



# Texas **Service Sector** Outlook Survey

August 27, 2019

## Texas Service Sector Growth Softens

### What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on the labor market and pricing power. 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 weaker pace in August, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, fell from 20.9 in July to 7.8 in August.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index rose from 8.7 to 10.2, while the hours worked index was mostly unchanged at 8.2 in August.

Perceptions of broader business conditions softened, and uncertainty increased compared with July. The general business activity index declined over four points to 0.2 in August, while the company outlook index fell over six points into negative territory at -2.5. The outlook uncertainty index rose to an all-time high of 19.6, with 30 percent of respondents noting greater uncertainty compared with July.

Wage pressures remained elevated in August, while price pressures were mixed. The wages and benefits index was mostly unchanged at 20.0. The selling prices index declined from 5.8 to 1.5—its lowest reading since early 2016—while the input prices index increased slightly to 23.8.

Respondents' expectations regarding future business conditions weakened compared with July. The future company outlook index dropped nearly nine points to 4.6 in August, while the future general business activity index plummeted from 10.7 to -4.0. Other indexes of future service sector activity, such as revenue and employment, fell below their 12-month averages but continued to reflected expectations of positive growth over the next six months.



# Texas **Retail** Outlook Survey

## Retail Sales Hold Flat

Retail sales were flat in August, according to business executives responding to the Texas Retail Outlook Survey. The sales index held largely steady at -0.2, indicating little net change compared with July. Growth in inventories declined slightly, as the inventories index dipped from 7.3 to 5.5.

Retail labor market indicators weakened compared with July, as respondents indicated a decline in employment and a slightly shortened workweek. The employment index dropped over six points to -5.6, while the hours worked index fell from 1.7 in July to -2.9 in August.

Retailers' perceptions of broader business conditions deteriorated further in August. The general business activity index weakened from -7.7 to -8.9, while the company outlook index dropped nearly six points to -13.8. The outlook uncertainty index increased this month, surging over 15 points to 21.1.

Retail price and wage pressures increased in August. The input prices index increased 11 points to 18.8, while the selling prices index surged from 5.8 to a 10-month high of 16.8. The wages and benefits index ticked up from 12.1 to 13.5.

Retailers' perception of future business conditions turned pessimistic this month. The future general business activity index fell nearly 15 points to -14.6, while the future company outlook index plummeted 23 points to -12.4. Most other indexes of future retail sector activity also fell, reflecting expectations for weaker growth 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:** October 1, 2019

Data were collected August 13–21, and 226 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	Aug Index	Jul Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	7.8	20.9	-13.1	12.1	117(+)	26.4	55.0	18.6
Employment	10.2	8.7	+1.5	6.7	114(+)	18.0	74.2	7.8
Part-Time Employment	3.7	3.7	0.0	1.8	7(+)	8.7	86.3	5.0
Hours Worked	8.2	7.6	+0.6	2.8	34(+)	11.4	85.4	3.2
Wages and Benefits	20.0	19.2	+0.8	14.6	123(+)	22.1	75.8	2.1
Input Prices	23.8	22.5	+1.3	25.4	124(+)	27.6	68.6	3.8
Selling Prices	1.5	5.8	-4.3	5.5	42(+)	12.5	76.5	11.0
Capital Expenditures	17.4	7.9	+9.5	10.8	120(+)	22.4	72.6	5.0

### General Business Conditions Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-2.5	3.6	-6.1	6.1	1(-)	13.7	70.1	16.2
General Business Activity	0.2	4.7	-4.5	3.9	3(+)	16.2	67.8	16.0

Indicator	Aug Index	Jul Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	19.6	16.3	+3.3	11.4	19(+)	29.9	59.9	10.3

## Business Indicators Relating to Facilities and Products in Texas

Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	31.3	40.8	-9.5	37.9	126(+)	45.8	39.8	14.5
Employment	24.3	25.2	-0.9	22.2	125(+)	31.4	61.5	7.1
Part-Time Employment	0.6	0.9	-0.3	6.7	2(+)	9.8	81.0	9.2
Hours Worked	5.1	3.6	+1.5	5.4	36(+)	9.4	86.3	4.3
Wages and Benefits	39.5	37.1	+2.4	36.4	152(+)	42.0	55.5	2.5
Input Prices	40.5	33.5	+7.0	44.6	152(+)	44.3	51.9	3.8
Selling Prices	20.0	20.5	-0.5	23.4	124(+)	29.7	60.6	9.7
Capital Expenditures	18.4	19.4	-1.0	24.2	125(+)	26.9	64.7	8.5

## General Business Conditions

Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	4.6	13.4	-8.8	17.1	8(+)	22.1	60.4	17.5
General Business Activity	-4.0	10.7	-14.7	13.8	1(-)	17.3	61.4	21.3

## Texas Retail Outlook Survey

### Business Indicators Relating to Facilities and Products in Texas

#### Retail (versus previous month)

Indicator	Aug Index	Jul Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	-0.2	0.6	-0.8	6.8	1(-)	20.4	59.0	20.6
Employment	-5.6	0.7	-6.3	2.4	1(-)	4.4	85.6	10.0
Part-Time Employment	0.0	0.0	0.0	-1.7	3(0)	5.9	88.2	5.9
Hours Worked	-2.9	1.7	-4.6	-1.2	1(-)	2.6	91.9	5.5
Wages and Benefits	13.5	12.1	+1.4	9.7	102(+)	20.2	73.1	6.7
Input Prices	18.8	7.8	+11.0	19.1	43(+)	24.2	70.4	5.4
Selling Prices	16.8	5.8	+11.0	10.2	29(+)	22.1	72.6	5.3
Capital Expenditures	13.2	1.9	+11.3	9.6	7(+)	17.0	79.2	3.8
Inventories	5.5	7.3	-1.8	4.0	3(+)	23.4	58.7	17.9
<b>Companywide Retail Activity</b>								
Companywide Sales	2.1	6.7	-4.6	8.5	2(+)	19.6	62.9	17.5
Companywide Internet Sales	4.2	26.8	-22.6	7.0	16(+)	14.6	75.0	10.4

