



Texas **Service Sector** Outlook Survey

August 28, 2018

Texas Service Sector Activity Continues to Expand

What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on 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 increase in August, albeit at a slower pace than last month, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, fell from 25.4 in July to 21.5 in August.

Labor market indicators reflected continued employment growth and a notable lengthening of workweeks this month. The employment index remained largely unchanged at 11.5, and the part-time employment index rose to its highest level since mid-2014. The hours worked index rose from 9.1 in July to 11.8 in August, its highest value on record.

Perceptions of broader economic conditions continued to reflect optimism, despite elevated uncertainty. The general business activity index held flat at 21.5 in August. The company outlook index increased from 14.2 to 16.6. The capital expenditures index surged six points to a postrecession high of 23.4. However, the outlook uncertainty index, which began in January 2018 and asks, "How has uncertainty regarding your company's outlook changed in the current month vs. prior month?" was mostly unchanged at 11.3 and near its highest reading for the year.

Price and wage pressures remained elevated this month. The wages and benefits index rose to a new high of 25.5, with a record 28.8 percent of respondents reporting wage increases. The selling price index rose one point to 14.2.

Respondents' expectations regarding future business conditions reflected stronger optimism than last month. The future general business activity index increased from 25.5 to 27.4 in August, while the future company outlook index rose over three points to 29.8. Price and wage expectations remained elevated, with the future selling prices index rising to a five-month high. Indexes of future service sector activity, such as revenue and employment, also reflected higher expectations of future growth.



Texas **Retail** Outlook Survey

Retail Sales Strengthen

Retail sales accelerated in August, according to business executives responding to the Texas Retail Outlook Survey. The sales index jumped up from 6.0 in July to 25.8 in August. Inventories continued to rise, and the inventories index held steady at 18.4.

Retail employment accelerated and workweeks lengthened this month. The employment index picked up from 3.3 in July to 9.8 in August, with the part-time employment index jumping to a postrecession high of 14.0. The hours worked index rose nearly 13 points to 13.4.

Retailers' perceptions of broader economic conditions reflected further optimism in August, although uncertainty increased. The general business activity index rose over four points to 13.7, while the company outlook index increased from 3.2 to 7.0. The outlook uncertainty index rose to 14.0, the highest value to date.

Retail price and wage pressures accelerated compared with July. The selling prices index picked up nearly eight points to 23.2. The wages and benefits index rose to a new high, surging from 21.1 in July to 37.5 in August.

Retailers' perceptions of future broader economic conditions reflected optimism this month, although uncertainty increased notably compared with July. The index of future general business activity dipped to 17.6, while the index of future company outlook jumped nearly 16 points to 24.7. Other indexes of future retail sector activity, such as sales and employment, remained elevated.

The Texas Retail Outlook Survey is a component of the Texas Service Sector Outlook Survey that uses information only from respondents in the retail and wholesale sectors.

Next release: September 25, 2018

Data were collected August 14–22, and 215 Texas service sector and 52 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	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	21.5	25.4	-3.9	Increasing	104	37.7	46.1	16.2
Employment	11.5	11.9	-0.4	Increasing	102	18.9	73.7	7.4
Part-Time Employment	6.8	5.7	+1.1	Increasing	7	9.9	87.0	3.1
Hours Worked	11.8	9.1	+2.7	Increasing	22	14.4	83.1	2.6
Wages and Benefits	25.5	24.5	+1.0	Increasing	111	28.8	67.9	3.3
Input Prices	32.1	31.4	+0.7	Increasing	112	34.0	64.1	1.9
Selling Prices	14.2	13.2	+1.0	Increasing	30	19.2	75.8	5.0
Capital Expenditures	23.4	17.4	+6.0	Increasing	108	26.0	71.4	2.6

General Business Conditions

Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	16.6	14.2	+2.4	Improving	26	24.3	68.0	7.7
General Business Activity	21.5	21.1	+0.4	Improving	24	27.6	66.4	6.1

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	11.3	12.1	-0.8	Increasing	7	20.2	70.8	8.9

