Texas **Service Sector** Outlook Survey

May 29, 2019

Texas Service Sector Activity Growth Weakens

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, Texas Service Sector Outlook Survey and Texas Retail Outlook Survey have been released together.

Texas service sector activity decelerated 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, dropped from 13.9 in April to 2.7 in May.

Labor market indicators reflected slower employment growth and slightly longer workweeks this month. The employment index declined nearly five points but held positive at 6.8, while the hours worked index was roughly unchanged at 1.8 in May.

Perceptions of broader business conditions turned negative, while uncertainty measures increased sharply in May. The general business activity index fell six points to -0.3, while the company outlook index fell into negative territory at -2.3. The outlook uncertainty index surged from 12.8 to 19.3 in May, its highest reading since the series began in January 2018.

Price and wage pressures eased moderately this month. The wages and benefits index dropped slightly to 19.0 in May, while the selling prices index fell to 4.6, its lowest reading in more than two years. The input prices index slipped two points to 23.7.

Respondents' expectations regarding future business conditions, though still positive on net, were much less so than in April. The future general business activity index fell from 12.3 to 0.7 in May, while the future company outlook index dropped over 15 points to 4.1. Other indexes of future service sector activity, such as revenue and employment, also declined but remain positive, reflecting expectations of continued growth over the next six months.

Texas **Retail** Outlook Survey

Retail Sales Fall

Retail sales fell in May, according to business executives responding to the Texas Retail Outlook Survey. The sales index plummeted from 13.2 in April to -9.2 in May, its lowest value since 2015. Inventories continued to fall, as the inventories index dipped from -5.5 to -6.6.

Retail labor market indicators were negative, suggesting a slight drop in employment and a shorter workweek. The employment index fell over 12 points to -3.8, while the hours worked index declined from -2.2 to -7.8, its lowest reading since late 2016.

Retailers' perceptions of broader business conditions were increasingly pessimistic and uncertain in May. The general business activity index fell from -10.7 to -15.5, while the company outlook index plummeted over 15 points to -20.4, a near-decade low. The outlook uncertainty index surged to a record high of 34.6.

Retail price and wage pressures eased in May. The selling prices index dropped from 10.9 to 1.4, while the input prices index slipped about four points to 7.3. The wages and benefits index softened slightly from 18.3 in April to 16.6 in May, although over a quarter of respondents still reported increasing labor costs.

Retailers' perception of future business conditions worsened this month. The future general business activity index plunged from 2.5 in April to -15.6 in May, while the future company outlook index fell over 17 points to -8.4. Other indexes of future retail sector activity, such as sales and employment, also turned negative, suggesting expectations of weaker conditions over the next six months.

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: June 25, 2019

Data were collected May 14–22, and 235 Texas service sector and 53 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	2.7	13.9	–11.2	Increasing	114	22.8	57.1	20.1
Employment	6.8	11.6	–4.8	Increasing	111	14.9	77.0	8.1
Part-Time Employment	1.9	2.8	–0.9	Increasing	4	6.6	88.7	4.7
Hours Worked	1.8	2.4	–0.6	Increasing	31	8.8	84.2	7.0
Wages and Benefits	19.0	20.3	–1.3	Increasing	120	22.3	74.4	3.3
Input Prices	23.7	25.7	–2.0	Increasing	121	26.3	71.1	2.6
Selling Prices	4.6	10.4	–5.8	Increasing	39	11.5	81.6	6.9
Capital Expenditures	11.9	17.5	–5.6	Increasing	117	17.3	77.3	5.4

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	–2.3	5.5	–7.8	Worsening	1	12.1	73.5	14.4
General Business Activity	–0.3	5.7	–6.0	Worsening	1	13.6	72.5	13.9

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	19.3	12.8	+6.5	Increasing	16	27.6	64.1	8.3

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	27.7	41.3	–13.6	Increasing	123	40.9	45.9	13.2
Employment	16.9	19.4	–2.5	Increasing	122	28.8	59.3	11.9
Part-Time Employment	1.9	4.8	–2.9	Increasing	83	10.7	80.4	8.8
Hours Worked	1.9	7.1	–5.2	Increasing	33	8.8	84.3	6.9
Wages and Benefits	36.3	37.7	–1.4	Increasing	149	40.1	56.1	3.8
Input Prices	40.2	38.1	+2.1	Increasing	149	42.9	54.4	2.7
Selling Prices	22.2	26.8	–4.6	Increasing	121	28.2	65.8	6.0
Capital Expenditures	15.2	23.3	–8.1	Increasing	122	24.0	67.3	8.8

