Texas **Service Sector** Outlook Survey

December 31, 2019

Growth in the Texas Service Sector Accelerates

What's New This Month

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

The Texas service sector grew at a faster pace in December, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, increased from 12.2 in November to 17.9 in December.

Labor market indicators reflected slightly slower employment growth and slightly longer workweeks this month. The employment index edged down from 7.0 to 5.5, suggesting a slight deceleration in hiring. The part-time employment index rebounded to 2.3 after dipping into negative territory last month. The hours worked index ticked up to 4.1.

Perceptions of broader business conditions continued to improve. The general business activity index increased nine points to 13.5, its highest reading in more than a year. The company outlook index was largely unchanged at 11.3. The outlook uncertainty index receded to 1.4, its lowest reading in nearly two years.

Price and wage pressures increased in December. The wages and benefits index moved up from 16.2 to 19.2, while the input prices index held steady at 25.7. The selling prices index rose to 6.9, a six-month high.

Respondents' expectations regarding future business conditions improved in December. The future company outlook index remained positive but edged down to 15.6, while the future general business activity index shot up nine points to 17.6. Other indexes of future service sector activity, such as revenue and employment, remained in solidly positive territory, suggesting expectations of continued growth over the next six months.

Texas **Retail** Outlook Survey

Retail Sales Growth Picks Up

Growth in retail sales accelerated markedly in December, according to business executives responding to the Texas Retail Outlook Survey. The sales index rose seven points to 13.5, its highest level in more than a year. Inventories increased, with the index rising to 13.6 after a near-zero reading in November.

Retail labor market indicators suggested slower employment growth and longer workweeks in December. The employment index remained positive but slipped five points to 2.5, while the part-time employment index shot up 16 points, rebounding from -6.2 to 9.6. The hours worked index also rebounded from negative territory, rising from -0.9 to 10.7.

Retailers' perceptions of broader business conditions continued to reflect optimism in December, and uncertainty decreased. The general business activity index was largely unchanged at 8.3. The company outlook index surged 10 points to 15.0, its highest reading in more than a year. The outlook uncertainty index plunged from 14.3 to -9.5, hitting its lowest level since we added the question in January 2018. The negative December reading indicates that a larger share of businesses said uncertainty regarding their outlook decreased than said it increased.

Retail price pressures remained steady while wages pressures picked up in December. The input prices and selling prices indexes held steady at 20.7 and 18.4, respectively. The wages and benefits index climbed 11 points to 25.1, its highest reading since August 2018.

Retailers' perceptions of future business conditions improved notably this month. The future general business activity index rose from 1.4 to 14.0, and the future company outlook index rose from 4.6 to 13.9. Other indexes of future retail activity, such as sales and employment, rose substantially, suggesting more bullish expectations for 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: January 28, 2019

Data were collected December 16–24, and 221 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	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	17.9	12.2	+5.7	12.2	121(+)	34.2	49.5	16.3
Employment	5.5	7.0	–1.5	6.7	118(+)	16.8	71.9	11.3
Part-Time Employment	2.3	–2.2	+4.5	1.8	1(+)	6.3	89.7	4.0
Hours Worked	4.1	2.9	+1.2	2.8	38(+)	7.8	88.5	3.7
Wages and Benefits	19.2	16.2	+3.0	14.6	127(+)	22.8	73.6	3.6
Input Prices	25.7	24.7	+1.0	25.4	128(+)	28.7	68.3	3.0
Selling Prices	6.9	0.7	+6.2	5.5	2(+)	15.9	75.1	9.0
Capital Expenditures	11.8	10.4	+1.4	10.8	124(+)	19.3	73.2	7.5

General Business Conditions

Current (versus previous month)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	11.3	10.3	+1.0	6.2	4(+)	21.7	67.9	10.4
General Business Activity	13.5	4.7	+8.8	4.0	7(+)	22.3	68.8	8.8

