Texas **Service Sector** Outlook Survey

June 25, 2019

Texas Service Sector Growth Strengthens

What's New This Month

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

Activity in the Texas service sector grew at a faster pace in June, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, picked up from 2.7 in May to 13.6 in June.

Labor market indicators reflected steady employment growth and longer workweeks this month. The employment index was mostly unchanged at 6.9, while the hours worked index increased three points to 4.8 in June.

Perceptions of broader business conditions rebounded to positive territory, although uncertainty measures remained elevated. The general business activity index rose from -0.3 in May to 3.2 in June, while the company outlook index increased about seven points to 4.6. The capital expenditures index rose nearly five points to 16.6, slightly above its 12-month average, while the outlook uncertainty index was roughly unchanged at 19.0.

Wage pressures eased modestly this month, while price pressures inched up slightly. The wages and benefits index dropped from 19.0 in May to 16.9 in June. The selling prices index increased slightly to 6.9, while the input prices index ticked up to 25.8.

Respondents' expectations regarding future business conditions were more optimistic than in May. The future general business activity index jumped from 0.7 in May to 9.0 in June, while the future company outlook index increased nearly eight points to 11.9. Other indexes of future service sector activity, such as revenue and employment, improved compared with May and reflected expectations of faster growth over the next six months.

Texas **Retail** Outlook Survey

Retail Sales Continue to Decline

Retail sales fell in June, according to business executives responding to the Texas Retail Outlook Survey. The sales index improved but remained in negative territory, rising from -9.2 in May to -6.8 in June. Inventories picked up slightly, as the inventories index rose from -6.6 to 1.4.

Retail labor market indicators continued to deteriorate, as respondents indicated a drop in employment and a shorter workweek. The employment index fell over five points to -9.0, its lowest reading since early 2010. The hours worked index increased about four points but remained negative at -3.7.

Retailers' perceptions of broader business conditions continued to reflect pessimism, and uncertainty remained elevated in June. The general business activity index rose from -15.5 to -9.3, while the company outlook index increased nearly 10 points but also remained negative at -10.8. The outlook uncertainty index fell but was elevated at 26.0, with over one-third of respondents indicating heightened uncertainty compared with last month.

Retail price pressures were mixed in June, while wage pressures eased. The selling prices index surged 13 points to 14.4, while the input prices index held roughly steady at 7.7. The wages and benefits index plummeted over 10 points to 6.5, its lowest reading since 2016.

Retailers' perception of future business conditions remained negative this month. The future general business activity index climbed nearly 12 points but held negative at -3.8, while the future company outlook index increased nearly four points to -4.5. Other indexes of future retail sector activity were mixed, as the future sales index rebounded to positive territory, while the future employment index remained negative.

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: July 30, 2019

Data were collected June 11–19, and 213 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	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	13.6	2.7	+10.9	Increasing	115	29.6	54.4	16.0
Employment	6.9	6.8	+0.1	Increasing	112	17.4	72.1	10.5
Part-Time Employment	3.5	1.9	+1.6	Increasing	5	7.7	88.1	4.2
Hours Worked	4.8	1.8	+3.0	Increasing	32	10.9	83.0	6.1
Wages and Benefits	16.9	19.0	−2.1	Increasing	121	20.1	76.7	3.2
Input Prices	25.8	23.7	+2.1	Increasing	122	28.7	68.5	2.9
Selling Prices	6.9	4.6	+2.3	Increasing	40	14.3	78.4	7.4
Capital Expenditures	16.6	11.9	+4.7	Increasing	118	21.3	73.9	4.7

General Business Conditions
Current (versus previous month)

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	4.6	−2.3	+6.9	Improving	1	15.9	72.9	11.3
General Business Activity	3.2	−0.3	+3.5	Improving	1	16.8	69.6	13.6

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	19.0	19.3	−0.3	Increasing	17	25.7	67.6	6.7

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

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	37.2	27.7	+9.5	Increasing	124	46.7	43.9	9.5
Employment	24.6	16.9	+7.7	Increasing	123	32.6	59.4	8.0
Part-Time Employment	−1.4	1.9	−3.3	Decreasing	1	8.7	81.2	10.1
Hours Worked	2.8	1.9	+0.9	Increasing	34	9.2	84.4	6.4
Wages and Benefits	38.6	36.3	+2.3	Increasing	150	41.3	56.0	2.7
Input Prices	39.4	40.2	−0.8	Increasing	150	42.7	54.0	3.3
Selling Prices	23.4	22.2	+1.2	Increasing	122	30.5	62.4	7.1
Capital Expenditures	21.6	15.2	+6.4	Increasing	123	27.0	67.6	5.4

General Business Conditions
Future (six months ahead)

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	11.9	4.1	+7.8	Improving	6	24.2	63.5	12.3
General Business Activity	9.0	0.7	+8.3	Improving	5	22.5	63.9	13.5

Texas Retail Outlook Survey

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

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	–6.8	–9.2	+2.4	Decreasing	2	20.3	52.6	27.1
Employment	–9.0	–3.8	–5.2	Decreasing	2	8.2	74.6	17.2
Part-Time Employment	0.0	2.0	–2.0	No Change	1	6.1	87.8	6.1
Hours Worked	–3.7	–7.8	+4.1	Decreasing	7	9.2	77.9	12.9
Wages and Benefits	6.5	16.6	–10.1	Increasing	100	15.5	75.5	9.0
Input Prices	7.7	7.3	+0.4	Increasing	41	17.9	71.9	10.2
Selling Prices	14.4	1.4	+13.0	Increasing	27	26.4	61.6	12.0
Capital Expenditures	6.0	3.8	+2.2	Increasing	5	14.0	78.0	8.0
Inventories	1.4	–6.6	+8.0	Increasing	1	18.2	65.0	16.8
Companywide Retail Activity								
Companywide Sales	–7.5	–13.7	+6.2	Decreasing	2	17.0	58.5	24.5
Companywide Internet Sales	1.9	7.9	–6.0	Increasing	14	16.5	68.9	14.6

General Business Conditions, Retail
Current (versus previous month)

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	–10.8	–20.4	+9.6	Worsening	7	10.0	69.2	20.8
General Business Activity	–9.3	–15.5	+6.2	Worsening	7	13.9	62.8	23.2

Outlook Uncertainty
Current (versus previous month)

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	26.0	34.6	–8.6	Increasing	13	34.0	58.0	8.0

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

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	15.0	–7.2	+22.2	Increasing	1	33.3	48.4	18.3
Employment	–5.2	–8.3	+3.1	Decreasing	2	14.5	65.7	19.7
Part-Time Employment	–8.9	–3.8	–5.1	Decreasing	2	6.6	77.9	15.5
Hours Worked	–8.2	–6.0	–2.2	Decreasing	8	10.5	70.8	18.7
Wages and Benefits	19.3	27.4	–8.1	Increasing	126	27.8	63.7	8.5
Input Prices	28.6	24.0	+4.6	Increasing	122	34.7	59.2	6.1
Selling Prices	30.6	21.1	+9.5	Increasing	122	40.8	49.0	10.2
Capital Expenditures	4.2	–5.9	+10.1	Increasing	1	14.6	75.0	10.4
Inventories	–10.9	–7.8	–3.1	Decreasing	2	15.2	58.7	26.1
Companywide Retail Activity								
Companywide Sales	7.9	0.6	+7.3	Increasing	123	30.0	47.9	22.1
Companywide Internet Sales	10.0	5.3	+4.7	Increasing	35	22.5	65.0	12.5

General Business Conditions, Retail
Future (six months ahead)

Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	–4.5	–8.4	+3.9	Worsening	1	14.7	66.1	19.2
General Business Activity	–3.8	–15.6	+11.8	Worsening	2	17.4	61.4	21.2

