Texas **Service Sector** Outlook Survey

May 30, 2018

Texas Service Sector Activity Expands at an Accelerated Pace

What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on the labor market, wages and prices. 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 accelerated sharply in May, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, increased from 14.7 in April to 22.8 in May, reaching its highest reading so far this year.

Labor market indicators reflected continued employment growth and longer workweeks this month. The employment index held mostly steady at 16.6, its highest reading since mid-2014. The hours worked index edged up to a six-year high of 10.4 from 8.0 in April.

Perceptions of broader economic conditions reflected further optimism in May. The general business activity index advanced four points to 18.5, while the company outlook index rose slightly to 15.4 from 12.7 in April.

Price and wage pressures remained strong in May, though they eased slightly compared with April. The selling prices index fell from 19.2 to 15.4, though it remains above its 2017 average. The wages and benefits index came in at 22.6, similar to April's reading.

Respondents' expectations regarding future business conditions reflected slightly more optimism in May. The indexes of future general business activity and future company outlook edged up slightly to 25.7 and 26.8, respectively, with both measures remaining significantly above their average readings. Wage expectations also increased, as the future wage and benefits index rose to an 11-year high. Indexes of future service sector activity, such as revenue and employment, also reflected growing optimism this month.

Texas **Retail** Outlook Survey

Retail Sales Rebound as Index Rises to Multiyear High

Retail sales surged in May, according to business executives responding to the Texas Retail Outlook Survey. The sales index climbed to 35.1 in May, up from its April value of -3.1, and reached its highest reading since before the beginning of the oil bust in 2015. Inventories declined, with the index plummeting over 20 points to -8.6.

Labor market measures indicated continued retail employment growth and lengthening of workweeks this month. The employment index dipped to 8.4, a reading well above its average level. The hours worked index picked up to 4.6.

Retailers' perceptions of broader economic conditions improved significantly in May. The general business activity index rebounded from -1.6 to 14.9. The company outlook index rose sharply from 1.5 to 13.2.

Retail price pressures remained elevated, while wage pressures accelerated this month. The selling prices index remained largely unchanged at 24.6, well above average. The wages and benefits index increased to 24.1, its highest level since January 2017.

Retailers' perceptions of future broader economic conditions reflected increased optimism in May. The index of future general business activity advanced nearly seven points to 20.7, while the index of future company outlook surged from 7.6 to 23.7. Indexes of future retail sector activity picked up, with the future sales index increasing to its highest level this year.

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: June 26, 2018

Data were collected May 15–23, and 224 Texas service sector and 46 retail sector 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	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	22.8	14.7	+8.1	Increasing	101	37.5	47.8	14.7
Employment	16.6	15.9	+0.7	Increasing	99	25.0	66.6	8.4
Part–Time Employment	5.6	3.7	+1.9	Increasing	4	10.8	84.0	5.2
Hours Worked	10.4	8.0	+2.4	Increasing	19	13.2	83.9	2.8
Wages and Benefits	22.6	23.5	–0.9	Increasing	108	25.7	71.2	3.1
Input Prices	32.0	27.9	+4.1	Increasing	109	33.4	65.2	1.4
Selling Prices	15.4	19.2	–3.8	Increasing	27	19.8	75.8	4.4
Capital Expenditures	18.4	17.7	+0.7	Increasing	105	20.7	77.1	2.3

General Business Conditions
Current (versus previous month)

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.4	12.7	+2.7	Improving	23	24.0	67.3	8.6
General Business Activity	18.5	14.5	+4.0	Improving	21	26.0	66.5	7.5

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	5.3	11.3	–6.0	Increasing	4	19.4	66.5	14.1

