Texas Service Sector Outlook Survey

DALLASFED

October 31, 2016

Special Questions

Data were collected Oct. 18–26, and 274 Texas business executives responded to the survey.

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

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Eased substantially	2.7	1.0	0.7
Eased somewhat	11.0	7.3	7.4
No change	45.1	47.1	44.6
Tightened somewhat	6.0	13.6	8.9
Tightened substantially	2.2	1.5	2.6
Not applicable—haven't sought credit	33.0	29.6	35.8

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

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Increased substantially	0.5	0.5	0.4
Increased somewhat	10.4	11.7	19.1
No change	48.6	50.5	40.4
Decreased somewhat	7.1	6.8	5.5
Decreased substantially	1.1	1.0	0.7
Not applicable—haven't sought credit	32.2	29.6	33.8

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

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	40.9	41.9	42.6
Some difficulty	12.7	15.3	14.1
Substantial difficulty	2.2	2.0	1.5
Extreme difficulty	1.1	0.0	0.4
Not applicable—haven't sought credit	43.1	40.9	41.5

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 '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	38.5	38.1	36.3
Some difficulty	8.2	5.9	8.6
Substantial difficulty	2.2	2.5	2.2
Extreme difficulty	1.6	0.0	0.4
Not applicable—haven't sought credit	49.5	53.5	52.4

5.	Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?		
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	3.8	1.0	1.1
Yes–somewhat	7.1	6.9	7.4
No	37.2	42.6	36.8
Not applicable–haven't had problems obtaining credit	12.0	10.8	12.6
Not applicable—haven't sought credit	39.9	38.7	42.0

6.	Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?		
	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	1.1	0.0	0.7
Yes–somewhat	6.0	6.8	4.4
No	44.3	45.1	45.6
Not applicable–haven't had problems obtaining credit	9.8	10.7	10.2
Not applicable—haven't sought credit	38.8	37.4	39.1

Special Questions Comments

These comments have been edited for publication.

Credit Intermediation and Related Activities

- Multifamily financing has tightened significantly. Higher rates and fees are being charged. There are very few banks that will participate in extending credit.
- The new Department of Labor rule on overtime will create the inevitable increase in labor cost. This rule will primarily impact exempt midlevel management personnel especially in rural markets. They will no longer be exempt, with the potential of increasing payroll expense resulting from increased overtime expense.

Securities, Commodity Contracts and Other Financial Investments and Related Activities

- Bank lending to real estate has tightened in a material way for some sectors of the industry.
- We are fortunate in that our capitalization is good. We really do not depend heavily on credit to run the business. Our debt is low and manageable, even in the current situation. We have decreased our workforce by 50 percent and deferred some capital expenditures to preserve operating capital. Most of our capital expenditure funds will go into major repair and maintenance projects.

Insurance Carriers and Related Activities

- Our agency is pretty much debt free, except for a balance on a note for acquisition of another agency purchased in January 2013. It's making money and paying itself off. All is great.

Publishing Industries (except Internet)

- Alternative sources of credit (as opposed to traditional sources) have been utilized.

Real Estate

- Personally, I see no reason for rates to rise given that the banks, due to new regulation, have nowhere to invest except in making loans, and they are limited to making loans that are pretty well collateralized. The borrower pool is limited, so they are all competing for the same borrower, and thus the rates are staying low. Frankly, I see nothing on the horizon to change that. Unless Congress or the new president does something, we are on a very good track and our biggest challenge is going to be how to maintain the positive momentum.

Rental and Leasing Services

- Sales are down for many reasons, not the least of which is the Texas economy and the oilfield bust and in some part due to it being tougher to get our retail customers financed for machine acquisitions.

Professional, Scientific and Technical Services

- We see higher rates as an opportunity to raise prices. It might come back to haunt us.
- Costs in the Texas region continue to rise. These costs affect our ability to be profitable. There is great concern about an impending recession and negative downturn.

Administrative and Support Services

- Banks are very cautious in their lending and have taken a "belt and suspenders" approach to their underwriting. As a result, the loans they propose are not loans I am willing to accept.
- Credit and resources are not a problem for us. The level of business investment in IT brought about by regulatory concerns and uncertainty in general is the problem. We're hoping that at least the election uncertainty will remove some of the reluctance and allow business to move forward.
- Seeking qualified employees is a major issue. Government over regulation is an issue.

Educational Services

- The school district is supported on a cash flow basis by its reserve fund of approximately $8 million. We have little need for operation on credit. We have one outstanding loan and three leases.

Ambulatory Health Care Services

- I have banks calling and offering significant loan rate discounts (over 50 percent lower rates to refinance debt that is only three years old) to get our business—hardly a difficult credit situation.
- We are aggressively pursuing expansion in the fourth quarter of 2016.