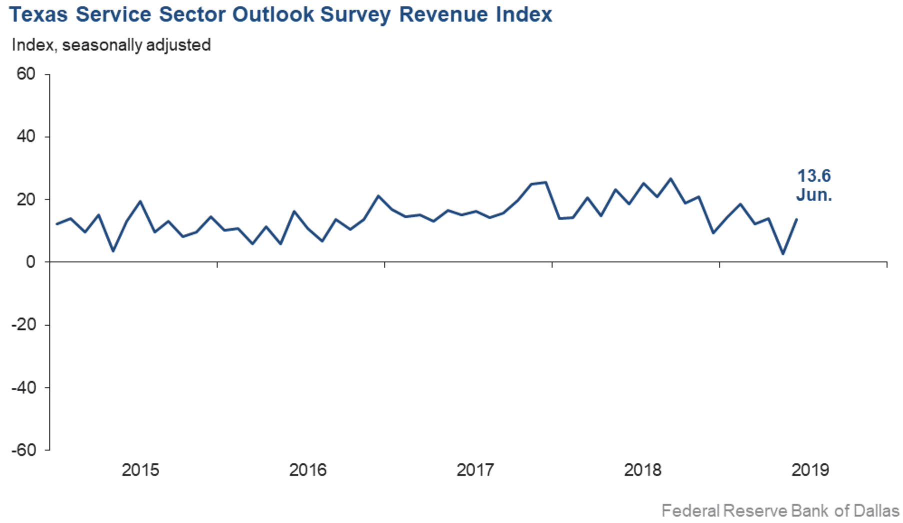
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

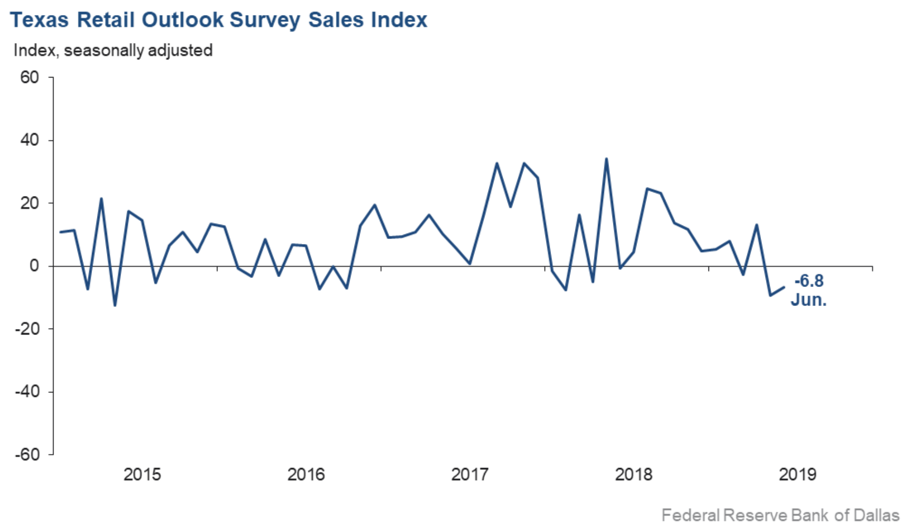
†Added to survey in January 2018.

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

June 25, 2019

Comments from Survey Respondents

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

Utilities

- The threat of tariffs on goods from Mexico sent a shock wave throughout many organizations. Now that this has been settled, we'll see if things get back to normal. The fear is that these threats continue to emerge without warning.

Pipeline Transportation

- Global demand is key; trade/tariffs are currently dampening global demand expectations.

Warehousing and Storage

- Our business outlook is improving due to restructuring of supply chains across the globe. However, uncertainty continues to plague the manufacturing industry due to threats from the Trump administration against Mexico.

Telecommunications

- Tariffs are resulting in an increase in cost to our business. Specifically, we are experiencing a 7 percent increase in the cost of modems we are providing to serve our broadband customers. This is a cost we have to absorb in order to remain competitive against larger multinational firms in our market.

Credit Intermediation and Related Activities

- We are laying off contractors and tightening hiring to try and squeeze more profits. Revenue growth is slowing.
- With the closure of the sand-mining companies, consumer and commercial spending has slowed due to the reduction in the local workforce. A new company that purchased two of the sand plants for access to sand not related to the oilfield has provided a partial offset to the loss of jobs, hiring approximately 44 out of the 400-plus employees that lost local employment. Another positive counter is that over half of the employees who lost their jobs have been able to find jobs with mining companies in West Texas and have been able to maintain their local residency—one week on, one week off with accommodations provided on-site. The wind farm project should get underway soon and will provide a temporary boost to the local economy. The political unrest has everyone stirred up.
- We are a community bank, and loan pipelines are shrinking.
- The economy is relatively stable and growing modestly, but there is concern about the near future, which seems to be speculative rather than evidence-based.

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

- There is a general flattening of most areas of our local economy. Recent rains will help, but tariffs remain a concern.
- As a financial services company, we are very concerned with geopolitical issues such as increased hostilities (Iran) or tariff concerns (China, NAFTA 2.0). Federal Reserve policy is also a big factor for us. Overall, my office is cautiously optimistic based about the underlying economic growth.

Insurance Carriers and Related Activities

- Input prices for us are insurance company rates for property insurance and business auto insurance in Texas. Both are up over 12 months ago.
- Lower interest rates are driving real estate transaction volume.

Real Estate

- The continued battles over immigration and trade continue to cloud long-term planning. We can deal with our local markets and market conditions, but the uncertainty of things out of our control makes longer-term planning difficult.

- Economic fundamentals are great, yet clients and their decisions to participate in this market continue to be ruled by the negativity in the press and Congress. It's disappointing to see such polarization in the country waste the grand economic opportunity currently available.
- A slowing in lending has reduced our workload slightly, but diversity of our client base has kept our company revenue steady.
- There is some concern regarding ongoing international news but nothing directly.

Professional, Scientific and Technical Services

- We could see softening of the marketplaces leading up to and after the election. We could also see additional impact from tariffs. Our current contract backlog and mix of business should sustain us through some economic downturn provided that it is not a protracted one.
- The tariff insanity continues and continues to be detrimental to the country, which slows down project work in the energy and petrochemical arena.
- There is some concern about how the rest of 2019 and early-to-mid-2020 "shapes up." I agree with recent pundits and think we could see a recession at some point in 2020 if something related to trade, etc., doesn't push it up sooner. We would clearly like to avoid, but not sure with what is going on currently that we can. With those concerns, of course oil is impacted as folks pull back and inventories go up. Uncertainty has that effect; it impacts a large percentage of our clients, so it impacts us on the capital markets and M&A [mergers and acquisitions] side in particular. We will wait and watch closely.
- Mergers and acquisitions (M&A) activity continued to be down, while litigation and restructuring activity is picking up—both generally signs that the economy is changing. The continued uncertainty in governmental policies remains problematic. Most industry leaders that I speak with still believe that 2019 will be a good year for the legal sector, but we are seeing significant headwinds. Year-over-year productivity among our lawyers is down.
- The threat of tariffs on Mexico really puts our business in danger. All of the borderland was in suspense, and the thought that the threat can be used again only creates more uncertainty. We can't plan ahead with these unknowns.
- While residential real estate orders remain level year over year, we are experiencing a slowdown in commercial orders for sale transactions. Although the slowdown is not significant, it may be a sign that the Dallas–Fort Worth market is finally taking a breath after a nine-year run. We are still very optimistic that this market will remain stable for the next couple of years but do not think it will continue at the same pace we have enjoyed over the past four years.
- Real estate continues to be going very strong—some good M&A [mergers and acquisitions] work.
- Activity has slowed and seems to have reached a plateau.

Management of Companies and Enterprises

- We have an affordable housing shortage in our area. The average home price is around $200,000, and we have plenty of willing buyers, but they just don't qualify.

Administrative and Support Services

- We have experienced some loss of customers as management in the real estate market changes due to the sale of buildings or loss of personnel. This has been a trend in the office market as new management looks for savings in the budget.
- We are still slow from the first quarter of the year. I see no pickup in business right now. Everything has slowed down.

Waste Management and Remediation Services

- Decrease in export activity has impacted the recycling industry. Overseas markets, especially China, have decreased their imports of scrap material, which has backed up the supply chain, creating oversupply in a supply-demand market. Selling prices are at their lowest levels since 2008. Because we are a commodity-based industry, prices will eventually begin to lift, but no one is predicting when that will occur.

Educational Services

- The demand and margin for warehouse and packaging are better because capacity for third-party logistics (3PL) work is tight for our markets.

- I still believe in the approach to China trade policy. We need tariffs to apply pressure and bring them to the table no matter the cost. I think the Fed [Federal Reserve] needs to continue to monitor in terms of their dual mandate but be cautious before acting. I am optimistic about the economy going into next year.

Ambulatory Health Care Services

- With the Permian Basin energy boom, there is tremendous pressure on nonenergy companies to retain and hire a workforce when having to compete with much higher pay options in the energy field. Health care services are reimbursed on the national level, and there is a continued downward pressure to qualify, document and demonstrate quality, which increases the cost of service, while the operating cost continues to increase. The health care industry is having to innovate to manage this challenging environment.
- This month's somewhat entertaining eco-limerick: The Fed is expected to cut rates once or twice; price of debt dropping, which always is nice; Texas being hit by price of oil and gas; luckily, drillers have not left en masse; politics aside, ending the trade wars would suffice.