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

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	50.9	48.6	+2.3	Increasing	111	58.3	34.3	7.4
Employment	30.9	29.1	+1.8	Increasing	110	38.1	54.7	7.2
Part–Time Employment	13.2	14.8	–1.6	Increasing	71	17.5	78.1	4.3
Hours Worked	14.4	13.3	+1.1	Increasing	21	16.7	81.0	2.3
Wages and Benefits	50.6	49.4	+1.2	Increasing	137	53.0	44.6	2.4
Input Prices	47.3	45.9	+1.4	Increasing	137	50.0	47.3	2.7
Selling Prices	36.7	34.5	+2.2	Increasing	109	42.3	52.2	5.6
Capital Expenditures	26.9	26.8	+0.1	Increasing	110	30.4	66.0	3.5

General Business Conditions
Future (six months ahead)

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	26.8	25.0	+1.8	Improving	27	35.6	55.6	8.8
General Business Activity	25.7	24.7	+1.0	Improving	27	32.8	60.1	7.1

Texas Retail Outlook Survey

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

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	35.1	–3.1	+38.2	Increasing	1	50.1	34.9	15.0
Employment	8.4	9.6	–1.2	Increasing	9	16.1	76.2	7.7
Part-Time Employment	6.7	0.0	+6.7	Increasing	1	8.9	88.9	2.2
Hours Worked	4.6	0.7	+3.9	Increasing	11	10.8	83.0	6.2
Wages and Benefits	24.1	10.3	+13.8	Increasing	87	27.5	69.1	3.4
Input Prices	32.3	32.3	0.0	Increasing	28	33.6	65.1	1.3
Selling Prices	24.6	25.0	–0.4	Increasing	14	34.2	56.2	9.6
Capital Expenditures	13.0	16.0	–3.0	Increasing	22	15.2	82.6	2.2
Inventories	–8.6	11.5	–20.1	Decreasing	1	11.0	69.4	19.6
Companywide Retail Activity								
Companywide Sales	28.0	–3.7	+31.7	Increasing	1	37.5	53.0	9.5
Companywide Internet Sales	15.9	–0.7	+16.6	Increasing	1	18.0	79.9	2.1

General Business Conditions, Retail
Current (versus previous month)

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	13.2	1.5	+11.7	Improving	14	26.7	59.8	13.5
General Business Activity	14.9	–1.6	+16.5	Improving	1	22.7	69.5	7.8

Outlook Uncertainty
Current (versus previous month)

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	–4.8	6.0	–10.8	Decreasing	1	19.0	57.1	23.8

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

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	42.8	38.1	+4.7	Increasing	111	55.5	31.8	12.7
Employment	16.3	20.4	–4.1	Increasing	12	24.5	67.3	8.2
Part–Time Employment	2.3	4.8	–2.5	Increasing	3	9.9	82.5	7.6
Hours Worked	6.2	10.9	–4.7	Increasing	10	11.4	83.4	5.2
Wages and Benefits	41.5	42.4	–0.9	Increasing	113	45.6	50.3	4.1
Input Prices	35.5	39.2	–3.7	Increasing	109	44.4	46.7	8.9
Selling Prices	37.2	31.4	+5.8	Increasing	109	44.2	48.8	7.0
Capital Expenditures	15.6	21.6	–6.0	Increasing	20	20.0	75.6	4.4
Inventories	0.2	10.5	–10.3	Increasing	19	24.4	51.4	24.2
Companywide Retail Activity								
Companywide Sales	37.0	26.9	+10.1	Increasing	110	48.7	39.6	11.7
Companywide Internet Sales	17.2	18.9	–1.7	Increasing	22	24.1	69.0	6.9

General Business Conditions, Retail
Future (six months ahead)

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	23.7	7.6	+16.1	Improving	18	33.4	56.9	9.7
General Business Activity	20.7	13.8	+6.9	Improving	21	29.6	61.5	8.9

