

# Texas **Manufacturing** Outlook Survey

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February 26, 2018

## Growth in Texas Manufacturing Accelerates in February

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### What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on employment expectations and the labor market. Results for these questions from the Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS) have been released together.

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Texas factory activity expanded at a faster pace in February, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose 11 points to 27.9, signaling a pickup in output growth.

Demand growth continued at roughly the same pace as in January, while some other measures of manufacturing activity pointed to slightly stronger growth this month. The new orders and growth rate of orders indexes held steady at 25.3 and 15.3, respectively. The capacity utilization index rose five points, coming in at 19.6. The shipments index also rose five points and reached 32.1, its highest reading since 2006.

Perceptions of broader business conditions improved further in February. The general business activity index pushed up to 37.2, its highest reading in 12 years. The company outlook index climbed four points to 31.5, on par with its December 2017 reading, which was also the highest in 12 years.

Labor market measures suggested a pickup in hiring and longer workweeks this month. The employment index came in at 19.1, up four points from January. Thirty percent of firms noted net hiring, compared with 11 percent noting net layoffs. The hours worked index moved up to 16.3.

Price pressures remained elevated in February, and wages rose at a faster clip. The raw materials prices index climbed six points to 39.8, its highest reading since 2011. The finished goods prices index edged up to 22.5, also a level last seen in 2011. The wages and benefits index posted a 9-point increase to 32.2, an 11-year high. Nearly a third of firms noted an increase in compensation from January levels, while roughly two-thirds noted no change.

Expectations regarding future business conditions remained optimistic in February. The indexes of future general business activity and future company outlook slipped to 40.6 and 34.5, respectively, but both stayed well above their average readings. Most other indexes for future manufacturing activity also fell but remained highly positive.

**Next release:** Monday, March 26

Data were collected Feb. 13–21, and 106 Texas manufacturers responded to the survey. The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Firms are asked whether output, employment, orders, prices 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.

## Results Summary

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

| Indicator                          | Feb Index | Jan Index | Change | Indicator Direction* | Trend**<br>(Months) | %<br>Reporting<br>Increase | %<br>Reporting<br>No Change | %<br>Reporting<br>Decrease |
|------------------------------------|-----------|-----------|--------|----------------------|---------------------|----------------------------|-----------------------------|----------------------------|
| Production                         | 27.9      | 16.8      | +11.1  | Increasing           | 20                  | 41.3                       | 45.3                        | 13.4                       |
| Capacity Utilization               | 19.6      | 14.5      | +5.1   | Increasing           | 20                  | 34.3                       | 51.0                        | 14.7                       |
| New Orders                         | 25.3      | 25.5      | -0.2   | Increasing           | 16                  | 39.1                       | 47.0                        | 13.8                       |
| Growth Rate of Orders              | 15.3      | 15.5      | -0.2   | Increasing           | 14                  | 31.0                       | 53.3                        | 15.7                       |
| Unfilled Orders                    | 11.5      | 7.1       | +4.4   | Increasing           | 14                  | 22.3                       | 66.9                        | 10.8                       |
| Shipments                          | 32.1      | 27.1      | +5.0   | Increasing           | 15                  | 45.1                       | 42.0                        | 13.0                       |
| Delivery Time                      | 4.8       | 9.0       | -4.2   | Increasing           | 8                   | 15.5                       | 73.8                        | 10.7                       |
| Finished Goods Inventories         | 7.6       | 0.0       | +7.6   | Increasing           | 1                   | 20.8                       | 66.0                        | 13.2                       |
| Prices Paid for Raw Materials      | 39.8      | 33.5      | +6.3   | Increasing           | 24                  | 43.0                       | 53.8                        | 3.2                        |
| Prices Received for Finished Goods | 22.5      | 22.3      | +0.2   | Increasing           | 19                  | 27.6                       | 67.3                        | 5.1                        |
| Wages and Benefits                 | 32.2      | 23.3      | +8.9   | Increasing           | 99                  | 32.9                       | 66.4                        | 0.7                        |
| Employment                         | 19.1      | 15.2      | +3.9   | Increasing           | 14                  | 29.6                       | 59.9                        | 10.5                       |
| Hours Worked                       | 16.3      | 13.4      | +2.9   | Increasing           | 16                  | 28.7                       | 58.9                        | 12.4                       |
| Capital Expenditures               | 23.7      | 20.0      | +3.7   | Increasing           | 18                  | 25.2                       | 73.3                        | 1.5                        |

