# Texas Manufacturing Outlook Survey

**December 31, 2018**

## Texas Manufacturing Expands Modestly, Outlook Worsens

### What's New This Month

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

Texas factory activity continued to expand rather modestly in December, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, inched down one point to 7.3.

Other indexes of manufacturing activity also suggested modest growth in December, although demand growth picked up a bit. The capacity utilization index fell from 9.4 to 7.6, and the shipments index dipped to 6.1. Meanwhile, the new orders index moved up five points to 14.4, and the growth rate of new orders index edged up to 5.8.

Perceptions of broader business conditions turned slightly negative in December. The general business activity index plummeted 23 points to -5.1, hitting its lowest level since mid-2016. The company outlook index also fell markedly, dropping 17 points to -3.4, also a two-and-a-half-year low. More than 20 percent of manufacturers noted their outlook worsened this month.

Labor market measures suggested continued but slightly slower employment growth and longer workweeks in December. The employment index retreated five points to 11.0, a level still above average. Twenty-two percent of firms noted net hiring, compared with 11 percent noting net layoffs. The hours worked index held steady at 5.0.

Price increases eased further in December, while wage growth picked up slightly. The raw materials prices index slipped five points to 28.8, and the finished goods prices index ticked down one point to 6.6. Both came in near their average levels. Meanwhile, compensation costs continued to rise at a faster clip than normal. The wages and benefits index moved up four points to 29.2, with nearly 30 percent of firms noting an increase from November.

Expectations regarding future business conditions remained positive but retreated notably in December. The indexes of future general business activity and future company outlook fell 23 points to 3.2 and 8.8, respectively. Most other indexes for future manufacturing activity also posted double-digit declines this month but remained solidly in positive territory.

**Next release:** Monday, January 28

Data were collected Dec. 18–26, and 112 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 | Dec Index | Nov Index | Change | Indicator Direction* | Trend** (Months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|---|---|---|---|---|---|---|---|---|
| Production | 7.3 | 8.4 | –1.1 | Increasing | 30 | 24.6 | 58.1 | 17.3 |
| Capacity Utilization | 7.6 | 9.4 | –1.8 | Increasing | 30 | 20.9 | 65.8 | 13.3 |
| New Orders | 14.4 | 9.7 | +4.7 | Increasing | 26 | 34.1 | 46.2 | 19.7 |
| Growth Rate of Orders | 5.8 | 4.8 | +1.0 | Increasing | 24 | 23.5 | 58.8 | 17.7 |
| Unfilled Orders | –2.3 | 4.5 | –6.8 | Decreasing | 1 | 15.1 | 67.5 | 17.4 |
| Shipments | 6.1 | 7.7 | –1.6 | Increasing | 25 | 27.0 | 52.1 | 20.9 |
| Delivery Time | –3.2 | 1.8 | –5.0 | Decreasing | 1 | 8.6 | 79.6 | 11.8 |
| Finished Goods Inventories | 1.9 | 2.6 | –0.7 | Increasing | 5 | 16.4 | 69.1 | 14.5 |
| Prices Paid for Raw Materials | 28.8 | 33.7 | –4.9 | Increasing | 34 | 36.6 | 55.6 | 7.8 |
| Prices Received for Finished Goods | 6.6 | 7.5 | –0.9 | Increasing | 29 | 16.5 | 73.6 | 9.9 |
| Wages and Benefits | 29.2 | 24.9 | +4.3 | Increasing | 113 | 29.2 | 70.8 | 0.0 |
| Employment | 11.0 | 15.9 | –4.9 | Increasing | 24 | 21.7 | 67.6 | 10.7 |
| Hours Worked | 5.0 | 4.9 | +0.1 | Increasing | 26 | 14.1 | 76.8 | 9.1 |
| Capital Expenditures | 14.2 | 9.2 | +5.0 | Increasing | 28 | 23.9 | 66.4 | 9.7 |