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	4.1	19.4	–15.3	Improving	5	20.8	62.5	16.7
General Business Activity	0.7	12.3	–11.6	Improving	4	18.1	64.6	17.4

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	–9.2	13.2	–22.4	Decreasing	1	20.8	49.1	30.0
Employment	–3.8	8.5	–12.3	Decreasing	1	8.6	79.0	12.4
Part-Time Employment	2.0	5.6	–3.6	Increasing	4	5.8	90.4	3.8
Hours Worked	–7.8	–2.2	–5.6	Decreasing	6	5.0	82.2	12.8
Wages and Benefits	16.6	18.3	–1.7	Increasing	99	25.2	66.2	8.6
Input Prices	7.3	10.9	–3.6	Increasing	40	14.4	78.5	7.1
Selling Prices	1.4	10.9	–9.5	Increasing	26	13.2	75.0	11.8
Capital Expenditures	3.8	14.8	–11.0	Increasing	4	11.5	80.8	7.7
Inventories	–6.6	–5.5	–1.1	Decreasing	2	18.1	57.2	24.7
Companywide Retail Activity								
Companywide Sales	–13.7	8.8	–22.5	Decreasing	1	15.8	54.7	29.5
Companywide Internet Sales	7.9	7.1	+0.8	Increasing	13	21.9	64.1	14.0

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	–20.4	–5.2	–15.2	Worsening	6	4.7	70.2	25.1
General Business Activity	–15.5	–10.7	–4.8	Worsening	6	5.2	74.1	20.7

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†	34.6	14.5	+20.1	Increasing	12	34.6	65.4	0.0

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	–7.2	25.6	–32.8	Decreasing	1	19.3	54.2	26.5
Employment	–8.3	5.0	–13.3	Decreasing	1	11.0	69.7	19.3
Part-Time Employment	–3.8	0.3	–4.1	Decreasing	1	6.9	82.4	10.7
Hours Worked	–6.0	–1.7	–4.3	Decreasing	7	5.9	82.2	11.9
Wages and Benefits	27.4	27.9	–0.5	Increasing	125	34.5	58.5	7.1
Input Prices	24.0	24.0	0.0	Increasing	121	30.0	64.0	6.0
Selling Prices	21.1	24.5	–3.4	Increasing	121	28.8	63.5	7.7
Capital Expenditures	–5.9	9.5	–15.4	Decreasing	1	7.8	78.4	13.7
Inventories	–7.8	1.5	–9.3	Decreasing	1	17.6	57.0	25.4
Companywide Retail Activity								
Companywide Sales	0.6	26.4	–25.8	Increasing	122	22.6	55.4	22.0
Companywide Internet Sales	5.3	26.3	–21.0	Increasing	34	23.7	57.9	18.4

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	–8.4	9.2	–17.6	Worsening	0	13.7	64.2	22.1
General Business Activity	–15.6	2.5	–18.1	Worsening	1	10.5	63.4	26.1

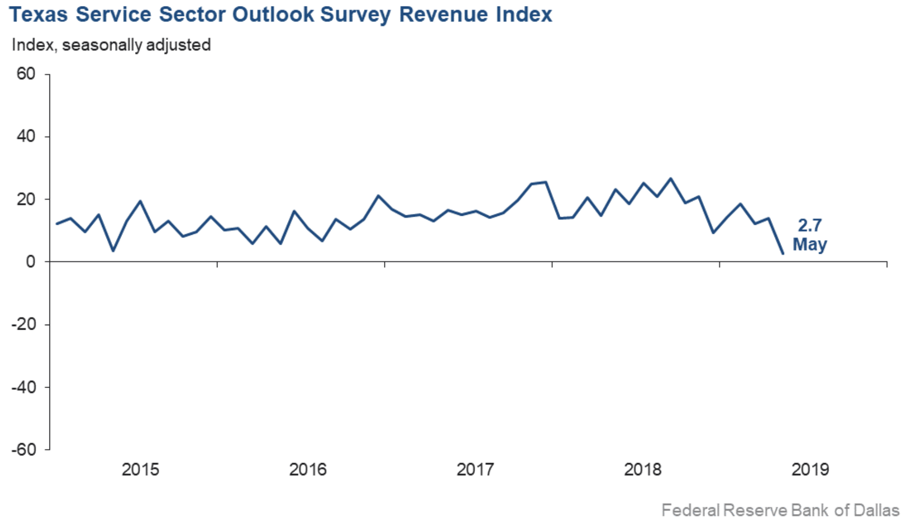
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