### General Business Conditions

#### Current (versus previous month)

| Indicator                 | Feb Index | Jan Index | Change | Indicator Direction* | Trend**<br>(Months) | %<br>Reporting<br>Improved | %<br>Reporting<br>No Change | %<br>Reporting<br>Worsened |
|---------------------------|-----------|-----------|--------|----------------------|---------------------|----------------------------|-----------------------------|----------------------------|
| Company Outlook           | 31.5      | 27.8      | +3.7   | Improving            | 18                  | 38.7                       | 54.1                        | 7.2                        |
| General Business Activity | 37.2      | 33.4      | +3.8   | Improving            | 17                  | 45.3                       | 46.6                        | 8.1                        |

| Indicator            | Feb Index | Jan Index | Change | Indicator Direction* | Trend**<br>(Months) | %<br>Reporting<br>Increase | %<br>Reporting<br>No Change | %<br>Reporting<br>Decrease |
|----------------------|-----------|-----------|--------|----------------------|---------------------|----------------------------|-----------------------------|----------------------------|
| Outlook Uncertainty† | -5.8      | -8.3      | +2.5   | Decreasing           | 2                   | 13.6                       | 67.0                        | 19.4                       |

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

| Indicator                                 | Feb Index | Jan Index | Change | Indicator Direction | Trend*<br>(Months) | %                  | %                   | %                  |
|---|-----------|-----------|--------|---------------------|--------------------|--------------------|---------------------|--------------------|
|   |           |           |        |                     |                    | Reporting Increase | Reporting No Change | Reporting Decrease |
| <b>Production</b>                         | 46.0      | 51.6      | -5.6   | Increasing          | 108                | 54.5               | 37.0                | 8.5                |
| <b>Capacity Utilization</b>               | 45.9      | 46.4      | -0.5   | Increasing          | 108                | 53.8               | 38.3                | 7.9                |
| <b>New Orders</b>                         | 49.6      | 51.2      | -1.6   | Increasing          | 108                | 55.3               | 39.0                | 5.7                |
| <b>Growth Rate of Orders</b>              | 37.5      | 40.4      | -2.9   | Increasing          | 108                | 41.3               | 54.9                | 3.8                |
| <b>Unfilled Orders</b>                    | 18.2      | 14.0      | +4.2   | Increasing          | 29                 | 25.3               | 67.6                | 7.1                |
| <b>Shipments</b>                          | 44.4      | 50.2      | -5.8   | Increasing          | 108                | 52.2               | 40.0                | 7.8                |
| <b>Delivery Time</b>                      | 2.8       | 5.7       | -2.9   | Increasing          | 15                 | 12.7               | 77.4                | 9.9                |
| <b>Finished Goods Inventories</b>         | 5.9       | 11.7      | -5.8   | Increasing          | 4                  | 17.8               | 70.3                | 11.9               |
| <b>Prices Paid for Raw Materials</b>      | 43.0      | 44.0      | -1.0   | Increasing          | 107                | 48.0               | 47.0                | 5.0                |
| <b>Prices Received for Finished Goods</b> | 31.6      | 36.2      | -4.6   | Increasing          | 25                 | 36.6               | 58.4                | 5.0                |
| <b>Wages and Benefits</b>                 | 49.7      | 56.9      | -7.2   | Increasing          | 165                | 49.7               | 50.3                | 0.0                |
| <b>Employment</b>                         | 34.0      | 44.5      | -10.5  | Increasing          | 63                 | 41.9               | 50.2                | 7.9                |
| <b>Hours Worked</b>                       | 15.1      | 14.4      | +0.7   | Increasing          | 21                 | 23.1               | 68.9                | 8.0                |
| <b>Capital Expenditures</b>               | 39.6      | 36.2      | +3.4   | Increasing          | 99                 | 43.6               | 52.5                | 4.0                |

