



Texas **Service Sector** Outlook Survey

February 27, 2018

Texas Service Sector Activity Continues to Increase

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.

Texas service sector activity continued to reflect expansion in February, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, came in at a reading of 13.2, similar to January.

Labor market indicators reflected faster employment growth and slightly longer workweeks this month. The employment index rose from 6.8 to 12.3. The hours worked index was unchanged at 3.8.

Perceptions of broader economic conditions reflected less optimism in February. The general business activity index fell five points to 17.5. The company outlook index moved down eight points to 12.9, with 24 percent of respondents noting their outlook improved from last month and 11 percent noting it worsened.

Price and wage pressures increased this month. The selling prices index moved up from 12.4 to 16.6. The wages and benefits index rose seven points to 22.2, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in February. The index of future general business activity fell from 36.0 to 30.5. The index of future company outlook moved down from 34.5 to 25.7. Indexes of future service sector activity, such as future revenue and employment, continued to reflect optimism this month.



Texas **Retail** Outlook Survey

Retail Sales Continue to Decline

Retail sales continued to fall in February for the second consecutive month, according to business executives responding to the Texas Retail Outlook Survey. The sales index fell from -3.2 in January to -9.4 in February. Inventories increased at a slower pace than last month.

Labor market measures indicated faster retail employment growth and longer workweeks this month. The employment index jumped from 1.6 to 12.1. The hours worked index rose four points to 5.5.

Retailers' perceptions of broader economic conditions reflected less optimism in February. The general business activity index plunged 13 points to 4.4, its lowest level in seven months. The company outlook index dropped 10 points to 2.4, with 20 percent of respondents reporting that their outlook improved from last month and 17 percent noting it worsened.

Retail price and wage pressures increased this month. The selling prices index surged 12 points to 31.8. The wages and benefits index moved up three points to 19.9, although the majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions reflected less optimism in February. The index of future general business activity dropped 20 points to 7.1, while the index of future company outlook plunged from 24.5 to 3.7. Indexes of future retail sector activity also reflected less optimism 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.

Next release: March 27, 2018

Data were collected Feb. 13–21, and 279 Texas business executives responded to the survey. The Dallas Fed conducts the Texas Service Sector Outlook Survey monthly to obtain a timely assessment of the state's service sector activity. 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.

Texas Service Sector Outlook Survey

Business Indicators Relating to Facilities and Products in Texas

Current (versus previous month)

| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (Months) | % | % | % |
|----------------------|-----------|-----------|--------|----------------------|---------------------|--------------------|---------------------|--------------------|
| | | | | | | Reporting Increase | Reporting No Change | Reporting Decrease |
| Revenue | 13.2 | 12.8 | +0.4 | Increasing | 99 | 30.5 | 52.2 | 17.3 |
| Employment | 12.3 | 6.8 | +5.5 | Increasing | 96 | 16.8 | 78.7 | 4.5 |
| Part-Time Employment | 2.7 | 0.1 | +2.6 | Increasing | 20 | 7.8 | 87.1 | 5.1 |
| Hours Worked | 3.8 | 3.9 | -0.1 | Increasing | 16 | 9.7 | 84.4 | 5.9 |
| Wages and Benefits | 22.2 | 15.0 | +7.2 | Increasing | 101 | 24.2 | 73.8 | 2.0 |
| Input Prices | 35.5 | 33.7 | +1.8 | Increasing | 106 | 36.1 | 63.4 | 0.6 |
| Selling Prices | 16.6 | 12.4 | +4.2 | Increasing | 24 | 20.0 | 76.6 | 3.4 |
| Capital Expenditures | 16.7 | 8.8 | +7.9 | Increasing | 102 | 20.1 | 76.5 | 3.4 |

General Business Conditions

Current (versus previous month)

| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (Months) | % | % | % |
|---------------------------|-----------|-----------|--------|----------------------|---------------------|--------------------|---------------------|--------------------|
| | | | | | | Reporting Improved | Reporting No Change | Reporting Worsened |
| Company Outlook | 12.9 | 20.9 | -8.0 | Improving | 20 | 23.8 | 65.3 | 10.9 |
| General Business Activity | 17.5 | 22.2 | -4.7 | Improving | 18 | 27.4 | 62.6 | 9.9 |

| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (Months) | % | % | % |
|----------------------|-----------|-----------|--------|----------------------|---------------------|--------------------|---------------------|--------------------|
| | | | | | | Reporting Increase | Reporting No Change | Reporting Decrease |
| Outlook Uncertainty† | 9.9 | -1.4 | +11.3 | Increasing | 1 | 21.7 | 66.5 | 11.8 |