Hospitals

- Declining payer mix is yielding significantly less net revenue for the same work. The problem seems to have gained momentum over the last couple of months.

Nursing and Residential Care Facilities

- There is significant discounting of the selling price across our industry—greater than usual.
- The labor market is very competitive. We are seeing increasing wage pressure but inability to increase revenue due to government and commercial payer limitations.

Amusement, Gambling and Recreation Industries

- We are seasonal. Future employment costs will likely be determined by the government, not by the need to obtain qualified employees.

Food Services and Drinking Places

- Late last year/early this year we had no problem getting funding for the new restaurant we built, which has been open for a few months now. Since then we have not sought credit. We are doing some remodeling of existing units, but we have funded everything we've done internally, so there has been no need to look for external credit.

Truck Transportation

- Money seems readily available from many different avenues.

Support Activities for Transportation

- We are reviewing 2017 capital needs in excess of current funding at this time. We currently have no concrete plans to go to credit markets in 2017.

Texas Retail Outlook Survey

DALLASFED

October 31, 2016

Special Questions

Data were collected Oct. 18–26, and 58 Texas retailers responded to the survey.

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

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Eased substantially	4.3	0.0	0.0
Eased somewhat	10.9	6.7	5.4
No change	52.2	51.1	57.1
Tightened somewhat	6.5	20.0	3.6
Tightened substantially	0.0	0.0	3.6
Not applicable—haven't sought credit	26.1	22.2	30.4

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

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Increased substantially	2.1	0.0	0.0
Increased somewhat	14.9	13.3	19.3
No change	55.3	55.6	45.6
Decreased somewhat	6.4	4.4	5.3
Decreased substantially	0.0	2.2	0.0
Not applicable—haven't sought credit	21.3	24.4	29.8

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

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	54.3	57.8	57.9
Some difficulty	15.2	11.1	10.5
Substantial difficulty	0.0	2.2	1.8
Extreme difficulty	0.0	0.0	0.0
Not applicable—haven't sought credit	30.4	28.9	29.8

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 '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
No difficulty	59.6	53.5	50.0
Some difficulty	8.5	7.0	10.3
Substantial difficulty	2.1	4.7	1.7
Extreme difficulty	0.0	0.0	0.0
Not applicable—haven't sought credit	29.8	34.9	37.9

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

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	2.1	0.0	0.0
Yes–somewhat	6.4	6.8	5.4
No	51.1	56.8	46.4
Not applicable–haven't had problems obtaining credit	19.1	11.4	17.9
Not applicable—haven't sought credit	21.3	25.0	30.4

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

	Oct '14 (percent)	Oct '15 (percent)	Oct '16 (percent)
Yes–significantly	0.0	0.0	0.0
Yes–somewhat	8.5	8.9	3.4
No	57.4	53.3	55.2
Not applicable–haven't had problems obtaining credit	12.8	13.3	12.1
Not applicable—haven't sought credit	21.3	24.4	29.3

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- Credit in our sector is still strong. Banks have a strong appetite for solid capital assets, and given the steadiness of the Texas economy, we are experiencing no problems in lenders wanting to finance inventory, receivables and working capital for our business.
- The increasing complexity of government regulations, higher taxes, health insurance requirements, reporting requirements, etc. make it extremely difficult for small- to medium-sized companies to operate profitably. The stagnant economy, combined with the federal government's pressure on health insurance and their continuing efforts to raise minimum wages and pay rates due to required pay reclassifications, is having a detrimental effect on companies trying to survive in this sick economy. Our government is trying to kill our businesses, instead of supporting us to grow the economy.

Motor Vehicle and Parts Dealers

- We feel a general slowdown that is pretty much across the board. Some is the election, and some is the beginning of the yearend/winter slowdown that seems to occur every year. The slowdown has affected the degree of profitability.
- We haven't sought any new credit. Our credit lines for inventory financing have remained constant and rates fluctuate with Libor.
- We have not experienced any difficulty in obtaining credit.
- We are very well capitalized so credit is not an issue for us. Interest rates are increasing and margins aren't. Profits are negatively impacted.

Building Material and Garden Equipment and Supplies Dealers

- I am different from my other business friends. I retain lots of assets and cash, so credit is not a problem.
- We don't like debt and try and fund our capital improvements out of cash flow. We use our borrowing base to finance inventory and accounts receivable, and the low interest rates have helped greatly.

Nonstore Retailers

- Our company is working on maintaining existing debt covenants while we work through some management issues. We are compensating via additional owner capital while continuing to work with our banker on managing our covenants. Thus, our situation is more of our own doing than a function of the current economy.