Business Indicators Relating to Facilities and Products in Texas

Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	46.8	44.1	+2.7	Increasing	114	55.7	35.5	8.9
Employment	31.2	28.9	+2.3	Increasing	113	36.4	58.4	5.2
Part-Time Employment	4.7	9.4	-4.7	Increasing	74	12.3	80.1	7.6
Hours Worked	7.9	9.1	-1.2	Increasing	24	11.0	85.9	3.1
Wages and Benefits	48.6	51.1	-2.5	Increasing	140	51.9	44.8	3.3
Input Prices	50.0	48.7	+1.3	Increasing	140	52.2	45.6	2.2
Selling Prices	37.6	35.0	+2.6	Increasing	112	41.8	53.9	4.2
Capital Expenditures	32.1	28.7	+3.4	Increasing	113	37.3	57.5	5.2

General Business Conditions

Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	29.8	26.1	+3.7	Improving	30	37.4	55.0	7.6
General Business Activity	27.4	25.5	+1.9	Improving	30	33.7	60.0	6.3

Texas Retail Outlook Survey

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	25.8	6.0	+19.8	Increasing	4	43.5	38.7	17.7
Employment	9.8	3.3	+6.5	Increasing	12	17.6	74.6	7.8
Part-Time Employment	14.0	0.0	+14.0	Increasing	1	18.0	78.0	4.0
Hours Worked	13.4	0.6	+12.8	Increasing	14	19.7	74.0	6.3
Wages and Benefits	37.5	21.1	+16.4	Increasing	90	42.3	52.9	4.8
Input Prices	31.9	29.4	+2.5	Increasing	31	38.9	54.1	7.0
Selling Prices	23.2	15.3	+7.9	Increasing	17	34.8	53.6	11.6
Capital Expenditures	23.1	11.1	+12.0	Increasing	25	25.0	73.1	1.9
Inventories	18.4	18.9	-0.5	Increasing	3	30.4	57.6	12.0
Companywide Retail Activity								
Companywide Sales	28.2	1.6	+26.6	Increasing	4	41.7	44.8	13.5
Companywide Internet Sales	23.1	4.0	+19.1	Increasing	4	32.8	57.5	9.7

General Business Conditions, Retail Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	7.0	3.2	+3.8	Improving	17	25.2	56.6	18.2
General Business Activity	13.7	9.4	+4.3	Improving	4	24.3	65.1	10.6

Outlook Uncertainty Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	14.0	9.4	+4.6	Increasing	3	24.0	66.0	10.0

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	30.3	22.1	+8.2	Increasing	114	45.9	38.4	15.6
Employment	14.6	14.9	-0.3	Increasing	15	22.8	69.0	8.2
Part-Time Employment	1.6	0.7	+0.9	Increasing	6	10.1	81.4	8.5
Hours Worked	6.2	4.0	+2.2	Increasing	13	11.3	83.6	5.1
Wages and Benefits	36.6	44.8	-8.2	Increasing	116	43.7	49.3	7.1
Input Prices	38.0	37.8	+0.2	Increasing	112	46.0	46.0	8.0
Selling Prices	40.4	26.4	+14.0	Increasing	112	44.7	51.1	4.3
Capital Expenditures	18.0	15.1	+2.9	Increasing	23	24.0	70.0	6.0
Inventories	7.9	4.0	+3.9	Increasing	22	25.5	56.9	17.6
Companywide Retail Activity								
Companywide Sales	33.3	22.6	+10.7	Increasing	113	45.4	42.6	12.1
Companywide Internet Sales	20.6	13.1	+7.5	Increasing	25	32.4	55.9	11.8

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	24.7	9.2	+15.5	Improving	21	37.4	49.8	12.7
General Business Activity	17.6	19.5	-1.9	Improving	24	27.0	63.6	9.4

*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.

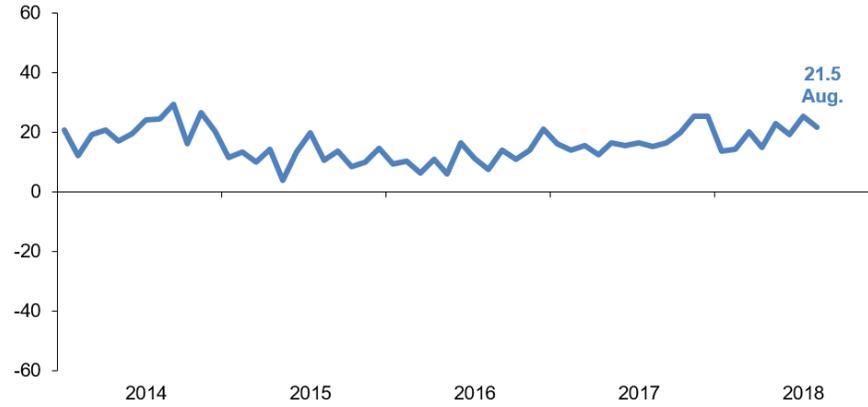
†Added to survey in January 2018.

