Texas **Service Sector** Outlook Survey

February 26, 2019

Texas Service Sector Activity Expands at Accelerated Pace

What's New This Month

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

Texas service sector activity accelerated 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, rose from 14.9 in January to 19.2 in February.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index rose nearly three points to 9.7, while the hours worked index fell slightly from 6.6 in January to 5.0 in February.

Perceptions of broader business conditions strengthened, and measures of uncertainty eased this month. The general business activity index rebounded to positive territory at 2.0, while the company outlook index rose nearly five points to 6.1. The outlook uncertainty index fell to 8.7, its lowest value since last October.

Price and wage pressures were largely unchanged this month. The wages and benefits index held steady at 19.1, while the selling prices and input prices indexes were mostly flat at 8.0 and 20.6, respectively.

Respondents' expectations regarding future business conditions improved significantly compared with January. The future general business activity index surged nearly 12 points to 11.0, while the future company outlook index picked up almost 10 points to 17.4. Other indexes of future service sector activity, such as revenue and capital expenditures, also strengthened and suggested a more optimistic view of the next six months.

Texas **Retail** Outlook Survey

Retail Sales Strengthen

Retail sales accelerated in February, according to business executives responding to the Texas Retail Outlook Survey. The sales index increased from 6.5 in January to 9.2 in February. Inventory growth slowed but remained robust, with the inventories index declining from 19.0 to 13.6.

Retail labor market indicators suggested stronger employment growth and steady workweek length. The employment index rose from 0.1 in January to 6.3 in February, while the hours worked index declined to 0.6, its lowest reading since mid-2017.

Retailers' perceptions of broader business conditions remained soft in February. The general business activity index increased over six points but remained negative at -5.8, suggesting that respondents on net have a worsened view of current activity. The company outlook index rebounded into positive territory, rising from -8.3 to 0.5.

Retail price pressures eased, while wage pressures increased this month. The selling prices index fell from 14.7 in January to 11.0 in February, while the input prices index plummeted to a three-year low of 6.1. The wages and benefits index increased nearly three points to 11.1 in February.

Retailers' perception of future business conditions improved notably this month. The future general business activity index spiked nearly 28 points to 7.5, while the future company outlook index jumped from -16.5 to 7.9, its highest reading since last October. Other indexes of future retail sector activity, such as sales and employment, also saw significant improvement and were in solidly positive territory.

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: March 26, 2019

Data were collected February 12–20, and 222 Texas service sector and 50 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	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	19.2	14.9	+4.3	Increasing	110	29.4	60.4	10.2
Employment	9.7	7.0	+2.7	Increasing	108	15.9	77.9	6.2
Part-Time Employment	1.7	–0.1	+1.8	Increasing	1	6.5	88.7	4.8
Hours Worked	5.0	6.6	–1.6	Increasing	28	8.5	88.0	3.5
Wages and Benefits	19.1	18.7	+0.4	Increasing	117	21.4	76.3	2.3
Input Prices	20.6	20.1	+0.5	Increasing	118	22.6	75.4	2.0
Selling Prices	8.0	7.9	+0.1	Increasing	36	10.0	88.1	2.0
Capital Expenditures	10.5	9.8	+0.7	Increasing	114	15.0	80.4	4.5

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	6.1	1.3	+4.8	Improving	2	12.2	81.7	6.1
General Business Activity	2.0	–4.8	+6.8	Improving	1	11.2	79.6	9.2

Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	8.7	14.0	–5.3	Increasing	13	17.9	73.0	9.2

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	39.2	37.3	+1.9	Increasing	120	47.7	43.8	8.5
Employment	23.7	23.8	–0.1	Increasing	119	32.7	58.3	9.0
Part-Time Employment	8.9	6.6	+2.3	Increasing	80	13.8	81.3	4.9
Hours Worked	9.6	7.9	+1.7	Increasing	30	12.8	84.0	3.2
Wages and Benefits	42.4	40.8	+1.6	Increasing	146	45.2	52.0	2.8
Input Prices	41.6	39.9	+1.7	Increasing	146	43.7	54.2	2.1
Selling Prices	29.2	28.1	+1.1	Increasing	118	34.3	60.7	5.1
Capital Expenditures	27.7	24.3	+3.4	Increasing	119	32.4	62.9	4.7

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	17.4	7.6	+9.8	Improving	36	26.4	64.6	9.0
General Business Activity	11.0	–0.6	+11.6	Improving	1	21.3	68.4	10.3