Business Indicators Relating to Facilities and Products in Texas

Future (six months ahead)

| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (Months) | % | % | % |
|----------------------|-----------|-----------|--------|----------------------|---------------------|--------------------|---------------------|--------------------|
| | | | | | | Reporting Increase | Reporting No Change | Reporting Decrease |
| Revenue | 50.3 | 53.8 | -3.5 | Increasing | 108 | 58.6 | 33.1 | 8.3 |
| Employment | 31.8 | 30.3 | +1.5 | Increasing | 107 | 39.6 | 52.5 | 7.8 |
| Part-Time Employment | 10.1 | 14.0 | -3.9 | Increasing | 68 | 16.6 | 76.9 | 6.5 |
| Hours Worked | 13.2 | 11.8 | +1.4 | Increasing | 18 | 16.4 | 80.4 | 3.2 |
| Wages and Benefits | 45.6 | 47.2 | -1.6 | Increasing | 134 | 49.6 | 46.5 | 4.0 |
| Input Prices | 47.5 | 51.3 | -3.8 | Increasing | 134 | 50.0 | 47.5 | 2.5 |
| Selling Prices | 32.7 | 38.2 | -5.5 | Increasing | 106 | 37.8 | 57.2 | 5.1 |
| Capital Expenditures | 35.2 | 35.6 | -0.4 | Increasing | 107 | 40.3 | 54.6 | 5.1 |

General Business Conditions
Future (six months ahead)

| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (Months) | % | % | % |
|----------------------------------|-----------|-----------|--------|----------------------|---------------------|--------------------|---------------------|--------------------|
| | | | | | | Reporting Improved | Reporting No Change | Reporting Worsened |
| Company Outlook | 25.7 | 34.5 | -8.8 | Improving | 24 | 35.5 | 54.7 | 9.8 |
| General Business Activity | 30.5 | 36.0 | -5.5 | Improving | 24 | 36.7 | 57.0 | 6.2 |

Texas Retail Outlook Survey

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

| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (Months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|------------------------------------|-----------|-----------|--------|----------------------|---------------------|----------------------------|-----------------------------|----------------------------|
| Retail Activity in Texas | | | | | | | | |
| Sales | -9.4 | -3.2 | -6.2 | Decreasing | 2 | 25.1 | 40.4 | 34.5 |
| Employment | 12.1 | 1.6 | +10.5 | Increasing | 6 | 14.9 | 82.3 | 2.8 |
| Part-Time Employment | 2.0 | -7.1 | +9.1 | Increasing | 1 | 10.2 | 81.6 | 8.2 |
| Hours Worked | 5.5 | 1.6 | +3.9 | Increasing | 8 | 12.6 | 80.3 | 7.1 |
| Wages and Benefits | 19.9 | 16.8 | +3.1 | Increasing | 84 | 25.5 | 68.9 | 5.6 |
| Input Prices | 37.3 | 35.8 | +1.5 | Increasing | 25 | 41.3 | 54.7 | 4.0 |
| Selling Prices | 31.8 | 20.2 | +11.6 | Increasing | 10 | 36.5 | 58.8 | 4.7 |
| Capital Expenditures | 11.7 | 5.2 | +6.5 | Increasing | 19 | 17.6 | 76.5 | 5.9 |
| Inventories | 1.3 | 7.4 | -6.1 | Increasing | 17 | 19.0 | 63.3 | 17.7 |
| Companywide Retail Activity | | | | | | | | |
| Companywide Sales | -10.4 | 1.6 | -12.0 | Decreasing | 1 | 20.4 | 48.9 | 30.8 |
| Companywide Internet Sales | 8.2 | 11.5 | -3.3 | Increasing | 13 | 19.7 | 68.8 | 11.5 |

General Business Conditions, Retail Current (versus previous month)

| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (Months) | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
|---------------------------|-----------|-----------|--------|----------------------|---------------------|----------------------------|-----------------------------|----------------------------|
| Company Outlook | 2.4 | 12.7 | -10.3 | Improving | 7 | 19.8 | 62.8 | 17.4 |
| General Business Activity | 4.4 | 17.8 | -13.4 | Improving | 9 | 20.3 | 63.8 | 15.9 |

Outlook Uncertainty Current (versus previous month)

| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (Months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|----------------------|-----------|-----------|--------|----------------------|---------------------|----------------------------|-----------------------------|----------------------------|
| Outlook Uncertainty† | 12.7 | -9.4 | +22.1 | Increasing | 1 | 25.5 | 61.7 | 12.8 |