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

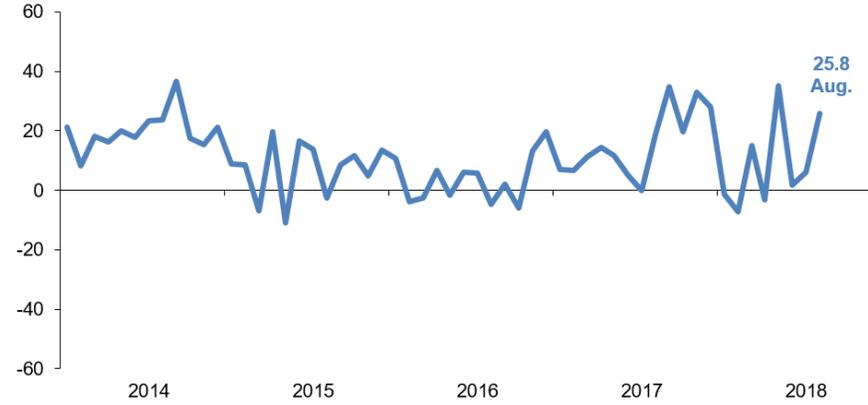


Federal Reserve Bank of Dallas

Texas Retail Outlook Survey

Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

Texas Service Sector Outlook Survey

August 28, 2018

Comments from Survey Respondents

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

Pipeline Transportation

- Our six-month outlook is clouded by the potential impact of import tariffs and related trade issues.

Data Processing, Hosting and Related Services

- The local market remains very difficult for attracting competent software programming talent (at all levels). We are having to expand our recruiting searches nationally.

Credit Intermediation and Related Activities

- A recent survey of business and industry leaders in the Coastal Bend area indicates a significant increase in business activity along with skilled labor shortages, which are increasing costs.
- The news is that the Subchapter S tax treatment is being submitted for approval. This is the good news for Sub-S corporations that would be positive and reduce uncertainty.
- Business activity remains strong with continued growth anticipated. Competition for products, services and the workforce continues to be at high levels in financial services.

Real Estate

- The Texas Appraisal Licensing Board is causing major problems for appraisers in Texas, and this is going to result in fewer appraisers in the profession. The main impact will be on bankers trying to make loans. Delays and higher fees are the result.

Professional, Scientific and Technical Services

- We are seeing far fewer people pursuing zoning changes for multifamily, and our building permit expediting is down significantly.
- We continue to watch economic indicators closely. Favorable signs do exist (employment, gross domestic product, earnings, etc.), but the tough trade rhetoric is concerning. It is worrisome what the next tweet will bring. Markets appear to be processing that fine, although the Turkey matter seemed to create some unexpected consternation. We will be watching the runup to the midterms closely. The next few months could no doubt be interesting.
- We have seen stronger economic pickups in recent months.
- We desperately need help from Congress on the expansion of the H-2B visa program. We rely heavily on the program for supplemental labor. There is a huge shortage of entry-level labor in the Dallas market, which represents our single largest challenge.
- The greatest area of uncertainty is the tariff situation. The tariffs imposed by the U.S. and the retaliation by other countries is giving our clients (large manufacturing companies) concern. While current proposal requests are strong, we worry that an escalating trade war could harm the economy.
- Again, the uncertainty about NAFTA (North American Free Trade Agreement) is hurting our company. We can't plan ahead if a key element in our market environment has so many dark clouds around it.
- New work (for construction in six to eight months) continues to decline.
- The fears of a recession have increased. The negative press and the turmoil are not helpful. Clients are becoming much more cautious, with fallback plans coming into play. It is not optimistic thinking; it is cautionary, conservative thinking.
- We are starting to see some slowdown in real estate activity and are anticipating a slowdown based on increased trade tariffs.
- The real estate market is definitely slowing down. All in all, it is still a great market, but orders are down about 20 percent on the residential side and 5 percent on the commercial side from their highs in 2015–2017.

Management of Companies and Enterprises

- We are overregulated.

Administrative and Support Services

- We are incurring cost increases in our product as a result of logistics and other cost increases. Some of our vendors are experiencing delays in obtaining raw materials, so there is some uncertainty in the supply lines.
- We have our seasonal workers.
- The robust economy has been very helpful. We are currently worried about the economic effect to our business caused by the sick leave act recently passed in San Antonio and Austin. We hope that the state of Texas will tamp it down and do away with it.