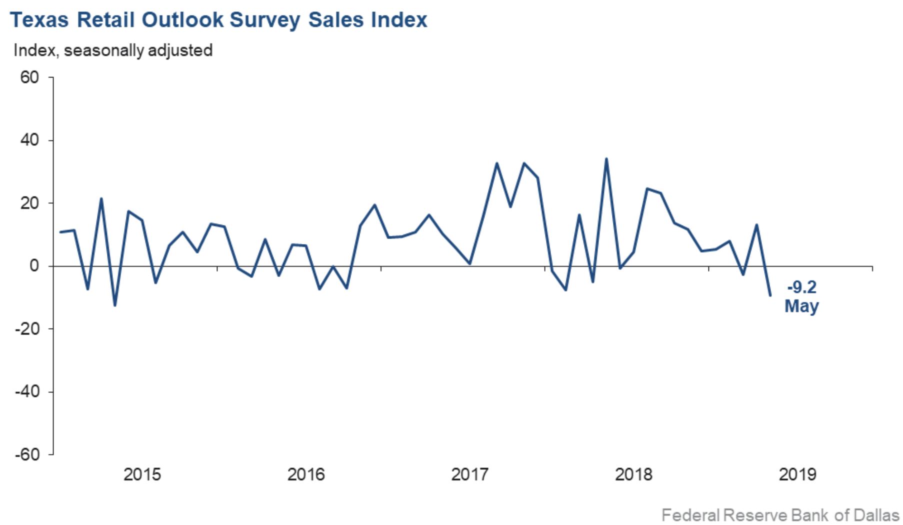
†Added to survey in January 2018.

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 29, 2019

Comments from Survey Respondents

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

Utilities

- The trade war with China is starting to affect long-term plans for many customers. There are a number of companies starting to plan for a slowdown.

Truck Transportation

- Our business level has almost stopped. Truck repair is extremely slow right now.

Publishing Industries (Except Internet)

- The "who blinks or folds first" regarding trade and military risk in Asia, South America and the Middle East seems to be a growing cluster of uncertainty. We have modest overall concern currently but it's getting hotter with escalating actions.

Data Processing, Hosting and Related Services

- The cost of hiring and keeping employees continues to increase. Additionally, the challenge of finding qualified employees has caused us to look outside of the local market (and outside of the state).

Credit Intermediation and Related Activities

- Our bank's balance sheets are tightening. We continue to focus on regulatory issues, including balance sheet concentrations, liquidity and margin pressures.
- Central Texas' shutdown of the oil sand mining industry is having a big impact on local businesses. Retail sales are down, and as a result, sales tax receipts are down. The area cities' revenues will be affected from reduction in utility income and lower property tax income beginning in 2020. A company from California bought two of the production plants; they are a landscape company specializing in golf courses and synthetic athletic fields that require sand bases and filler. They hired 44 employees to run the plants in McCulloch County. Oil well exploration has slowed down to the extent that even the West Texas oil sand surface mining production has slowed down enough to see some plants shut down out there. Until there is infrastructure to ship the anticipated volume of oil production that is possible from the oil well to the refineries and to the shipping harbors, there is only so much capacity available to ship the oil.

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

- Markets remain the same, but costs continue to rise: basic property taxes, insurance, raw materials and supplies. It is difficult to pass these increases on to our customer base.
- The economy seems to be stabilizing for us. Wages seem to be increasing at a more predictable rate. The number of applicants continues to remain strong, while hiring qualified candidates remains a concern.
- We are a financial services company. As such, market volatility and valuation affects our revenue. Recent revenue has spiked along with equity valuations. Personally, I am concerned current policy toward China will slow the economy, reduce consumer confidence, cause inflation and create a negative investment environment the back half of this year.
- Retail and auto sales have slowed. Construction is lower than last year, and drilling is down 40 percent, but crops will do better because of rain.

Insurance Carriers and Related Activities

- We're about to get through storm season in Texas, so hopefully the rain, hail and destructive wind is almost over for 2019.

Real Estate

- While I do not expect the trade talks to result in any real results in the near future, the unrealistic expectations of the press and the constant news coverage of the tariffs I believe will be very detrimental to consumer confidence and slow the economy in the future. The additional pressure of the elections next year I also see as a major damper for the consumer.
- The news regarding the tariff negotiation with China, the possible war in Iran and the negative media talk on immigration and Trump affects how buyers feel. They tend to hold back on large purchases, especially when their stock portfolio drops 600 points in a day.

Rental and Leasing Services

- First sign of an oilfield bust is if all your rental equipment starts coming home. Drive by all the equipment yards in the Permian, or for that matter anywhere in Texas. They are stacked with equipment!