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	9.2	6.5	+2.7	Increasing	10	24.1	61.0	14.9
Employment	6.3	0.1	+6.2	Increasing	2	11.4	83.5	5.1
Part-Time Employment	4.1	–11.1	+15.2	Increasing	1	8.2	87.8	4.1
Hours Worked	0.6	1.9	–1.3	Increasing	20	4.8	91.0	4.2
Wages and Benefits	11.1	8.3	+2.8	Increasing	96	17.5	76.1	6.4
Input Prices	6.1	15.0	–8.9	Increasing	37	13.9	78.3	7.8
Selling Prices	11.0	14.7	–3.7	Increasing	23	17.5	76.0	6.5
Capital Expenditures	10.0	0.0	+10.0	Increasing	1	14.0	82.0	4.0
Inventories	13.6	19.0	–5.4	Increasing	9	27.8	58.0	14.2
Companywide Retail Activity								
Companywide Sales	5.0	3.5	+1.5	Increasing	10	17.3	70.4	12.3
Companywide Internet Sales	3.9	7.1	–3.2	Increasing	10	10.8	82.3	6.9

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	0.5	–8.3	+8.8	Improving	1	10.4	79.7	9.9
General Business Activity	–5.8	–12.1	+6.3	Worsening	3	5.4	83.4	11.2

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†	6.0	12.7	–6.7	Increasing	9	14.0	78.0	8.0

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	24.9	2.2	+22.7	Increasing	2	37.0	50.9	12.1
Employment	3.3	–1.6	+4.9	Increasing	1	12.4	78.6	9.1
Part-Time Employment	3.6	–2.5	+6.1	Increasing	1	10.2	83.2	6.6
Hours Worked	0.5	–7.3	+7.8	Increasing	1	5.1	90.3	4.6
Wages and Benefits	24.5	17.6	+6.9	Increasing	122	30.9	62.7	6.4
Input Prices	26.6	16.4	+10.2	Increasing	118	32.7	61.2	6.1
Selling Prices	27.1	19.2	+7.9	Increasing	118	37.5	52.1	10.4
Capital Expenditures	16.3	9.2	+7.1	Increasing	2	20.4	75.5	4.1
Inventories	–14.1	6.7	–20.8	Decreasing	1	15.2	55.5	29.3
Companywide Retail Activity								
Companywide Sales	20.3	9.0	+11.3	Increasing	119	33.2	53.9	12.9
Companywide Internet Sales	12.5	5.1	+7.4	Increasing	31	21.9	68.8	9.4

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	7.9	–16.5	+24.4	Improving	0	16.6	74.7	8.7
General Business Activity	7.5	–20.0	+27.5	Improving	1	16.7	74.1	9.2

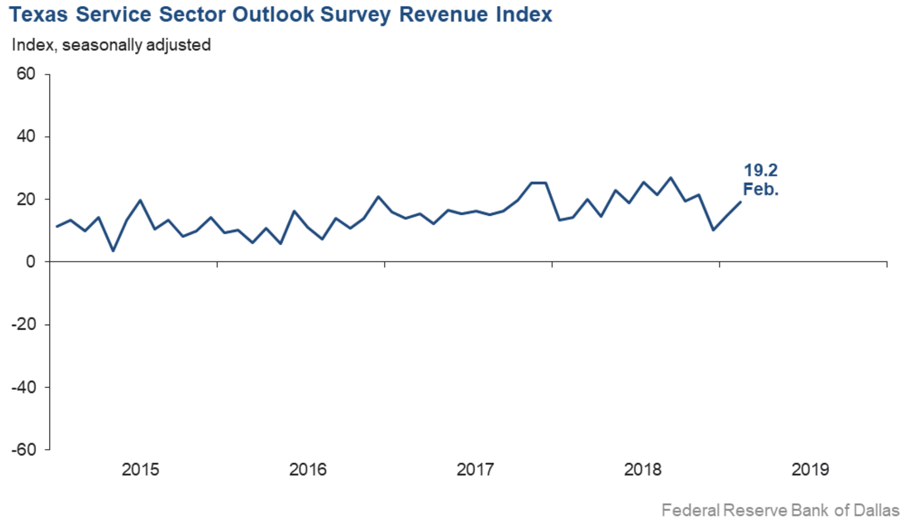
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**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

February 26, 2019

Comments from Survey Respondents

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

Utilities

- There continues to be a high level of uncertainty around the trade tariffs with China and the March 1 deadline. It doesn't appear that a deal will be in place before the tariffs are increased. Until that is resolved, it will be difficult to make long-term decisions that may be impacted by the tariffs.

Pipeline Transportation

- Our increase in revenue and employees is associated with completion of multiyear construction projects and placing these assets in service as opposed to stronger demand from an increasing economy.