Educational Services

- We are having trouble finding part-time workers.
- I think the effects of tariffs on all-around end-product costs will be easy to absorb by consumers. Consumers in general understand that we need to endure a little pain to level the playing field in terms of trade.

Hospitals

- Independent health systems (rural especially) continue to battle increased unfunded regulation and the consolidation of a few payers and health systems. The outlook for rural health systems is not great.

Nursing and Residential Care Facilities

- In spring 2019, our company will be closing one business line of our operation, which will reduce revenue from that line, but it will also reduce expenses. The total number of employees will also be reduced due to this business-line closure.

Amusement, Gambling and Recreation Industries

- Downtown Austin is rapidly changing with huge new buildings coming online and others just getting started or proposed. This constant construction has compounded doing business in the Central Business District. These projects are siphoning off employees, and the constant disruption has taken a toll on people even wanting to come downtown for eating and events. Add to that a fairly significant homeless population, challenged parking, new scooters zipping in and out everywhere and bikes, it is difficult for the long-term mainstream businesses to adjust.

Accommodation

- It is hard to understand where the economy is headed. I do feel discretionary spending is down. I know we are not spending unless necessary.

Food Services and Drinking Places

- We are stabilizing our recovery from Hurricane Harvey. Aside from delays in receiving insurance proceeds, things are going well.
- Six months from now will include an annual price increase to offset raises and other cost increases from suppliers.
- The availability of qualified talent continues to be a challenge.

Personal and Laundry Services

- I am starting to get concerned with the health of the overall economy that will be impacted by the Fed raising interest rates in 2018 and the impact on the national debt, consumer credit card debt, mortgage rates, auto loans and student loans. I am also getting concerned with stock valuations and growth sustainability with my gloomy economic forecast.

Merchant Wholesalers, Durable Goods

- The construction market is as strong as I've seen in a decade. Labor shortages are the biggest hurdle.
- We are seeing continued strength in many areas: homebuilding, road building, commercial construction, mining, oil and gas, and commodities. All sectors are going strong in our markets.
- Again, trade with China and Mexico has substantially affected our markets. Turkey was a major consumer of Texas' scrap metal and has also been out of the market due to tariffs and its financial issues. Ultimately, Texas and most states are flooded with scrap metal, and the domestic demand is simply not sufficient, despite new steel pricing being near a record high.

Merchant Wholesalers, Nondurable Goods

- The trade war between the U.S. and China caused an interruption to our business.

- Price increases from our suppliers and freight issues continue to be a challenge.
- July was a very bad month. We hope that with schools opening, business will pick up in August. Input prices are a major concern. We have just been advised by one of our major manufacturers that there will be a 10 percent across-the-board price increase. More price increases are expected. We hope that we can pass these price increases along to our customers. As more than 50 percent of our products are imported, the tariff situation is a major worry. Also, the products we sell are those that are used every day and are not discretionary-purchase items. Our customers have limited funds and are not high-income people. Therefore, there is great uncertainty about the future and, more particularly, about the next six months and the Christmas season. Should the Fed continue on its path to increase interest rates at this time, we believe this will cause a recession. Caution is necessary. There are two economies: “Wall Street” and “Main Street.” They are not the same. “Main Street” is not healthy and needs all the help it can get. Interest rate increases are not a help.

Motor Vehicle and Parts Dealers

- We are beginning to experience the normal slow decline in sales due to the normal cycle of auto and truck sales. After the longest sustained uptrend in sales, a decline is to be expected.
- Tariffs in the auto business continue to be a looming concern. That has some bearing on uncertain business conditions.
- Our business is very dependent on interest rates (mainly floor-plan expenses). Accordingly, we will be reducing inventories to adjust to the expected increases in the Fed funds rate. Business uncertainty for retail has definitely increased.
- The threat of tariffs is concerning for input prices.

Building Material and Garden Equipment and Supplies Dealers

- Cooler weather and some much-needed rainfall have improved consumer demand in our industry.
- Business is good and looks steady for the near future. There is always uncertainty, but that’s the nature of business nowadays. Growth is controlled by labor shortage.