Professional, Scientific and Technical Services

- Things are really wait and see at this point. We see decent results from an economic perspective right now. The China situation seems to be deteriorating somewhat. Things need to change from a trade perspective, and it's possible to still get there, although it may take more time than anticipated. Also we still believe the Fed [Federal Reserve] should hold its current course and not be influenced by this administration.
- Tariffs have caused the business of our clients to stall.
- We are much more optimistic with an administration willing to hold China to account and stand firm. Tariffs are causing no inflation; stock market, employment and growth are all at generational highs. If you can't be optimistic now, you never will be.
- The just-announced tariffs for Chinese products will increase prices overall.
- We continue to see a slow start to the year. Production is off year over year. While we hear of possibilities of new business and deals taking off, we are not seeing it happen. Any thought that we would start to work out of the slow start because of the government shutdown is now waning with the additions of new tariffs, the continued slowdown at the border, and the uncertainty with foreign policy moves.
- Generally, our outlook for the real estate industry has remained strong. Order counts for both commercial and residential transactions have remained steady, and we are optimistic that they will remain strong through the end of the year.
- We are seeing good increases in rates, and demand seems pretty strong. It looks like this year will be better than last year by a good amount.
- We're in the oil and gas business and are dependent upon new pipeline work. There are a lot of projects being discussed but just a very few that have actually gone forward. We are not sure why the market has slowed at this point.
- President Trump's tariffs are not helping the economy. They breed uncertainty. The political confusion is at its highest in my memory.

Management of Companies and Enterprises

- Indications and thoughts of an economic correction are beginning to weigh into our decisions going forward.

Administrative and Support Services

- Currently with a growing market, the competition within each industry places budget constraints on our customers, particularly in the multifamily and restaurant markets.

- Overall we have experienced a slowdown since May 1. This slowdown is not a natural cycle in our business model. Request for quotations (RFQs) have slowed down and projects that were scheduled have been delayed. As to the cause, we are still working on an answer. My guess would be the trade dispute. The industrial sector has decreased in activity for our inspection services starting March 2019. We see no increase until the trade issue is resolved. We hear from these people that the price of raw materials is their justification for this position. The commercial aviation sector has remained constant from April to May. With the "grounding" of the Boeing 737 MAX aircraft, we assume that the higher utilization hours being applied to other aircraft types will increase our customer needs for our services. The corporate aviation sector has increased 2 percent since April. Most of the increase is for smaller calendar-type inspections needed on components of the aircraft and not the airframe itself. The military market has remained consistent since the beginning of the year. We do project an increase if and when the DOD [Department of Defense] releases a new set of procurement guidelines. The metal fabrication sector has remained flat, with no increase in RFQs being submitted outside of our usual customer base. Once again, material prices are driving their concern for the RFQs that they submit to their customers.

Educational Services

- It seems like a tough time now with the China trade dispute. But this fight is well overdue. I think the U.S. will come out at the end in a better position. Trade should be free, but it needs to be fair first.

Ambulatory Health Care Services

- Monthly limerick punditry—Fed rates up or down, no prognosticator is quite sure; too many Twitter battles or social rants *du jour*; tariffs remain in the air; keep markets from a tear; politicians must remember: Fed independence must remain secure.
- Capital expenditures have related to updating network servers and workstations and are routine.

Hospitals

- Regulatory discussions in Washington continue to put pressures on rural independent health systems. The outlook does not look good for our rural communities.

Social Assistance

- The political climate makes it hard for small businesses to improve project growth, especially small minority businesses. State legislation is not transparent and is impacted quarterly by federal law changes. Looming changes in state laws and international trade issues are even more difficult to forecast and create even more instability.
- There have been issues with private funders changing their funding priorities.

Amusement, Gambling and Recreation Industries

- We have had poor weather conditions.

Accommodation

- We have experienced some softening of demand, particularly in industrial, agricultural and mineral markets. City center, airport and regional transportation hubs have seen flat demand but have the ability to slightly increase prices. Labor shortages and wage pressures continue to challenge our future profit outlook.
- We will undergo a capital renovation to our property that will impact our capacity for the back half of 2019.

Food Services and Drinking Places

- The China situation has affected us. Pork prices and disposable supplies have both pushed our costs higher. A planned increase in prices will have to come sooner than planned.
- This area is still developing, bringing in many new neighborhood competitors.
- Wages continue to increase. End-of-month sales seem to be impacted more, which tells me wage earners are living more hand to mouth.