Indicator	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	1.4	11.2	–9.8	11.4	23(+)	14.9	71.6	13.5

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

Indicator	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	37.8	36.3	+1.5	37.9	130(+)	48.8	40.3	11.0
Employment	22.3	22.6	–0.3	22.2	129(+)	30.5	61.3	8.2
Part-Time Employment	8.7	6.0	+2.7	6.7	6(+)	14.1	80.5	5.4
Hours Worked	4.5	3.9	+0.6	5.4	40(+)	7.8	88.9	3.3
Wages and Benefits	39.4	36.8	+2.6	36.5	156(+)	41.4	56.6	2.0
Input Prices	46.6	39.4	+7.2	44.5	156(+)	48.5	49.6	1.9
Selling Prices	26.5	22.9	+3.6	23.4	128(+)	32.7	61.1	6.2
Capital Expenditures	29.0	23.7	+5.3	24.2	129(+)	36.0	57.0	7.0

General Business Conditions
Future (six months ahead)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.6	17.6	–2.0	17.0	12(+)	25.8	64.0	10.2
General Business Activity	17.6	8.5	+9.1	13.6	4(+)	27.0	63.6	9.4

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

Indicator	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	13.5	6.2	+7.3	6.9	4(+)	35.6	42.4	22.1
Employment	2.5	7.6	–5.1	2.4	3(+)	10.5	81.5	8.0
Part-Time Employment	9.6	–6.2	+15.8	–1.6	1(+)	11.5	86.5	1.9
Hours Worked	10.7	–0.9	+11.6	–1.3	1(+)	13.2	84.3	2.5
Wages and Benefits	25.1	13.8	+11.3	9.9	106(+)	30.7	63.7	5.6
Input Prices	20.7	20.9	–0.2	19.1	47(+)	26.1	68.5	5.4
Selling Prices	18.4	17.7	+0.7	10.4	33(+)	26.5	65.4	8.1
Capital Expenditures	5.7	6.1	–0.4	9.5	11(+)	13.2	79.2	7.5
Inventories	13.6	–0.5	+14.1	3.9	1(+)	31.4	50.8	17.8
Companywide Retail Activity								
Companywide Sales	15.6	–1.8	+17.4	8.5	1(+)	30.6	54.4	15.0
Companywide Internet Sales	14.8	12.2	+2.6	7.0	20(+)	19.1	76.6	4.3

General Business Conditions, Retail
Current (versus previous month)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.0	5.4	+9.6	4.5	3(+)	25.9	63.2	10.9
General Business Activity	8.3	9.6	–1.3	0.0	2(+)	20.0	68.3	11.7

Outlook Uncertainty
Current (versus previous month)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	−9.5	14.3	−23.8	9.7	1(–)	9.4	71.7	18.9

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

Indicator	Dec Index	Nov Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	34.0	10.6	+23.4	32.7	7(+)	41.2	51.6	7.2
Employment	11.7	−8.1	+19.8	12.5	1(+)	16.7	78.3	5.0
Part-Time Employment	15.4	−0.4	+15.8	0.7	1(+)	15.5	84.4	0.1
Hours Worked	1.1	−5.4	+6.5	2.7	1(+)	6.5	88.1	5.4
Wages and Benefits	33.4	26.9	+6.5	27.4	132(+)	35.0	63.4	1.6
Input Prices	44.0	31.9	+12.1	33.1	128(+)	44.0	56.0	0.0
Selling Prices	40.8	29.8	+11.0	29.2	128(+)	40.8	59.2	0.0
Capital Expenditures	16.3	−6.4	+22.7	18.3	1(+)	20.4	75.5	4.1
Inventories	12.3	–11.0	+23.3	8.4	1(+)	18.2	75.9	5.9
Companywide Retail Activity								
Companywide Sales	27.7	18.5	+9.2	31.2	129(+)	35.5	56.7	7.8
Companywide Internet Sales	26.8	13.9	+12.9	21.9	41(+)	26.8	73.2	0.0