### General Business Conditions, Retail

#### Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-13.8	-7.9	-5.9	4.4	9(-)	6.2	73.8	20.0
General Business Activity	-8.9	-7.7	-1.2	-0.1	9(-)	11.1	68.9	20.0

### Outlook Uncertainty

#### Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	21.1	5.6	+15.5	10.2	15(+)	26.9	67.3	5.8

### Business Indicators Relating to Facilities and Products in Texas, Retail

#### Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Retail Activity in Texas</b>								
Sales	13.0	38.3	-25.3	33.0	3(+)	33.2	46.7	20.2
Employment	-2.3	12.4	-14.7	12.7	1(-)	13.1	71.5	15.4
Part-Time Employment	-3.0	1.5	-4.5	0.6	1(-)	6.4	84.2	9.4
Hours Worked	-2.4	-0.4	-2.0	2.8	10(-)	6.9	83.8	9.3
Wages and Benefits	32.3	24.8	+7.5	27.3	128(+)	36.0	60.3	3.7
Input Prices	39.2	26.5	+12.7	33.2	124(+)	43.1	52.9	3.9
Selling Prices	29.4	23.1	+6.3	29.1	124(+)	39.2	51.0	9.8
Capital Expenditures	8.0	1.9	+6.1	18.7	3(+)	16.0	76.0	8.0
Inventories	-6.9	-5.9	-1.0	8.7	4(-)	19.4	54.3	26.3
<b>Companywide Retail Activity</b>								
Companywide Sales	4.9	27.6	-22.7	31.4	125(+)	26.0	52.9	21.1
Companywide Internet Sales	11.1	19.5	-8.4	22.0	37(+)	19.4	72.2	8.3

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

Indicator	Aug Index	Jul Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
<b>Company Outlook</b>	-12.4	10.9	-23.3	17.6	1(-)	10.5	66.6	22.9
<b>General Business Activity</b>	-14.6	0.1	-14.7	13.4	1(-)	10.2	65.0	24.8

\*Shown is the number of consecutive months of expansion or contraction in the underlying indicator. Expansion is indicated by a positive index reading and denoted by a (+) in the table. Contraction is indicated by a negative index reading and denoted by a (-) in the table.

\*\*Shown is the number of consecutive months of improvement or worsening in the underlying indicator. Improvement is indicated by a positive index reading and denoted by a (+) in the table. Worsening is indicated by a negative index reading and denoted by a (-) in the table.

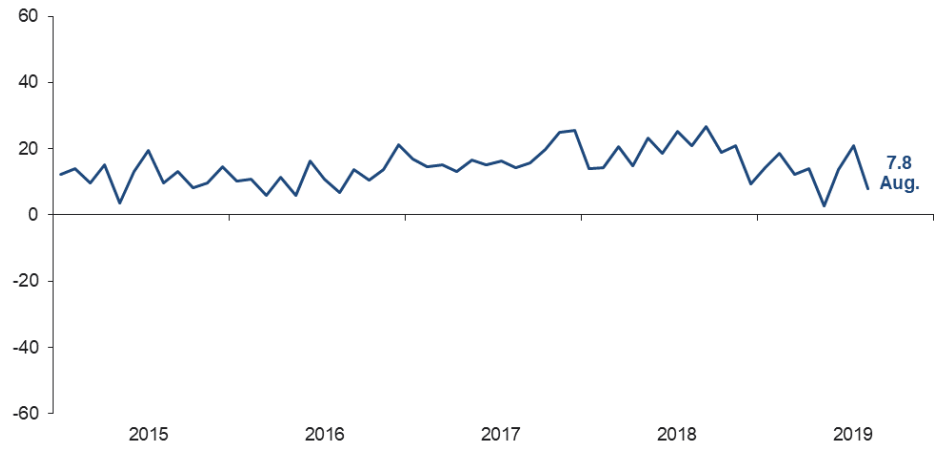
†Added to survey in January 2018.

Data have been seasonally adjusted as necessary, with the exception of the outlook uncertainty index which does not yet have a sufficiently long time series to test for seasonality.

# Texas Service Sector Outlook Survey

## Texas Service Sector Outlook Survey Revenue Index

Index, seasonally adjusted

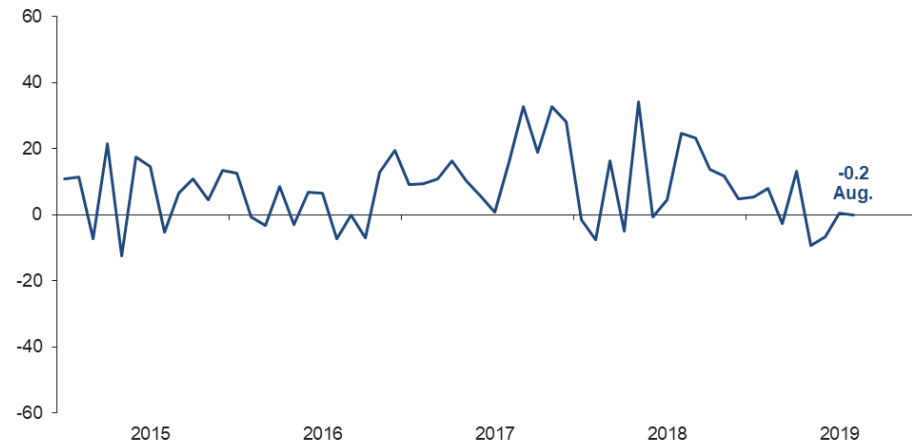


Federal Reserve Bank of Dallas

# Texas Retail Outlook Survey

## Texas Retail Outlook Survey Sales Index

Index, seasonally adjusted



Federal Reserve Bank of Dallas

# Texas Service Sector Outlook Survey

August 27, 2019

## Comments from Survey Respondents

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

### Utilities

- The continued escalation of the trade war with China is starting to take its toll on businesses. There is less clarity for the future than I can ever recall.