## General Business Conditions
### Current (versus previous month)

| Indicator | Dec Index | Nov Index | Change | Indicator Direction* | Trend** (Months) | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
|---|---|---|---|---|---|---|---|---|
| Company Outlook | –3.4 | 13.7 | –17.1 | Worsening | 1 | 17.9 | 60.8 | 21.3 |
| General Business Activity | –5.1 | 17.6 | –22.7 | Worsening | 1 | 17.0 | 60.9 | 22.1 |

| Indicator | Dec Index | Nov Index | Change | Indicator Direction* | Trend** (Months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|---|---|---|---|---|---|---|---|---|
| Outlook Uncertainty† | 9.2 | 12.3 | –3.1 | Increasing | 7 | 23.9 | 61.5 | 14.7 |

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

| Indicator | Dec Index | Nov Index | Change | Indicator Direction | Trend* (Months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|---|---|---|---|---|---|---|---|---|
| Production | 32.7 | 52.9 | –20.2 | Increasing | 118 | 48.4 | 35.8 | 15.7 |
| Capacity Utilization | 30.5 | 43.4 | –12.9 | Increasing | 118 | 43.6 | 43.2 | 13.1 |
| New Orders | 32.4 | 47.8 | –15.4 | Increasing | 118 | 47.5 | 37.4 | 15.1 |
| Growth Rate of Orders | 23.1 | 32.1 | –9.0 | Increasing | 118 | 37.7 | 47.7 | 14.6 |
| Unfilled Orders | 1.4 | 6.9 | –5.5 | Increasing | 39 | 12.9 | 75.6 | 11.5 |
| Shipments | 32.4 | 46.4 | –14.0 | Increasing | 118 | 45.5 | 41.4 | 13.1 |
| Delivery Time | 8.9 | 1.7 | +7.2 | Increasing | 25 | 17.2 | 74.5 | 8.3 |
| Finished Goods Inventories | 2.0 | 3.8 | –1.8 | Increasing | 14 | 21.6 | 58.8 | 19.6 |
| Prices Paid for Raw Materials | 34.3 | 36.2 | –1.9 | Increasing | 117 | 41.0 | 52.4 | 6.7 |
| Prices Received for Finished Goods | 26.7 | 29.2 | –2.5 | Increasing | 35 | 36.2 | 54.3 | 9.5 |
| Wages and Benefits | 45.0 | 44.8 | +0.2 | Increasing | 175 | 47.0 | 51.0 | 2.0 |
| Employment | 28.2 | 42.0 | –13.8 | Increasing | 73 | 36.9 | 54.4 | 8.7 |
| Hours Worked | 10.8 | 9.3 | +1.5 | Increasing | 31 | 18.5 | 73.8 | 7.7 |
| Capital Expenditures | 24.7 | 34.1 | –9.4 | Increasing | 109 | 37.0 | 50.7 | 12.3 |

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

| Indicator | Dec Index | Nov Index | Change | Indicator Direction* | Trend** (Months) | % Reporting Increase | % Reporting No Change | % Reporting Worsened |
|---|---|---|---|---|---|---|---|---|
| Company Outlook | 8.8 | 31.4 | –22.6 | Improving | 35 | 27.6 | 53.6 | 18.8 |
| General Business Activity | 3.2 | 25.7 | –22.5 | Improving | 31 | 26.7 | 49.7 | 23.5 |