General Business Conditions, Retail
Future (six months ahead)

Indicator	Dec Index	Nov Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	13.9	4.6	+9.3	17.4	4(+)	23.5	66.9	9.6
General Business Activity	14.0	1.4	+12.6	13.1	2(+)	21.7	70.6	7.7

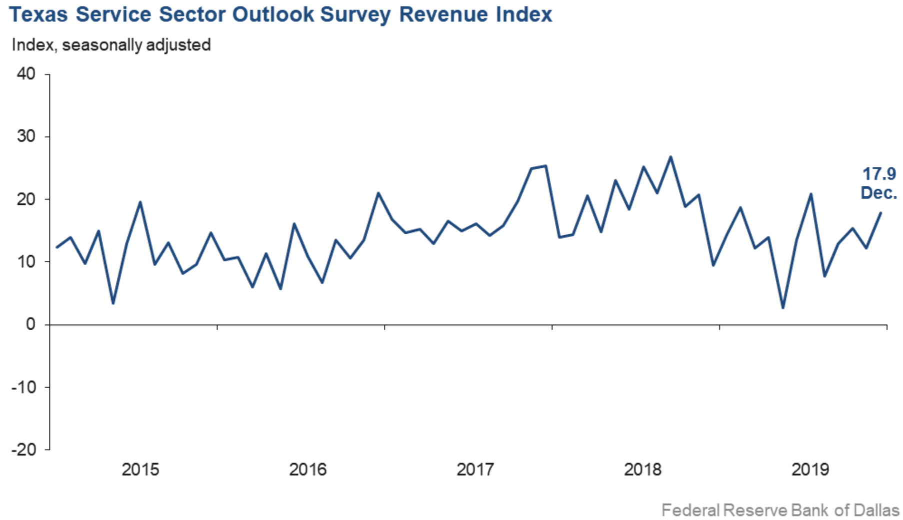
*Shown is the number of consecutive months of expansion or contraction in the underlying indicator. Expansion is indicated by a positive index reading and denoted by a (+) in the table. Contraction is indicated by a negative index reading and denoted by a (–) in the table.

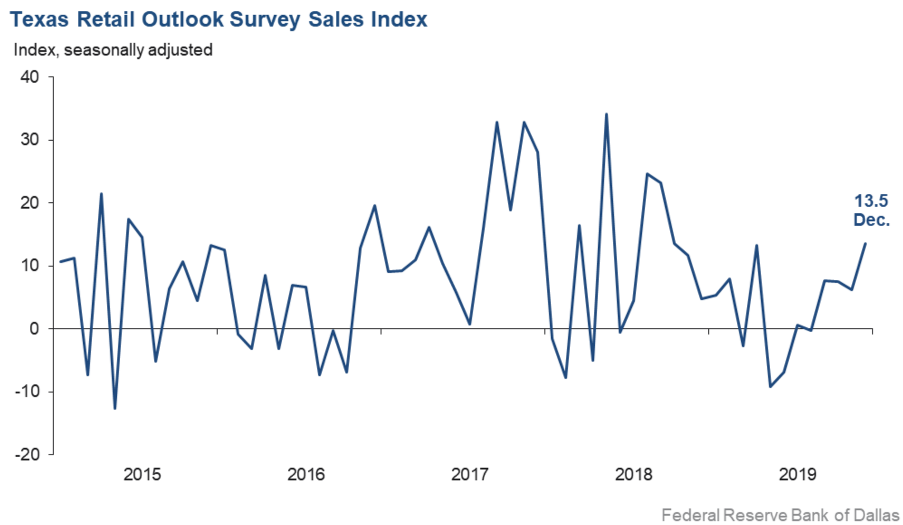
**Shown is the number of consecutive months of improvement or worsening in the underlying indicator. Improvement is indicated by a positive index reading and denoted by a (+) in the table. Worsening is indicated by a negative index reading and denoted by a (–) in the table.