Nursing and Residential Care Facilities

- Increased government regulations are effective in early July.

Performing Arts, Spectator Sports and Related Industries

- Most uncertainty is being caused by government.

Amusement, Gambling and Recreation Industries

- Weather has affected my outlook, as it is always bad on weekends where we generate revenue.
- We have several things to watch out for. Our main concern is if the tariffs will increase the cost of food. Right now, that has not happened. In addition, the cost of health care insurance continues to escalate. (They said we should be happy that our health insurance is only going up about 10 percent this year, because we had so few claims last year.) Rent pass-through charges are awful due to the increases in property values in downtown Austin and the corresponding increase in property taxes. We have to sell a lot of martinis to cover the increase in our property taxes.

Accommodation

- Uncertainty in our government's policies related to tariffs is making business leaders very uncertain on what actions they should be taking. I am seeing much uncertainty in our business today. It's hard to answer the questions regarding the future because of lack of clarity about where our leaders in government are taking us.

Merchant Wholesalers, Durable Goods

- This business will be affected by the external issues such as customs tariffs and fees, due to business being primarily in China.
- Metal prices are nearing the bottom of the market. They are expected to drop again next month. Unless we are going into full economic downturn, there is only one option: that this bottoms out. Prices for recycled metal have dropped about 30 percent year to date. Given projections on housing starts and commercial construction, I would think we will see things balance out.

Motor Vehicle and Parts Dealers

- The talk of tariffs continues to be troubling in the automobile business. The proposed tariffs would be devastating to our business, and the continued threat of them is unsettling.
- There is continued uncertainty with trade issues and growing deficit, but overall, still very solid performance from our business.

Building Material and Garden Equipment and Supplies Dealers

- We see a definitive slowing down. Prices are soft because demand is down across the country. Not in panic mode, but we are not seeing any growth from last year's numbers. We are off around 6 percent year to date and hopefully no more. There is uncertainty with everything going on.
- There is growing concern over the duration and depth of an ongoing trade war and the potential for a new hot war in the Middle East.

Health and Personal Care Stores

- My industry continues to be squeezed by the reimbursements from the pharmacy benefit management companies. We are in desperate need of government intervention and reform.

Clothing and Clothing Accessories Stores

- Tariff discussions from our suppliers are scary.

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

Special Questions

June 24, 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

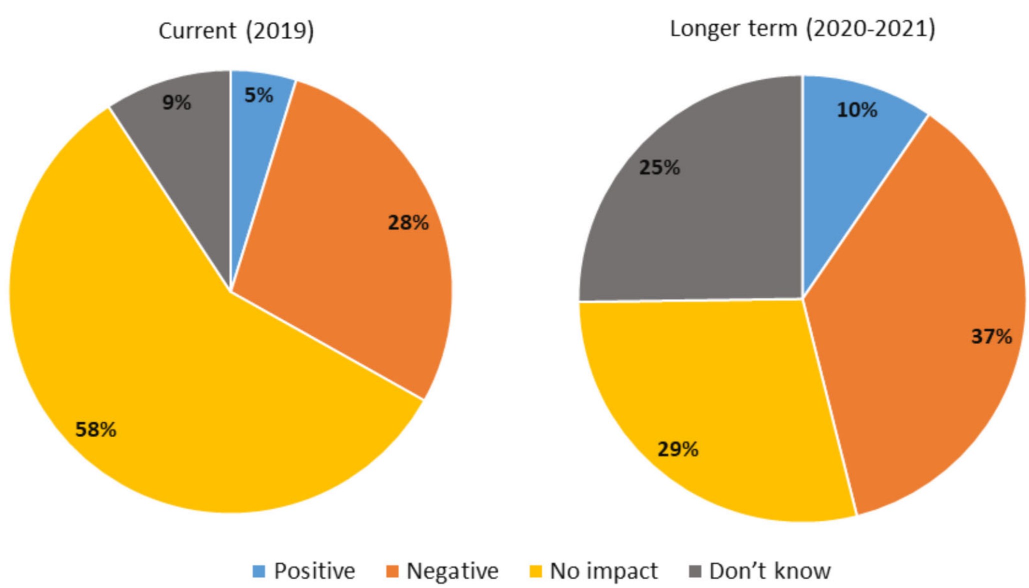
Data were collected June 11–19, and 363 Texas business executives responded to the surveys.
See data files with a full history of results.

What net impact have U.S. and foreign tariffs implemented since last year had on the following aspects of your firm's business?

	Sep. '18			Jun. '19		
	No impact (percent)	Increased (percent)	Decreased (percent)	No impact (percent)	Increased (percent)	Decreased (percent)
Input costs	54.2	44.1	1.7	61.1	36.4	2.5
Selling prices	68.5	28.0	3.5	73.0	21.6	5.3
Profit margins	N/A	N/A	N/A	67.0	3.9	29.0
Supplier delivery times	77.4	20.0	2.6	78.8	18.1	3.1
Production/revenue/sales	70.3	10.8	19.0	76.2	6.5	17.3
Employment	86.5	5.9	7.6	86.5	3.9	9.6
Capital spending plans	76.2	9.6	14.2	79.0	3.4	17.6
Uncertainty	42.3	54.8	2.9	N/A	N/A	N/A
Company outlook	70.6	9.6	19.8	65.0	6.6	28.3

NOTE: 360 responses.

What net impact have U.S. and foreign tariffs implemented since last year had on your firm overall, and what do you expect for the longer term?



SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Surveys.

	Current (2019)	Longer term (2020–2021)
No impact	57.6	28.7
Positive	4.8	9.6
Negative	28.4	36.5
Don't know	9.3	25.2

NOTES: 362 responses.

A similar question was posed to survey participants in the September 2018 special questions.

What factors, if any, have allowed your firm to mitigate the negative tariff impact? Please select all that apply.*

	Percent
Passing cost increases through to customers	41.0
Finding new domestic supplier(s)	22.0
Moving up purchases ahead of full tariff implementation	13.0
Bringing production or processes in-house that were formerly outsourced; i.e., insourcing	12.0
Finding new foreign supplier(s)	11.0
The strengthening dollar lowering cost of foreign inputs	9.0
Reclassifying items into nontariff categories	2.0
Other	17.0
None	33.0

*This question was posed only to respondents who answered "negative" to "Current (2019)" in the previous question.
NOTE: 100 responses.

In which country or countries is/are the new foreign supplier(s) located?*

China/Mexico; Greece/Turkey; Philippines/Lithuania; India; South America; Thailand; Vietnam/Malaysia; Vietnam; Vietnam; Unknown

*This question was posed only to respondents who answered "Finding new foreign supplier(s)" to the previous question.
NOTE: 10 responses. This was an open-ended question, with the responses shown above.

What net impact have U.S. and foreign tariffs announced and/or implemented since last year—as well as other potential changes to trade policy—had on uncertainty regarding your firm's outlook and business decisions?

	Percent
No impact	55.7
Increased	35.4
Decreased	8.9

NOTES: 359 responses.

Uncertainty was included in a similar question posed to survey participants in the September 2018 special questions.

What impact, if any, has the increased uncertainty had on your firm, beyond the direct impact of the tariffs themselves? Please describe.

This question was posed only to respondents who answered “increased” to the previous question. These comments have been edited for publication.

Texas Manufacturing Outlook Survey

Petroleum and Coal Products Manufacturing

- We see slowing capital expenditures in some segments.

Chemical Manufacturing

- It has reduced the certainty of our customers’ sales to China customers.
- Increased the level of uncertainty in the market altogether, which may affect future sales. It is difficult to put a finger on the exact effect the tariffs will have. I can just affirm that it is increasing uncertainty.

Primary Metal Manufacturing

- Very little. We continue to watch spending, all costs, and stay on the same path we are now.
- Much greater uncertainty.

Fabricated Metal Product Manufacturing

- We don't know how it will affect our customer base. They might sell more or they might sell less. We are not sure how tariffs will impact customers long term.
- The forecasting of long-term demand growth.
- We are having to spend much more time to bid projects, for lack of finding materials that were once easier to find, as well as availability of material sizes. This is causing more cost and more work to modify, with expensive time lost all around.
- On-and-off-again tariffs create uncertainty. There is no clear communicated strategy.
- Lower margins and uncertainty attitudes are increasing as we enter another political election cycle.
- Reduction in the market; we could not ship into Mexico with a 25 percent tariff. Reduced purchases of raw materials and reduced expenditures.