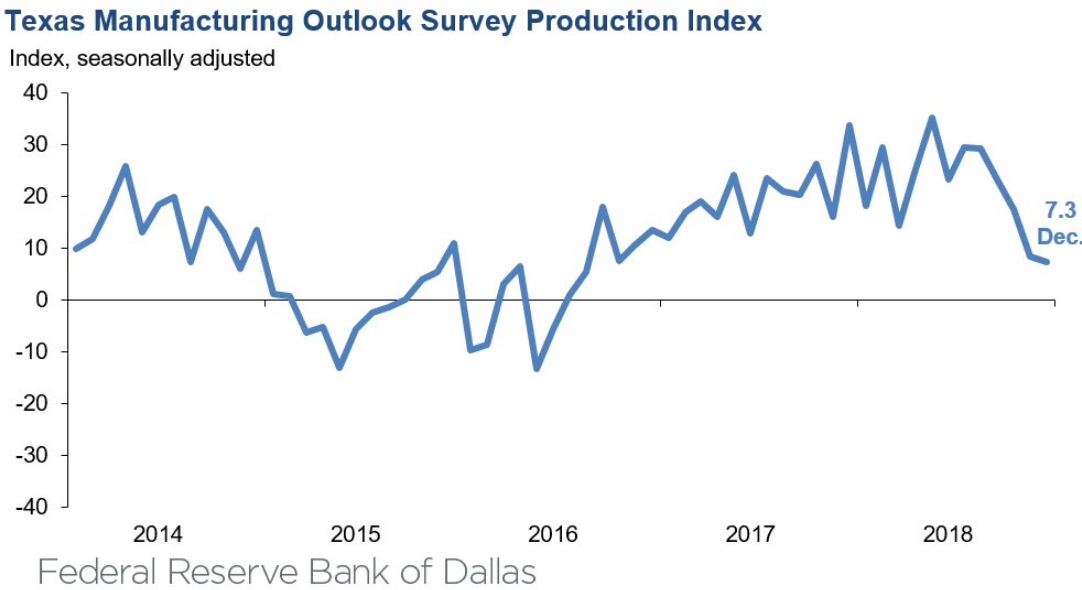
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**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




## Comments from Survey Respondents

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

### Nonmetallic Mineral Product Manufacturing

- One month does not make a trend; if weakness continues through the winter, we will need to lower production rates.

### Primary Metal Manufacturing

- Interest rate increases are the main potential problem to continued good times.
- Volatility in the energy sector has shown a decrease in demand across the board from almost every major sector. Additional speculation on 2019 growth from other sectors including mining, waterworks and infrastructure has resulted in a pause in orders from these sectors.

### Fabricated Metal Product Manufacturing

- Housing is definitely seeing an impact from various variables such as interest rates, tariffs and a tight labor market in construction. Beginning in October of 2018, we had seen a dramatic shift down in sales of windows and doors for the residential market. The decrease seems to be broad based across our customers.
- Foreign competitors continue to have a large price advantage over domestic suppliers of steel utility structures. Turkey and India continue to deliver finished steel structures to the U.S., unaffected by the steel tariffs. U.S. steel mills continued to increase raw steel prices in November/December, causing our costs to rise even higher.
- Declining oil prices are a concern going into the first quarter of 2019.
- It seems there is a slowdown, mainly due to commodity price decreases and capital expenditure reductions for 2019 in the energy sector.

### Machinery Manufacturing

- This is a hard market to read, as one month, activity slows down, and then the next month, it accelerates; however, we now appear to be on a positive trend.
- We live and die by the price of oil. With the oilfield down, we see less orders.

### Computer and Electronic Product Manufacturing

- New orders are robust, but our lead times are two to three times normal levels due to industrywide external supply-chain constraints.
- A slowdown in manufacturing is worrying our company and our customers.

## Electrical Equipment, Appliance and Component Manufacturing

- Construction nationally looks very healthy. Commercial and industrial building and remodeling are strong. Housing is good. Good is better than great because after great, it usually gets horrible.

## Transportation Equipment Manufacturing

- Incoming orders have dropped off 50 percent total over past four months.
- The Federal Reserve got it wrong when it kept interest rates artificially low for years and is getting it wrong now by artificially rapidly raising rates.
- We remain cautiously optimistic about continued business activity, but there are some macro trends we are seeing and reading about that create some concern that there may be a leveling off over the coming months.
- We are a defense contractor. The lack of decisive direction-setting on the part of the federal government continues to create an element of uncertainty in our planning processes.

## Printing and Related Support Activities

- Political uncertainty and volatile markets make for a lousy investment climate. Major capital projects will be put on hold for a while until I see what is happening.
- We have gotten slow for unknown reasons, really. Normally, we would be busy well into early to mid-January, but this year, the slowdown occurred in early December. Because of this, we predict that six months from now, it will have to be busier. If anything, we have slightly less competition, and we haven't run off any customers that we know of. It's hard to know for sure. We are looking into acquiring a piece of equipment to allow us to provide a service we currently have to buy outside. If so, that will give capital expenditures a boost.

## Food Manufacturing

- We continue to be challenged by a lack of skilled and unskilled labor. Rising interest rates and food inflation are concerning us.