†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

December 31, 2019

Comments from Survey Respondents

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

Utilities

- Hiring is requiring us to increase wages to match other companies due to the shortage of workers.
- There are a lot of questions about the financial health of the oil and gas industry as we head into 2020. I'm starting to hear a lot of talk about a large increase in workforce reductions. This would have a significant impact on the Texas economy. The new NAFTA [North American Free Trade Agreement] has helped mitigate some of the uncertainty for next year.

Support Activities for Transportation

- The recent trade deal provides some optimism, but there is a still a lot of uncertainty as we look beyond the next few months.
- We signed a 20-year contract with four extensions of 10 years each with a major customer, with an over $100 million project breaking ground in first or second quarter 2020.

Warehousing and Storage

- Our view of near- and mid-term business conditions remains the same as in prior months—very positive. Growth in South Texas remains strong, and the planned crude pipelines that we have been watching for the past two years are finally pumping crude for export.

Data Processing, Hosting and Related Services

- Business optimism appears to be good for 2020. Regulations and cybersecurity concerns still loom and make getting deals done more drawn out and costly. The sales cycle is much longer due to the detailed/multi-team due diligence.

Credit Intermediation and Related Activities

- The decline in interest rates is putting pressure on interest rate margins; there is a greater focus on fee income to offset. In August, it looked like [there would be] a recession by mid-2020. Recent improvement in manufacturing numbers suggest perhaps not, but at this time it appears that the consumer is driving GDP [gross domestic product]. Initial holiday sales may suggest that the consumer is cooling.

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

- Our company is heavily dependent on the oil and gas industry. Our markets are down, and the prospects are for more slowdown. Our costs keep rising. Taxes, insurance, materials and supplies all keep rising even in our down market. Tough times!

Insurance Carriers and Related Activities

- I am concerned about the uncertainty of the economy for 2020 with presidential politics and impeachment diverting attention away from the nation's business. I am more encouraged by the strong Texas economy. My small business merged with a larger organization, so we have additional funding to grow more regionally in Texas, and that is exciting to us.

Real Estate

- The year has had very little change from last year. However, December has picked up. I believe that six months from now will still be a good time for homeowners selling their houses.

Professional, Scientific and Technical Services

- We have heard from more economists that we may experience a slowdown in 2020 but not a recession. Some of the trade uncertainties seem to be easing (NAFTA 2.0, China). Some of the annual federal funding has passed and some areas (i.e., transportation) have received higher-than-expected funding. While impeachment and elections could continue to disrupt, some critical legislation continues to go through. All in all, the outlook seems more hopeful than it did about six months ago.

- Our positive outlook changes are due to strategic business functions. These functions are, to a small degree, supported by a general positive economic outlook, but it is not even close to a 1:1 relationship.
- Business activity is strong and anticipated to remain strong through the early part of next year.
- The signature of the new USMCA [United States–Mexico–Canada Agreement] gives certainty to the borderland business environment.
- The U.S. economy is roaring. We see buyers at all levels coming and purchasing. The global economy is also good except China. Every country except China is purchasing more or keeping the same flow. Our China sales are the only ones that have slowed in 2019.
- Lack of available entry-level labor who can pass background/drug tests remains our biggest obstacle to growth.
- Due to the political climate, it is extremely difficult to determine where this economy is headed. We expect next year to remain stable until the election is over.
- November and December are proving to be surprisingly strong in the engineering services sector. December is often a time when clients slow down, but this year many clients are trying to push through work before year-end.
- We are seeing a dramatic pickup in activity. We don't know if it is based on certainty with respect to USMCA, Brexit, a perception of China trade resolution or other, but client activity in the last quarter has been strong, and much stronger than the prior year's same-quarter numbers and much stronger than first-half 2019.

Management of Companies and Enterprises

- Uncertainty about interest rates, the political environment and talk of an oil slowdown have many customers and businesses on the sidelines until after the election in November.