Nonmetallic Mineral Product Manufacturing

- We see a downturn in the economy due to expected inflation.
- It makes planning difficult, specifically in regard to capital investment. Do we bring manufacturing in-house? But what if the tariffs are dropped in a month? What if tariffs increase beyond 25 percent? What if China tensions increase further and exports slow or stop from China?

Machinery Manufacturing

- We are just being more cautious during this downturn in the electronics industry.
- Uncertainty stifles hiring, expansion and capital expenditures. Threats of tariffs cause uncertainty.
- It has led to austerity measures even in a year of projected overall revenue growth, but with lower margins, and to headcount/hiring freezes even with record production in some areas of the company.
- The long-term projects are being reviewed with an eye on possible delays. Trying to keep employees under those conditions is very difficult. The oil industry is already under stress with lower prices, and it wouldn't take much to shut them down again on spending.
- Tariffs have raised our raw material cost (steel), but I support President Trump's efforts. He's put Americans back to work and called the Chinese bluff, which is long overdue. We have a president who is finally negotiating in America's best interest, instead of giving away the store.

Computer and Electronic Product Manufacturing

- We moved production to minimize the direct impact. Customers have moved their production for the same reason.
- High growth in 2018 will be very hard to repeat in 2019, so from that perspective, it will seem like a slowdown. We had extra backlog from 2018, so 2019 shipments should look good, but 2020 is unknown. 2020 is also an election year, so we are expecting a crazy time.

Electrical Equipment, Appliance and Component Manufacturing

- The threat of increasing prices is causing project managers and buyers to rethink needs.

Transportation Equipment Manufacturing

- Investments in manpower and capital-expenditure projects have become more challenging, while each new hire and each project has become more important relative to before. This is resulting in more time and resources being put into decision-making models.
- We are concerned that increased costs and longer lead times for delivery will adversely impact our capability to deliver timely and within budget.
- A very small impact, if any, and there are scenarios that are both positive and negative.
- We see increased foreign imports of semi-finished and finished products that do not have tariffs imposed. Although tariffs are imposed if the product is brought in during its raw stage (i.e., steel bar or tubing has stiff import tariffs), Asian manufacturers are able to produce a semi-finished or finished product from this raw material and ship into the country with 0–2 percent penalties. This reduces the U.S. manufacturers' ability to compete fairly with the foreign competition.

Food Manufacturing

- None at this point. There may be an impact via imported vegetables and ingredients we purchase due to either limited availability in the U.S. or dramatic pricing variations.
- Items we or customers export have seen decreased demand and have led to lower prices and sales.
- The policies themselves have brought into question the bigger picture of where we are headed. There is uncertainty as to how this will impact our suppliers of key inputs.
- Our outlook on the future has worsened. Disruptions in the company's supply chain have put a lot of stress in the organization. Growth projections are becoming less certain. Capital expenditures are beginning to be delayed or placed on hold.
- Our exports to Mexico have been curtailed by the weak peso and strong dollar. We feel that border tensions and tariff threats have contributed.

Textile Product Mills

- The threat of tariffs against Mexico has stalled my new-business opportunities and killed one strategic joint venture that was close to being executed.

Wood Product Manufacturing

- We see fear as to what may happen.

Miscellaneous Manufacturing

- Increased uncertainty has caused an absence of capital expenditures.
- Our partners overseas are afraid and not making investments in production or expansion, leading to longer lead times and the inability to keep up with demand. Currently, our gross margins are falling, but we are not passing on the costs to customers. The reduced cash flow is making it more difficult to invest in employees and manufacturing; at the same time, it is needed more than ever. Utilizing overseas production for certain products is the only option for small, growing businesses or certain low-volume products. Lack of good access to overseas production will hurt small business the most.

Texas Service Sector Outlook Survey

Utilities

- Businesses are cutting back as they evaluate the impact of these tariffs on the entire economy.

Truck Transportation

- Tariffs affect our customers who transport imports and exports. When they slow down, our business slows down.

Pipeline Transportation

- Uncertainty makes it difficult to make capital allocation decisions.
- Steel tariffs are the largest impact—about 5–7 percent of total projects.

Support Activities for Transportation

- Due to China tariffs and potential tariffs with Mexico, U.S. brokers have urged their importers to begin paying applicable duties/taxes directly with customs via their own ACH (automated clearinghouse) line. U.S. brokers have historically paid duties on behalf of their importers.
- Grain exports, automotive imports and fresh-produce imports are currently impacted or may soon be negatively impacted by tariffs.

Warehousing and Storage

- The uncertainty restricts the investment potential of our clients. Without a clear avenue for planning for extended periods without random policy changes, an investment in equipment, training of labor and buildings is too risky.

Credit Intermediation and Related Activities

- There has been very little impact observed to date.

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

- We are very concerned about the impact of increased tariffs on the U.S. economy and consumer.
- Uncertainty hinders investment activity because of potential degradation of returns.

Real Estate

- More tariffs mean higher building costs, which means fewer commercial loans, which means fewer real estate appraisals.

Professional, Scientific and Technical Services

- Unknown.
- We do work for Mexican nationals who have opened businesses in the United States. Increased tariffs on Mexican imports may cause a slowdown in the growth of those businesses or the opening of new businesses.
- Tariffs create uncertainty. The more the uncertainty, the less investment in the energy and petrochemical area (as well as others). That means less consulting work available for my firm.
- As a consulting firm, the impact of tariffs is indirect to us. Our manufacturing clients are the ones directly impacted. Our uncertainty stems from our lagging indications of the impact on our clients. It is hard for us to get direct and timely feedback on projects in late 2019 and going into 2020.
- We can't plan ahead. This is no way to manage the economy. We just reviewed all of our supply chain to adjust to the China tariffs and now they come up with Mexico tariffs. What's next?
- We are concerned tariffs will lead to higher construction costs, and therefore, less construction and less architectural work for us.
- Again, back to the capriciousness of this administration on this subject. I am not in the camp that believes tariffs are the best tool. I do believe we needed to strike a better deal with the Chinese and other trading partners but believe a lot shouldn't have been done in the public eye, making it a win-lose type of battle. It is too combative, and I have done enough business in China to know that is not the best way to work.
- Clients are cutting back expansion plans, which reduces the need for our services.
- Creates market uncertainty which slows down overall business appetite.
- We have changed our quoting language to say there is no longer a 30-day pricing guarantee. So far, everyone seems to understand. We have tried to accelerate some sales in fear of increasing tariffs, and lead times have increased, which can lower our overall sales outlook, but so far it has been minimal.
- We are a live engagements/conference and exposition general contractor that works with almost all industries. This diversification should provide us with some protection against any specific tariffs placed on specific industries; however, this means that some of these conferences may decrease in size, which will reduce our revenue opportunity. Sustained tariffs could possibly destroy small businesses that exhibit in these events to extend their brands.
- We have seen no direct impacts as we are a professional service firm, but as tariffs (real or imagined) are discussed or implemented, they have a direct impact on the cost of our clients' projects (real estate development), so they will have a downward effect on some projects.

Management of Companies and Enterprises

- There is uncertainty about the impact on general economic activity in Central Texas as well as the impact on our direct customer base.
- How long the trade tariffs remain will determine the impact on the agriculture industry (i.e., commodity prices) and related industries, such as equipment manufacturers and dealers. This potential "ripple effect" is the unknown and the cause of the uncertainty.

Administrative and Support Services

- The cost of goods increased in contracts signed previous to the increase; this absolutely kills the margin.
- Project timelines are being pushed out/not started.
- I'm concerned when considering future commercial development projects whether tariffs may slow things enough globally to tip the U.S. into recession and thereby freeze buyers out of my market.
- We are continuing to monitor the situation and increase the number of potential vendors for each of our products.
- The fear that they have instilled in our current customers. People are not wanting to invest in new equipment for fear of what a tariff or trade war will start next.
- Since we are not affected directly by tariffs, all the impact is indirect, i.e., impacts hiring of contractor labor by our clients.

Educational Services

- The threat of changes from tariffs reduces the ability for our customers to make decisions. Therefore, uncertainty increases.