**General Business Conditions**  
**Future (six months ahead)**

| Indicator                        | Feb Index | Jan Index | Change | Indicator Direction* | Trend**<br>(Months) | %                  | %                   | %                  |
|----------------------------------|-----------|-----------|--------|----------------------|---------------------|--------------------|---------------------|--------------------|
|                                  |           |           |        |                      |                     | Reporting Increase | Reporting No Change | Reporting Worsened |
| <b>Company Outlook</b>           | 34.5      | 43.2      | -8.7   | Improving            | 25                  | 41.1               | 52.3                | 6.6                |
| <b>General Business Activity</b> | 40.6      | 44.5      | -3.9   | Improving            | 21                  | 45.7               | 49.3                | 5.1                |

\*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.

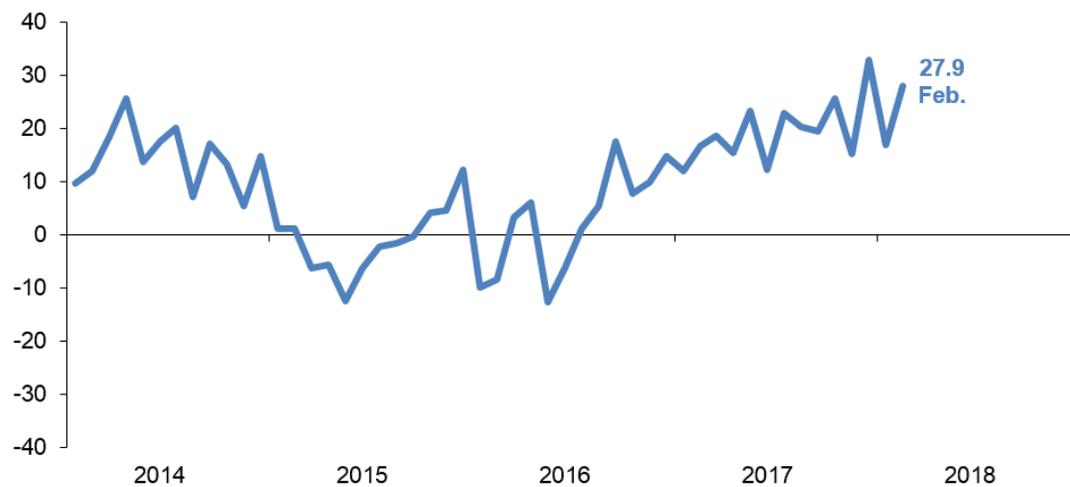
†Added to survey in January 2018.

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.

## Production Index

### Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

## Comments from Survey Respondents

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

### Chemical Manufacturing

- We are just beginning to see higher raw material, regulatory and shipping costs. Last quarter our labor costs soared, as expected. Controlling for inflation is beginning to creep into our decision-making processes, as we think the economy is headed for a soft landing late this year.

### Primary Metal Manufacturing

- We saw a slight decrease in new orders for our building and construction industry customers. This may be related to winter weather delays on projects.
- As interest rates climb, we anticipate business levels growing slower.
- Sales and operations have remained fairly steady.

### Fabricated Metal Product Manufacturing

- We are seeing solid bookings across different end-user segments. Bookings are not just energy driven like in 2013–14. Commodity pricing is going up weekly, such as for flat stock steel and rebar.
- Steel prices have been increasing rapidly, originating at the mills and affecting the entire steel industry. Across-the-board price increases were seen in December, January and again in February.
- We are still working on restoring production equipment and operations from major flooding with Hurricane Harvey.

### Machinery Manufacturing

- Our customers are requesting more of us in a shorter timeframe because pressures are coming from their management to get work completed sooner so they can plan more projects. Our growth this year is the best in the past five years. We believe this will carry into 2019.

## Computer and Electronic Product Manufacturing

- Our company is finishing a large contract during the summer, which is going to result in decreases in volume and employees at that time. Thus, our projections six months out are based more on our specific situation. The general business environment seems to be strong.
- The Federal Highway Administration terminated interim approval on a product. This has decreased our sales by 20 percent. We hope to have some new products to replace this one going to market in April.