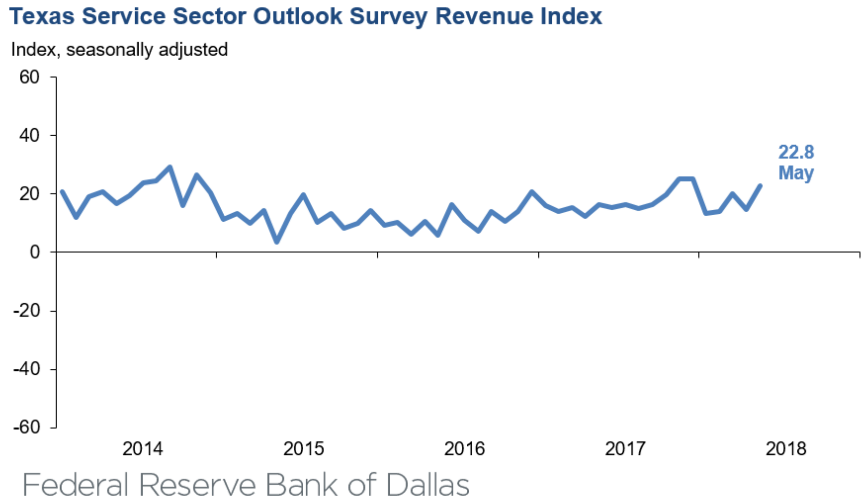
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

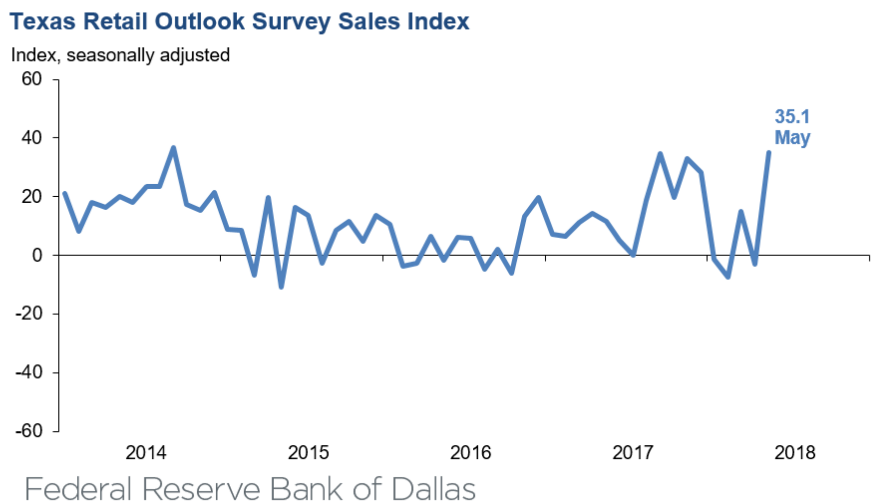
†Added to survey in January 2018.

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 Retail Outlook Survey



Texas Service Sector Outlook Survey

May 30, 2018

Comments from Survey Respondents

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

Utilities

- I've seen an increase in uncertainty related to the ongoing discussions of a possible trade war. Any such action would harm Houston's economy, and a slowdown in business activity would be likely. I expect to see some customers pulling back as they factor this into their production schedules.

Credit Intermediation and Related Activities

- The first phase of our wind farm has been completed, with 64 windmills brought online. The construction crews have departed, and the second phase has been delayed based on rumors that getting parts for assembly out of China has become more difficult. I'm not sure if that is related to trade negotiations or financial troubles. The continued increase in oil production has benefited all of West Texas with more pressure for drilling and delivery of oil production, as well as demand for fracturing sand, especially with drilling increasing in the South Texas shale deposits. The continued drought conditions in areas of Texas and Oklahoma are impacting agriculture production, decreasing revenue projections combined with increased production cost.

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

- We continue to monitor the aggressive commercial lending levels that we see from nonbank financial companies. We are near 2007 levels again.
- The job market is getting tighter. The lack of rain is hurting agriculture.

Insurance Carriers and Related Activities

- The Texarkana area is announcing a Regional Economic Development Initiative to coordinate all recruiting activities in northeast Texas. I think cities and counties working together will help the northeast Texas region.