## Wood Product Manufacturing

- The housing market is slowing.

## Miscellaneous Manufacturing

- We are experiencing rising expenses throughout the supply chain. We have been able to raise prices to customers but can't find where the market truly is in terms of competitive pricing at this time. We don't know how many customers we may end up losing as a result of price increases. Because of the tariffs, the aluminum and steel pricing is continuing to increase, and mills domestic and abroad are at capacity, so supply disruption is occurring. To add to rising costs, metal scrap-market values have been steadily decreasing, especially in aluminum. We face great uncertainty for the near future. The economic policies of President Trump are causing unnecessarily volatile pricing and unpredictable outcomes.

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

# Texas **Business** Outlook Surveys

## Special Questions

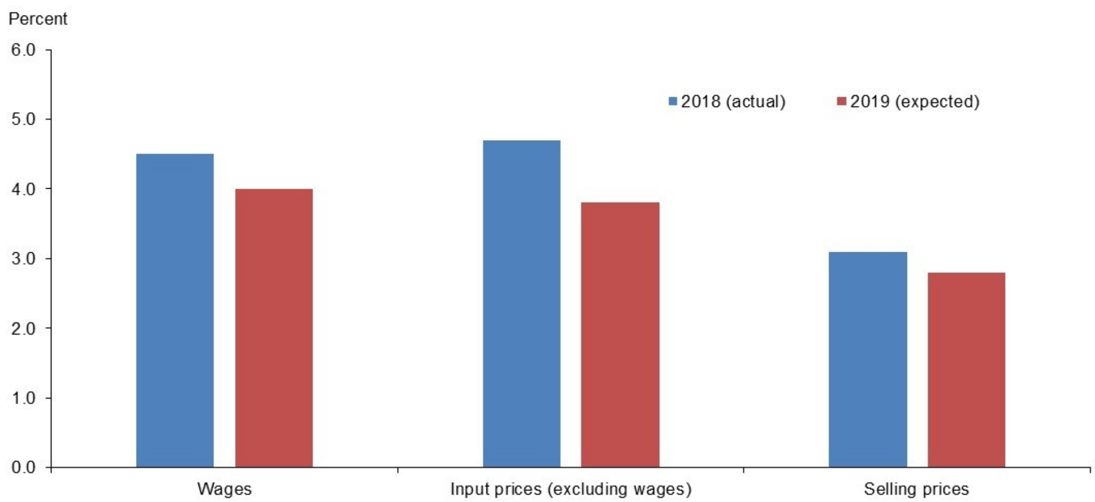
### December 31, 2018

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 Dec. 18–26, and 317 Texas business executives responded to the surveys.
See data files with a full history of results.

### What annual percent change in wages, input prices, and selling prices did your firm experience in 2018 and what do you expect for 2019?



NOTE: Shown are trimmed means with the lowest and highest five percent of responses omitted.
SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys

| | 2018 actual (percent)* | 2019 expected (percent)* |
|---|---|---|
| Wages | 4.5 | 4.0 |
| Input costs (excluding wages) | 4.7 | 3.8 |
| Selling prices | 3.1 | 2.8 |

### If costs (including wages) are increasing, to what extent are you passing the higher costs on to customers in the way of price increases?

| | Dec. '18 (percent) |
|---|---|
| None | 24.4 |
| Some | 49.2 |
| Most | 18.1 |
| All | 8.4 |

### If costs (including wages) are increasing, how has your firm's ability to pass those increases on to customers changed over the past six months?

| | Dec. '18 (percent) |
|---|---|
| Much easier now | 1.4 |
| Somewhat easier now | 18.9 |
| Similar to six months ago | 39.5 |
| Somewhat harder now | 23.7 |
| Significantly harder now | 16.5 |

### How has your firm's operating margin, defined as earnings before interest and taxes (EBIT) as a share of total revenue, changed over the past six months?

| | Dec. '18 (percent) |
|---|---|
| Increased substantially | 7.2 |
| Increased slightly | 23.1 |
| Remained the same | 24.4 |
| Decreased slightly | 34.2 |
| Decreased substantially | 11.1 |