Clothing and Clothing Accessories Stores

- Sales at border locations trail the rest of the chain.
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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

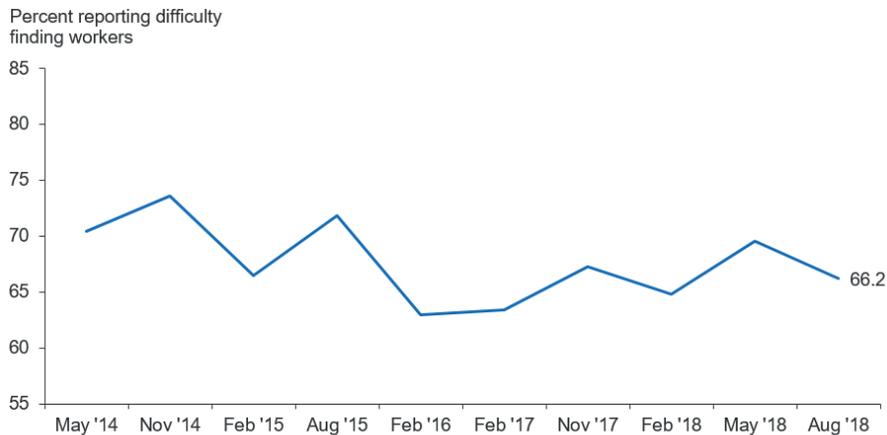
August 28, 2018

Texas Business Outlook Surveys

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

Data were collected Aug. 14–22, and 358 Texas business executives responded to the surveys. See data files with a full history of results.

Are you having problems finding qualified workers when hiring?



NOTE: Data shown are for months when special questions were asked.
SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Surveys.

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Yes	67.3	64.8	69.5	66.2
No	32.7	35.2	30.5	33.8

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

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	47.2	51.1	53.4	56.5
Mid-skill positions (typically require some college or technical schooling)	60.4	61.2	66.7	68.1
High-skill positions (typically require college degree or higher)	37.6	39.6	37.4	37.1

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

	Feb. '17 (percent)	Nov. '17 (percent)	Feb. '18 (percent)	Aug. '18 (percent)
Lack of available applicants/no applicants	43.2	58.6	62.6	72.8
Lack of technical competencies (hard skills)	59.8	49.8	50.2	47.0
Looking for more pay than is offered	34.4	39.0	40.1	41.4
Lack of experience	40.5	32.5	37.0	37.1
Lack of workplace competencies (soft skills)	43.2	37.3	39.6	34.5
Inability to pass drug test and/or background check	29.3	32.1	30.0	31.0

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

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Increasing wages and or benefits	49.4	53.3	61.6	63.4
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	63.5	62.1	52.6	59.6
Offering additional training	35.7	38.2	27.8	36.6
Increasing variable pay, including bonuses	29.2	33.3	31.5	26.8
Improving working conditions	23.4	22.2	27.2	25.9
Reducing education and other requirements for new hires	8.8	6.5	8.3	12.9
Other	6.7	7.8	7.3	6.3

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

	Feb. '17 (percent)	Nov. '17 (percent)	Feb. '18 (percent)	Aug. '18 (percent)
Yes	40.6	40.8	42.6	41.4
No	59.4	59.2	57.4	58.6

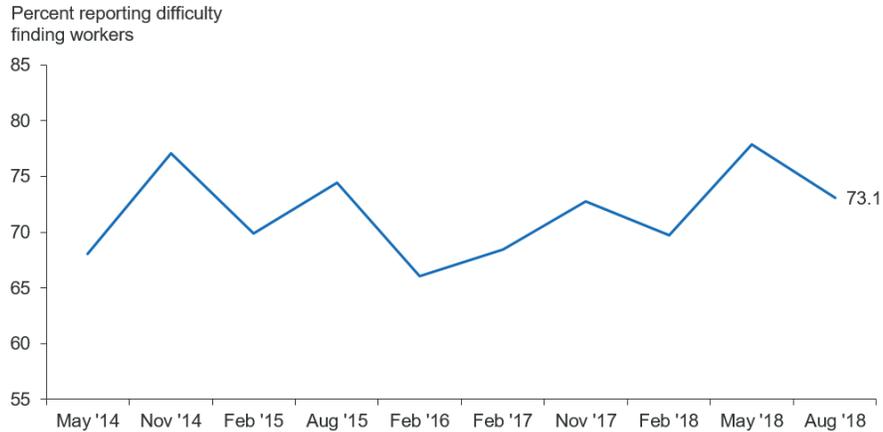
*This question only posed to firms that noted they are having problems finding qualified workers when hiring.