Administrative and Support Services

- We closely monitor the 10-year Treasury as a barometer/indicator. The interest rate environment has changed from expecting an increase throughout 2019 to unlikely during 2020 leading up to the election. Concerns about tariffs have also shifted from very concerned to the expectation that they will moderate during 2020 leading up to the election.
- The Texas market continues to grow, as well as the opportunities in the major metropolitan areas. West Texas is still weak, and smaller markets are not seeing the gains from growth.
- We are excited about responding to the market with some new service offerings that will allow us to fill a gap in our current product mix that will uniquely serve a need that has long been ignored by firms in our segment. We believe that listening to the market and responding will put us in a unique position to pick up new work that historically we've been unable to provide.
- It is hard to find quality employees.

Educational Services

- The passage of USMCA is a positive sign and should bolster growth for all three countries in the quarters ahead. Phase I of China trade is in motion, and that should also provide positive changes in the growth continuum going forward. Impeachment is a non-starter, and the topic will wither on the vine. Going into 2020, there are great headwinds, and I am excited about the American economy in 2020.

Ambulatory Health Care Services

- CMS PDGM [Centers for Medicare & Medicaid Services Patient-Driven Groupings Model] is affecting home health care agencies.

Nursing and Residential Care Facilities

- The seniors housing industry continues to be challenged with a demand/supply imbalance.

Amusement, Gambling and Recreation Industries

- For the first time ever in 65 years, we have had to employ waiters from a temporary service. It is truly impossible to hire qualified people. The downside to this is that these waiters are only moderately trained, certainly do not know our facility very well and come with a hefty price tag. I realize we are not paying them benefits, but this is a big cost to us, but it was the only way we could get through the holiday season. Everywhere you go in Austin there is a help-wanted sign. The levels of service are decreasing at all restaurants and grocery stores and actually anywhere that needs to hire service personnel. We have hit a brick wall as far as providing the type of service we would like to. In addition, there are others that are either going out of business or not expanding because of the labor shortage.

Accommodation

- Personally, I am not optimistic about 2020. In my view, it will be down from 2019, but at the moment, that is hard to see. How much down remains to be seen. With the deficits we are running, this will eventually catch up with us. Our first quarter is looking very strong at the moment, but I'm not so certain beyond that point. I hope I am just being pessimistic.

Food Services and Drinking Places

- We are still trying to determine how much West Texas/oilfield activity is slowing.
- Business increased dramatically in December but is expected to slow somewhat in first quarter 2020.
- If oil and gas employment goes down, this will affect our business.

Merchant Wholesalers, Durable Goods

- Energy sector manufacturers, those making parts for the oilfield, in North Texas are very slow at the moment.
- We have seen a significant slowdown in the industrial contracting business in Texas in late November/early December. These customers continue to state that 2020 will be a good year, and they expect their business to pick up in January 2020.

Merchant Wholesalers, Nondurable Goods

- Hopefully, the trade war and new U.S.–Canada–Mexico trade agreement will reduce the volatility in our export sector.

Motor Vehicle and Parts Dealers

- Business is good.
- The decrease in revenue for December is due to an inability to receive sold trucks in December, postponing the sales until January.
- December retail sales will be better than November for us, but that is generally the trend in our industry. Fleet will be down. We must get the USCMA passed. And, we need a decision on tariffs with other major trade agreements.
- We are seeing improved retail activity and traffic we believe due to impeachment implications softening and trade sanctions lifting. The general feeling is that the markets are somewhat more stable as we move forward.

Building Material and Garden Equipment and Supplies Dealers

- We expect increased revenue in the next six months as some investments we've made in 2019 start providing returns. Employment levels will increase to support the new operations. Wage rates should also increase, though we don't expect to recover these costs through higher selling prices. Uncertainty over the tariff situation and trade policy in general continue to cast doubt on future business conditions.

