we will likely need to reduce staff over time through attrition and more efficient processes.

## Ambulatory Health Care Services

- > As medical providers, passage of the bill scrapping the Medicare Sustainable Growth Rate formula that determined physician payment rates avoided a huge decline in income and will help stabilize the profession for a few years. However, costs are increasing to comply with more government regulation. Plus, low oil and gas prices, along with poor commodity prices, may start to impact activity as a major portion of our surgical business is actually elective.
- > Being a health care provider, our revenue stream is tied to health insurance companies' payments, including Medicare and Medicaid. These two large payers for seniors and low-income families continue to emphasize quality and outcomes, and meeting outcomes requires additional costs. This translates into lower payment per patient from these two payer sources. Additionally, health care providers do not have any leverage on selling prices and therefore do their best to manage costs, triggering significant consolidation in the health care industry.

## Hospitals

- > Rural hospitals continue to struggle with reduced reimbursements and increased regulation. The transition to medical classification system ICD-10 will hit us hard in October, and we are currently planning for cash inflow issues beginning with the Oct. 1 implementation date.

## Nursing and Residential Care Facilities

- > Our industry is highly sensitive to regulatory policy change.

## Amusement, Gambling and Recreation Industries

- > With big hotels opening in Austin, employees are harder and harder to find, especially skilled workers. The price to hire new people is also going up. This has a ripple effect in that we have to make adjustments to long-term employees as well. We are just beginning to work through the costs of reporting for the Affordable Care Act.

## Food Services and Drinking Places

- > Our sales have been showing very strong increases—in excess of 5 percent—over the last few fiscal periods; however, the number of employees—both full and part time—and hours worked have remained about the same. Up until now it has been pure productivity increase, but we fully expect this to stop being the case in the near future. Our costs of goods have remained flat. We have a price increase budgeted for late October or early November, but given the performance of cost of goods sold it might be smaller than we originally projected. Capital expenditures are above trend right now because we are building a new store, which should be completed within the next six months.

## Repair and Maintenance

- > It is apparent that many service companies in the oil and gas sector are really struggling. Unfortunately, this has led many of them to dramatically lower their prices on the work that is out there.

## Support Activities for Transportation

- > Due to health care cost pressures, we will require employees to share more of the cost of the health care plan. We have not increased employee contribution in over five years.

## Merchant Wholesalers, Durable Goods

- > Good moisture conditions are generating good crops with lower input.

## Motor Vehicle Parts Dealers

- > Our increase in sales because of hail damage and rain.
- > We continue to be impacted by our chief supplier's issues.

## Furniture and Home Furnishings Stores

- > We need the rain to stop. Wet and cold weather has affected our sales by 12 percent this year.

## Building Material and Garden Equipment and Supplies Dealers

- > Business is stable but lackluster without much excitement looking forward. The underlying economy still has small businesses concerned. Compliance and regulations continue to challenge small businesses trying to keep up with everything.

## Food and Beverage Stores

- > Sales are up 5 percent over the year before and have held the same in spite of the very, very wet weather.

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Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at [amy.jordan@dal.frb.org](mailto:amy.jordan@dal.frb.org).  
The Texas Service Sector Outlook Survey can be found online at [www.dallasfed.org/microsites/research/surveys/tssos/](http://www.dallasfed.org/microsites/research/surveys/tssos/).

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