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

| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (Months) | % Reporting Increase | % Reporting No Change | % Reporting Decrease |
|------------------------------------|-----------|-----------|--------|----------------------|---------------------|----------------------------|-----------------------------|----------------------------|
| Retail Activity in Texas | | | | | | | | |
| Sales | 28.8 | 34.8 | -6.0 | Increasing | 108 | 40.9 | 47.0 | 12.1 |
| Employment | 8.9 | 16.3 | -7.4 | Increasing | 9 | 20.5 | 67.9 | 11.6 |
| Part-Time Employment | -2.0 | 12.0 | -14.0 | Decreasing | 1 | 10.4 | 77.2 | 12.4 |
| Hours Worked | 5.6 | 5.7 | -0.1 | Increasing | 7 | 14.0 | 77.6 | 8.4 |
| Wages and Benefits | 25.2 | 37.1 | -11.9 | Increasing | 110 | 33.3 | 58.6 | 8.1 |
| Input Prices | 38.0 | 46.3 | -8.3 | Increasing | 106 | 46.0 | 46.0 | 8.0 |
| Selling Prices | 28.0 | 42.5 | -14.5 | Increasing | 106 | 40.0 | 48.0 | 12.0 |
| Capital Expenditures | 26.0 | 28.3 | -2.3 | Increasing | 17 | 34.0 | 58.0 | 8.0 |
| Inventories | 10.9 | 7.2 | +3.7 | Increasing | 16 | 26.6 | 57.7 | 15.7 |
| Companywide Retail Activity | | | | | | | | |
| Companywide Sales | 26.0 | 39.6 | -13.6 | Increasing | 107 | 38.0 | 50.0 | 12.0 |
| Companywide Internet Sales | 15.2 | 25.0 | -9.8 | Increasing | 19 | 27.3 | 60.6 | 12.1 |

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

| Indicator | Feb Index | Jan Index | Change | Indicator Direction* | Trend** (Months) | % Reporting Improved | % Reporting No Change | % Reporting Worsened |
|---------------------------|-----------|-----------|--------|----------------------|---------------------|----------------------------|-----------------------------|----------------------------|
| Company Outlook | 3.7 | 24.5 | -20.8 | Improving | 15 | 18.6 | 66.5 | 14.9 |
| General Business Activity | 7.1 | 26.6 | -19.5 | Improving | 18 | 19.1 | 68.9 | 12.0 |

*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.

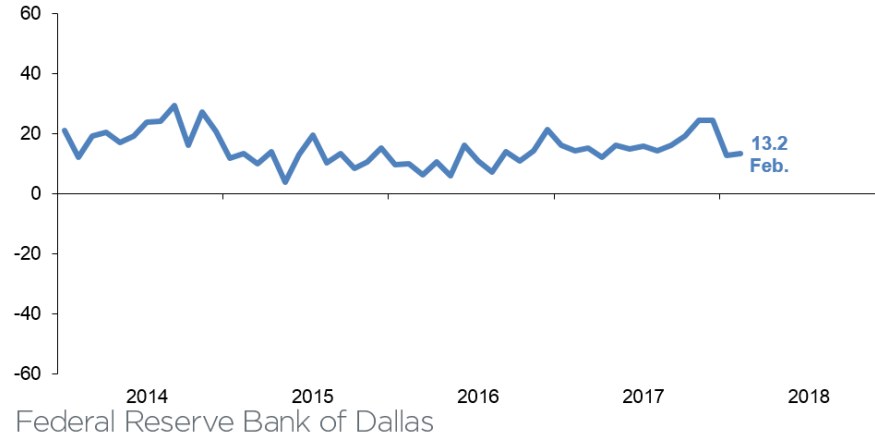
†Added to survey in January 2018.

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.