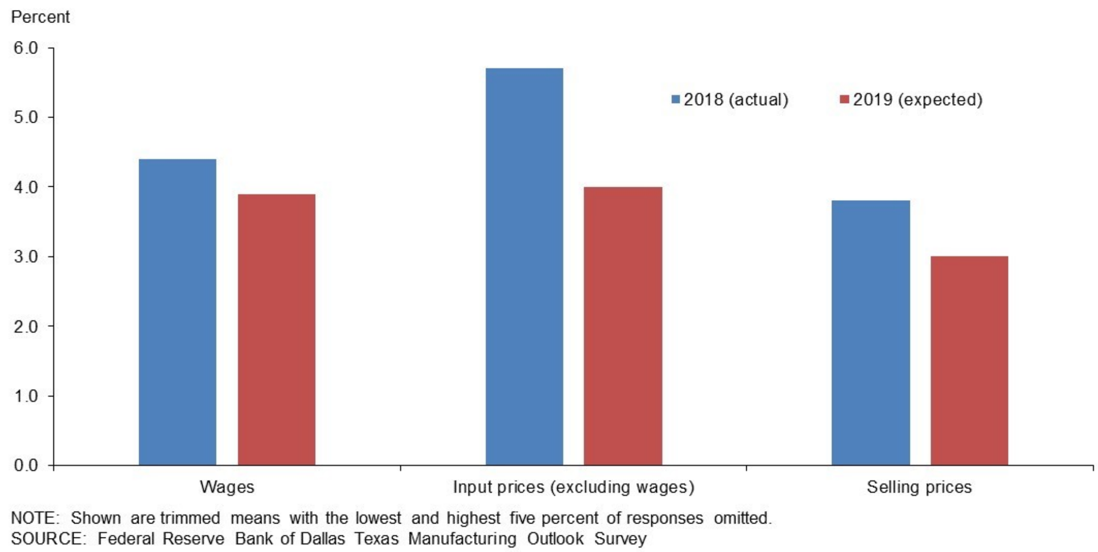
*Shown are trimmed means with the lowest and highest 5 percent of responses omitted. A similar question was posed in May 2018 asking about wages and prices in 2017 (actual) and 2018 (expected).
NOTES: Survey respondents were given the opportunity to provide comments. These comments can be found on the individual survey Special Questions results pages

# Texas Manufacturing Outlook Survey

Data were collected Dec. 18–26, and 100 Texas manufacturers responded to the survey.

See data files with a full history of results.

## What annual percent change in wages, input prices, and selling prices did your firm experience in 2018 and what do you expect for 2019?




| | 2018 actual (percent)* | 2019 expected (percent)* |
|---|---|---|
| Wages | 4.4 | 3.9 |
| Input costs (excluding wages) | 5.7 | 4.0 |
| Selling prices | 3.8 | 3.0 |

## If costs (including wages) are increasing, to what extent are you passing the higher costs on to customers in the way of price increases?

| | Dec. '18 (percent) |
|---|---|
| None | 17.2 |
| Some | 50.5 |
| Most | 23.2 |
| All | 9.1 |

## If costs (including wages) are increasing, how has your firm's ability to pass those increases on to customers changed over the past six months?

| | Dec. '18 (percent) |
|---|---|
| Much easier now | 1.0 |
| Somewhat easier now | 26.5 |
| Similar to six months ago | 35.7 |
| Somewhat harder now | 20.4 |
| Significantly harder now | 16.3 |

### How has your firm’s operating margin, defined as earnings before interest and taxes (EBIT) as a share of total revenue, changed over the past six months?

| | Dec. '18 (percent) |
|---|---|
| Increased substantially | 11.1 |
| Increased slightly | 24.2 |
| Remained the same | 17.2 |
| Decreased slightly | 35.4 |
| Decreased substantially | 12.1 |

*Shown are trimmed means with the lowest and highest 5 percent of responses omitted. A similar question was posed in May 2018 asking about wages and prices in 2017 (actual) and 2018 (expected).

# Special Questions Comments

These comments have been edited for publication.

## Food Manufacturing

- Cost decreases are per ton and are driven by volume and low commodity prices. The current crop is much smaller, and per-ton costs will be rising in the coming months.
- The increase in EBIT [earnings before interest and taxes] is a result of significant growth on the top line.