Real Estate

- On the margins, rising mortgage rates and inventory shortages are negatively impacting the residential real estate market. This adds uncertainty into our 2018 and 2019 projections.
- Inventory is low, and there are lots of buyers. There are not enough properties.
- There is a lot of uncertainty due to the Trump administration.

Professional, Scientific and Technical Services

- Tweeted policies and directives from the president are causing rising tensions in the world, resulting in increasing uncertainty. Companies cannot go blindly forward under this situation so they "wait and see" what is going to happen. The "wait and see" time period is continuing to be extended and, therefore, extremely limited decisions are made to invest.
- We rely heavily on H2B visa workers to support our labor efforts. We are blessed to get them this year, but many companies similar to ours did not. Unless changes are made to the H2B cap, it creates a huge amount of uncertainty for us going into next year. We will be unable to properly forecast and will have to be very conservative on capital investments.
- Proposals for future work continue to be at historic lows, consistent with the downturn in design/construction activity. Construction activity continues to increase. I'm not sure why there is such a disconnect between the two, since historically (35+ years) there has been a direct correlation between proposals and activity.
- Demand and performance across the board and all practices continue to be strong year to date. Assuming there is no interruptive event, like a trade war, NAFTA (North American Free Trade Agreement) termination, etc., our outlook for the remainder of the quarter/year looks strong.
- Again, uncertainty about NAFTA is affecting our outlook.
- Our backlog of consulting work has increased steadily since mid-February, and we do not see any indication of softening.

- Rising interest rates are definitely affecting the level of activity in the residential sector of our business, and we feel it is only a matter of time before it has the same effect on the commercial side. Orders are slowing, and the general consensus is prices have risen too high. Hopefully, this is just an adjustment period, and the level of activity will increase in the coming months.

Administrative and Support Services

- The quality of our full-time employees is currently at a high level. They want our company to grow and prosper.
- Selling luxury travel is an emotional experience, a feel-good moment of luxury and self-indulgence. It requires advance planning at all levels, which we provide. Given the state of confusing new reports, the overstating of natural events and the unpredictable stabilities of governments around the world, the luxury traveler is hesitant. While the level of discretionary funds may have increased in the traveler's bank account, the feel-good reasons to spend on luxury travel are squashed in today's overload of information.
- The current uncertainty is the cost of fuel. With the number of vehicles on the road, this could be significant.
- Our nondestructive testing (NDT) services to machine shops has slowed significantly. We are not getting requests for quotations (RFQ) like we were in April and are not sure why. Our NDT services to the aviation sector have remained stable, with no changes seen at this time. Our NDT services to the industrial sectors (oil, gas) have remained flat since last year, with no increase seen as of yet. Our NDT services to the military have recently picked up, with more orders being fulfilled from previous approved RFQ submittals.
- We are seeing good demand and increasing backlogs.
- We have renegotiated subcontracts and will start two new corporate contracts in June.

Ambulatory Health Care Services

- Revenue will increase due to increased activity from a couple of major clients and increased activity in a newly started line of business. Our number of employees will increase significantly as we ramp up the new line of business. We offer a summer help program where we expect 12–14 part-time employees and will be looking at a few part-time positions throughout the year as needed to cover workload. Wages and benefits costs continue to increase with the labor shortage and increased cost of mostly medical benefits. Capital expenditures will increase in the next three to four months related to building out additional space in our building. Our outlook is more favorable as a result of unexpected increased activity from existing clients.

Amusement, Gambling and Recreation Industries

- Our challenges continue to revolve around issues that do not have a direct relationship to the actual business, i.e., property taxes, parking, paid sick leave for all employees, discussion of mandatory paid scheduling, shortage of outside contractors, i.e., plumbers, electricians, etc. We understand that many businesses in Austin are having the same issues as they are leaving or going out of business because they can no longer afford the rent increases.