Texas Service Sector Outlook Survey

Texas Service Sector Outlook Survey Revenue Index

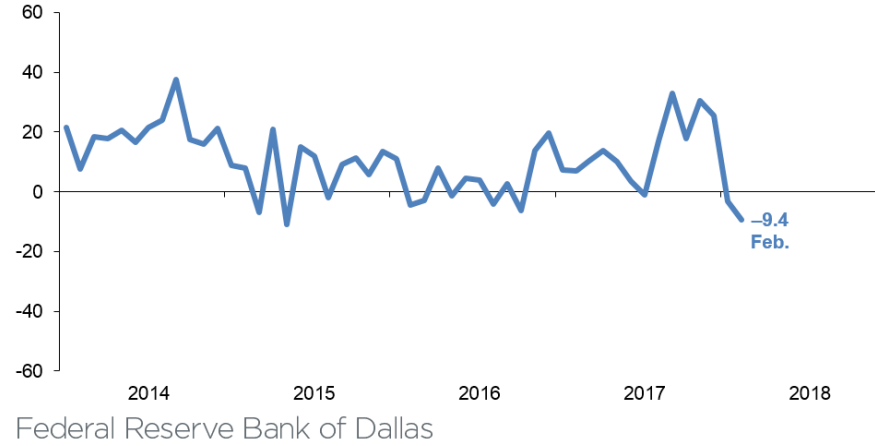
Index, seasonally adjusted



Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



Texas Service Sector Outlook Survey

February 27, 2018

Comments from Survey Respondents

Publishing Industries (Except Internet)

- Business is still positive with increased activity/inquiries.

Data Processing, Hosting and Related Services

- Our clients and prospects are much more open to purchasing decisions and adding new technology than they were a year ago and perhaps more than six months ago. Clients are paying on time more frequently than a year ago. Regulations still make the sales cycle extraordinarily long and don't seem to add value to the process.

Credit Intermediation and Related Activities

- One of the specialty fracture sand-coating plants is closing down and moving to mobile units that produce coating sand for fracking on well sites. This will displace 30 to 35 people that will be looking for a job or moving out to seek work elsewhere. The initial plan in phase one to erect 60 wind generation towers is in full swing and creating a boost to the local economy with the influx of contract workers and the payment of leases to local landowners.
- Activity has been impacted by the flu outbreak.

Insurance Carriers and Related Activities

- There is a pretty quiet, stable, status quo kind of vibe in northeast Texas right now.

Real Estate

- Volatility in the financial markets and rising interest rates will have a chilling effect on both commercial real estate acquisitions and new development. Additionally, some marginal impact on the new-home market will be felt as a result of higher interest rates and some borrowers/homebuyers unwilling to proceed with purchase or unable to qualify at the margin.
- We still feel the fundamentals for our market are solid, but the lack of clarity on NAFTA (North American Free Trade Agreement) and immigration are still major issues.
- Sun and spring weather are always good for real estate sales.

Rental and Leasing Services

- While we are stuck in a 5 percent growth-per-year trend the last five years, we think 2018 will be a good year. Maybe that is mostly due to the belief the oilfield will continue to heat up in 2018, which directly impacts our material and construction machinery dealership. Still, there is way too much supply in our industry for the demand and, therefore, absolutely no pricing power. We are expanding our equipment rental fleet due to demand in the oilfield; we know that can come back to bite you at the drop of the hat, but we are doing such with 0 percent interest loans and cash. I remain concerned and optimistic short term.

Professional, Scientific and Technical Services

- We are clearly watching economic indicators closely right now. We have some concern about inflation and rising rates, and the impact upward moves in those indicators will have on the broader market, particularly increases in bond yields. There is a lot at play here from views on large deficits and borrowing to some traders dumping to push yields, which could get expensive. We have had a few very unsettling weeks, but seeing markets recover some has been positive. Stabilization and hopefully favorable business activity in coming weeks will be welcome. We do continue to watch the weakening dollar and falling oil prices. We would like to see those strengthen some, otherwise, it could impact a group of our clients and cause some retraction in transactional activity.
- General business activity in the real estate industry is definitely slowing down. The residential market is still strong, but with these rising interest rates, we will have to wait and see how much of an effect it will have on sales. Commercially, we feel like everyone is in a holding pattern to see how the economy is going to react to the 10-year rate approaching 3 percent. We don't anticipate a crash, just a slowdown.

- We released a new major product in February, so we are expecting a revenue increase in 2018. Both U.S. and overseas orders are good.
- The oil and gas industry is driving our business up, with several new pipelines creating a demand for our product, which is people.
- Our changes are due to the loss of one customer contract.
- The recent lack of confidence in the market has not helped the business climate. Investors remain skittish.
- Notwithstanding the recent stock market disruption, business market fundamentals are still strong, and recent tax changes and the proposed budget on infrastructure spending should provide significant market activity throughout the year.
- Change or threat thereof in interest rates appears to be stimulating project activity to beat future interest hikes.

Management of Companies and Enterprises

- There is too much government regulation.
- We are beginning to see some slowdown in our rural markets. Our suburban markets, especially in Central Texas, continue to experience strong demand on loans.