Support Activities for Transportation

- Mexico is always a concern for all binational companies like ours. The new Mexican administration is still changing policies, and we are waiting to see if the imports may be negatively affected.
- We saw a drop in demand from what was expected in February. We are unsure whether or not that is seasonal/weather-related or a sign that it could be something longer term.

Publishing Industries (Except Internet)

- Forward-looking geopolitical and economic uncertainties continue to be a main factor in business risk assessment. Some relief or resolution domestically seems to be on the horizon, but euro trends are escalating in many countries. Asia uncertainty is more tied to U.S.–China discussions and results. While international is of less concern than domestic business for us, it matters as global business and fiscal policies are connected like a circuit.

Credit Intermediation and Related Activities

- The banking environment is currently being influenced by the various uncertainty of the economic forecast and the disruption of government conflicts. The local economy is being impacted by three sand-mining companies' scheduled closings that are reported to displace approximately 360 employees. This has already reduced the substantial number of truckers hauling for the companies closing their mining operations. The construction of a new 64-tower wind farm will temporarily offset the loss of jobs in our area and will help fill the property tax values in the future that are anticipated to be lost from the mining companies closing operations.

Real Estate

- There is some concern that the political and media noise will become a drag on otherwise good economic fundamentals.

Professional, Scientific and Technical Services

- Orders for residential and commercial transactions were down 15–20 percent year over year for the month of January. Orders for the month of February have improved but are still down year over year. We think residential orders will continue to improve through the summer, but we have definitely seen the overall market begin to shows signs of weakening.
- Real estate remains very active.
- The governmental shutdown has everyone skittish. Stability is not present. Brexit is still an issue.
- It appears that more of our clients are beginning to take marketing in-house. We'd prefer they rely on us obviously. Clients still seem to have a significant need for more services, yet their budgets are shrinking.
- We have a severe shortage of entry-level labor. We have in the past used the H2B visa program to supplement our seasonal needs. Much like last year, there are nearly four times more applicants than available visas, and we will not be receiving our visas. As such, growth this year will be severely limited unless Congress enacts some substantial form of "cap relief."

- Because of the government shutdown, some work performed for clients has been delayed but should not result in permanent work reduction or fees.
- We're still very concerned about the confluence of events at the end of the first quarter related to China trade talks, Brexit and whether we will continue with the political upheavals in Washington. If all that clears, we feel pretty good about the market demand for the remainder of 2019. If it doesn't, then we believe the rest of 2019 could be tough. That said, we continue to see a slowdown in real estate activity and a pickup in restructuring work. We also have been a bit surprised by increased activity on the bankruptcy side of our practice.
- Clients are suffering from tariffs, the government shutdown and uncertainty of interest rates on the federal level. On the Texas level, the lack of clear rules and regulations for some of our clients' industries is causing them to reconsider expansion in Texas, and thus there is a local slowdown of their business. Slowdown of our clients' business is a slowdown for our business.
- The government shutdown has impacted thousands of people not mentioned in the news. A few contractors (such as janitors) are mentioned, but the people who wait tables, serve coffee and work at those restaurants will never recoup the money that was not spent during the shutdown. Additionally, the government workers who eventually get paid will have lower incomes in 2018 but will see a significant bump in 2019, which means a higher tax bill (with possible bumps in brackets).

Administrative and Support Services

- Interest rates seem to have stabilized for a while. Any relief of uncertainty should be welcome for the housing market.
- We have had very bad weather conditions.

Educational Services

- We had a successful sale of additional bonds. More capital expansion projects are underway.
- I continue to believe that trade policy (i.e., China) will be resolved at some point. I think the Federal Reserve will take a more neutral stance with regard to interest rates looking forward. I remain very optimistic.

Ambulatory Health Care Services

- We seem to be doing better than our competitors.
- Return of drought to the area could adversely affect income from ag sources, and potential wildfires could create very large losses. This drop in available funds could encourage patients to delay medical care.
- This month's economics limerick: February had news of no Queens HQ2 for Amazon; risk of the feared inverted yield curve long gone; oil priced by irrational heads putting pressure on crack spreads; dozen running for pres, one even named Julian.

Hospitals

- Increased unfunded mandates and decreased reimbursements continue to paralyze independent rural health systems. We are going to have to transform delivery to survive.
- Activity is growing, but reimbursements are deteriorating. We see higher costs and lower revenue despite growing volume.

Nursing and Residential Care Facilities

- Fifty percent of our total revenue comes from state and federal contracts. The state legislature has included a rate increase for state-run facilities and has not increased the private-run facilities' reimbursement rates since 2013. That increase did not offset the decreases we got in 2011 and 2012. This is making it extremely difficult to hire qualified employees capable of adherence to more stringent requirements.
- The labor market for both nurses and nurse aides has really tightened as the demand for these positions has increased, while at the same time the labor pool has shrunk. Along with many of our competing nursing homes and assisted-living facilities, we are being forced to offer large sign-on bonuses to attract any job candidates.