Food Services and Drinking Places

- We are in the final weeks of this milestone in our recovery from Hurricane Harvey.
- The availability of qualified talent is getting harder and harder to find.

Repair and Maintenance

- We were recently acquired by another company in the industry. We are implementing significant investment in capital, infrastructure and people, and an aggressive market promotion and penetration program.

Support Activities for Transportation

- We are having great difficulty recruiting and retaining drivers.

Merchant Wholesalers, Durable Goods

- The market in China has closed 100 percent for a full month. This has affected pricing and markets worldwide.

Merchant Wholesalers, Nondurable Goods

- Tax benefits for our customers are taking hold. Customers are no longer afraid of what is coming down the pike from DC, a major difference since 2008. Our costs of goods are rising quickly, and we are struggling to pass them on. Consolidation in our industry is helping us out though.

Motor Vehicle and Parts Dealers

- We continue to see wage pressure and inventories growing. We will be focusing on managing that growth to keep in line with sales expectations. We will be cautious hiring new or additional employees to our staff.

Building Material and Garden Equipment and Supplies Dealers

- Things are picking up but we don't think by enough to justify any more interest rate hikes. We would like things to stabilize more after all these years of no growth.
- The steel tariffs caused enormous disruption in the metal building industry in March and April. Prices for steel increased 25 percent in a couple of weeks. Price increases have slowed now, and most people in the industry believe we are at the peak of increases unless additional demand justifies higher prices. All of the price increases have been passed along to our customers, and demand is strong enough currently to maintain the price increase. The unknown is if there will be enough demand in six months to support today's higher prices.
- Weather conditions have improved in May over April, leading to increased consumer demand for our products and services. Uncertainty over governmental trade, immigration and fiscal policies is an ongoing concern.

Clothing and Clothing Accessories Stores

- Warmer seasonal temperatures have helped sell seasonal apparel. Sales of swimwear, shorts, T-shirts and sandals are all showing nice gains since the beginning of May. The strong dollar/weak peso is again hurting business in stores near the border.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Christopher Slijk at christopher.slijk@dal.frb.org.

Texas **Service Sector** Outlook Survey

Special Questions

May 29, 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 May 15–23, and 328 Texas business executives responded to the surveys.

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Increase wages and/or benefits	61.6	53.3	49.4
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	52.6	62.1	63.5
Increase variable pay, including bonuses	31.5	33.3	29.2
Offer additional training	27.8	38.2	35.7
Improve working conditions	27.2	22.2	23.4
Reduce education and other requirements for new hires	8.3	6.5	8.8
Other	7.3	7.8	6.7

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Yes	69.5	64.8	67.3
No	30.5	35.2	32.7

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	53.4	51.1	47.2
Mid-skill positions (typically require some college or technical schooling)	66.7	61.2	60.4
High-skill positions (typically require college degree or higher)	37.4	39.6	37.6

4. **If your firm has experienced upward wage pressure over the past 12 months, for each category below please select the extent to which your firm raised wages (excluding benefits) in response:**

	None	Less than 4 percent	4 percent or more
Low-skill positions	23.5	42.5	33.9
Mid-skill positions	18.1	43.2	38.8
High-skill positions	26.0	32.2	41.8

5. **What annual percent change in wages and input prices did your firm experience in 2017 and what do you expect for 2018? Also, by how much did your firm change selling prices in 2017, and by how much do you expect to change selling prices in 2018?**

	2017 actual (percent)**	2018 expected (percent)**
Wages	3.8	4.4
Input prices (excluding wages)	3.1	4.8
Selling prices	2.3	3.5

6. **If your firm has experienced an increase in costs (including wages, benefits, other inputs, etc.), how has your firm's ability to pass those increases on to customers changed over the past year?**

	May '18 (percent)
Much easier now	2.5
Somewhat easier now	23.8
Similar to a year ago	38.8
Somewhat harder now	21.0
Significantly harder now	13.9

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

**Shown are trimmed means with the lowest and highest five percent of responses omitted.

Texas Manufacturing Outlook Survey

Data were collected May 15–23, and 95 Texas manufacturers responded to the survey.