NOTE: Survey respondents were given the opportunity to provide comments. These comments can be found on the individual survey Special Questions results pages, accessible by the tabs above.

Texas Manufacturing Outlook Survey

Data were collected Aug. 14–22, and 104 Texas manufacturers responded to the survey.
See data files with a full history of results.

Are you having problems finding qualified workers when hiring?



NOTE: Data shown are for months when special questions were asked.
SOURCE: Federal Reserve Bank of Dallas, Texas Manufacturing Outlook Survey.

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Yes	72.7	69.7	77.9	73.1
No	27.3	30.3	22.1	26.9

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

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	61.1	64.7	62.9	68.9
Mid-skill positions (typically require some college or technical schooling)	66.7	70.6	70.0	71.6
High-skill positions (typically require college degree or higher)	30.6	32.4	28.6	27.0

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

	Feb. '17 (percent)	Nov. '17 (percent)	Feb. '18 (percent)	Aug. '18 (percent)
Lack of available applicants/no applicants	44.3	51.4	72.1	70.3
Lack of technical competencies (hard skills)	72.2	61.1	60.3	64.9
Looking for more pay than is offered	36.7	36.1	38.2	47.3
Lack of workplace competencies (soft skills)	45.6	37.5	44.1	36.5
Lack of experience	44.3	31.9	44.1	35.1
Inability to pass drug test and/or background check	29.1	45.8	41.2	35.1

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

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	67.4	65.1	53.5	67.3
Increasing wages and or benefits	51.7	53.5	55.8	64.3
Offering additional training	40.4	43.0	30.2	38.8
Improving working conditions	24.7	18.6	24.4	24.5
Increasing variable pay, including bonuses	28.1	31.4	26.7	21.4
Reducing education and other requirements for new hires	11.2	4.7	14.0	19.4
Other	5.6	7.0	7.0	0.0

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

	Feb. '17 (percent)	Nov. '17 (percent)	Feb. '18 (percent)	Aug. '18 (percent)
Yes	39.4	41.6	45.2	42.7
No	60.6	58.4	54.8	57.3

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

Special Questions Comments

These comments have been edited for publication.

Nonmetallic Mineral Product Manufacturing

- Steel and cement prices are increasing due to new tariffs. This has hurt profit margins because they are fixed-price contracts entered into last year with no ability to pass on price increases. Future contracts have increased pricing included.

Primary Metal Manufacturing

- All cost increases will be passed on sooner or later.

Machinery Manufacturing

- We are being pinched on both sides, where our raw material costs are going up but we are unable to increase our prices due to increased competition. Labor is also tough to find, where they have the competencies we require.
- We are losing employees to the big companies at salaries that are ridiculous to us. Therefore, we are still hiring and training inexperienced young workers. I believe these higher-than-normal salaries will come to bite others in the near future. Layoffs will occur if they can't sustain their order book and cost control. We will pay bonuses at the end of this year after we pay off all of our debt. That will put us in a great place for the future growth we expect. We are planning a new building for our machine shop and new tank manufacturing equipment.

Transportation Equipment Manufacturing

- We are partially passing on increased labor costs and working to improve productivity.

Food Manufacturing

- We are trying to pass on increasing costs, but our products are commodities that are very sensitive to supply and demand, and it is not always possible. Tariff/trade war talks are having a negative effect on demand and prices.
- We have plants in five states, and labor is exceptionally tight in our Georgia, California and Texas facilities.

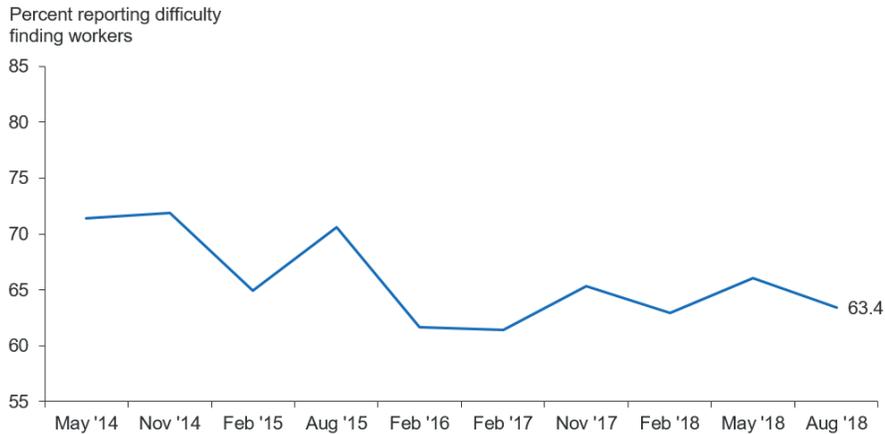
Apparel Manufacturing

- It is tough to pass on price increases to the federal government in a timely manner.