## Transportation Equipment Manufacturing

- We are seeing good labor supply and material prices.
- We are a small company focused on the defense industry. We compete with major prime contractors for resources. As the F-35 program gears up, we will be incurring significant increases in costs related to labor, some raw materials, and specialized processing.
- Our increase in volume of orders is tied to exporting internationally. As the dollar drops in value internationally, our exports increase.

## Food Manufacturing

- We are converting from an S-Corp to a C-Corp to reduce taxes, thanks to recent legislation passed by Congress, and we will spend all of the savings on new equipment to increase efficiency and capacity.
- We are a unique manufacturer and are moving into new areas of production to meet humanitarian food relief markets and challenges. There is a limitless market/need for what we produce, and our challenge lies in creating economic models which are compatible with our customers' ability to support the funding of what we produce. Like all businesses, we are evolving while maintaining our focus on the mission of our day-to-day operations.

## Beverage and Tobacco Product Manufacturing

- The increase in uncertainty is due to the acquisition of my main supplier company.

## Paper Manufacturing

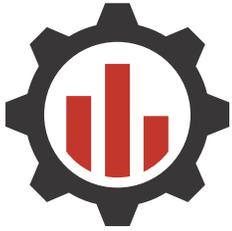
- We have seen a slight pullback in new orders. It's not worrisome unless it persists for a few more weeks.

## Printing and Related Support Activities

- We are receiving price increase notices from our suppliers of petroleum-based products; sometimes they are actually implemented and sometimes they are not. We have not passed any price increases on to our customers to date. This is creating more uncertainty for the business.
- Other than a large, long-time customer going Chapter 11 rather unexpectedly on us, February is actually busier with better incoming orders than last year and better than normal when we are typically slow. We did get one large one-hit-wonder order that may be distorting things some.

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Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at [emily.kerr@dal.frb.org](mailto:emily.kerr@dal.frb.org).



# Texas Manufacturing Outlook Survey

## Special Questions

February 26, 2018

### Texas Business Outlook Surveys

Results below include responses from participants of all three surveys: Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

Data were collected Feb. 13–21, and 362 Texas business executives responded to the surveys.

1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to 12 months?

|                 | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Increase        | 51.4                  | 47.2                  | 46.9                  | 39.0                  |
| Leave unchanged | 39.2                  | 43.5                  | 43.1                  | 43.8                  |
| Decrease        | 9.4                   | 9.3                   | 10.1                  | 17.2                  |

2. Are you having problems finding qualified workers when hiring?

|     | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----|-----------------------|-----------------------|-----------------------|-----------------------|
| Yes | 64.8                  | 67.3                  | 63.4                  | 62.9                  |
| No  | 35.2                  | 32.7                  | 36.6                  | 37.1                  |

3. If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.\*

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) |
|---|-----------------------|-----------------------|
| Low-skill positions (typically require high school diploma or less and minimal work experience) | 51.1                  | 47.2                  |
| Mid-skill positions (typically require some college or technical schooling)                     | 61.2                  | 60.4                  |
| High-skill positions (typically require college degree or higher)                               | 39.6                  | 37.6                  |

4. If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.\*

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Lack of available applicants/no applicants          | 62.6                  | 58.6                  | 43.2                  | 49.2                  |
| Lack of technical competencies (hard skills)        | 50.2                  | 49.8                  | 59.8                  | 66.8                  |
| Looking for more pay than is offered                | 40.1                  | 39.0                  | 34.4                  | 45.8                  |
| Lack of workplace competencies (soft skills)        | 39.6                  | 37.3                  | 43.2                  | 48.9                  |
| Lack of experience                                  | 37.0                  | 32.5                  | 40.5                  | 41.6                  |
| Inability to pass drug test and/or background check | 30.0                  | 32.1                  | 29.3                  | 28.6                  |