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Increase wages and/or benefits	55.8	53.5	51.7
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	53.5	65.1	67.4
Offer additional training	30.2	43.0	40.4
Increase variable pay, including bonuses	26.7	31.4	28.1
Improve working conditions	24.4	18.6	24.7
Reduce education and other requirements for new hires	14.0	4.7	11.2
Other	7.0	7.0	5.6

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Yes	77.9	69.7	72.7
No	22.1	30.3	27.3

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	62.9	64.7	61.1
Mid-skill positions (typically require some college or technical schooling)	70.0	70.6	66.7
High-skill positions (typically require college degree or higher)	28.6	32.4	30.6

4. **If your firm has experienced upward wage pressure over the past 12 months, for each category below please select the extent to which your firm raised wages (excluding benefits) in response:**

	None	Less than 4 percent	4 percent or more
Low-skill positions	13.8	47.7	38.5
Mid-skill positions	9.1	45.5	45.5
High-skill positions	15.8	38.6	45.6

5. **What annual percent change in wages and input prices did your firm experience in 2017 and what do you expect for 2018? Also, by how much did your firm change selling prices in 2017, and by how much do you expect to change selling prices in 2018?**

	2017 actual (percent)**	2018 expected (percent)**
Wages	3.4	4.2
Input prices (excluding wages)	3.1	6.2
Selling prices	2.3	4.0

6. **If your firm has experienced an increase in costs (including wages, benefits, other inputs, etc.), how has your firm's ability to pass those increases on to customers changed over the past year?**

	May '18 (percent)
Much easier now	1.2
Somewhat easier now	30.2
Similar to a year ago	31.4
Somewhat harder now	24.4
Significantly harder now	12.8

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

**Shown are trimmed means with the lowest and highest five percent of responses omitted.

Special Questions Comments

These comments have been edited for publication.

Chemical Manufacturing

- Sign-on bonuses are sometimes necessary for some highly skilled or postgraduate positions.

Primary Metal Manufacturing

- Our selling price is up, but we have no idea what we will be paying in the coming months. This new selling price is to protect us, we hope.

Machinery Manufacturing

- As a domestic manufacturer, it is virtually impossible for us to raise pricing when the customer can buy the finished product directly from China for less than the cost of American raw material.
- Everyone is experiencing the same increases in steel prices.
- We are investing in capital equipment to help lower our reliance on third-party manufacturers and cost of goods sold. Our customers are demanding significant discounts on goods, while our employees are expecting raises after two years of flat wage growth. We anticipate significant borrowing in the future to help cover these investments.
- We've begun manufacturing our own products. We opened a machine shop at a cost of $1.5 million, but our long-term savings and control of our business will be much greater with tight quality control.

Printing and Related Support Activities

- We are just starting to feel wage pressure.
- Over the past six or seven years, the printing industry as a whole has experienced many difficulties due to the economy. Even though the economy is improving, we have not seen an increase in sales. Over the past 18 months, printing has been a declining market. Digital sales have increased over the past few months due to the need for shorter runs for less money. As new business growth comes into the Dallas–Fort Worth area, we hope this will also bring a need for increased printing, improving our offset runs. As far as recruiting, we have very little turnover, and workers for mid-skilled positions are harder to find. Finding low-skilled workers is much easier, but we have the expense of training them. When material costs increase, which they have over the past six months, the increase is passed on to our customers through our quotes. The increases in materials have been around 1.5 percent.

Transportation Equipment Manufacturing

- Steel price increases that are unjustified is our biggest cost increase.