## Apparel Manufacturing

- We are getting to be more efficient the longer we have military sewing projects.

## Printing and Related Support Activities

- Increases in unit wage and raw material costs are primarily offset with increased productivity in this manufacturing business. Wage increases have not outpaced volume and production rate increases.

## Fabricated Metal Product Manufacturing

- Some utility companies understand and will accept some price increases due to steel price and shipping cost increases. However, some large privately funded and federal jobs are now sourcing their steel structures from foreign sources, causing us to be price uncompetitive.
- There is strong competition for the work that we do. Margins have continued to narrow due to excess capacity and firms willing to bid work at or below costs to maintain production capacity.
- Operating margin has increased, primarily due to capital investments in manufacturing equipment. With these investments, we have improved efficiency while maintaining head count.

## Computer and Electronic Product Manufacturing

- We had contraction in the latter half of 2018 and kept key employees in anticipation of expanding in 2019. We are starting to see significant expansion for 2019.

## Electrical Equipment, Appliance and Component Manufacturing

- Our industry is finally realizing that you have to pass on cost increases in good times, and our improved profitability in the last 18 months is commendable. We did a salary survey of companies and found we were low on starting pay for our hourly workforce. Eighty-five percent of our people are hourly. We are making adjustments in January to be competitive and hopefully cut turnover and attract better candidates. Ten percent is a guess on the total impact to our wage rates.

## Transportation Equipment Manufacturing

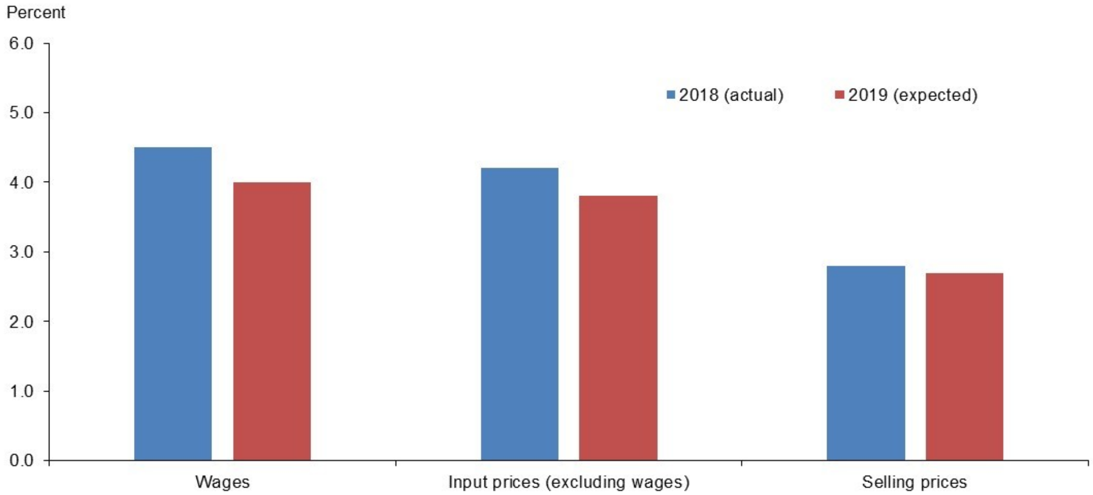
- Competition from India, China and South Korea has resulted in a substantial decrease of business for us. Although raw steel has tariffs on imports, the finished goods resulting from the raw materials do not. This has given our foreign competition a very unfair advantage over U.S. manufacturers.
- Our ability to pass increases in costs (including wages) along to customers is somewhat harder because new contracts and agreements require extended price guarantees for multiple years, with one exception. Increases in raw material costs remain easy to pass along. Operating margins have decreased slightly in the past six months because revenue declined unexpectedly while investment in personnel (additions and advanced training) increased in line with performance in the first half of 2018. However, this margin is a substantial increase from the previous year.

# Texas Service Sector Outlook Survey

Data were collected Dec. 18–26, and 217 Texas business executives responded to the survey.

See data files with a full history of results.

## What annual percent change in wages, input prices, and selling prices did your firm experience in 2018 and what do you expect for 2019?