### Specialty Trade Contractors

- We are seeing less capital expenditures spending.

### Pipeline Transportation

- We are tied to the outlook for crude oil production, technical challenges with well performance (multiwell pads, efficiency) and spending within cash flow in an uncertain global demand market.
- There is lots of uncertainty about the global economy. It seems like there are more potential negative catalysts than positive ones at this point.

### Data Processing, Hosting and Related Services

- The recent interest rate change made a few buyers wonder if the economy is anticipated to worsen. Many buyers are starting to talk about nervousness for next year's presidential election, but it hasn't affected buying decisions yet. The climate of fewer new regulations has been a relief because of the cost burden of new regulation compliance. Businesses' greater concern is cybersecurity, and spending on that is enough of a new cost burden.

### Credit Intermediation and Related Activities

- We anticipate increased oil and gas M&A [mergers and acquisitions] activity, which will impact lending to the energy sector as service companies scramble to secure new relationships or protect incumbent relationships. We are operating with a view toward a recession beginning mid-2020.
- The biggest concern now is the interest rate environment. In addition, we are unsure about the impact the global economic slowdown will have on the economy in the U.S. as well as the political unrest. We anticipate that the market will compress profit margins, and the primary strategy to offset the pressure on revenue will be increased volume, which will be a challenge if the economy decelerates.
- Lower interest rates may cause a small increase in our margins over the longer term. Our company is expected to expand over the next two to five years.

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

- We are finding our raw material prices are increasing, and it is tough to pass these along in a softer market. We are still trying to absorb property tax, insurance, etc., increases.
- It is a tight job market.
- We are concerned about indications of a possible recession. We are leaving some positions open in case this happens.

### Insurance Carriers and Related Activities

- Lower interest rates are driving home purchase and refinance transactions.

### Real Estate

- Business is decent but the continuing volatility in the stock market, trade uncertainty and stagnation in Congress on immigration and health insurance makes long-term planning difficult and forces extra caution in our approach. If we had more clarity on these big issues, we could be much more aggressive.
- We are very tired of negative news. San Antonio restaurants are full and the shopping malls are full of smiling people. Why isn't there more positive news?
- We are seeing fewer and fewer commercial appraisals for loan purposes. The loosening regulations on appraisals under specific loan limits is affecting our business dramatically. Independent commercial property owners are utilizing our Restricted Appraisal Reports to assess the value of their property to sell their properties. These reports are less expensive but are keeping us afloat during this time.



## Rental and Leasing Services

- Our industry metrics are all pretty much still positive, except new-home permits are lower by about 2 percent, but they are definitely slower. We started the year 15 percent ahead of 2018; that lead has dropped every month to now 1.5 percent ahead of 2018.

## Professional, Scientific and Technical Services

- We are worried about current economic conditions and volatility in markets. Global issues, including China trade matters, are playing into it. The reality is month-to-month changes aren't shifting materially right now, but sentiment is worsening the longer we look into the future. We are focused on the Fed [Federal Reserve] remaining independent and not bowing to political pressure. They should act based on their view of both U.S. and then more global economic conditions, which we do believe are challenged at present.
- Tariffs continue to dominate the thoughts on investment, which in turn reduces the need for my consulting services.
- We had a slight decrease in revenue this month over last month, but it was only due to summer last-minute vacation timing. It should be robust for the rest of the year and next year.
- The strength of the firm's current contract backlog gives us a positive outlook over the next six–12-month horizon. Increasingly frequent news coverage about the inverted bond yield curve will prompt the firm to maintain a backup recession plan should the economy take a negative turn in the next 18–24 months.
- We see continued strength in real estate and corporate with an uptick in litigation.
- We see decreased activity in existing customers but increasing activity with new businesses.
- Lack of available entry-level labor continues to be the biggest restriction on growth. We need the support of the Department of Labor/Department of Homeland Security and Congress to expand and improve seasonal work visa programs like H2B.
- The economic and customer activity that we see seems to be very strong worldwide without us seeing effects of any trade-related issues. We are an infrastructure software provider that many companies need worldwide.
- All signs—from CEO confidence (lack of M&A [mergers and acquisitions] activity, which we see directly), to the stock market, to continued trade tensions, to Brexit, to political issues in the Middle East and elsewhere—indicate a market slowdown/recession is looming. Take that into the 2020 election cycle and folks are likely to sit on their hands until they get a clear sense of what is going on. We are also seeing private equity funds being raised (significantly) for distressed deals, which is an indication of market expectations. Finally, both litigation and restructuring/bankruptcy work in our firm is increasing, which is generally a sign of the market turn.
- What the election chaos is doing to the business uncertainty is amazing. The entire world is in turmoil and we are forced to stand by and watch. It is challenging at best.
- We see little to no change in the Texas market. We are seeing an increase in our international business.

## Management of Companies and Enterprises

- The paradox is our port is extremely busy with export activity of oil, but with a tariff war looming, the clouds of uncertainty are getting darker. Agriculture is having a good year in our area, and we have a lot of capital expenditures being made on new plants. But, the jobs have been temporary in nature and not permanent.