5. What, if anything, are you doing to recruit and retain employees? Please check all that apply.

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc. | 62.1                  | 63.5                  | 57.1                  | 57.8                  |
| Increase wages and or benefits  | 53.3                  | 49.4                  | 47.9                  | 45.5                  |
| Offer additional training   | 38.2                  | 35.7                  | 34.8                  | 39.5                  |
| Increase variable pay, including bonuses  | 33.3                  | 29.2                  | 30.1                  | 30.4                  |
| Improve working conditions  | 22.2                  | 23.4                  | 23.2                  | 25.0                  |
| Reduce education and other requirements for new hires   | 6.5                   | 8.8                   | 5.4                   | 6.0                   |
| Other   | 7.8                   | 6.7                   | 9.8                   | 8.4                   |

6. If labor costs are increasing, are you passing the cost on to customers in the way of price increases?

|     | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----|-----------------------|-----------------------|-----------------------|-----------------------|
| Yes | 42.6                  | 40.8                  | 40.6                  | 37.8                  |
| No  | 57.4                  | 59.2                  | 59.4                  | 62.2                  |

\*This question only posed to firms who noted they are having problems finding qualified workers when hiring.

NOTE: 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 Feb. 13–21, and 99 Texas manufacturers responded to the survey.

**1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to 12 months?**

|                 | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Increase        | 58.6                  | 46.9                  | 57.1                  | 41.6                  |
| Leave unchanged | 35.4                  | 42.9                  | 33.0                  | 44.2                  |
| Decrease        | 6.1                   | 10.2                  | 9.8                   | 14.2                  |

**2. Are you having problems finding qualified workers when hiring?**

|     | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----|-----------------------|-----------------------|-----------------------|-----------------------|
| Yes | 69.7                  | 72.7                  | 68.5                  | 66.1                  |
| No  | 30.3                  | 27.3                  | 31.5                  | 33.9                  |

**3. If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.\***

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) |
|---|-----------------------|-----------------------|
| Low-skill positions (typically require high school diploma or less and minimal work experience) | 64.7                  | 61.1                  |
| Mid-skill positions (typically require some college or technical schooling)                     | 70.6                  | 66.7                  |
| High-skill positions (typically require college degree or higher)                               | 32.4                  | 30.6                  |

**4. If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.\***

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Lack of available applicants/no applicants          | 72.1                  | 51.4                  | 44.3                  | 37.5                  |
| Lack of technical competencies (hard skills)        | 60.3                  | 61.1                  | 72.2                  | 82.5                  |
| Lack of workplace competencies (soft skills)        | 44.1                  | 37.5                  | 45.6                  | 48.8                  |
| Lack of experience                                  | 44.1                  | 31.9                  | 44.3                  | 38.8                  |
| Inability to pass drug test and/or background check | 41.2                  | 45.8                  | 29.1                  | 28.8                  |
| Looking for more pay than is offered                | 38.2                  | 36.1                  | 36.7                  | 48.8                  |

5. What, if anything, are you doing to recruit and retain employees? Please check all that apply.

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc. | 65.1                  | 67.4                  | 63.5                  | 56.0                  |
| Increase wages and or benefits  | 53.5                  | 51.7                  | 58.3                  | 46.2                  |
| Offer additional training   | 43.0                  | 40.4                  | 33.3                  | 40.7                  |
| Increase variable pay, including bonuses  | 31.4                  | 28.1                  | 30.2                  | 35.2                  |
| Improve working conditions  | 18.6                  | 24.7                  | 21.9                  | 27.5                  |
| Reduce education and other requirements for new hires   | 4.7                   | 11.2                  | 5.2                   | 6.6                   |
| Other   | 7.0                   | 5.6                   | 5.2                   | 8.8                   |

6. If labor costs are increasing, are you passing the cost on to customers in the way of price increases?

|     | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----|-----------------------|-----------------------|-----------------------|-----------------------|
| Yes | 45.2                  | 41.6                  | 39.4                  | 32.6                  |
| No  | 54.8                  | 58.4                  | 60.6                  | 67.4                  |

\*This question only posed to firms who noted they are having problems finding qualified workers when hiring.

## Special Questions Comments

These comments have been edited for publication.