Ambulatory Health Care Services

- Our business is dependent upon adequate disposable income and that high consumer confidence conditions will continue. It is primarily optional for the consumer. If tariffs either actually reduce available disposable income or cause consumer confidence to decline, it will negatively impact us.

Hospitals

- There is direct negative impact on investment returns used to fund pension obligations.

Social Assistance

- We source produce from Mexico, so it is difficult to forecast our costs. Any tariffs would likely add to our costs, but it is difficult to predict whether or not tariffs will be imposed, as well as the level of any tariff.

Accommodation

- The uncertainty—both pricing and availability—has caused delays with capital spending/property-level improvements. Additionally, we have been forced to spend money and time identifying alternative suppliers in the event of excessive pricing or limited product availability.

Food Services and Drinking Places

- Decreases our desire to take risks and grow. There is worry over rising food and labor costs.
- All food and operating costs are rapidly increasing.
- Some impact on foods coming out of Mexico.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- There's a sense that a downturn, or at least an overall slowing of growth, is being designed and enforced by President Trump. We do not expect the economy to continue to resist being spooked by hubris and ignorance.
- We provide services to the global oil industry, so anything that impacts trade in crude oil and natural gas can impact our business.
- Members looking to reduce expenses may drop membership.

Texas Retail Outlook Survey

Merchant Wholesalers, Durable Goods

- We are concerned the economy is slowing due to lack of confidence in the Trump administration's handling of tariffs—their impact on the consumer.
- There has become an oversupply of recycled metal domestically as well as an oversupply of new steel from the mills due to them ramping up their production to near capacity.

Merchant Wholesalers, Nondurable Goods

- My industry in general relies on a steady inflow of agriculture products to mitigate the cost of inputs. Picking fights with Mexico and Canada, our two largest trading partners, makes inflow of agriculture products in and out of both countries uncertain.
- Farmers are net exporters. Foreign countries that respond with tariffs usually levy them against agriculture.
- Mexican imports.
- The continued failure of the Federal Reserve to realize that there is no inflation, the employment numbers are worse than the Federal Reserve believes, and labor force participation continues to decline.
- The Fed may be able to cause a recession, which will then bring the Fed to reduce rates. That is a Machiavellian scenario that would probably please Chairman Powell who only seems to be happy when he can increase rates. Banks are continuing to finance developers who will develop as long as they can get money. Banks need large loans, and they are facilitating corporate takeovers with loans having reduced covenants. We may find ourselves with a repeat of 2007–08.

Building Material and Garden Equipment and Supplies Dealers

- Taxes hit consumers hard and reduce their discretionary spending.

Clothing and Clothing Accessories Stores

- It has been very difficult to plan future shipments given the uncertainty of future costs from suppliers.

Nonstore Retailers

- Our increased uncertainty has caused us to keep an eye on the situation to assess what impacts might occur to our business and to plan strategies to avoid these impacts. However, we don't feel we have a lot of control other than to pass through cost increases to our customers. We don't have a lot of options for alternate product sources, and it's not something we can easily substitute without dramatically reducing our sales.

Survey respondents were given the opportunity to provide general comments. These comments can be found on the individual survey Special Questions results pages

Texas Manufacturing Outlook Survey

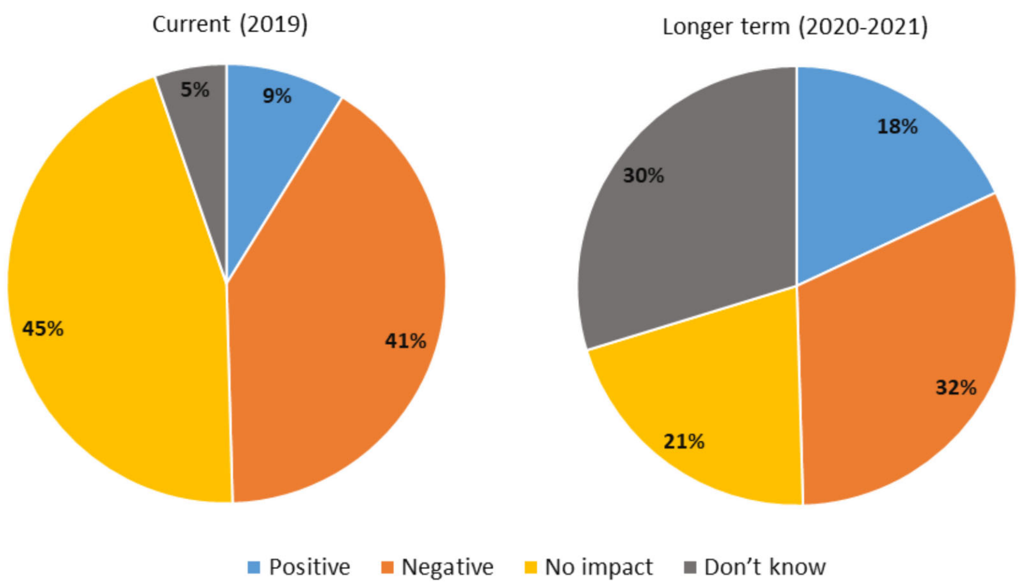
Data were collected June 11–19, and 115 Texas manufacturers responded to the surveys.
See data files with a full history of results.

What net impact have U.S. and foreign tariffs implemented since last year had on the following aspects of your firm's business?

	Sep. '18			Jun. '19		
	No impact (percent)	Increased (percent)	Decreased (percent)	No impact (percent)	Increased (percent)	Decreased (percent)
Input costs	38.3	58.9	2.8	43.5	53.0	3.5
Selling prices	54.2	39.3	6.5	58.8	33.3	7.9
Profit margins	N/A	N/A	N/A	51.3	7.8	40.9
Supplier delivery times	73.6	25.5	0.9	73.0	25.2	1.7
Production/revenue/sales	61.3	14.2	24.5	60.9	13.0	26.1
Employment	81.0	9.5	9.5	78.3	7.0	14.8
Capital spending plans	67.9	12.3	19.8	64.9	7.9	27.2
Uncertainty	29.9	65.4	4.7	N/A	N/A	N/A
Company outlook	57.9	17.8	24.3	57.1	10.7	32.1

NOTE: 115 responses.

What net impact have U.S. and foreign tariffs implemented since last year had on your firm overall, and what do you expect for the longer term?



SOURCE: Federal Reserve Bank of Dallas, Texas Manufacturing Outlook Survey.

	Current (2019)	Longer term (2020–2021)
No impact	45.1	20.7
Positive	8.8	18.0
Negative	40.7	31.5
Don't know	5.3	29.7

NOTES: 114 responses.

A similar question was posed to survey participants in the September 2018 special questions.

What factors, if any, have allowed your firm to mitigate the negative tariff impact? Please select all that apply.*

	Percent
Passing cost increases through to customers	54.3
Finding new domestic supplier(s)	17.4
Bringing production or processes in-house that were formerly outsourced; i.e., insourcing	17.4
Moving up purchases ahead of full tariff implementation	13.0
The strengthening dollar lowering cost of foreign inputs	10.9
Finding new foreign supplier(s)	10.9
Reclassifying items into nontariff categories	0.0
Other	17.4
None	23.9

*This question was posed only to respondents who answered "negative" to "Current (2019)" in the previous question.
NOTE: 46 responses.

In which country or countries is/are the new foreign supplier(s) located?*

Philippines/Lithuania; India; Thailand; Vietnam

*This question was posed only to respondents who answered "Finding new foreign supplier(s)" to the previous question.
NOTE: 4 responses. This was an open-ended question, with the responses shown above.

What net impact have U.S. and foreign tariffs announced and/or implemented since last year–as well as other potential changes to trade policy–had on uncertainty regarding your firm's outlook and business decisions?

	Percent
No impact	50.9
Increased	41.2
Decreased	7.9

NOTES: 114 responses.

Uncertainty was included in a similar question posed to survey participants in the September 2018 special questions.

What impact, if any, has the increased uncertainty had on your firm, beyond the direct impact of the tariffs themselves? Please describe.

This question was posed only to respondents who answered "increased" to the previous question. These comments have been edited for publication.

Petroleum and Coal Products Manufacturing

- We see slowing capital expenditures in some segments.

Chemical Manufacturing

- It has reduced the certainty of our customers' sales to China customers.
- Increased the level of uncertainty in the market altogether, which may affect future sales. It is difficult to put a finger on the exact effect the tariffs will have. I can just affirm that it is increasing uncertainty.

Primary Metal Manufacturing

- Very little. We continue to watch spending, all costs, and stay on the same path we are now.
- Much greater uncertainty.