Texas Service Sector Outlook Survey

Data were collected Aug. 14–22, and 254 Texas business executives responded to the survey.
See data files with a full history of results.

Are you having problems finding qualified workers when hiring?



NOTE: Data shown are for months when special questions were asked.
SOURCE: Federal Reserve Bank of Dallas, Texas Service Sector Outlook Survey.

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Yes	65.3	62.9	66.1	63.4
No	34.7	37.1	33.9	36.6

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

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	41.6	45.3	49.0	50.6
Mid-skill positions (typically require some college or technical schooling)	57.9	57.2	65.1	66.5
High-skill positions (typically require college degree or higher)	40.4	42.8	41.6	41.8

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

	Feb. '17 (percent)	Nov. '17 (percent)	Feb. '18 (percent)	Aug. '18 (percent)
Lack of available applicants/no applicants	42.8	61.6	58.5	74.1
Lack of technical competencies (hard skills)	54.4	45.2	45.9	38.6
Looking for more pay than is offered	33.3	40.1	40.9	38.6
Lack of experience	38.9	32.8	34.0	38.0
Lack of workplace competencies (soft skills)	42.2	37.3	37.7	33.5
Inability to pass drug test and/or background check	29.4	26.6	25.2	29.1

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

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Increasing wages and or benefits	48.6	53.2	63.9	63.0
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	62.1	60.9	52.3	56.2
Offering additional training	34.0	36.4	26.9	35.6
Increasing variable pay, including bonuses	29.6	34.1	33.3	29.2
Improving working conditions	22.9	23.6	28.2	26.5
Reducing education and other requirements for new hires	7.9	7.3	6.0	10.0
Other	7.1	8.2	7.4	9.1

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

	Feb. '17 (percent)	Nov. '17 (percent)	Feb. '18 (percent)	Aug. '18 (percent)
Yes	41.1	40.5	41.5	40.9
No	58.9	59.5	58.5	59.1

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

Special Questions Comments

These comments have been edited for publication.

Broadcasting (Except Internet)

- We are having difficulty finding qualified outside sales people with a marketing background or college degree. There are very few applicants.

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

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

Professional, Scientific and Technical Services

- While my cost of doing business may increase, in the consulting business, you charge what the client is willing to pay, which has been going down over the past several years.
- It is hard to pass on those costs immediately. We will see more aggressive pricing in 2019. I will say lead time to fill is lengthening with some positions, but we are having success. It just takes more focus.
- We are a professional engineering firm with an audited multiplier, which is added to our labor rates. Thus, when we increase rates, the cost effect is passed on to the client.
- We will soon have to pass the labor cost increases to our clients. It's not sustainable to go on like this.
- The workforce is tighter than I ever recall in Dallas. Competitors are raiding companies and are offering higher wages. They call our employees, ask what they are paid and offer them more to leave. It is a ruthless recruiting market. Fortunately, Dallas' cost of living is highly competitive and helps in recruiting efforts.

Administrative and Support Services

- We find that social media and a current website are very helpful. Also, thorough and smart interviewing is necessary to ensure that applicants will stay on the assignment. Employee turnover is as bad as an inability to fill the job order.
- The customers are very aware of pricing, and there is not a lot of flexibility in the current price structure.
- All costs of sales will affect pricing if we can't figure out a way to produce our services more affordably.
- The quality of applicants and hires is pretty sad. There is a very poor work ethic, no experience and very low skill set. We wonder exactly what the schools are teaching, because they are not teaching what is required to hold a job.

Ambulatory Health Care Services

- It is really hard to find plug-and-play employees; it requires a lot of training to get them up to speed.

Hospitals

- Housing costs and availability are in crisis in our area, dramatically affecting hiring and retention.

Amusement, Gambling and Recreation Industries

- Food service is not only competing with other food service and hotel establishments but also with the construction firms that are building everywhere. The cost of living in Austin is a significant challenge for entry-level employees. Rents are way too high, public transportation is either not available to where they live or does not run on a schedule that corresponds to their work schedules (i.e., late-night or early-morning services). Therefore, to retain employees, we have had to provide parking and increase the benefits we provide while keeping the wages competitive. As labor remains tight, we are constantly having to evaluate wages just to keep our employees.