Amusement, Gambling and Recreation Industries

- The major issue is the lack of qualified employees. We have remained relatively stable because our workforce has been with us for years, and we offer lots of benefits. However, when we go to hire new people, it is a significant challenge—first, even to attract people for interviews and then to get them to take the job and to actually show up once they have committed. This is mainly due to counteroffers. Also the food service industry is competing with construction, retail, transportation and entry-level high-tech for employees. It is very challenging. Many of the smaller businesses are giving up, as it is just too hard.

Accommodation

- I was concerned by Washington's ongoing dysfunctionality last month, and I still have that same concern. In spite of Washington, our economy locally does seem to be moving forward. However, our pool of labor is very tight and seemingly getting tighter. At some point, Washington has got to address the immigration issue in its totality.

Food Services and Drinking Places

- The government shutdown had a negative effect on restaurant sales.

Merchant Wholesalers, Durable Goods

- The ship still looks to be steaming ahead without much in the way of bad news. The economy continues to be strong and steady.
- Business with China has started to pick up again. Mexico is still lagging.

Merchant Wholesalers, Nondurable Goods

- Things have flattened out year over year. Interest rate increases will affect how much inventory we have on the floor. We will need to be more creative on which items we are going to stock.

Motor Vehicle and Parts Dealers

- Our better results and outlook are due to new and better management rather than an improvement in local economic activity.
- Tariffs continue to be a looming threat for the auto business and could raise consumer prices significantly.
- Prices are increasing and margins declining. Manufacturers will continue to increase dealers' cost of inventory. Operating expenses continue to increase. Profits will decline from 2018, and 2018 was worse than 2017.
- February will likely not be as profitable as January due to delivery of a large order in January.
- Any new tariffs related to the auto industry would completely change my opinion of business activity in the near future.

Building Material and Garden Equipment and Supplies Dealers

- Retail sales conditions have improved with the end of the government shutdown. Recession worries are still out there, but the pause in Fed rate hikes suggests at least some policymakers are on top of things.

Clothing and Clothing Accessories Stores

- Our sales have been impacted by severe weather in many parts of the country.

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

Texas **Business** Outlook Surveys

Special Questions

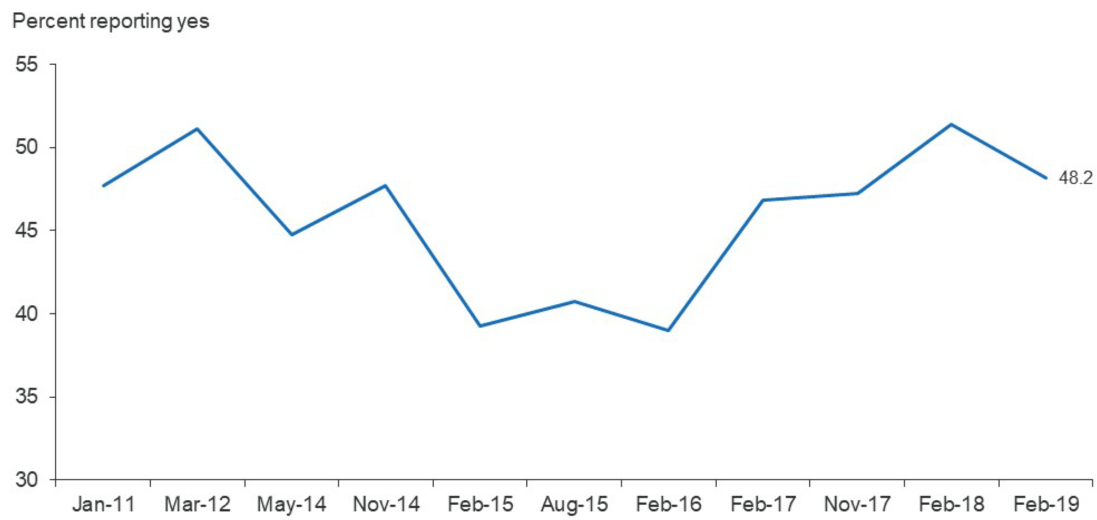
February 25, 2019

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

Texas Business Outlook Surveys

Data were collected Feb. 12–20, and 384 Texas business executives responded to the surveys.
See data files with a full history of results.

Do you expect your firm to increase employment over the next six to 12 months?