NOTE: Shown are trimmed means with the lowest and highest five percent of responses omitted.
SOURCE: Federal Reserve Bank of Dallas Texas Service Sector Outlook Survey

| | 2018 actual (percent)* | 2019 expected (percent)* |
|---|---|---|
| Wages | 4.5 | 4.0 |
| Input costs (excluding wages) | 4.2 | 3.8 |
| Selling prices | 2.8 | 2.7 |

## If costs (including wages) are increasing, to what extent are you passing the higher costs on to customers in the way of price increases?

| | Dec. '18 (percent) |
|---|---|
| None | 28.0 |
| Some | 48.5 |
| Most | 15.5 |
| All | 8.0 |

## If costs (including wages) are increasing, how has your firm's ability to pass those increases on to customers changed over the past six months?

| | Dec. '18 (percent) |
|---|---|
| Much easier now | 1.6 |
| Somewhat easier now | 15.0 |
| Similar to six months ago | 41.5 |
| Somewhat harder now | 25.4 |
| Significantly harder now | 16.6 |

## How has your firm's operating margin, defined as earnings before interest and taxes (EBIT) as a share of total revenue, changed over the past six months?

| | Dec. '18 (percent) |
|---|---|
| Increased substantially | 5.3 |
| Increased slightly | 22.6 |
| Remained the same | 27.9 |
| Decreased slightly | 33.7 |
| Decreased substantially | 10.6 |

*Shown are trimmed means with the lowest and highest 5 percent of responses omitted. A similar question was posed in May 2018 asking about wages and prices in 2017 (actual) and 2018 (expected).

## Special Questions Comments

These comments have been edited for publication.

### Credit Intermediation and Related Activities

- The majority of the increase in earnings is attributable to the lower corporate tax rate.
- It is all about pricing and that is influenced by competition, resulting in very thin prices over cost. Liquidity is a precious commodity in a heated lending environment, resulting in higher rates paid for deposits and expanding efforts by the too-big-to-fail banks into smaller communities for attracting local deposits.

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

- It remains hard to pass price increases on to customers. Most customers are pushing hard for price decreases with their supply chain targets.
- The competitive landscape in wealth management is very difficult. Input costs of regulation and compliance continue to increase. Our ability to maintain our advising fee to clients is weak. Pricing in our industry is continually under pressure.

### Insurance Carriers and Related Activities

- We are managing growth in routine operating expenses, but health care expenses are killing us. We have an aging workforce and we are self-insured—looking like a bad idea as health care costs and utilization of services increase.

### Rental and Leasing Services

- We are a very capital-intensive business, so with 100 percent bonus depreciation, I can determine my year-end profit by what I add or do not add to my $222 million equipment rental fleet.

### Professional, Scientific and Technical Services

- 2018 was a greatly improved year for selling services, passing along costs and improving margin.
- The uncertainty and the political unrest are hurting business.

### Administrative and Support Services

- We were awarded new contracts.

### Ambulatory Health Care Services

- As a health care provider in a deflationary market sector, we have no control over reimbursement and only know that it continues to go down a bit every year.
- The health care industry continues to be an increasing wage and operating cost model with a punitive reimbursement model that is eroding margins and leading to significant consolidation in the health care industry.

### Nursing and Residential Care Facilities

- Health care is a regulated market with limited price elasticity, yet we continue to face wage pressure and cost pressure on top of new market entries who extract the few commercial and/or self-pay patients from an already stressed community hospital. Expect to see more hospital closures in 2019.