Administrative and Support Services

- Growth in the economy has not resulted in increased demand for independent IT contract staff yet. Employers are still lagging on hiring full-time employees and slow on decisions with jobs where they have interviewed candidates. The cost pressure has been increasing since mid-2017 with no corresponding possibility for price increases to our customers yet.
- As government contractors, we are very busy during the first quarter of our financial calendar year. We are working on several proposals that will provide an increase in revenue and employment.
- We need the H2B returning worker exemption.
- We experienced a lot of weather issues.
- The February weather and full-time personnel changes have caused a decline in February. We have some very good full-time hires in progress; the training time will delay our 2018 goals, which I feel that we will still make.
- Purchase of travel is a "feel-good purchase," which the mood swings presented by the media, stock market and current events tend to add to the peaks and valleys of requests. This is reflected in revenue spikes and staffing needs.
- I am in the staffing and recruiting business, so when unemployment hovers around 4 to 5 percent and the general feeling from the public around continued economic health is good, then we see a positive employment outlook, which translates to increased revenue and, hopefully, profits.
- Overall activity on requests for quotes for all sectors has increased.

Educational Services

- The tax cuts kick in this month and should on balance increase employees' take-home pay.
- Business activity continues to be strong. There are significant pressures on recruitment and hiring of qualified staff. There are major issues on construction timelines due to building activity in Texas, particularly in the Houston area.

Ambulatory Health Care Services

- We are extremely busy much earlier in the year. I believe this reflects lower prices for our outpatient procedures as patients have very high deductibles to deal with. They are searching for ways to save money outside of the hospital. Our hospital outpatient radiology schedule remains slow.
- Higher volumes planned for January and February will shift slightly to later in the year; however, the overall outlook is positive for the year compared to the forecast. Labor force pressures continue to drive wages higher to both keep and recruit new talent.

Hospitals

- Increased regulation and decreasing funding continue to strain rural independent health systems. Continued closures of hospitals or consolidation of smaller facilities is not ideal for the health care of rural America.

Nursing and Residential Care Facilities

- We are experiencing a severe shortage of nurses and direct-care employees in West Texas. We closed one division of a nursing facility due in part to staffing challenges. By doing so, we reduced the number of employees needed, mainly from the number of part-time and occasional staff needed to cover open positions. This year we are also starting a repositioning plan to consolidate and update our campus physical structures. That will result in increased capital costs.

Accommodation

- January was our worst January since 2011.

Food Services and Drinking Places

- We will open a new restaurant in McAllen, Texas, in the next six months. Overall, business remains strong.
- Qualified talent continues to be a problem with huge pressures on increased wages across the board.
- We were still up in revenue compared to last year on a same-store basis in February versus January, but our percentage of increase dropped drastically to where we were up by less than the price increases we have taken over the last year. We don't know if February is going to be the exception or if the trend will prove to have changed. That is why we are indicating that the uncertainty has increased.

Pipeline Transportation

- Increased confidence that the regulatory system is level-set regarding permitting and construction of new infrastructure projects is facilitating advancement of projects previously considered too risky.

Support Activities for Transportation

- We are engaged in international trade with Mexico, so current administration policies negatively impact our business.

Motor Vehicle and Parts Dealers

- Big stock market swings are a big disrupter to our business.
- Currently, any uncertainty has not affected our business.
- Weather has reduced our sales in January and February.
- There is increased pressure on wages in general. Our luxury brands in our auto business have softened more than the mass-market brands.
- We experienced a significant decline in sales and profits from the prior month and prior year. This is a disturbing start to the new year.

Furniture and Home Furnishings Stores

- There has been a downward turn in business due mainly to weather issues.

Building Material and Garden Equipment and Supplies Dealers

- Business is good at this time, but still uncertainty seems to be on lots of peoples' minds. Turmoil in Washington, the stock market, along with global unrest might be some of the underlying problems. Interest rates and inflation don't seem to be a big issue in our business at this time.
- The negative impacts of the 2017 tax law are being felt sooner than expected. These include inflation, driven partly by increased after-tax labor cost, and rising interest rates driven by swelling federal deficits.

Gasoline Stations

- Sales declines are cyclical and weather related. The stock market volatility and probable further declines give some pause but don't actually impact my business other than at a macroeconomy level—health of spenders as a whole.

Clothing and Clothing Accessories Stores

- Sales in Texas stores continue to benefit from stabilized or higher energy prices and some additional discretionary income among guests.
-

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.



Texas **Service Sector** 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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 (percent) | Nov. '17 (percent) | Feb. '17 (percent) | Feb. '16 (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 Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.