Fabricated Metal Product Manufacturing

- We don't know how it will affect our customer base. They might sell more or they might sell less. We are not sure how tariffs will impact customers long term.
- The forecasting of long-term demand growth.
- We are having to spend much more time to bid projects, for lack of finding materials that were once easier to find, as well as availability of material sizes. This is causing more cost and more work to modify, with expensive time lost all around.
- On-and-off-again tariffs create uncertainty. There is no clear communicated strategy.
- Lower margins and uncertainty attitudes are increasing as we enter another political election cycle.
- Reduction in the market; we could not ship into Mexico with a 25 percent tariff. Reduced purchases of raw materials and reduced expenditures.

Nonmetallic Mineral Product Manufacturing

- We see a downturn in the economy due to expected inflation.
- It makes planning difficult, specifically in regard to capital investment. Do we bring manufacturing in-house? But what if the tariffs are dropped in a month? What if tariffs increase beyond 25 percent? What if China tensions increase further and exports slow or stop from China?

Machinery Manufacturing

- We are just being more cautious during this downturn in the electronics industry.
- Uncertainty stifles hiring, expansion and capital expenditures. Threats of tariffs cause uncertainty.
- It has led to austerity measures even in a year of projected overall revenue growth, but with lower margins, and to headcount/hiring freezes even with record production in some areas of the company.
- The long-term projects are being reviewed with an eye on possible delays. Trying to keep employees under those conditions is very difficult. The oil industry is already under stress with lower prices, and it wouldn't take much to shut them down again on spending.
- Tariffs have raised our raw material cost (steel), but I support President Trump's efforts. He's put Americans back to work and called the Chinese bluff, which is long overdue. We have a president who is finally negotiating in America's best interest, instead of giving away the store.

Computer and Electronic Product Manufacturing

- We moved production to minimize the direct impact. Customers have moved their production for the same reason.
- High growth in 2018 will be very hard to repeat in 2019, so from that perspective, it will seem like a slowdown. We had extra backlog from 2018, so 2019 shipments should look good, but 2020 is unknown. 2020 is also an election year, so we are expecting a crazy time.

Electrical Equipment, Appliance and Component Manufacturing

- The threat of increasing prices is causing project managers and buyers to rethink needs.

Transportation Equipment Manufacturing

- Investments in manpower and capital-expenditure projects have become more challenging, while each new hire and each project has become more important relative to before. This is resulting in more time and resources being put into decision-making models.
- We are concerned that increased costs and longer lead times for delivery will adversely impact our capability to deliver timely and within budget.
- A very small impact, if any, and there are scenarios that are both positive and negative.
- We see increased foreign imports of semi-finished and finished products that do not have tariffs imposed. Although tariffs are imposed if the product is brought in during its raw stage (i.e., steel bar or tubing has stiff import tariffs), Asian manufacturers are able to produce a semi-finished or finished product from this raw material and ship into the country with 0–2 percent penalties. This reduces the U.S. manufacturers' ability to compete fairly with the foreign competition.

Food Manufacturing

- None at this point. There may be an impact via imported vegetables and ingredients we purchase due to either limited availability in the U.S. or dramatic pricing variations.
- Items we or customers export have seen decreased demand and have led to lower prices and sales.
- The policies themselves have brought into question the bigger picture of where we are headed. There is uncertainty as to how this will impact our suppliers of key inputs.
- Our outlook on the future has worsened. Disruptions in the company's supply chain have put a lot of stress in the organization. Growth projections are becoming less certain. Capital expenditures are beginning to be delayed or placed on hold.
- Our exports to Mexico have been curtailed by the weak peso and strong dollar. We feel that border tensions and tariff threats have contributed.

Textile Product Mills

- The threat of tariffs against Mexico has stalled my new-business opportunities and killed one strategic joint venture that was close to being executed.

Wood Product Manufacturing

- We see fear as to what may happen.

Miscellaneous Manufacturing

- Increased uncertainty has caused an absence of capital expenditures.
- Our partners overseas are afraid and not making investments in production or expansion, leading to longer lead times and the inability to keep up with demand. Currently, our gross margins are falling, but we are not passing on the costs to customers. The reduced cash flow is making it more difficult to invest in employees and manufacturing; at the same time, it is needed more than ever. Utilizing overseas production for certain products is the only option for small, growing businesses or certain low-volume products. Lack of good access to overseas production will hurt small business the most.

Special Questions Comments

These comments have been edited for publication.

Food Manufacturing

- Only Mexican import tariffs have a direct adverse effect on our business.

Textile Product Mills

- There's no impact yet. In two weeks, we will learn how the Chinese tariffs will affect our imported raw materials. We are holding our breath.

Apparel Manufacturing

- All of our material purchases have to be U.S. made, so these foreign tariffs have no effect.

Paper Manufacturing

- The new tariffs have caused a price increase on only one of our raw materials, and it is a very small percentage of our purchases. Very few of our raw materials come from China or Mexico.

Chemical Manufacturing

- I believe that our customers' sales into the Chinese market have been reduced due to the Chinese tariffs.

Plastics and Rubber Products Manufacturing

- We export very little. We import some, and the net direct effect is insignificant. Retail sales are important to us; so far, things seem to be holding up.

Fabricated Metal Manufacturing

- We have had to develop alternate products for fabrication as demand shifts.
- Tariffs helped the profitability of the U.S. steel industry and U.S. steel distributors. But tariffs don't create demand. Economic activity creates long-term profitability. None of our steel end users suffered any hardship over the last 12 months of tariff-induced higher prices. They either ate the increase or passed it along. But none of them tanked due to tariffs. Today, even with tariffs, steel prices are down 15–20 percent. It is demand and capacity driven.
- From what we can see, "Buy American" is becoming more and more popular.

Computer and Electronic Product Manufacturing

- We find tariffs generally unhelpful for business activity.

Electrical Equipment, Appliance and Component Manufacturing

- We filed a petition along with one of our competitors against the dumping of aluminum wire by the Chinese. Initial results have been positive for us. Margins still need to improve, but the trend is good.
- In our industry, the tariffs further reinforce competitors to build products with Chinese components in Mexico and import into the U.S. with a finished-product HTS [Harmonized Tariff Schedule] code that is not subject to the same level of tariffs or duties.

Transportation Equipment Manufacturing

- We assume it is temporary and will end up as net positive for economy.

Texas Service Sector Outlook Survey

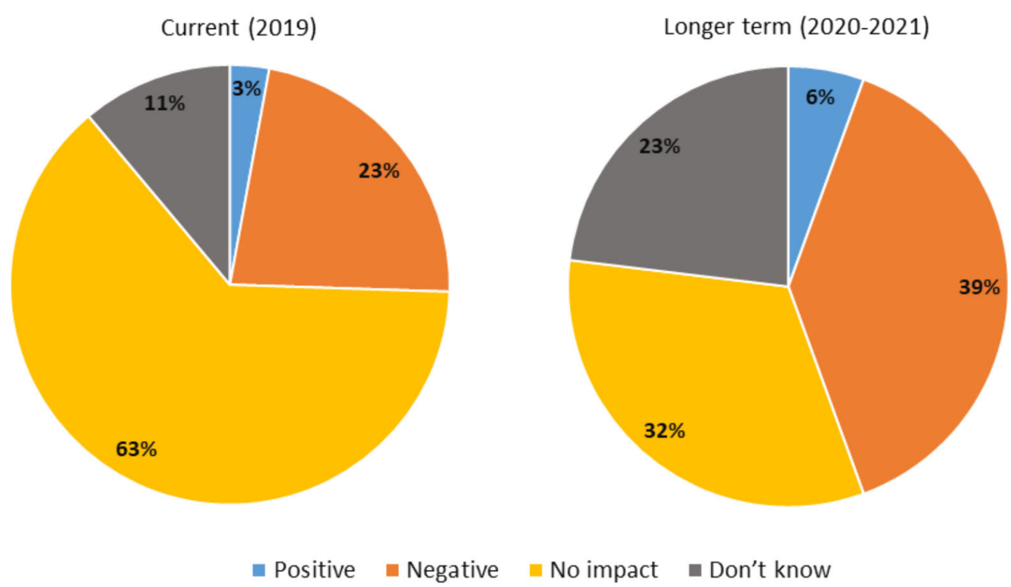
Data were collected June 11–19, and 248 Texas business executives responded to the surveys.
See data files with a full history of results.