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

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

	Feb. '15 (percent)	Feb. '16 (percent)	Feb. '17 (percent)	Feb. '18 (percent)	Feb. '19 (percent)
Increase	39.3	39.0	46.9	51.4	48.2
Leave unchanged	45.0	43.8	43.1	39.2	44.3
Decrease	15.7	17.2	10.1	9.4	7.6

Are you having problems finding qualified workers when hiring?

	Feb. '15 (percent)	Feb. '16 (percent)	Feb. '17 (percent)	Feb. '18 (percent)	Feb. '19 (percent)
Yes	66.4	62.9	63.4	64.8	65.3
No	33.6	37.1	36.6	35.2	34.7

If you are trying to fill *low-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	80.5
No	19.5

If you are trying to fill *mid-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	86.0
No	14.0

If you are trying to fill *high-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	77.1
No	22.9

Is year-to-date production/revenue at your firm stronger, weaker, or about the same as expected?

	Feb. '19 (percent)
Stronger	28.1
Weaker	17.6
About the same	54.3

If your firm has experienced weaker-than-expected production/revenue, which factors are the primary drivers? Please select up to three.**

	Feb. '19 (percent)
Increased uncertainty causing customers to reduce demand	49.2
Lower oil prices and/or pipeline capacity constraints slowing energy activity	23.0
Weaker global economy hurting global demand	19.7
Tariffs hurting global demand	19.7
Tariffs hurting domestic demand (through higher input costs and prices)	19.7
Higher interest rates slowing construction/housing activity	18.0
Labor constraints limiting capacity	13.1
Higher cost of credit hurting financing needs	9.8
Stronger dollar hurting global demand	0.0
Other	27.9

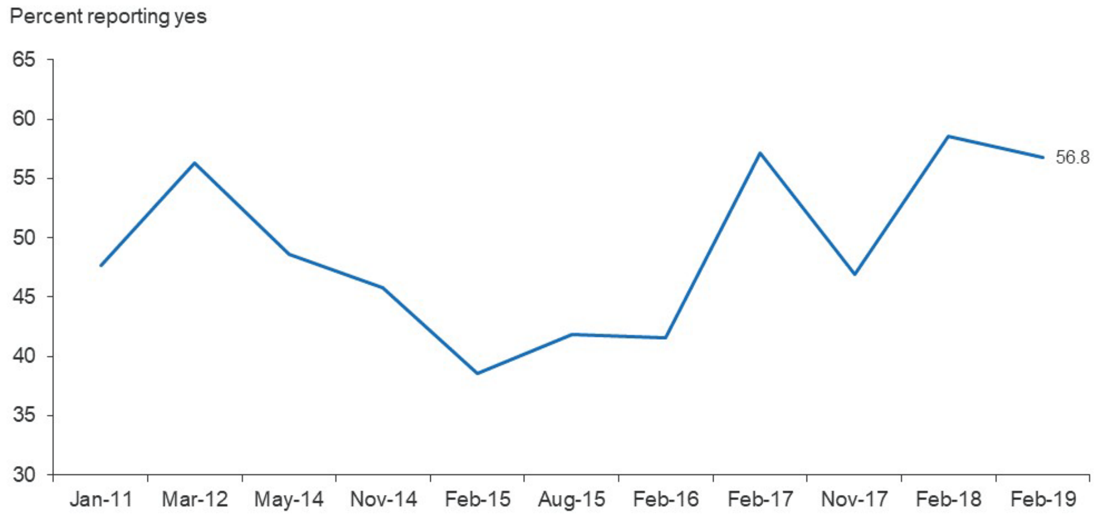
*This question was posed only to firms that noted they are having problems finding qualified workers when hiring.
**This question was posed only to firms that responded that their year-to-date production/revenue was weaker than expected.
NOTES: Survey respondents were given the opportunity to provide comments. These comments can be found on the individual survey Special Questions results pages

Texas Manufacturing Outlook Survey

Data were collected Feb. 12–20, and 118 Texas manufacturers responded to the survey.

See data files with a full history of results.

Do you expect your firm to increase employment over the next six to 12 months?



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

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

	Feb. '15 (percent)	Feb. '16 (percent)	Feb. '17 (percent)	Feb. '18 (percent)	Feb. '19 (percent)
Increase	38.6	41.6	57.1	58.6	56.8
Leave unchanged	43.4	44.2	33.0	35.4	38.1
Decrease	18.1	14.2	9.8	6.1	5.1

Are you having problems finding qualified workers when hiring?