## Administrative and Support Services

- The tariff issue with China has become a factor in our business. More corporate flight customers are postponing maintenance when they can to stock up on cash. The few vendors I have talked with are in agreement that we can expect increases in our purchase prices in the next few months because of the "lag" in stock and their price point that they have had to pay. I have had one vendor tell me that since most people are unaware of what all goes into the product, many manufacturers are using this tariff fight as a ruse to increase their selling prices under the banner that it's "China's" fault. This worries me more than the actual price increase, because where does it stop? The oil equipment service sector has been down, and we do not see it coming back anytime soon as far as demand for new products to inspect.
- Demand for contract IT staff is definitely on a downward trend.

## **Educational Services**

- In the long term, I continue to remain optimistic about the local Texas economy as well as the national economy. I have heard talk of a recession on the horizon, but it's very hard for me to believe that fiscal and monetary policy and the bodies that govern these two economic tools would just sit on the sideline and watch the economy contract for two quarters. I believe after the election, [with a] Republican win in both Congress and the White House, the trade problem will be resolved, USMCA [U.S.–Mexico–Canada Agreement] will be passed and the Fed [Federal Reserve] will bring short-term rates back into balance in relation to the yield curve. In the short term, once any and all tariffs are in effect, businesses will have a better understanding of the full impact if any on their respective business lines, and the consumer will see the impact on product and service pricing. I don't see this affecting consumer spending; we as consumers (almost 70 percent of gross domestic product) are used to absorbing cost (i.e., rising gas prices, increase in minimum wage) in prices, and our buying habits are rarely curtailed. Holidays are looming, and we love to spend in the good ole U.S. of A.

## **Amusement, Gambling and Recreation Industries**

- As stated previously, our business remains strong, but, there are so many forces working against us. The unemployment rate in Austin is [2.7] percent. I believe that is well below what most economists consider to be full employment. Even with increased wages, there are simply not many qualified people to hire. That translates into those good people we do have working lots of overtime. In addition, we are looking at innovative ways to compensate those good employees. This year, we will fund the retirement plan with 9 percent of gross wages instead of the 7.5 percent last year and the several years prior. We are buying bus passes for those who need to take the bus. We offer bonuses for people who bring qualified people to us to hire. Property taxes are outrageous. You see that the property taxes are now going to go up, up, up, too. Perhaps more seriously to some of our folks is the price of avocados also skyrocketed.

## **Accommodation**

- There is too much uncertainty about what the federal government is thinking/doing. It's definitely giving us pause on capital spending.
- This is the third month in a row of signs of occupancy slowdown. Our daily rate is holding for now, but we expect it will soften as well as occupancy declines continue.

## **Food Services and Drinking Places**

- The [lack of] available labor is serious.
- Starting in September, the customer count will go down due to children going back to school and stay that way until the middle of December. This happens every year in the restaurant business.

## **Religious, Grantmaking, Civic, Professional and Similar Organizations**

- Volatility in global markets, the uncertainty associated with the trade situation and the stock market swings, lower bond prices, rising consumer prices and recent wage slip give me concern that the expansion is winding down—just as we enter the 2020 political season. This makes for an unclear outlook.
- As long as health care insurance issues remain in limbo, the uncertainty has a negative effect on the entire industry.

## **Motor Vehicle and Parts Dealers**

- We see sales weakness in our premium vehicle brands. Rising prices are slowing consumer spending on luxury vehicles.
- The market continues to show signs of weakness. New-vehicle prices increased, and our margins are slim. Expenses are too high. A 0.25-percentage-point interest rate decline helps, but further rate cuts are necessary to grow the economy and improve profitability. The nine [federal funds] rate increases really impacted our industry and business model significantly.

## **Building Material and Garden Equipment and Supplies Dealers**

- Sales are down approximately 5–5 1/2 percent when compared with last year's numbers. Uncertainty seems to be higher than in previous years. The ugliness of politics seems to be trickling down to businesses in our community, which is not good.
- We marked our outlook as "unchanged" because we have been concerned about the impact of U.S. government actions, particularly trade policy uncertainty, on the Texas economy for several months. Recent developments have confirmed our perspective.

# Texas **Business** Outlook Surveys

## Special Questions

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**August 26, 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 August 13–21, and 385 Texas business executives responded to the surveys.

See data files with a full history of results.

#### Are you currently trying to hire?

	May '19 (percent)	Aug. '19 (percent)
Yes	71.4	69.8
No	28.6	30.2

NOTE: 381 responses.

#### Are you having problems finding qualified workers when hiring?

	May '19 (percent)	Aug. '19 (percent)
Yes	83.0	75.6
No	17.0	24.4

NOTES: 266 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	80.5	77.9
No	19.5	22.1

NOTES: 154 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

#### What are the main reasons you are having difficulty finding qualified low-skill workers? Please select all that apply.