Paper Manufacturing

- We have not needed to expand our high-skilled staff. The factory staff is where we have needed expansion, and the market just doesn't have factory-experienced workers available. When we look for candidates for our training program, there is just not the trainable pool available.
- We are experiencing very tough employment conditions right now. There are not enough workers. We have to overpay to retain what we have. What has happened to the work ethic?
- Business volume is outstanding. Margins are terrible.

Food Manufacturing

- We have to pay more to incentivize workers to leave their jobs and come to work for us.

Texas Service Sector Outlook Survey

Data were collected May 15–23, and 233 Texas business executives responded to the survey.

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Increase wages and/or benefits	63.9	53.2	48.6
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	52.3	60.9	62.1
Increase variable pay, including bonuses	33.3	34.1	29.6
Improve working conditions	28.2	23.6	22.9
Offer additional training	26.9	36.4	34.0
Reduce education and other requirements for new hires	6.0	7.3	7.9
Other	7.4	8.2	7.1

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Yes	66.1	62.9	65.3
No	33.9	37.1	34.7

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	49.0	45.3	41.6
Mid-skill positions (typically require some college or technical schooling)	65.1	57.2	57.9
High-skill positions (typically require college degree or higher)	41.6	42.8	40.4

4. **If your firm has experienced upward wage pressure over the past 12 months, for each category below please select the extent to which your firm raised wages (excluding benefits) in response:**

	None	Less than 4 percent	4 percent or more
Low-skill positions	27.6	40.4	32.1
Mid-skill positions	21.7	42.2	36.0
High-skill positions	29.8	29.8	40.4

5. **What annual percent change in wages and input prices did your firm experience in 2017 and what do you expect for 2018? Also, by how much did your firm change selling prices in 2017, and by how much do you expect to change selling prices in 2018?**

	2017 actual (percent)**	2018 expected (percent)**
Wages	4.0	4.7
Input prices (excluding wages)	3.1	4.4
Selling prices	2.2	3.3

6. **If your firm has experienced an increase in costs (including wages, benefits, other inputs, etc.), how has your firm's ability to pass those increases on to customers changed over the past year?**

	May '18 (percent)
Much easier now	3.1
Somewhat easier now	21.0
Similar to a year ago	42.1
Somewhat harder now	19.5
Significantly harder now	14.4

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

**Shown are trimmed means with the lowest and highest five percent of responses omitted.

Special Questions Comments

These comments have been edited for publication.

Broadcasting (Except Internet)

- We have probably not experienced upward wage pressure because our internal "minimum wage" is $10 an hour.

Telecommunications

- We can't raise our rates or our customers will move their business offshore.

Credit Intermediation and Related Activities

- Wages for processors have increased because there are not enough qualified candidates. We are having to hire right out of college and having to train, which takes time.

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

- We are scared about the increasing deficit and continued growth of entitlement programs.

Insurance Carriers and Related Activities

- Our premium rates are fixed and set by the state of Texas.

Rental and Leasing Services

- From mechanics to sales representatives, people are impossible to find. The oilfield is heating up and providing crazy high wages.
- Competition is too heavy in the heavy construction equipment sales industry to raise sales prices much, if at all.

Professional, Scientific and Technical Services

- We increased salaries in January an average of 4 percent across our staff.
- We are a services company, so our primary input price is wages.
- Longer-term (more than one year) contracts are restricting our pricing flexibility.

Administrative and Support Services

- We have had to offer wage increases to keep qualified workers.
- Clients are turning away business and working overtime because they cannot find workers even with pay increases of 10 percent or more.
- We now offer convention, conference, trade mission and translation services.
- We are not funded by the customer; our funding is based on hotel lodging revenues and a percentage of certain tax collections.
- Competition dictates the potential for price increases. Texas has very competitive markets.

Educational Services

- We are working hard with our local high schools to build programs for craft labor in vocational agriculture programs because we fear a lack of craftsmen to build, repair and maintain our projects.