	Feb. '15 (percent)	Feb. '16 (percent)	Feb. '17 (percent)	Feb. '18 (percent)	Feb. '19 (percent)
Yes	69.9	66.1	68.5	69.7	66.9
No	30.1	33.9	31.5	30.3	33.1

If you are trying to fill *low-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	83.8
No	16.2

If you are trying to fill *mid-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	83.1
No	16.9

If you are trying to fill *high-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	70.3
No	29.7

Is year-to-date production/revenue at your firm stronger, weaker, or about the same as expected?

	Feb. '19 (percent)
Stronger	35.0
Weaker	23.1
About the same	41.9

If your firm has experienced weaker-than-expected production/revenue, which factors are the primary drivers? Please select up to three.**

	Feb. '19 (percent)
Increased uncertainty causing customers to reduce demand	50.0
Tariffs hurting global demand	30.8
Tariffs hurting domestic demand (through higher input costs and prices)	30.8
Weaker global economy hurting global demand	15.4
Lower oil prices and/or pipeline capacity constraints slowing energy activity	15.4
Higher cost of credit hurting financing needs	11.5
Higher interest rates slowing construction/housing activity	11.5
Labor constraints limiting capacity	7.7
Stronger dollar hurting global demand	0.0
Other	26.9

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

**This question was posed only to firms that responded that their year-to-date production/revenue was weaker than expected

Special Questions Comments

These comments have been edited for publication.

Primary Metal Manufacturing

- Our biggest issue now is finding enough good people to staff the factory floor.

Fabricated Metal Product Manufacturing

- Skilled and semi-skilled workers are difficult to find.

Chemical Manufacturing

- We decreased employment in early January but don't expect further cuts.

Machinery Manufacturing

- Revenue has surpassed our expectations because our competitors are ending the services they used to provide. And our current customers are buying in bigger quantities. Our past support of our customers is paying off in a big way, and they are depending on us for products and services more than ever since they have more work than they expected. Our hiring has increased dramatically, but finding the right people is harder even when we offer higher wages.

Computer and Electronic Product Manufacturing

- We have moderate challenges finding all levels of workers, but the greatest challenge is with our highly skilled positions.

Electrical Equipment, Appliance, and Component Manufacturing

- We were below market in pay due in part to not fully grasping where the market was. We have taken strong measures to correct that, and it appears to be working well since implementing them in January.

Transportation Equipment Manufacturing

- Although our company has always primarily purchased domestic manufactured steel, when tariffs were imposed on imports of steel, the domestic steel mills immediately increased their pricing by 20–22 percent, thereby creating unfavorable competition from foreign manufacturers.

Printing and Related Support Activities

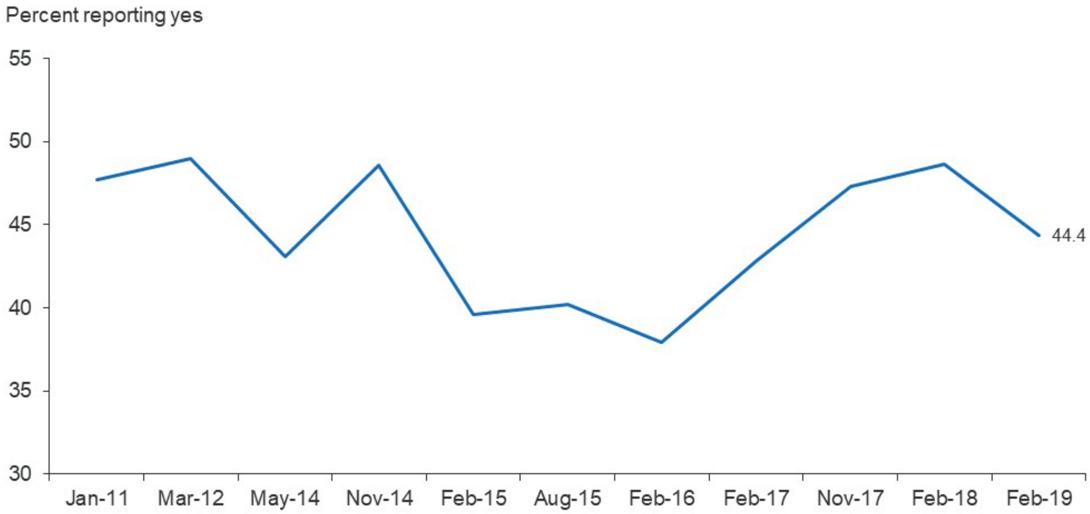
- I think the economy is not doing as well as people think, and in the graphic arts industry that we serve, that is definitely the case.

Texas Service Sector Outlook Survey

Data were collected Feb. 12–20, and 266 Texas business executives responded to the survey.

See data files with a full history of results.

Do you expect your firm to increase employment over the next six to 12 months?