### Chemical Manufacturing

- We are looking into increased automation to counteract the lack of manufacturing personnel.

### Plastics and Rubber Products Manufacturing

- We are seeing a short-term activity increase.

### Transportation Equipment Manufacturing

- We are not passing on costs yet, but we plan to in the future if we can't offset with productivity.

### Food Manufacturing

- We are in the food processing and manufacturing business in an area not heavily populated by peer or food industry businesses. New markets are opening up for us.

### Paper Manufacturing

- We have high turnover at entry-level positions. We have increased our starting pay and are giving increases at the end of workers' probationary period, but it is still a problem. We increased our prices on several products in January 2018.
- It is becoming increasingly difficult to hire qualified workers who understand that they will have to work.

### Printing and Related Support Activities

- Where possible, we are trying to pass along price increases. We are working to replace two plant workers and possibly hire one or two more.

### Miscellaneous Manufacturing

- Some of our best and most loyal workers were once convicts or parolees. Stringent rules by other companies have thrown many wonderful workers our way. They are most appreciative of the chance given here. Our demands are quite high and "one strike and you are out."

# Texas Service Sector Outlook Survey

Data were collected Feb. 13–21, and 263 Texas business executives responded to the survey.

**1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to 12 months?**

|                 | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Increase        | 48.7                  | 47.3                  | 42.8                  | 37.9                  |
| Leave unchanged | 40.7                  | 43.7                  | 47.0                  | 43.6                  |
| Decrease        | 10.6                  | 9.0                   | 10.2                  | 18.4                  |

**2. Are you having problems finding qualified workers when hiring?**

|     | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----|-----------------------|-----------------------|-----------------------|-----------------------|
| Yes | 62.9                  | 65.3                  | 61.4                  | 61.7                  |
| No  | 37.1                  | 34.7                  | 38.6                  | 38.3                  |

**3. If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.\***

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) |
|---|-----------------------|-----------------------|
| Low-skill positions (typically require high school diploma or less and minimal work experience) | 45.3                  | 41.6                  |
| Mid-skill positions (typically require some college or technical schooling)                     | 57.2                  | 57.9                  |
| High-skill positions (typically require college degree or higher)                               | 42.8                  | 40.4                  |

**4. If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.\***

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Lack of available applicants/no applicants          | 58.5                  | 61.6                  | 42.8                  | 54.4                  |
| Lack of technical competencies (hard skills)        | 45.9                  | 45.2                  | 54.4                  | 59.9                  |
| Looking for more pay than is offered                | 40.9                  | 40.1                  | 33.3                  | 44.5                  |
| Lack of workplace competencies (soft skills)        | 37.7                  | 37.3                  | 42.2                  | 48.9                  |
| Lack of experience                                  | 34.0                  | 32.8                  | 38.9                  | 42.9                  |
| Inability to pass drug test and/or background check | 25.2                  | 26.6                  | 29.4                  | 28.6                  |

5. What, if anything, are you doing to recruit and retain employees? Please check all that apply.

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc. | 60.9                  | 62.1                  | 54.6                  | 58.5                  |
| Increase wages and or benefits  | 53.2                  | 48.6                  | 43.8                  | 45.2                  |
| Offer additional training   | 36.4                  | 34.0                  | 35.4                  | 39.0                  |
| Increase variable pay, including bonuses  | 34.1                  | 29.6                  | 30.0                  | 28.6                  |
| Improve working conditions  | 23.6                  | 22.9                  | 23.8                  | 24.1                  |
| Reduce education and other requirements for new hires   | 7.3                   | 7.9                   | 5.4                   | 5.8                   |
| Other   | 8.2                   | 7.1                   | 11.7                  | 8.3                   |

6. If labor costs are increasing, are you passing the cost on to customers in the way of price increases?

|     | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----|-----------------------|-----------------------|-----------------------|-----------------------|
| Yes | 41.5                  | 40.5                  | 41.1                  | 39.9                  |
| No  | 58.5                  | 59.5                  | 58.9                  | 60.1                  |

\*This question only posed to firms who noted they are having problems finding qualified workers when hiring.