### Amusement, Gambling and Recreation Industries

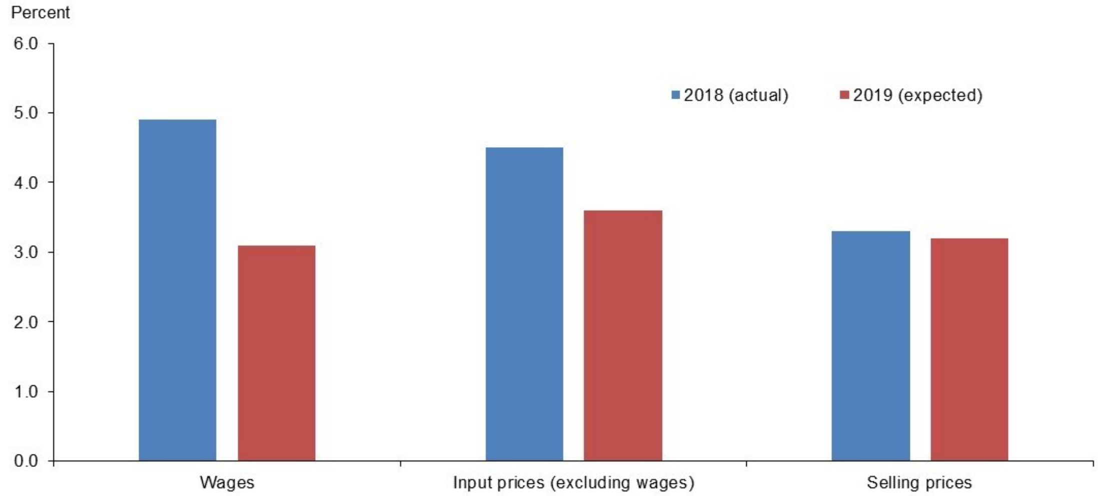
- The projections for 2019 are very difficult. We are not only having to raise wages but also increase benefits to attract and keep good employees. All other companies are having to do the same thing, so our cost of goods is going up all the time too.

# Texas Retail Outlook Survey

Data were collected Dec. 18–26, and 41 Texas retailers responded to the survey.

See data files with a full history of results.

## What annual percent change in wages, input prices, and selling prices did your firm experience in 2018 and what do you expect for 2019?




NOTE: Shown are trimmed means with the lowest and highest five percent of responses omitted.
SOURCE: Federal Reserve Bank of Dallas Texas Retail Outlook Survey

| | 2018 actual (percent)* | 2019 expected (percent)* |
|---|---|---|
| Wages | 4.9 | 3.1 |
| Input costs (excluding wages) | 4.5 | 3.6 |
| Selling prices | 3.3 | 3.2 |

## If costs (including wages) are increasing, to what extent are you passing the higher costs on to customers in the way of price increases?

| | Dec. '18 (percent) |
|---|---|
| None | 18.4 |
| Some | 52.6 |
| Most | 15.8 |
| All | 13.2 |

## If costs (including wages) are increasing, how has your firm's ability to pass those increases on to customers changed over the past six months?

| | Dec. '18 (percent) |
|---|---|
| Much easier now | 5.3 |
| Somewhat easier now | 7.9 |
| Similar to six months ago | 28.9 |
| Somewhat harder now | 36.8 |
| Significantly harder now | 21.1 |

### How has your firm's operating margin, defined as earnings before interest and taxes (EBIT) as a share of total revenue, changed over the past six months?

| | Dec. '18 (percent) |
|---|---|
| Increased substantially | 2.6 |
| Increased slightly | 10.3 |
| Remained the same | 23.1 |
| Decreased slightly | 41.0 |
| Decreased substantially | 23.1 |

*Shown are trimmed means with the lowest and highest 5 percent of responses omitted. A similar question was posed in May 2018 asking about wages and prices in 2017 (actual) and 2018 (expected).

## Special Questions Comments

These comments have been edited for publication.

### Merchant Wholesalers, Nondurable Goods

- Property taxes exceed any inflation. Manufacturers are all increasing prices due to wage pressures and potential tariffs. Customers remain very price sensitive. Increased interest rates will bring on the recession. The Federal Reserve has completely misread the data it is using.

### Motor Vehicle and Parts Dealers

- There is continued pressure on fixed overhead—like insurance, property taxes, maintenance—as it relates to our brick-and-mortar locations.
- Internet pricing is causing severe downward pressure on new and used vehicle prices.
- Internet pricing is affecting all retail sales outlets. The automobile industry is especially changed because of the many makes and models and the many factory incentives that are hard for customers to compare and comprehend. Many buyers are being misled by internet ads and internet pricing. Factory incentives are based on total sales, so that large dealers have more discounts than small dealers because of volume of sales. Operating margins will continue to drop until this trend has stopped.

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