Motor Vehicle and Parts Dealers

- Our industry is running at 17 million sales [seasonally adjusted, annualized rate], but it doesn't feel like it. Retail sales are down and fleet up. Inventories are, and have been, high all year due to a declining retail market. Floor plan expenses are significantly higher than a year ago—an increase of over $1 million for first quarter 2019 versus 2018 and annualized, $3 million. Unit costs are higher, new vehicle inventory is higher and interest rates are higher than a year ago. Dealer profits are down and many franchised dealers are operating in the "red."

Furniture and Home Furnishings Stores

- Sales volume is down in May, but primarily due to April being a record month. Order files remain slightly positive for the next three months. Weather has had a negative effect on business in three of five months this year. Forest products' cost deflation from last year has contributed to 5 percent reduction in year-over-year sales. Fortunately, we have offset that and more with new starts and inflation in other categories.

Building Material and Garden Equipment and Supplies Dealers

- Our sales are off over last year and, hopefully, this is just weather related, but the level of activity does seem down. Nothing really major, but not the growth we'd like to see.
- There are increasing consumer concerns over the cost and economic consequences of trade war, coupled with fears of U.S. military involvement in regional conflict between Saudi Arabia and Iran.

Clothing and Clothing Accessories Stores

- The tariff situation is becoming an issue as suppliers are now threatening higher pricing.

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

May 28, 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 May 14–22, and 372 Texas business executives responded to the surveys.
See data files with a full history of results.

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

NOTE: Shown are trimmed means with the lowest and highest five percent of responses omitted. 2018 actual and 2019 previous expectation figures are based on data collected in a December 2018 special question.
SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys

	May '19 (percent)
Wages	3.8
Input prices (excluding wages)	3.2
Selling prices	2.9

NOTES: 296 responses. Shown are trimmed means with the lowest and highest 5 percent of responses omitted.

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

	May '18 (percent)	Aug. '18 (percent)	Nov. '18 (percent)	May '19 (percent)
Increasing wages and/or benefits	61.6	63.4	66.6	62.7
Increasing wages			61.9	58.3
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	52.6	59.6	60.7	49.5
Offering additional training	27.8	36.6	35.9	32.9
Increasing variable pay, including bonuses	31.5	26.8	29.1	32.3
Improving working conditions	27.2	25.9	27.6	30.1
Increasing benefits			20.1	17.9
Reducing education and other requirements for new hires	8.3	12.9	12.1	8.5

NOTES: 319 responses. Starting in November 2018, "increasing wages" appears as a separate answer choice from 'increasing benefits.' We will continue to include the share of firms reporting increasing wages and/or benefits but as a calculation based on responses to "increasing wages" and 'increasing benefits.'

Are you currently trying to hire?

	May '19 (percent)
Yes	71.4
No	28.6

NOTE: 370 responses.

Are you having problems finding qualified workers when hiring?*

	May '19 (percent)
Yes	83.0
No	17.0

*This question posed only to respondents who answered "yes" to the previous question.
NOTE: 259 responses.

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

	Feb. '18 (percent)	Aug. '18 (percent)	Nov. '18 (percent)	May '19 (percent)
Lack of available applicants/no applicants	62.6	72.8	70.6	62.9
Lack of technical competencies (hard skills)	50.2	47.0	43.3	53.1
Looking for more pay than is offered	40.1	41.4	45.0	46.9
Lack of experience	37.0	37.1	40.7	39.4
Lack of workplace competencies (soft skills)	39.6	34.5	39.0	33.8
Inability to pass drug test and/or background check	30.0	31.0	32.5	32.9

*This question posed only to respondents who answered "yes" to the previous question.
NOTE: 213 responses.

At your firm, what is the average hourly wage paid for each category?

	May '19 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	$13.00/hour
Mid-skill positions (typically require some college or technical training)	$20.00/hour
High-skill positions (typically require college degree or higher)	$34.25/hour

NOTES: 249 responses. Shown are the median values.

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

	Dec. '18 (percent)	May '19 (percent)
Increased substantially	7.2	6.2
Increased slightly	23.1	22.9
Remained the same	24.4	29.1
Decreased slightly	34.2	33.6
Decreased substantially	11.1	8.2