## Special Questions Comments

These comments have been edited for publication.

### Publishing Industries (Except Internet)

- We will try to pass along increases in costs, but it is difficult to do, so we will look for productivity/efficiency gains to offset costs. Also, we will change the product revision so increases might be acceptable to customers.

### Credit Intermediation and Related Activities

- In the rural markets, finding qualified individuals for employment who have adequate social skills to service customers and meet the public is difficult. We will have to develop a strategy for finding qualified applicants.

### Rental and Leasing Services

- We have always had difficulty finding and recruiting mechanics to work on heavy construction equipment. We employ over 200 and could hire another 100 if we could find them. But, today we have equal difficulty hiring good salesmen to work on a salary/commission/bonus basis—these are uncapped compensation positions; one can make whatever they work hard enough to make. The younger generation just does not want to work that hard or risk a commission-based living; they want a large salary and no more than 40 hours per week.

### Professional, Scientific and Technical Services

- It is a somewhat challenging environment for quality hires. We are able to find folks, but the recruitment process is lengthening, and positions remain open longer.

### Management of Companies and Enterprises

- We are passing additional costs to consumers in the way of closing fees and document preparation fees. Our cost per loan has more than doubled over the last four to five years with additional compliance costs and per-loan charges on software vendors for loan document preparation.

## **Administrative and Support Services**

- Finding people willing to work and experienced is virtually impossible. A person with a "good" driver's license is also impossible to find. Drugs continue to be a problem.
- We need the H2B returning worker exemption.
- We currently do not have enough qualified full-time employees to fill our existing client job orders. In our 40 years of business, we have been down this same road many times; we will continue to work hard and smart as we rectify this particular situation.
- The available work pool of trained staff with technical abilities and product knowledge is limited. Therefore, investment in new talent is critical to the future, but new talent is not looking to work as hard or in the normal 8 a.m. to 5 p.m. structure.
- Price increases are difficult to implement in a competitive environment. We are passing along some of the increases with existing customers and trying to set a higher mark with new customers. However, we try not to lose a customer over price.

## **Ambulatory Health Care Services**

- The blood industry is in a state of flux, with pressure to retain markets while blood utilization continues to decrease. So blood prices have been decreasing for six-plus years. As markets shrink, prices continue to decrease to a point where there is no margin, and many independent centers are losing money or are no longer independent.
- I answered no to "Are you having problems finding qualified workers when hiring?" but the last couple of years we haven't had turnover, so "not applicable" would be a better historical choice. However, we are expanding and will be adding workers.
- We are unable to set our fee schedule. Outpatient imaging is a deflationary business. The government and payers set our fee schedules. We remain very efficient and are profitable, but margins are slim and utilization is very high.
- If revenue continues to improve, my "increase" in employment will first be to change two part-time staff to full time.

## **Hospitals**

- As a hospital, we have very little real-time control over reimbursement due to government regulations and long-term contracts with insurers. We are unable to pass along our cost increases in most cases.

## **Nursing and Residential Care Facilities**

- Our primary payers are federal and state government. At the same time, we are in a major health care worker shortage, which is driving wages up. However, the area wage index for our county actually went down as of the last Federal Rule, resulting in a pay reduction of anywhere from \$15 to \$30 per day per resident.

## **Accommodation**

- The labor market continues to challenge our industry. The ongoing discussions on immigration and the "wall" are not helping. I do not believe advocates for stricter immigration rules have thought through all the consequences.

## **Food Services and Drinking Places**

- We are having great difficulty finding people who are educated, can think on their feet or who are even motivated. The educational system has failed us in the last 20 years, and we are now experiencing that result. Employees are often noncaring, not knowledgeable, don't know how the world works and don't appear to be very interested in learning.
- With labor costs increasing, it is inevitable that prices will be increased.

## **Truck Transportation**

- Truck drivers have become impossible to find. We have increased pay 15 percent since Jan. 1, 2018.

# Texas Retail Outlook Survey

Data were collected Feb. 13–21, and 49 Texas retailers responded to the survey.