What net impact have U.S. and foreign tariffs implemented since last year had on the following aspects of your firm's business?

	Sep. '18			Jun. '19		
	No impact (percent)	Increased (percent)	Decreased (percent)	No impact (percent)	Increased (percent)	Decreased (percent)
Input costs	61.3	37.4	1.3	69.4	28.5	2.1
Selling prices	75.0	22.9	2.1	79.8	16.1	4.1
Profit margins	N/A	N/A	N/A	74.6	2.1	23.3
Supplier delivery times	79.1	17.5	3.4	81.6	14.8	3.7
Production/revenue/sales	74.3	9.3	16.5	83.6	3.4	13.0
Employment	89.0	4.2	6.8	90.5	2.5	7.1
Capital spending plans	79.8	8.4	11.8	85.8	1.3	13.0
Uncertainty	47.9	50.0	2.1	N/A	N/A	N/A
Company outlook	76.4	5.9	17.7	68.8	4.7	26.5

NOTE: 245 responses.

What net impact have U.S. and foreign tariffs implemented since last year had on your firm overall, and what do you expect for the longer term?



SOURCE: Federal Reserve Bank of Dallas, Texas Service Sector Outlook Survey.

	Current (2019)	Longer term (2020–2021)
No impact	63.4	32.5
Positive	2.9	5.6
Negative	22.6	38.9
Don't know	11.1	23.1

NOTES: 248 responses.

A similar question was posed to survey participants in the September 2018 special questions.

What factors, if any, have allowed your firm to mitigate the negative tariff impact? Please select all that apply.*

	Percent
Passing cost increases through to customers	29.6
Finding new domestic supplier(s)	25.9
Moving up purchases ahead of full tariff implementation	13.0
Finding new foreign supplier(s)	11.1
The strengthening dollar lowering cost of foreign inputs	7.4
Bringing production or processes in-house that were formerly outsourced; i.e., insourcing	7.4
Reclassifying items into nontariff categories	3.7
Other	16.7
None	40.7

*This question was posed only to respondents who answered "negative" to "Current (2019)" in the previous question.
NOTE: 54 responses.

In which country or countries is/are the new foreign supplier(s) located?*

China/Mexico; Greece/Turkey; South America; Vietnam/Malaysia; Vietnam; Unknown

*This question was posed only to respondents who answered "Finding new foreign supplier(s)" to the previous question.
NOTE: 6 responses. This was an open-ended question, with the responses shown above.

What net impact have U.S. and foreign tariffs announced and/or implemented since last year–as well as other potential changes to trade policy–had on uncertainty regarding your firm's outlook and business decisions?

	Percent
No impact	58.0
Increased	32.7
Decreased	9.4

NOTES: 245 responses.

Uncertainty was included in a similar question posed to survey participants in the September 2018 special questions.

What impact, if any, has the increased uncertainty had on your firm, beyond the direct impact of the tariffs themselves? Please describe.

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Utilities

- Businesses are cutting back as they evaluate the impact of these tariffs on the entire economy.

Truck Transportation

- Tariffs affect our customers who transport imports and exports. When they slow down, our business slows down.

Pipeline Transportation

- Uncertainty makes it difficult to make capital allocation decisions.
- Steel tariffs are the largest impact—about 5–7 percent of total projects.

Support Activities for Transportation

- Due to China tariffs and potential tariffs with Mexico, U.S. brokers have urged their importers to begin paying applicable duties/taxes directly with customs via their own ACH (automated clearinghouse) line. U.S. brokers have historically paid duties on behalf of their importers.
- Grain exports, automotive imports and fresh-produce imports are currently impacted or may soon be negatively impacted by tariffs.

Warehousing and Storage

- The uncertainty restricts the investment potential of our clients. Without a clear avenue for planning for extended periods without random policy changes, an investment in equipment, training of labor and buildings is too risky.

Credit Intermediation and Related Activities

- There has been very little impact observed to date.

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- We are very concerned about the impact of increased tariffs on the U.S. economy and consumer.
- Uncertainty hinders investment activity because of potential degradation of returns.

Real Estate

- More tariffs mean higher building costs, which means fewer commercial loans, which means fewer real estate appraisals.

Professional, Scientific and Technical Services

- Unknown.
- We do work for Mexican nationals who have opened businesses in the United States. Increased tariffs on Mexican imports may cause a slowdown in the growth of those businesses or the opening of new businesses.
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- As a consulting firm, the impact of tariffs is indirect to us. Our manufacturing clients are the ones directly impacted. Our uncertainty stems from our lagging indications of the impact on our clients. It is hard for us to get direct and timely feedback on projects in late 2019 and going into 2020.
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- Again, back to the capriciousness of this administration on this subject. I am not in the camp that believes tariffs are the best tool. I do believe we needed to strike a better deal with the Chinese and other trading partners but believe a lot shouldn't have been done in the public eye, making it a win-lose type of battle. It is too combative, and I have done enough business in China to know that is not the best way to work.
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Management of Companies and Enterprises

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- We are continuing to monitor the situation and increase the number of potential vendors for each of our products.
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Social Assistance

- We source produce from Mexico, so it is difficult to forecast our costs. Any tariffs would likely add to our costs, but it is difficult to predict whether or not tariffs will be imposed, as well as the level of any tariff.

Accommodation

- The uncertainty—both pricing and availability—has caused delays with capital spending/property-level improvements. Additionally, we have been forced to spend money and time identifying alternative suppliers in the event of excessive pricing or limited product availability.

Food Services and Drinking Places

- Decreases our desire to take risks and grow. There is worry over rising food and labor costs.
- All food and operating costs are rapidly increasing.
- Some impact on foods coming out of Mexico.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- There's a sense that a downturn, or at least an overall slowing of growth, is being designed and enforced by President Trump. We do not expect the economy to continue to resist being spooked by hubris and ignorance.
- We provide services to the global oil industry, so anything that impacts trade in crude oil and natural gas can impact our business.
- Members looking to reduce expenses may drop membership.

Special Questions Comments

These comments have been edited for publication.

Support Activities for Mining

- Although tariffs do not impact us directly, they do affect our customers. So, there is a trickle-down effect on our business activity.

Utilities

- The tariffs are not right. Consumers pay the bill, not China.

Support Activities for Transportation

- The China–U.S. trade war is benefiting the trade with Mexico, and therefore, increasing the volume of business at the border.

Broadcasting (Except Internet)

- If there is an impact from tariffs, we anticipate it will be negative but minimal and can be absorbed without significantly impacting profitability and pricing.

Insurance Carriers and Related Activities

- The negative impacts will be indirect. If business productivity drops or the level of activity in Texas drops, our business insurance sales will drop (a lot of insurance cost depends on the sales and/or payroll of our clients).

Real Estate

- We don't feel that the tariffs have directly impacted our business, but the psychology of the tariffs has affected our clients' outlook, which ultimately will impact our business.

Rental and Leasing Services

- The tariff conversations have hurt business and increased our costs. We cannot tell how much, but I believe we need tough dialogue with those countries we are imposing tariffs on. We have subsidized this bunch of coat-tailing freeloading countries with our tax dollars for long enough. The thing that is killing business is the fear of anti-business bureaucrat Democrats and their brother, the media propaganda machine, taking over government next year.

Professional, Scientific and Technical Services

- Business and markets simply loathe uncertainty as we all know. It happens at times—a fact of life—but at present, it seems to come about too quickly, and we all sit waiting for the next tweet to complicate our lives. It is getting very old with this administration: too many *ad hominem* attacks, too many factual misstatements. It may resonate with many constituents, but it is also impacting them in a way they don't fully comprehend right now (or just aren't feeling yet, but it could, soon).
- What our government is doing with tariffs and our foreign policy should have been done a long time ago. We do feel that in the near future this could slow down our economy, but in the long term, it will greatly benefit us.

Management of Companies and Enterprises

- The cost of upcoming steel is hurting construction.

Administrative and Support Services

- I totally back President Trump on the China tariffs, but to threaten to pull the trigger on other countries seems almost like a game to him now. This craziness is hurting business in Texas and I believe throughout the country. I have no idea what else President Trump and Twitter will spark fear in next.

Educational Services

- At some point, we need to bring China to the table. Our economy is growing at 3-plus percent, and China needs our consumers to survive. I think using tariffs as the carrot-and-stick strategy gives short-term pain. But taking a long-term view, it's the right policy prescription to solve this age-old problem of trade deficit and intellectual property theft.