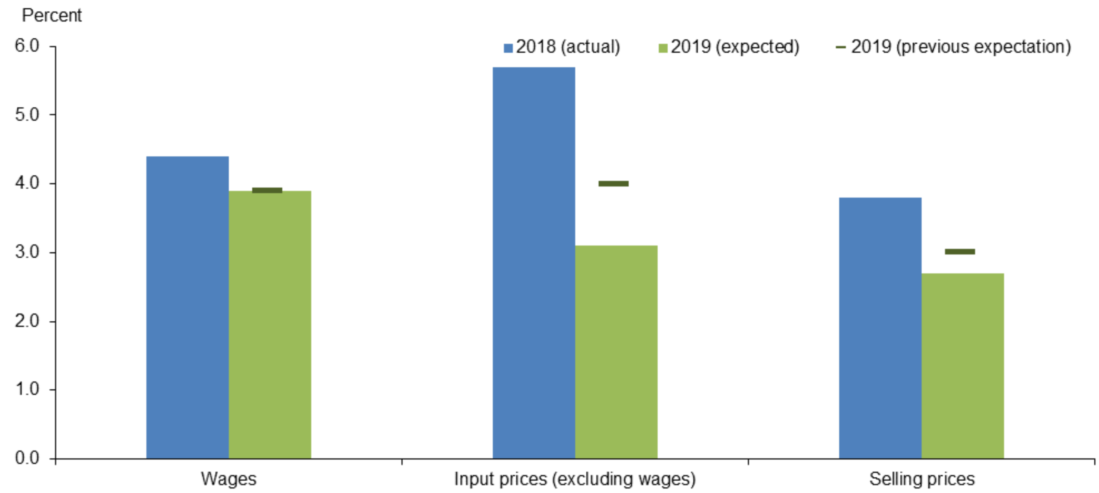
NOTE: 354 responses.

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 May 14–22, and 110 Texas manufacturers responded to the surveys.
See data files with a full history of results.

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



NOTE: Shown are trimmed means with the lowest and highest five percent of responses omitted. 2018 actual and 2019 previous expectation figures are based on data collected in a December 2018 special question.
SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey

	May '19 (percent)
Wages	3.9
Input prices (excluding wages)	3.1
Selling prices	2.7

NOTES: 97 responses. Shown are trimmed means with the lowest and highest 5 percent of responses omitted.

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

	May '18 (percent)	Aug. '18 (percent)	Nov. '18 (percent)	May '19 (percent)
Increasing wages and/or benefits	55.8	64.3	68.4	67.0
Increasing wages			63.3	59.6
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	53.5	67.3	61.2	54.3
Increasing variable pay, including bonuses	26.7	21.4	24.5	34.0
Offering additional training	30.2	38.8	32.7	28.7
Improving working conditions	24.4	24.5	30.6	24.5
Increasing benefits			16.3	16.0
Reducing education and other requirements for new hires	14.0	19.4	16.3	11.7

NOTES: 94 responses. Starting in November 2018, "increasing wages" appears as a separate answer choice from 'increasing benefits.' We will continue to include the share of firms reporting increasing wages and/or benefits but as a calculation based on responses to "increasing wages" and 'increasing benefits.'

Are you currently trying to hire?

	May '19 (percent)
Yes	72.7
No	27.3

NOTE: 110 responses.

Are you having problems finding qualified workers when hiring?*

	May '19 (percent)
Yes	79.5
No	20.5

*This question posed only to respondents who answered "yes" to the previous question.
NOTE: 78 responses.

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

	Feb. '18 (percent)	Aug. '18 (percent)	Nov. '18 (percent)	May '19 (percent)
Lack of technical competencies (hard skills)	60.3	64.9	57.5	68.9
Lack of available applicants/no applicants	72.1	70.3	69.9	60.7
Looking for more pay than is offered	38.2	47.3	43.8	44.3
Lack of experience	44.1	35.1	38.4	42.6
Lack of workplace competencies (soft skills)	44.1	36.5	45.2	42.6
Inability to pass drug test and/or background check	41.2	35.1	42.5	42.6

*This question posed only to respondents who answered "yes" to the previous question.
NOTE: 61 responses.

At your firm, what is the average hourly wage paid for each category?

	May '19 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	$14.00/hour
Mid-skill positions (typically require some college or technical training)	$20.00/hour
High-skill positions (typically require college degree or higher)	$35.00/hour

NOTES: 89 responses. Shown are the median values.

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

	Dec. '18 (percent)	May '19 (percent)
Increased substantially	11.1	11.4
Increased slightly	24.2	23.8
Remained the same	17.2	22.9
Decreased slightly	35.4	33.3
Decreased substantially	12.1	8.6

NOTE: 105 responses.

Special Questions Comments

These comments have been edited for publication.

Food Manufacturing

- We need a sensible immigration program to support manufacturing growth in the U.S. We are turning down growth opportunities because of lack of labor.

Apparel Manufacturing

- Efficiencies and increased volumes are driving margin increases.

Chemical Manufacturing

- There is a heavy focus on robotics and automation to address efficiencies and employment shortages.