Clothing and Clothing Accessories

- We are intentionally decreasing our internet sales as we transition our company from a department store to an off-price model. It is difficult to generate profits from internet sales given the competitive environment.

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

Texas **Business** Outlook Surveys

Special Questions

December 30, 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 Dec. 16–24, and 322 Texas business executives responded to the surveys.
See data files with a full history of results.

What annual percent change in wages and input prices did your firm experience in 2019, and what do you expect for 2020? Also, by how much did your firm change selling prices in 2019, and by how much do you expect to change selling prices in 2020?

	2019 actual (percent)*	2020 expected (percent)*
Wages	3.9	3.8
Input prices (excluding wages)	3.4	3.3
Selling prices	2.4	2.8

NOTE: 275 responses.

*Shown are trimmed means with the lowest and highest five percent of responses omitted.

For each category below, please select the extent to which your firm raised wages (excluding benefits) over the past 12 months:

	None	Less than four percent	Four percent or more
Low-skill positions (typically require high school diploma or less and minimal work experience)	22.2	50.7	27.2
Mid-skill positions (typically requires some college or technical training)	16.4	49.3	34.2
High-skill positions (typically requires college degree or higher)	18.5	41.3	40.3

NOTES: 304 responses.

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

	Dec. '18 (percent)	May '19 (percent)	Dec. '19 (percent)
Increased substantially	7.2	6.2	8.1
Increased slightly	23.1	22.9	28.5
Remained the same	24.4	29.1	22.7
Decreased slightly	34.2	33.6	28.5
Decreased substantially	11.1	8.2	12.3

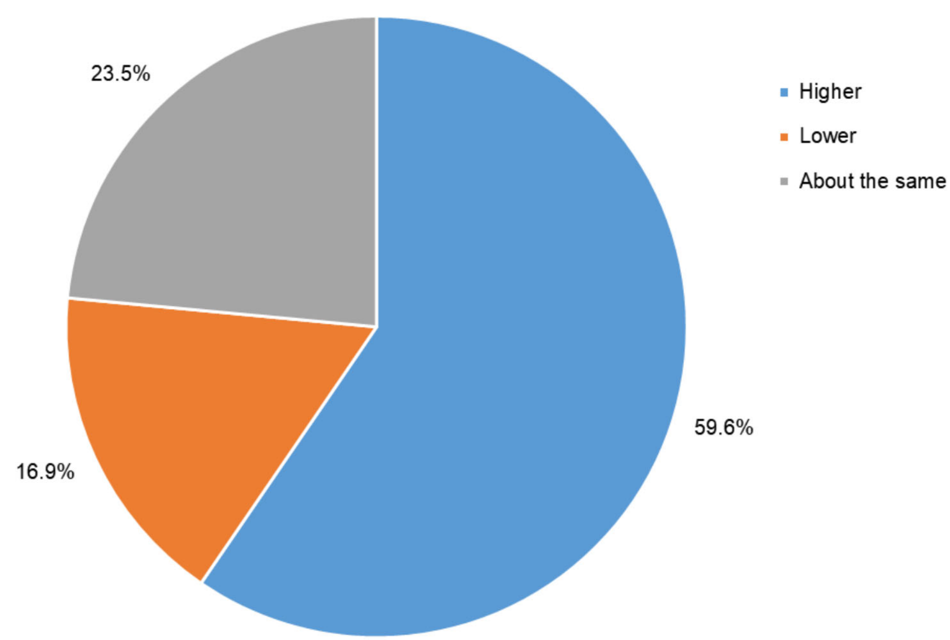
NOTES: 309 responses.

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?

	Current (2019)		Longer term (2020–2021)	
	Jun. '19 (percent)	**Dec. '19 (percent)**	**Jun. '19 (percent)**	**Dec. '19 (percent)**
No impact	57.6	49.2	28.7	36.8
Positive	4.8	4.4	9.6	7.4
Negative	28.4	37.9	36.5	34.2
Don't know	9.3	8.5	25.2	21.6

NOTES: 317 responses.