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

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

	Feb. '15 (percent)	Feb. '16 (percent)	Feb. '17 (percent)	Feb. '18 (percent)	Feb. '19 (percent)
Increase	39.6	37.9	42.8	48.7	44.4
Leave unchanged	45.7	43.6	47.0	40.7	47.0
Decrease	14.7	18.4	10.2	10.6	8.6

Are you having problems finding qualified workers when hiring?

	Feb. '15 (percent)	Feb. '16 (percent)	Feb. '17 (percent)	Feb. '18 (percent)	Feb. '19 (percent)
Yes	65.0	61.7	61.4	62.9	64.5
No	35.0	38.3	38.6	37.1	35.5

If you are trying to fill *low-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	78.6
No	21.4

If you are trying to fill *mid-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	87.5
No	12.5

If you are trying to fill *high-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	80.3
No	19.7

Is year-to-date production/revenue at your firm stronger, weaker, or about the same as expected?

	Feb. '19 (percent)
Stronger	25.0
Weaker	15.2
About the same	59.8

If your firm has experienced weaker-than-expected production/revenue, which factors are the primary drivers? Please select up to three.**

	Feb. '19 (percent)
Increased uncertainty causing customers to reduce demand	48.6
Lower oil prices and/or pipeline capacity constraints slowing energy activity	28.6
Weaker global economy hurting global demand	22.9
Higher interest rates slowing construction/housing activity	22.9
Labor constraints limiting capacity	17.1
Tariffs hurting global demand	11.4
Tariffs hurting domestic demand (through higher input costs and prices)	11.4
Higher cost of credit hurting financing needs	8.6
Stronger dollar hurting global demand	0.0
Other	28.6

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

**This question was posed only to firms that responded that their year-to-date production/revenue was weaker than expected

Special Questions Comments

These comments have been edited for publication.

Utilities

- We need more high-skilled immigration. There simply aren't enough U.S. citizens to fill these positions.

Specialty Trade Contractors

- Revenue is up because we have increased margins because our industry is facing a lack of labor, which means there is more work available at higher margins. We can pick and choose the work we want to do.

Pipeline Transportation

- Our increase in employment is associated with new assets being placed into service for which construction commenced about two years ago.

Support Activities for Transportation

- Revenues will increase upon settlement of the China grain tariff. Exports of grain decreased in 2018 and have not recovered at this location due to China being a major customer.

Data Processing, Hosting and Related Services

- We are using all recruiting tools available to hire talented people. We are paying more in wages and increasing benefits to attract folks. There just aren't enough in the workforce. We are considering recruiting out of state even though we're hesitant to do so.

Credit Intermediation and Related Activities

- Planning for succession of management in rural markets is a challenge requiring planning in advance of positions coming open. Typically, this results in an overlap of management placement, creating an increase in salary cost for a period of time.

Rental and Leasing Services

- Finding, hiring and retaining positions like heavy-equipment technicians, parts personnel, branch managers and equipment salesmen is very challenging. With so many jobs available today, good employees leave for falsely perceived better opportunities that will be gone as soon as the economy turns down (no later than next year … hope we make it that long!). We would provide better benefits to our already-excellent package, but there are aspects of the Affordable Care Acts that make benefit expenses nondeductible if you exceed an arbitrary level, limiting the benefits our company can provide to its 689 employees.

Professional, Scientific and Technical Services

- We estimate 2019 will be a stronger business year than 2018 for us.
- We are in need of an additional 75–100 entry-level employees but are not confident we will find them.

Waste Management and Remediation Services

- We will screen several candidates for all skill levels but find applicants are not as qualified as they believe they are for the particular opening. We also shy away from applicants who may have been at several jobs within a short period of time.

Educational Services

- We are not attempting to hire.

Hospitals

- Our reimbursements are deteriorating despite the growing economy. Bad debt is at record levels.

Nursing and Residential Care Facilities

- We are hopeful that the lack of certified nurse aides looking for jobs will improve once they've spent their tax refunds.

Amusement, Gambling and Recreation Industries

- There are many times that we have to limit reservations because we do not have enough qualified cooks and waiters to take care of the demand. It is our policy to try and manage the expectations and provide a good experience rather than try and overbook and have people disappointed.

Accommodation

- We do not necessarily have an issue finding qualified workers as much as those who want to work.