Nonmetallic Mineral Product Manufacturing

- Input pricing changes depend upon tariff amounts.

Primary Metal Manufacturing

- Business is still very good. While we expect a slowdown in the second half of this year, the slowdown should be moderate.

Machinery Manufacturing

- Forecasting is impossible, and skilled labor is nonexistent.
- Tariffs are impacting profit and loss (P&L), and they will be increasing due to the 10 to 25 percent increase in May.

Electrical Equipment, Appliance and Component Manufacturing

- Wages are up, and in the Dallas area if you don't have a job, it's because you don't want one. (Or you can't pass the drug test.)

Transportation Equipment Manufacturing

- The motor home industry has been in a slump for six months.

Texas Service Sector Outlook Survey

Data were collected May 14–22, and 262 Texas business executives responded to the surveys.
See data files with a full history of results.

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

NOTE: Shown are trimmed means with the lowest and highest five percent of responses omitted. 2018 actual and 2019 previous expectation figures are based on data collected in a December 2018 special question.
SOURCE: Federal Reserve Bank of Dallas Texas Service Sector Outlook Survey

	May '19 (percent)
Wages	3.9
Input prices (excluding wages)	3.3
Selling prices	2.9

NOTES: 199 responses. Shown are trimmed means with the lowest and highest 5 percent of responses omitted.

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

	May '18 (percent)	Aug. '18 (percent)	Nov. '18 (percent)	May '19 (percent)
Increasing wages and/or benefits	63.9	63.0	65.8	60.9
Increasing wages			61.3	57.8
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	52.3	56.2	60.4	47.6
Offering additional training	26.9	35.6	37.3	34.7
Improving working conditions	28.2	26.5	26.2	32.4
Increasing variable pay, including bonuses	33.3	29.2	31.1	31.6
Increasing benefits			21.8	18.7
Reducing education and other requirements for new hires	6.0	10.0	10.2	7.1

NOTES: 225 responses. Starting in November 2018, "increasing wages" appears as a separate answer choice from 'increasing benefits.' We will continue to include the share of firms reporting increasing wages and/or benefits but as a calculation based on responses to "increasing wages" and 'increasing benefits.'

Are you currently trying to hire?

	May '19 (percent)
Yes	70.8
No	29.2

NOTE: 260 responses.

Are you having problems finding qualified workers when hiring?*

	May '19 (percent)
Yes	84.5
No	15.5

*This question posed only to respondents who answered "yes" to the previous question.
NOTE: 181 responses.

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

	Feb. '18 (percent)	Aug. '18 (percent)	Nov. '18 (percent)	May '19 (percent)
Lack of available applicants/no applicants	58.5	74.1	70.9	63.8
Looking for more pay than is offered	40.9	38.6	45.6	48.0
Lack of technical competencies (hard skills)	45.9	38.6	36.7	46.7
Lack of experience	34.0	38.0	41.8	38.2
Lack of workplace competencies (soft skills)	37.7	33.5	36.1	30.3
Inability to pass drug test and/or background check	25.2	29.1	27.8	28.9

*This question posed only to respondents who answered "yes" to the previous question.
NOTE: 152 responses.

At your firm, what is the average hourly wage paid for each category?

	May '19 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	$12.50/hour
Mid-skill positions (typically require some college or technical training)	$20.00/hour
High-skill positions (typically require college degree or higher)	$31.00/hour

NOTES: 161 responses. Shown are the median values.

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

	Dec. '18 (percent)	May '19 (percent)
Increased substantially	5.3	4.0
Increased slightly	22.6	22.5
Remained the same	27.9	31.7
Decreased slightly	33.7	33.7
Decreased substantially	10.6	8.0

NOTE: 249 responses.

Special Questions Comments

These comments have been edited for publication.

Truck Transportation

- Work has slowed down below what it takes to break even! We can't find anyone who wants to work as a diesel mechanic, even at $30 to $40 an hour.

Broadcasting (Except Internet)

- Our anticipated increase in wages is most impacted by our annual pay adjustments we do on July 1 of each year (so we consider that a seasonal adjustment). At this moment, we anticipate increasing all wages by 3 percent on July 1, 2019. On July 1, 2018, we increased wages by 5 percent and moved our "minimum wage" from $10 an hour to $11 an hour. We plan on holding our "minimum wage" at $11 for 2019.

Credit Intermediation and Related Activities

- Wages are increasing without increases in selling prices. We are focused on reductions in marketing and charitable giving budgets to try to maintain profit margins.