How do you expect your firm's production, revenue or sales in 2020 to compare with 2019?



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

	Dec. '19 (percent)
Higher	59.6
Lower	16.9
About the same	23.5

NOTES: 319 responses.

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

Texas Manufacturing Outlook Survey

Data were collected Dec. 16–24, and 96 Texas manufacturers responded to the surveys.

See data files with a full history of results.

What annual percent change in wages and input prices did your firm experience in 2019, and what do you expect for 2020? Also, by how much did your firm change selling prices in 2019, and by how much do you expect to change selling prices in 2020?

	2019 actual (percent)*	2020 expected (percent)*
Wages	3.4	3.5
Input prices (excluding wages)	3.2	3.2
Selling prices	2.2	3.0

NOTE: 83 responses.

*Shown are trimmed means with the lowest and highest five percent of responses omitted.

For each category below, please select the extent to which your firm raised wages (excluding benefits) over the past 12 months:

	None	Less than four percent	Four percent or more
Low-skill positions (typically require high school diploma or less and minimal work experience)	14.0	54.8	31.2
Mid-skill positions (typically requires some college or technical training)	11.7	54.3	34.0
High-skill positions (typically requires college degree or higher)	19.1	43.6	37.2

NOTES: 94 responses.

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

	Dec. '18 (percent)	May '19 (percent)	Dec. '19 (percent)
Increased substantially	11.0	11.4	8.6
Increased slightly	24.2	23.8	24.7
Remained the same	17.2	22.9	20.4
Decreased slightly	35.4	33.3	26.9
Decreased substantially	12.1	8.6	19.4

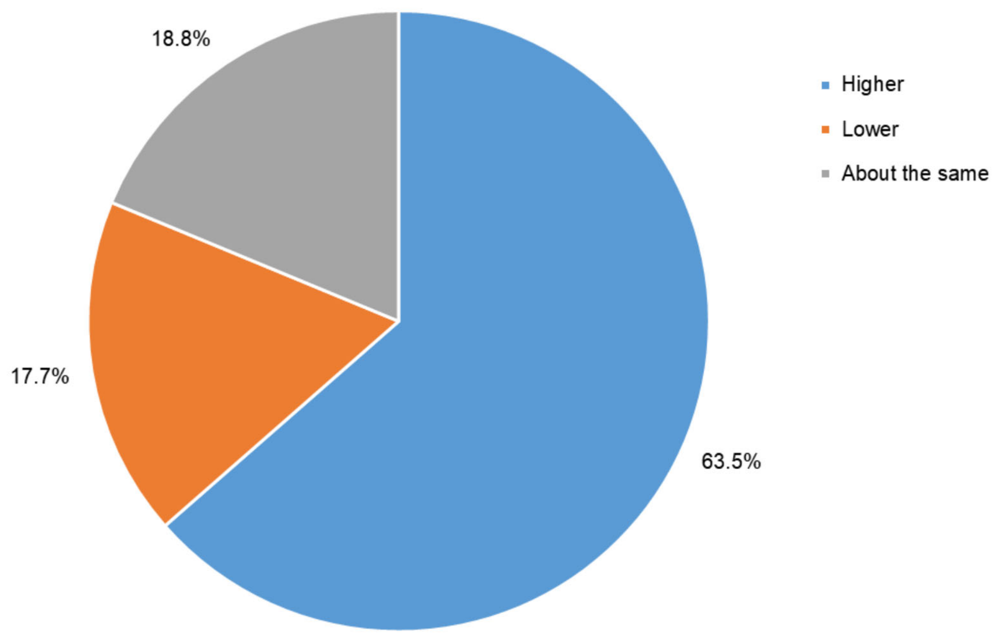
NOTES: 93 responses.

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?