	Aug. '19 (percent)
Lack of available applicants/no applicants	72.3
Inability to pass drug test and/or background check	47.9
Lack of workplace competencies (soft skills)	43.7
Looking for more pay than is offered	40.3
Lack of technical competencies (hard skills)	35.3
Lack of experience	26.1
Other	9.2

NOTES: 119 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	86.0	84.3
No	14.0	15.7

NOTES: 172 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

**What are the main reasons you are having difficulty finding qualified mid-skill workers? Please select all that apply.**

	Aug. '19 (percent)
Lack of available applicants/no applicants	72.2
Lack of technical competencies (hard skills)	47.2
Looking for more pay than is offered	44.4
Lack of experience	36.8
Lack of workplace competencies (soft skills)	24.3
Inability to pass drug test and/or background check	16.7
Other	4.2

NOTES: 144 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	77.1	64.9
No	22.9	35.1

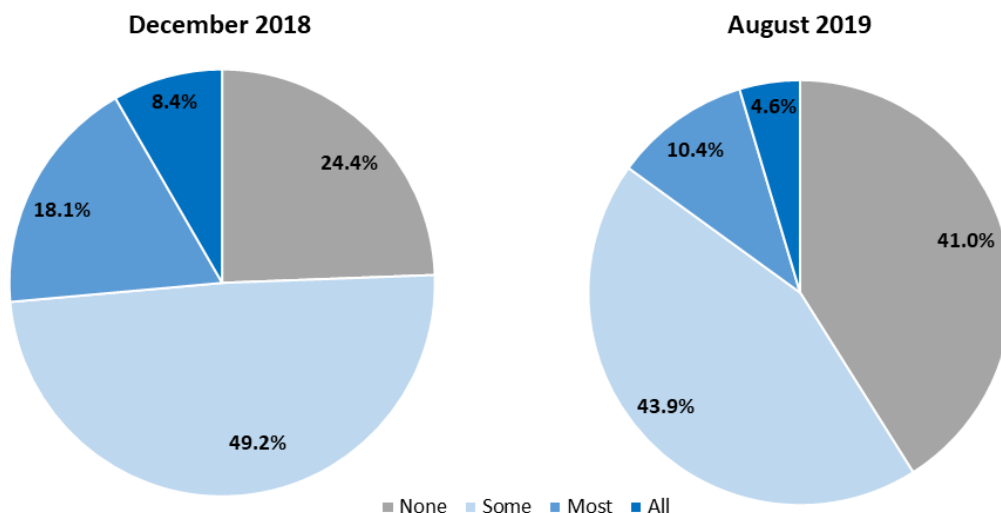
NOTES: 151 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

**What are the main reasons you are having difficulty finding qualified high-skill workers? Please select all that apply.**

	Aug. '19 (percent)
Lack of available applicants/no applicants	72.2
Lack of technical competencies (hard skills)	50.5
Looking for more pay than is offered	47.4
Lack of experience	29.9
Lack of workplace competencies (soft skills)	17.5
Inability to pass drug test and/or background check	7.2
Other	2.1

NOTES: 97 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

**If costs (including wages) are increasing, to what extent are you passing the higher costs on to customers in the way of price increases?**



SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys

	Dec. '18 (percent)	Aug. '19 (percent)
None	24.4	41.0
Some	49.2	43.9
Most	18.1	10.4
All	8.4	4.6

NOTE: 383 responses.

**If costs (including wages) are increasing, how has your firm's ability to pass those increases on to customers changed over the past six months?**

	Dec. '18 (percent)	Aug. '19 (percent)
Much easier now	1.4	1.8
Somewhat easier now	18.9	13.0
Similar to six months ago	39.5	46.4
Somewhat harder now	23.7	26.7
Significantly harder now	16.5	12.1

NOTE: 383 responses.

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 August 13–21, and 114 Texas manufacturers responded to the surveys.

See data files with a full history of results.

### Are you currently trying to hire?

	May '19 (percent)	Aug. '19 (percent)
Yes	72.7	64.0
No	27.3	36.0

NOTE: 114 responses.

### Are you having problems finding qualified workers when hiring?

	May '19 (percent)	Aug. '19 (percent)
Yes	79.5	83.6
No	20.5	16.4

NOTES: 73 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	83.8	71.4
No	16.2	28.6

NOTES: 49 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

### What are the main reasons you are having difficulty finding qualified low-skill workers? Please select all that apply.

	Aug. '19 (percent)
Lack of available applicants/no applicants	85.3
Inability to pass drug test and/or background check	64.7
Lack of technical competencies (hard skills)	44.1
Looking for more pay than is offered	38.2
Lack of workplace competencies (soft skills)	35.3
Lack of experience	26.5
Other	17.6

NOTES: 34 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	83.1	83.6
No	16.9	16.4

NOTES: 55 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

### What are the main reasons you are having difficulty finding qualified mid-skill workers? Please select all that apply.

	Aug. '19 (percent)
Lack of available applicants/no applicants	73.3
Lack of technical competencies (hard skills)	51.1
Looking for more pay than is offered	37.8
Lack of experience	37.8
Lack of workplace competencies (soft skills)	26.7
Inability to pass drug test and/or background check	15.6
Other	4.4

NOTES: 45 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	70.3	66.0
No	29.7	34.0

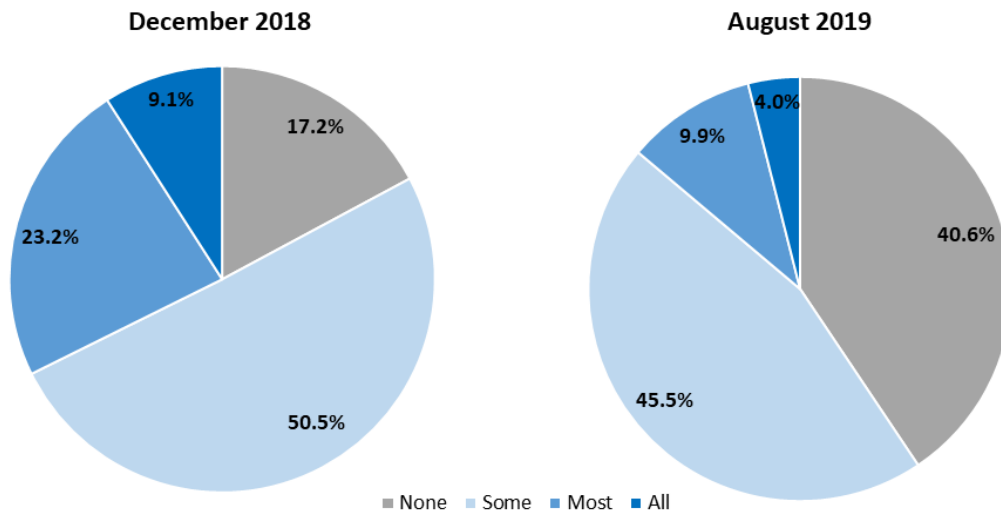
NOTES: 47 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