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

- Our margin has increased largely due to understaffing. The understaffing is not due to a lack of applicants. To the contrary, we have more applicants than ever before. Finding qualified applicants who can write a coherent sentence and pass evaluations remains very difficult.
- Our operating margin has decreased due to investment in future growth.

Professional, Scientific and Technical Services

- There is a lot of uncertainty on the economic front with USMCA [U.S.–Mexico–Canada trade agreement], Chinese tariffs, labor availability, etc.
- The only reason the operating margin has increased is because my firm has had some work (consulting).

Administrative and Support Services

- We are a staffing company and are finding the availability of skilled personnel to be limited.
- We are government contractors—our contracts are a fixed price and based on government wage determination.

Educational Services

- Labor costs are rising, and it is harder to raise contracted prices when our purchase orders are annual.

Nursing and Residential Care Facilities

- Margins dropped drastically with the increased cost of labor due to overtime. We have remained 6 to 10 percent short of the number of employees required to staff our required positions with an 85 percent turnover rate amongst 67 percent of our entire staff.

Food Services and Drinking Places

- Small same-store sales gains have cut commission checks to managers.

Texas Retail Outlook Survey

Data were collected May 14–22, and 50 Texas retailers responded to the surveys.

See data files with a full history of results.

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

NOTE: Shown are trimmed means with the lowest and highest five percent of responses omitted. 2018 actual and 2019 previous expectation figures are based on data collected in a December 2018 special question.
SOURCE: Federal Reserve Bank of Dallas Texas Retail Outlook Survey

	May '19 (percent)
Wages	3.8
Input prices (excluding wages)	3.5
Selling prices	3.3

NOTES: 35 responses. Shown are trimmed means with the lowest and highest 5 percent of responses omitted.

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

	May '18 (percent)	Aug. '18 (percent)	Nov. '18 (percent)	May '19 (percent)
Increasing wages and/or benefits	56.8	63.0	58.7	51.1
Increasing wages			56.5	46.7
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	65.9	54.3	58.7	44.4
Increasing variable pay, including bonuses	36.4	37.0	30.4	35.6
Offering additional training	18.2	30.4	26.1	33.3
Improving working conditions	27.3	32.6	26.1	22.2
Increasing benefits			15.2	20.0
Reducing education and other requirements for new hires	6.8	10.9	10.9	8.9

NOTES: 45 responses. Starting in November 2018, "increasing wages" appears as a separate answer choice from 'increasing benefits.' We will continue to include the share of firms reporting increasing wages and/or benefits but as a calculation based on responses to "increasing wages" and 'increasing benefits.'

Are you currently trying to hire?

	May '19 (percent)
Yes	70.0
No	30.0

NOTE: 50 responses.

Are you having problems finding qualified workers when hiring?*

	May '19 (percent)
Yes	88.6
No	11.4

*This question posed only to respondents who answered "yes" to the previous question.
NOTE: 35 responses.

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

	Feb. '18 (percent)	Aug. '18 (percent)	Nov. '18 (percent)	May '19 (percent)
Lack of technical competencies (hard skills)	48.6	52.6	45.5	64.5
Lack of available applicants/no applicants	56.8	78.9	66.7	61.3
Inability to pass drug test and/or background check	37.8	42.1	45.5	54.8
Lack of workplace competencies (soft skills)	40.5	36.8	39.4	35.5
Lack of experience	35.1	34.2	33.3	29.0
Looking for more pay than is offered	24.3	23.7	36.4	22.6

*This question posed only to respondents who answered "yes" to the previous question.
NOTE: 31 responses.

At your firm, what is the average hourly wage paid for each category?

	May '19 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	$12.00/hour
Mid-skill positions (typically require some college or technical training)	$20.00/hour
High-skill positions (typically require college degree or higher)	$29.50/hour

NOTES: 35 responses. Shown are the median values.

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

	Dec. ’18 (percent)	May ’19 (percent)
Increased substantially	2.6	2.3
Increased slightly	10.3	15.9
Remained the same	23.1	27.3
Decreased slightly	41.0	43.2
Decreased substantially	23.1	11.4

NOTE: 44 responses.

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- The big uncertainty is related to the recently implemented tariffs.

Merchant Wholesalers, Nondurable Goods

- Input prices will depend on tariffs.

Motor Vehicle and Parts Dealers

- Prices are entirely dependent on the automobile manufacturers. We have no control over them.
- Our company is focused on offsetting wage and other expense increases by trying to increase margins by small amounts—1 to 2 percent.

Clothing and Clothing Accessories Stores

- Input prices will be determined by the outcome of the tariff issues. Selling prices are very difficult to increase for an apparel retailer.

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