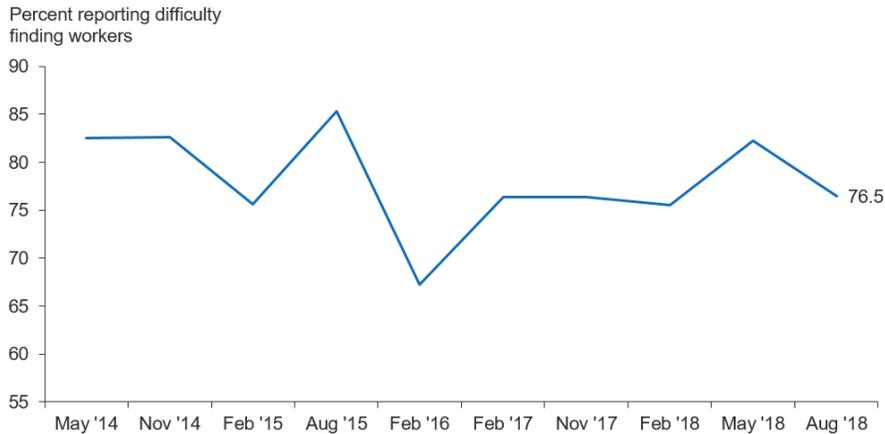
Personal and Laundry Services

- Unfortunately, my business is at peak pricing given the current economic cycle. Customers will not be able to endure a price increase, so the higher employee wages cannot be absorbed by the customers.

Texas Retail Outlook Survey

Data were collected Aug. 14–22, and 51 Texas retailers responded to the survey.
See data files with a full history of results.

Are you having problems finding qualified workers when hiring?



NOTE: Data shown are for months when special questions were asked.
SOURCE: Federal Reserve Bank of Dallas, Texas Retail Outlook Survey.

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Yes	76.4	75.5	82.2	76.5
No	23.6	24.5	17.8	23.5

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

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	54.8	55.6	69.4	56.8
Mid-skill positions (typically require some college or technical schooling)	66.7	69.4	75.0	86.5
High-skill positions (typically require college degree or higher)	21.4	13.9	30.6	24.3

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

	Feb. '17 (percent)	Nov. '17 (percent)	Feb. '18 (percent)	Aug. '18 (percent)
Lack of available applicants/no applicants	46.7	59.5	56.8	78.9
Lack of technical competencies (hard skills)	55.6	54.8	48.6	52.6
Inability to pass drug test and/or background check	48.9	47.6	37.8	42.1
Lack of workplace competencies (soft skills)	46.7	33.3	40.5	36.8
Lack of experience	37.8	35.7	35.1	34.2
Looking for more pay than is offered	28.9	38.1	24.3	23.7

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

	Nov. '17 (percent)	Feb. '18 (percent)	May '18 (percent)	Aug. '18 (percent)
Increasing wages and or benefits	56.6	41.3	56.8	63.0
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	66.0	60.9	65.9	54.3
Increasing variable pay, including bonuses	39.6	43.5	36.4	37.0
Improving working conditions	24.5	26.1	27.3	32.6
Offering additional training	34.0	32.6	18.2	30.4
Reducing education and other requirements for new hires	13.2	10.9	6.8	10.9
Other	5.7	4.3	4.5	8.7

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

	Feb. '17 (percent)	Nov. '17 (percent)	Feb. '18 (percent)	Aug. '18 (percent)
Yes	43.8	47.9	36.4	43.8
No	56.3	52.1	63.6	56.3

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

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Nondurable Goods

- We are trying to raise margins to offset wage increases. Some commodities will not allow increased margins.

Motor Vehicle and Parts Dealers

- Our biggest problem is finding qualified service technicians.
- There is a huge need in the U.S. for more technical schools (versus colleges/universities). It is certainly hampering our economy.

Building Material and Garden Equipment and Supplies Dealers

- We need immigration reform and a permanent lift on the cap for H-2B workers.
- We have a reputation as a great place to work, especially for people who love gardening and horticulture. This gives us a competitive advantage in the labor market.

Clothing and Clothing Accessories Stores

- Retail is not a very popular industry.
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Questions regarding the Texas Service Sector Outlook Survey can be addressed to Christopher Slijk at christopher.slijk@dal.frb.org.