**What are the main reasons you are having difficulty finding qualified high-skill workers? Please select all that apply.**

	Aug. '19 (percent)
Lack of technical competencies (hard skills)	80.0
Lack of available applicants/no applicants	70.0
Looking for more pay than is offered	40.0
Lack of experience	40.0
Lack of workplace competencies (soft skills)	23.3
Inability to pass drug test and/or background check	16.7
Other	0.0

NOTES: 30 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

**If costs (including wages) are increasing, to what extent are you passing the higher costs on to customers in the way of price increases?**



SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey

	Dec. '18 (percent)	Aug. '19 (percent)
None	17.2	40.6
Some	50.5	45.5
Most	23.2	9.9
All	9.1	4.0

NOTE: 113 responses.

**If costs (including wages) are increasing, how has your firm's ability to pass those increases on to customers changed over the past six months?**

	Dec. '18 (percent)	Aug. '19 (percent)
Much easier now	1.0	1.0
Somewhat easier now	26.5	12.7
Similar to six months ago	35.7	45.1
Somewhat harder now	20.4	25.5
Significantly harder now	16.3	15.7

NOTE: 114 responses.

**Special Questions Comments**

These comments have been edited for publication.

**Fabricated Metal Product Manufacturing**

- Our company has to bid on most every job from a couple of our customers whether we have done the job before or it is new. Since President Trump's tariffs, we are forced to lower our previous pricing to maintain jobs we had done for years at essentially at the same price. So the price of material and labor go up while the cost of manufactured parts goes down? Does not compute.

**Machinery Manufacturing**

- Our industry is trying to cut costs everywhere, which is making it harder for us to pass costs on to our customers.

**Transportation Equipment Manufacturing**

- We are looking to improve production efficiencies, purchasing savings and quality.



- Pricing for our company is based on global supply and demand. So when we increase wages for employees, we cannot automatically increase our sales prices to global customers. Competing against Third World countries that have reverse-engineered our technology and utilize low-wage earners is very difficult, if not impossible.

### **Food Manufacturing**

- We have been successful squeezing more productivity (efficiencies) out of the plant, which has offset increased direct labor/hourly rates for now.

### **Paper Manufacturing**

- The same capacity (employees/machinery) is now chasing lower demand, so realized prices are coming down. Demand for health care never goes down, thus prices continue to climb. This is a squeeze that can only be addressed by reducing the workforce. Automation can't impact it fast enough.

### **Miscellaneous Manufacturing**

- Customers see the LME [London Metal Exchange] aluminum and Midwest Aluminum Premium coming down and are requesting price decreases. But we aren't able to pass along price decreases to our customers due to the decline in business level versus the amount of aluminum we have on order and in the pipeline at higher prices—we had to order aluminum well in advance due to long lead times caused by demand and tariffs—and due to the sharp decline in scrap prices.

## Texas Service Sector Outlook Survey

Data were collected August 13–21, and 271 Texas business executives responded to the surveys.  
See data files with a full history of results.

### Are you currently trying to hire?

	May '19 (percent)	Aug. '19 (percent)
Yes	70.8	72.3
No	29.2	27.7

NOTE: 267 responses.

### Are you having problems finding qualified workers when hiring?

	May '19 (percent)	Aug. '19 (percent)
Yes	84.5	72.5
No	15.5	27.5

NOTES: 193 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	78.6	81.0
No	21.4	19.0

NOTES: 105 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

### What are the main reasons you are having difficulty finding qualified low-skill workers? Please select all that apply.

	Aug. '19 (percent)
Lack of available applicants/no applicants	67.1
Lack of workplace competencies (soft skills)	47.1
Looking for more pay than is offered	41.2
Inability to pass drug test and/or background check	41.2
Lack of technical competencies (hard skills)	31.8
Lack of experience	25.9
Other	5.9

NOTES: 85 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	87.5	84.6
No	12.5	15.4

NOTES: 117 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

### What are the main reasons you are having difficulty finding qualified mid-skill workers? Please select all that apply.

	Aug. '19 (percent)
Lack of available applicants/no applicants	71.7
Looking for more pay than is offered	47.5
Lack of technical competencies (hard skills)	45.5
Lack of experience	36.4
Lack of workplace competencies (soft skills)	23.2
Inability to pass drug test and/or background check	17.2
Other	4.0

NOTES: 99 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	80.3	64.4
No	19.7	35.6