Food Services and Drinking Places

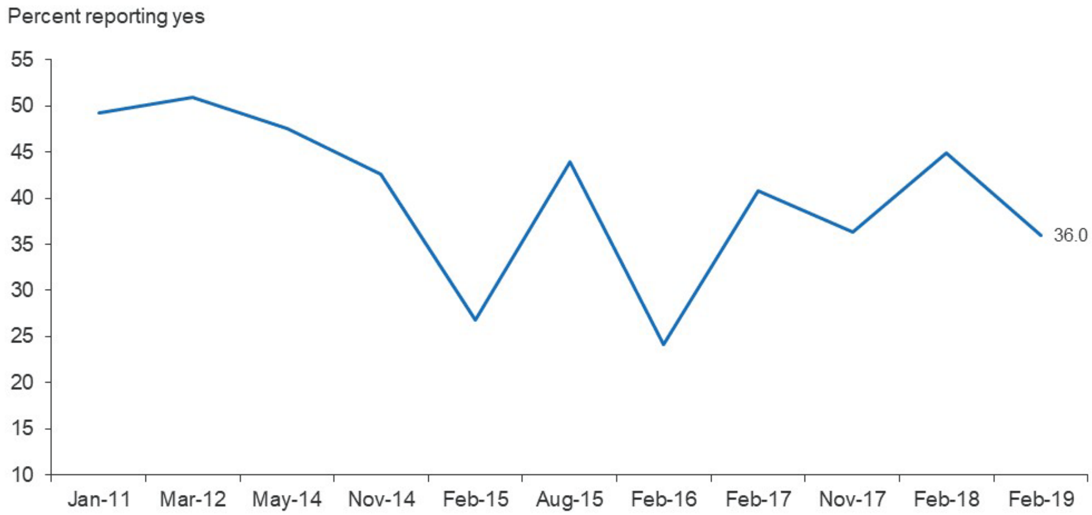
- We have a hard time finding folks that want to work in the restaurant sector at all levels. Our turnover has become higher in recent years due to better economic conditions. I do suspect that this may change if the economy starts to slow down.
- We have trouble finding qualified workers in certain areas where our stores are located. The more affluent areas are the bigger concerns. Near the border we are still able to hire fairly easily.

Texas Retail Outlook Survey

Data were collected Feb. 12–20, and 50 Texas retailers responded to the survey.

See data files with a full history of results.

Do you expect your firm to increase employment over the next six to 12 months?



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

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

	Feb. '15 (percent)	Feb. '16 (percent)	Feb. '17 (percent)	Feb. '18 (percent)	Feb. '19 (percent)
Increase	26.8	24.1	40.7	44.9	36.0
Leave unchanged	53.7	56.9	50.0	36.7	54.0
Decrease	19.5	19.0	9.3	18.4	10.0

Are you having problems finding qualified workers when hiring?

	Feb. '15 (percent)	Feb. '16 (percent)	Feb. '17 (percent)	Feb. '18 (percent)	Feb. '19 (percent)
Yes	75.6	67.2	76.4	75.5	65.3
No	24.4	32.8	23.6	24.5	34.7

If you are trying to fill *low-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	76.0
No	24.0

If you are trying to fill *mid-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	85.7
No	14.3

If you are trying to fill *high-skill* positions, are you having problems finding qualified workers?*

	Feb. '19 (percent)
Yes	70.4
No	29.6

Is year-to-date production/revenue at your firm stronger, weaker, or about the same as expected?

	Feb. '19 (percent)
Stronger	20.4
Weaker	12.2
About the same	67.3

If your firm has experienced weaker-than-expected production/revenue, which factors are the primary drivers? Please select up to three.**

	Feb. '19 (percent)
Increased uncertainty causing customers to reduce demand	66.7
Weaker global economy hurting global demand	33.3
Higher cost of credit hurting financing needs	16.7
Tariffs hurting domestic demand (through higher input costs and prices)	16.7
Higher interest rates slowing construction/housing activity	16.7
Lower oil prices and/or pipeline capacity constraints slowing energy activity	16.7
Labor constraints limiting capacity	0.0
Stronger dollar hurting global demand	0.0
Tariffs hurting global demand	0.0
Other	33.3

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

**This question was posed only to firms that responded that their year-to-date production/revenue was weaker than expected

Special Questions Comments

These comments have been edited for publication.

Motor Vehicle and Parts Dealers

- It's getting harder to find job applicants that can pass a drug test.
- We are expanding our facility. This added capacity will create a need for added personnel.
- One of our retail centers will relocate to a new facility in 2019, and we will hire additional people to accommodate anticipated growth.
- Skilled auto technicians are extremely hard to find, causing wages to increase substantially due to poaching from other dealers.
- Improved quality of managers is responsible for our stronger revenue results.

Building Material and Garden Equipment and Supplies Dealers

- It's a seasonally slow time of year for our business. Demand was weaker during the government shutdown, but it appears to have picked back up in early February.

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