Ambulatory Health Care Services

- We've had to raise wages to match what we are having to pay new hires.
- We cannot pass along cost increases; we are restricted by contracts and government regulation.
- As an imaging center, prices are established by CMS (Centers for Medicare & Medicaid Services) and payers. Price adjustments are always down—a deflationary business environment. We are extremely efficient.
- As a medical provider, we often do not have control regarding payer reimbursement levels with the exception of a few procedures.

Social Assistance

- We are a nonprofit and don't charge for our services.

Amusement, Gambling and Recreation Industries

- Austin is growing very fast, and there are about the same number of people available to work in the lower-skilled jobs.

Accommodation

- Improved flow is more achievable based on the increase in revenue, driven by both price increases and volume growth.

Food Services and Drinking Places

- Some areas in San Antonio and Dallas have become more competitive.

Personal and Laundry Services

- Wage pressure has increased by almost 20 percent.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- We are not currently hiring.

Texas Retail Outlook Survey

Data were collected May 15–23, and 45 Texas retailers responded to the survey.

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	65.9	60.9	66.0
Increase wages and/or benefits	56.8	41.3	56.6
Increase variable pay, including bonuses	36.4	43.5	39.6
Improve working conditions	27.3	26.1	24.5
Offer additional training	18.2	32.6	34.0
Reduce education and other requirements for new hires	6.8	10.9	13.2
Other	4.5	4.3	5.7

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Yes	82.2	75.5	76.4
No	17.8	24.5	23.6

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

	May '18 (percent)	Feb. '18 (percent)	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	69.4	55.6	54.8
Mid-skill positions (typically require some college or technical schooling)	75.0	69.4	66.7
High-skill positions (typically require college degree or higher)	30.6	13.9	21.4

4. **If your firm has experienced upward wage pressure over the past 12 months, for each category below please select the extent to which your firm raised wages (excluding benefits) in response:**

	None	Less than 4 percent	4 percent or more
Low-skill positions	2.9	52.9	44.1
Mid-skill positions	9.1	45.5	45.5
High-skill positions	37.0	29.6	33.3

5. **What annual percent change in wages and input prices did your firm experience in 2017 and what do you expect for 2018? Also, by how much did your firm change selling prices in 2017, and by how much do you expect to change selling prices in 2018?**

	2017 actual (percent)**	2018 expected (percent)**
Wages	3.8	4.5
Input prices (excluding wages)	3.5	5.3
Selling prices	3.5	5.3

6. **If your firm has experienced an increase in costs (including wages, benefits, other inputs, etc.), how has your firm's ability to pass those increases on to customers changed over the past year?**

	May '18 (percent)
Much easier now	2.4
Somewhat easier now	24.4
Similar to a year ago	31.7
Somewhat harder now	24.4
Significantly harder now	17.1

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

**Shown are trimmed means with the lowest and highest five percent of responses omitted.

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Nondurable Goods

- Our entire industry is facing upward pricing pressure. This is making it easier for us to pass along the industry increases.

Motor Vehicle and Parts Dealers

- It is difficult to find commissioned salespeople and high-skilled auto technicians.
- The cost of health care and property and casualty insurance has increased significantly. We also have concerns on the increase in interest rates.
- We do not measure specific wage growth in our workforce. We are having to increase our pay scale for new hires. We are seeing difficulty passing increased costs on to the consumer due to margin compression from internet sales activity.

Building Material and Garden Equipment and Supplies Dealers

- We get a lot of applicants who think they have skills but really do not. This always happens when the economy picks up.
- Recent federal tax legislation has increased the after-tax cost of labor by over 20 percent. Legislative pushback on the Affordable Care Act and Medicaid cuts are expected to result in cost increases for both employers and employees.
- Things we used to not charge for we are using as upgrades and charging to make up for input prices rising.

Truck Transportation

- Trucking is seeing an acute shortage of truck drivers.

Clothing and Clothing Accessories Stores

- As a retailer, input prices do not really apply.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Christopher Slijk at christopher.slijk@dal.frb.org.