**1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to 12 months?**

|                 | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Increase        | 44.9                  | 36.4                  | 40.7                  | 24.1                  |
| Leave unchanged | 36.7                  | 56.4                  | 50.0                  | 56.9                  |
| Decrease        | 18.4                  | 7.3                   | 9.3                   | 19.0                  |

**2. Are you having problems finding qualified workers when hiring?**

|     | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----|-----------------------|-----------------------|-----------------------|-----------------------|
| Yes | 75.5                  | 76.4                  | 76.4                  | 67.2                  |
| No  | 24.5                  | 23.6                  | 23.6                  | 32.8                  |

**3. If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.\***

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) |
|---|-----------------------|-----------------------|
| Low-skill positions (typically require high school diploma or less and minimal work experience) | 55.6                  | 54.8                  |
| Mid-skill positions (typically require some college or technical schooling)                     | 69.4                  | 66.7                  |
| High-skill positions (typically require college degree or higher)                               | 13.9                  | 21.4                  |

**4. If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.\***

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Lack of available applicants/no applicants          | 56.8                  | 59.5                  | 46.7                  | 53.7                  |
| Lack of technical competencies (hard skills)        | 48.6                  | 54.8                  | 55.6                  | 63.4                  |
| Lack of workplace competencies (soft skills)        | 40.5                  | 33.3                  | 46.7                  | 56.1                  |
| Inability to pass drug test and/or background check | 37.8                  | 47.6                  | 48.9                  | 48.8                  |
| Lack of experience                                  | 35.1                  | 35.7                  | 37.8                  | 31.7                  |
| Looking for more pay than is offered                | 24.3                  | 38.1                  | 28.9                  | 31.7                  |

5. What, if anything, are you doing to recruit and retain employees? Please check all that apply.

|   | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc. | 60.9                  | 66.0                  | 53.1                  | 61.8                  |
| Increase variable pay, including bonuses  | 43.5                  | 39.6                  | 42.9                  | 30.9                  |
| Increase wages and or benefits  | 41.3                  | 56.6                  | 49.0                  | 34.5                  |
| Offer additional training   | 32.6                  | 34.0                  | 30.6                  | 34.5                  |
| Improve working conditions  | 26.1                  | 24.5                  | 22.4                  | 25.5                  |
| Reduce education and other requirements for new hires   | 10.9                  | 13.2                  | 6.1                   | 7.3                   |
| Other   | 4.3                   | 5.7                   | 10.2                  | 5.5                   |

6. If labor costs are increasing, are you passing the cost on to customers in the way of price increases?

|     | Feb. '18<br>(percent) | Nov. '17<br>(percent) | Feb. '17<br>(percent) | Feb. '16<br>(percent) |
|-----|-----------------------|-----------------------|-----------------------|-----------------------|
| Yes | 36.4                  | 47.9                  | 43.8                  | 44.0                  |
| No  | 63.6                  | 52.1                  | 56.3                  | 56.0                  |

\*This question only posed to firms who noted they are having problems finding qualified workers when hiring.

## Special Questions Comments

These comments have been edited for publication.

### Motor Vehicle and Parts Dealers

- A lot of the applicants we are getting for accounting positions and IT are older, lower-technical-skilled professionals that are late in their careers. We are finding a lot more recruiting activity for the younger technology-savvy worker in all categories.
- Margins continue to erode as expenses increase.
- The idea of passing increased labor costs on in our business and most businesses I am familiar with is not practical as it will price the product/service out of being competitive, leading to lost sales. In turn, the lost sales will lead to fewer employees needed to handle the business and to attempt to maintain profits.

### Clothing and Clothing Accessories Stores

- Finding store associates is only an issue in the major cities like Houston, Dallas, San Antonio and Austin. It is more business as usual as far as hiring in the smaller Texas cities. At our corporate headquarters in a major metro, the competition is much more difficult for well-qualified workers.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at [emily.kerr@dal.frb.org](mailto:emily.kerr@dal.frb.org), and questions regarding the Texas Service Sector Outlook Survey or the Texas Retail Outlook Survey can be addressed to Amy Jordan at [amy.jordan@dal.frb.org](mailto:amy.jordan@dal.frb.org).