Ambulatory Health Care Services

- Stop the madness in D.C. Tariffs will have little impact immediately on the medical community but will slow Texas expansion and impact local and regional capital expenditures and eventually, employment (all well-known I suspect).
- The health care sector is completely independent of the current issues with tariffs. As an observer, it is my opinion that tariffs may be the obvious way to get started to bring both parties to the table due to the acute pain on both sides, but it is critical not to push tariffs to be the end-all option, but to find a way to move forward. China usually plays for the long term unlike Europe or Mexico, which are not in a position to handle even short-term disruptions to their trade.
- As a local service provider for the region, there is little direct effect from the imposition of tariffs.

Social Assistance

- Since we are a nonprofit, we don't sell anything or have a profit margin. We have seen additional food donated to us through the USDA [United States Department of Agriculture] from the trade mitigation program.

Amusement, Gambling and Recreation Industries

- Suppliers increase costs before tariffs are put in place.

Food Services and Drinking Places

- While there is some short-term noise around the tariffs for certain products, we have alternative suppliers, and the China swine flu situation is probably having more of an impact on input prices.

Texas Retail Outlook Survey

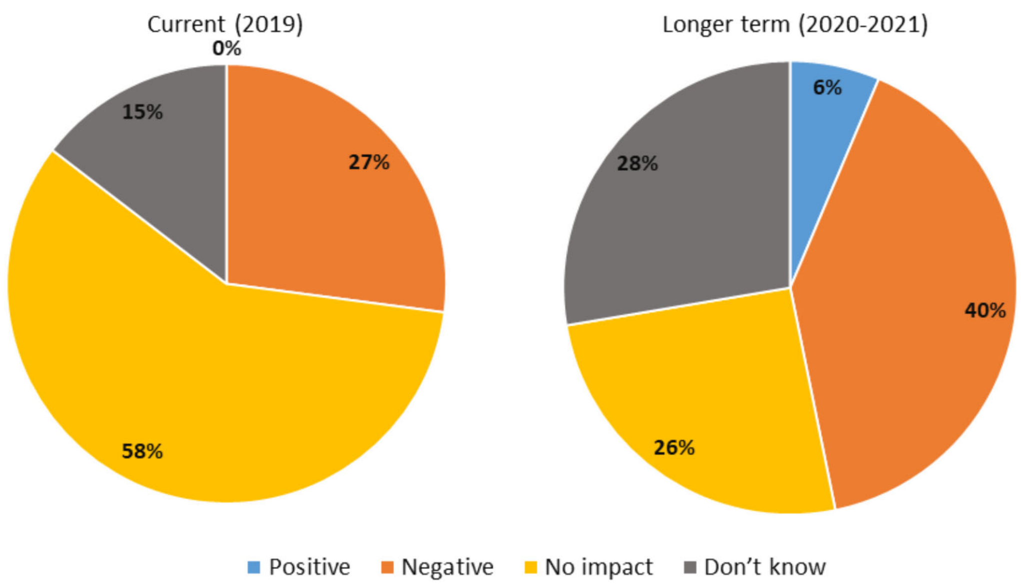
Data were collected June 11–19, and 48 Texas retailers responded to the surveys.
See data files with a full history of results.

What net impact have U.S. and foreign tariffs implemented since last year had on the following aspects of your firm's business?

	Sep. '18			Jun. '19		
	No impact (percent)	Increased (percent)	Decreased (percent)	No impact (percent)	Increased (percent)	Decreased (percent)
Input costs	27.5	70.0	2.5	53.2	40.4	6.4
Selling prices	27.5	70.0	2.5	56.5	37.0	6.5
Profit margins	N/A	N/A	N/A	67.4	2.2	30.4
Supplier delivery times	69.2	23.1	7.7	70.2	25.5	4.3
Production/revenue/sales	51.3	23.1	25.6	81.8	6.8	11.4
Employment	85.0	7.5	7.5	87.0	4.3	8.7
Capital spending plans	82.5	10.0	7.5	88.9	0.0	11.1
Uncertainty	40.0	57.5	2.5	N/A	N/A	N/A
Company outlook	76.3	7.9	15.8	69.6	6.5	23.9

NOTE: 47 responses.

What net impact have U.S. and foreign tariffs implemented since last year had on your firm overall, and what do you expect for the longer term?



SOURCE: Federal Reserve Bank of Dallas, Texas Retail Outlook Survey.

	Current (2019)	Longer term (2020–2021)
No impact	58.3	25.5
Positive	0.0	6.4
Negative	27.1	40.4
Don't know	14.6	27.7

NOTES: 48 responses.

A similar question was posed to survey participants in the September 2018 special questions.

What factors, if any, have allowed your firm to mitigate the negative tariff impact? Please select all that apply.*

	Percent
Passing cost increases through to customers	30.8
Moving up purchases ahead of full tariff implementation	30.8
Finding new domestic supplier(s)	15.4
Finding new foreign supplier(s)	15.4
Bringing production or processes in-house that were formerly outsourced; i.e., insourcing	15.4
The strengthening dollar lowering cost of foreign inputs	7.7
Reclassifying items into nontariff categories	7.7
Other	15.4
None	38.5

*This question was posed only to respondents who answered "negative" to "Current (2019)" in the previous question.
NOTE: 13 responses.

In which country or countries is/are the new foreign supplier(s) located?*

Vietnam/Malaysia; Vietnam

*This question was posed only to respondents who answered "Finding new foreign supplier(s)" to the previous question.
NOTE: 2 responses. This was an open-ended question, with the responses shown above.

What net impact have U.S. and foreign tariffs announced and/or implemented since last year–as well as other potential changes to trade policy–had on uncertainty regarding your firm's outlook and business decisions?

	Percent
No impact	54.2
Increased	37.5
Decreased	8.3

NOTES: 48 responses.

Uncertainty was included in a similar question posed to survey participants in the September 2018 special questions.

What impact, if any, has the increased uncertainty had on your firm, beyond the direct impact of the tariffs themselves? Please describe.

This question was posed only to respondents who answered "increased" to the previous question. These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- We are concerned the economy is slowing due to lack of confidence in the Trump administration's handling of tariffs—their impact on the consumer.
- There has become an oversupply of recycled metal domestically as well as an oversupply of new steel from the mills due to them ramping up their production to near capacity.

Merchant Wholesalers, Nondurable Goods

- My industry in general relies on a steady inflow of agriculture products to mitigate the cost of inputs. Picking fights with Mexico and Canada, our two largest trading partners, makes inflow of agriculture products in and out of both countries uncertain.
- Farmers are net exporters. Foreign countries that respond with tariffs usually levy them against agriculture.
- Mexican imports.
- The continued failure of the Federal Reserve to realize that there is no inflation, the employment numbers are worse than the Federal Reserve believes, and labor force participation continues to decline.

- The Fed may be able to cause a recession, which will then bring the Fed to reduce rates. That is a Machiavellian scenario that would probably please Chairman Powell who only seems to be happy when he can increase rates. Banks are continuing to finance developers who will develop as long as they can get money. Banks need large loans, and they are facilitating corporate takeovers with loans having reduced covenants. We may find ourselves with a repeat of 2007–08.

Building Material and Garden Equipment and Supplies Dealers

- Taxes hit consumers hard and reduce their discretionary spending.

Clothing and Clothing Accessories Stores

- It has been very difficult to plan future shipments given the uncertainty of future costs from suppliers.

Nonstore Retailers

- Our increased uncertainty has caused us to keep an eye on the situation to assess what impacts might occur to our business and to plan strategies to avoid these impacts. However, we don't feel we have a lot of control other than to pass through cost increases to our customers. We don't have a lot of options for alternate product sources, and it's not something we can easily substitute without dramatically reducing our sales.

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- If the trade talks with China are resolved quickly, we believe any negative impact will be minimal. If the trade talks/tariffs with China worsen or continue longer than six months, we will be forced to look for other countries to source product, which will have a negative impact on our business that we expect will last one to two years. Afterward, we expect our business will return to normal—similar to the period before the tariffs.

Merchant Wholesalers, Nondurable Goods

- Tariffs are not good for business, and continually using them for political influence and future votes goes against the core values of economics and good business sense, period. It is very frustrating in the commodity world to deal with the geopolitical interests of an administration whose interests don't line up with common business sense.

Building Material and Garden Equipment and Supplies Dealers

- We have had some small increases on imported products, but manufacturers have absorbed the brunt of them as of now. Short-term pain may result in long-term gain in the future. We're willing to support our leadership and the direction it takes.

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