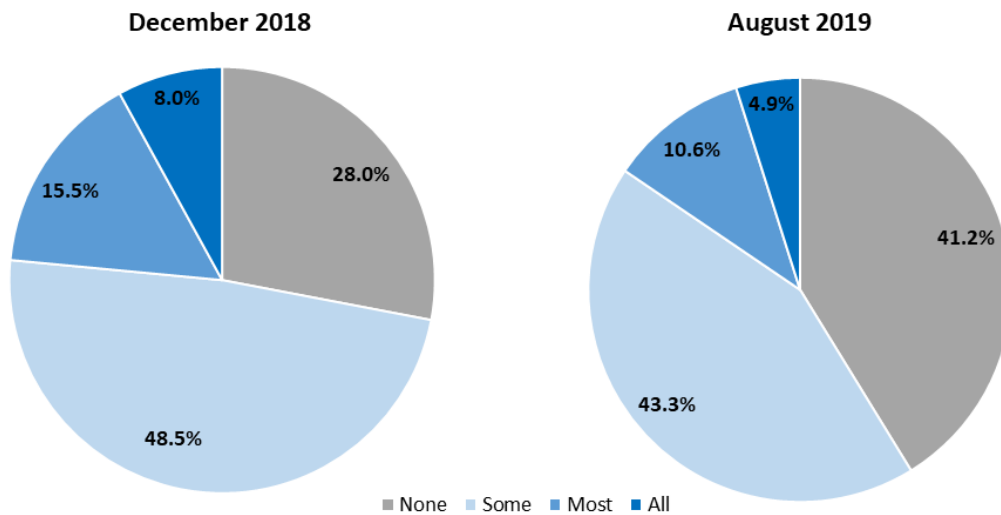
NOTES: 104 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

**What are the main reasons you are having difficulty finding qualified high-skill workers? Please select all that apply.**

	Aug. '19 (percent)
Lack of available applicants/no applicants	73.1
Looking for more pay than is offered	50.7
Lack of technical competencies (hard skills)	37.3
Lack of experience	25.4
Lack of workplace competencies (soft skills)	14.9
Inability to pass drug test and/or background check	3.0
Other	3.0

NOTES: 67 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

**If costs (including wages) are increasing, to what extent are you passing the higher costs on to customers in the way of price increases?**



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

	Dec. '18 (percent)	Aug. '19 (percent)
None	28.0	41.2
Some	48.5	43.3
Most	15.5	10.6
All	8.0	4.9

NOTE: 270 responses.

**If costs (including wages) are increasing, how has your firm's ability to pass those increases on to customers changed over the past six months?**

	Dec. '18 (percent)	Aug. '19 (percent)
Much easier now	1.6	2.2
Somewhat easier now	15.0	13.2
Similar to six months ago	41.5	46.9
Somewhat harder now	25.4	27.2
Significantly harder now	16.6	10.5

NOTE: 269 responses.

**Special Questions Comments**

These comments have been edited for publication.

**Support Activities for Transportation**

- Price increases have been implemented when bringing on new business.

**Data Processing, Hosting and Related Services**

- Our clients expect us to enhance our technology at a regular pace, and new innovations require leading-edge technologies. There are very few workers in North Texas with leading-edge technology skills.
  - We have employed several search firms to help us hire additional high-skilled workers.
  - We are offering more pay and better benefits.
  - We are working current employees much more (overtime and higher stress) and paying them better wages and benefits.

- We have recently started looking outside of North Texas for high-skilled help.

## **Credit Intermediation and Related Activities**

- The average time to fill a position has increased by about a week.
- Succession is the biggest challenge with an aging workforce; there are more spots to fill. Consolidation of tasks is part of the plan but requires higher wages and more talent to acquire the expertise to absorb increased responsibilities.

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

- Selling/quoting prices are down (i.e., markets services to the oil and gas industry), while almost all costs are increasing (i.e., raw materials, labor, property taxes, all property insurance, health insurance, etc.).
- Competition is increasing, with pricing at the forefront of our competitors' strategy.

## **Professional, Scientific and Technical Services**

- Companies are more likely to take the cheapest service without understanding the qualifications and expertise provided. Raising prices or just keeping prices at current levels is next to impossible.
- It is incredibly hard to find excellent candidates who want to commit.
- Clients continually attempt to commoditize products/services and make it difficult to raise prices.
- Our premium rates are set by the state, so we cannot pass any of these expenses on to our customers.
- We raise rates every year in October. There seems to be good room to be able to do so based on good demand presently for our services. Moreover, competitors have largely had higher rates, which makes it easier for us.

## **Management of Companies and Enterprises**

- Decreasing loan interest rates while costs of deposits remain steady has put pressure on banks' NIM (net interest margin). The yield curve (short-term interest rates versus longer-term interest rates) has flattened and in some cases inverted, thus the NIM pressure noted above.

## **Administrative and Support Services**

- It is a good market—very strong. Weather is not an issue anymore. It was four months ago—very, very rainy.
- Customers are still price shopping heavily. We will not increase our prices until Jan. 1 if we can keep EBITA [earnings before interest, taxes and amortization] in line for fourth quarter.
- Our units are under contract and, as such, price increases in our construction costs can't be passed through. However, we can raise prices on future phases of development, and we have had good ability to raise prices as needed.

## **Educational Services**

- As we continue to garner results for our clients and gain credibility, we are able to increase our prices, which helps us pay our employees more and fuel growth.

## **Ambulatory Health Care Services**

- It is a tight employment market. Low-skill employees are hardest [to find]—we rely on local recruitment. Mid-level employees are often promoted from within or recruited from other firms. Higher-skill employees are recruited from outside the region—we have slowed hiring but have had no major difficulties. Texas is still a great place to live and work.
- As a health care provider, we have no control over prices; it is a deflationary industry. I am an outpatient image provider.
- With the oil and gas sector cutting back on the workforce in the last three weeks, we are seeing an increase in health care workers returning back to the health care fields from the O&G jobs. That is allowing us in the health care field to staff up the vacant positions.

## **Hospitals**

- Hospital reimbursement levels are largely fixed, especially in the short run. Our ability to pass cost increases on to our customers is extremely limited.

## **Nursing and Residential Care Facilities**

- As a Medicare and state Medicaid provider for part of our services, we are not able to pass along cost increases to most of our customers. Texas Medicaid does not pay enough to cover the cost of services now. We actually lose anywhere from \$30–\$60 per patient per day for every person on Medicaid we have.

## **Social Assistance**

- We are planning to pass along a 3 percent increase to our customers in October.

## **Amusement, Gambling and Recreation Industries**

- Because we are a private club, many of the increases are passed on by dues increases. This will cover the costs of employee health insurance and horrible increases in property taxes. However, I just ate at my favorite hamburger joint today and they are closing in October because they can no longer handle the increases in taxes and the fact that the city has severely affected their business by taking away so many parking places. This is a similar story being told all over our central business district. There are many vacant storefronts with many more to come.

## Texas Retail Outlook Survey

Data were collected August 13–21, and 50 Texas retailers responded to the surveys.

See data files with a full history of results.

### Are you currently trying to hire?

	May '19 (percent)	Aug. '19 (percent)
Yes	70.0	75.5
No	30.0	24.5

NOTE: 49 responses.

### Are you having problems finding qualified workers when hiring?

	May '19 (percent)	Aug. '19 (percent)
Yes	88.6	78.4
No	11.4	21.6

NOTES: 37 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	76.0	80.8
No	24.0	19.2

NOTES: 26 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

### What are the main reasons you are having difficulty finding qualified low-skill workers? Please select all that apply.

	Aug. '19 (percent)
Lack of available applicants/no applicants	66.7
Lack of workplace competencies (soft skills)	61.9
Inability to pass drug test and/or background check	47.6
Lack of technical competencies (hard skills)	28.6
Lack of experience	19.0
Looking for more pay than is offered	14.3
Other	0.0

NOTES: 21 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	85.7	85.2
No	14.3	14.8

NOTES: 27 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

### What are the main reasons you are having difficulty finding qualified mid-skill workers? Please select all that apply.

	Aug. '19 (percent)
Lack of available applicants/no applicants	60.9
Lack of technical competencies (hard skills)	47.8
Looking for more pay than is offered	39.1
Lack of experience	26.1
Inability to pass drug test and/or background check	26.1
Lack of workplace competencies (soft skills)	21.7
Other	0.0

NOTES: 23 responses. This question was posed only to respondents that answered “Yes” to the preceding question.

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

	Feb. '19 (percent)	Aug. '19 (percent)
Yes	70.4	52.6
No	29.6	47.4

NOTES: 19 responses. This question was posed only to respondents that answered “Yes” to having problems finding qualified workers.

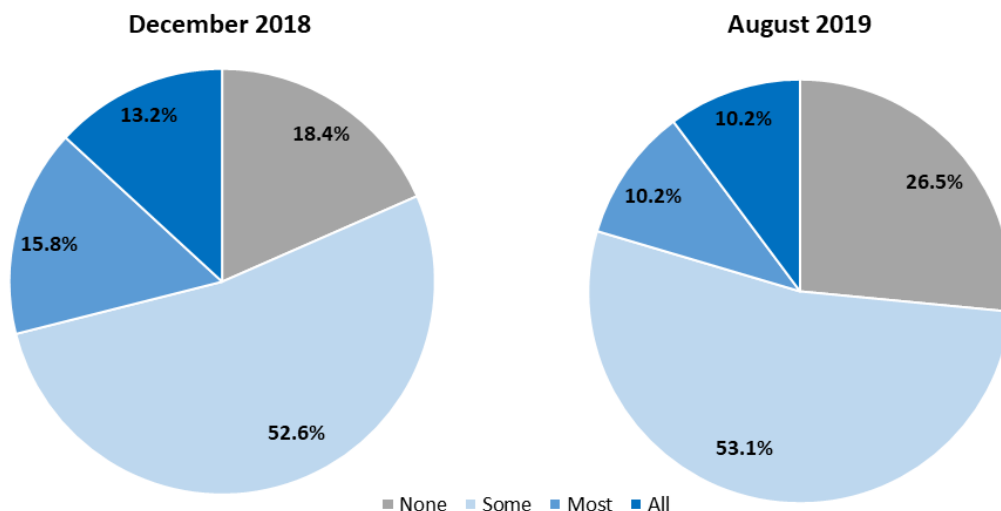
**What are the main reasons you are having difficulty finding qualified high-skill workers? Please select all that apply.**

	Aug. '19 (percent)
Lack of available applicants/no applicants	70.0
Lack of technical competencies (hard skills)	60.0
Lack of workplace competencies (soft skills)	30.0
Looking for more pay than is offered	10.0
Lack of experience	10.0
Inability to pass drug test and/or background check	10.0
Other	0.0

NOTES: 10 responses. This question was posed only to respondents that answered “Yes” to the preceding question.



**If costs (including wages) are increasing, to what extent are you passing the higher costs on to customers in the way of price increases?**



SOURCE: Federal Reserve Bank of Dallas Texas Retail Outlook Survey

	Dec. '18 (percent)	Aug. '19 (percent)
None	18.4	26.5
Some	52.6	53.1
Most	15.8	10.2
All	13.2	10.2

NOTE: 50 responses.

**If costs (including wages) are increasing, how has your firm's ability to pass those increases on to customers changed over the past six months?**

	Dec. '18 (percent)	Aug. '19 (percent)
Much easier now	5.3	2.1
Somewhat easier now	7.9	14.6
Similar to six months ago	28.9	39.6
Somewhat harder now	36.8	33.3
Significantly harder now	21.1	10.4

NOTE: 50 responses.

**Special Questions Comments**

There were no comments for the Texas Retail Outlook Survey for this release.

Questions regarding the Texas Business Outlook Surveys can be addressed to Emily Kerr at [emily.kerr@dal.frb.org](mailto:emily.kerr@dal.frb.org).