	Current (2019)		Longer term (2020–2021)	
	Jun. '19 (percent)	**Dec. '19 (percent)**	**Jun. '19 (percent)**	**Dec. '19 (percent)**
No impact	45.1	33.3	20.7	22.6
Positive	8.8	11.5	18.0	18.3
Negative	40.7	47.9	31.5	34.4
Don't know	5.3	7.3	29.7	24.7

NOTES: 96 responses.

How do you expect your firm's production, revenue or sales in 2020 to compare with 2019?



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

	Dec. '19 (percent)
Higher	63.5
Lower	17.7
About the same	18.8

NOTES: 96 responses.

If you expect *higher* production, revenue or sales in 2020, why?

These comments have been edited for publication.

Chemical Manufacturing

- Significant investment in robotics and automation and other lean manufacturing efforts.
- Increased demand in the largest market, and growth in multiple sectors.
- Consumer confidence improving after election and impeachment proceedings.

Primary Metal Manufacturing

- Depleting backlog of low-selling-price jobs, and new jobs sold will be at higher prices.
- Most of our sales are to various agriculture markets. Our customers have deferred purchases the past 18 months, so we are likely to see some increase as the deferrals end and the positive impact of partial resolution of the trade situation with China starts to have a positive impact on agriculture sales and, therefore, on our sales.
- Price increases will help offset the sharp rise in production costs associated with new labor.

Fabricated Metal Product Manufacturing

- Commercial construction is still moving ahead at a great pace. As long as no election changes are made, business should continue as it normally does in an election year.
- Cheap Chinese coils are no longer being dumped into the United States. Tariffs used to be just on raw materials, which hurt U.S. manufacturers, so they moved to Mexico and imported the coils they built there back to the U.S. or imported Chinese-made coils. Now the tariffs are on the imported finished goods, too. This helps level the playing field for U.S. manufacturers.
- The economy is growing, and modular construction is growing as a form of permanent construction.
- We are gearing up for new markets. We are optimistic for future business.
- The markets in which we operate are very solid and showing solid performance. The tariffs have not impacted our business at all. We are entering 2020 with a backlog about 15 to 20 percent higher than the same period last year.
- Manufacturing in the U.S. will continue to grow and be strong.
- Texas is the place to be for manufacturing, considering the expense of trucking. Also, reshoring of products is a large opportunity for us.

Nonmetallic Mineral Product Manufacturing

- Increase in backlog due to higher infrastructure spending.
- Revenues will increase due to 1) market share increase, and 2) continued selling price increases.

Machinery Manufacturing

- When the Chinese tariff issue is solved, we expect a rapid increase in business.
- Market share growth.
- Positive attitude.
- More energy activity.
- A general increase in capital equipment purchases and the introduction of new product lines.

Computer and Electronic Product Manufacturing

- Increased profits lead to more investment in business growth as our sales and marketing efforts expand. Additional new products were introduced in 2019 that will lead to increased sales in 2020.
- Industry confidence.

Transportation Equipment Manufacturing

- Increased production volumes and higher average sales price per unit.
- More aggressive pricing.
- We use our largest show as an indicator for both our current business, but more importantly for my forecast. This show just ended and the buyer confidence level we saw for high-end products rivaled 2016 numbers. I have been using this show as a gauge for the first quarter of my business for 20 years and it has been incredibly accurate for my industry.
- We added additional salespeople, developed new sales sources and increased foreign military sales.

Food Manufacturing

- Increased consumer awareness of the variety of products we now offer.
- Added new machinery that will go into full production early next year.
- New customer in pipeline, and current customer expanding into Walmart.
- We expect to increase our production slightly over 2019 but focus on higher-priced items which seem to be in higher demand, which will increase our revenue approximately 11 percent for the first six months of 2020. We are focused on shifting our sales mix to higher-margin items, which will have a positive effect on EBIT [earnings before interest and taxes] during the same time period.
- We believe we will add new customers.
- New clients, new products.
- More aggressive sales strategy in terms of promotional pricing and advertising.

Wood Product Manufacturing

- Dallas and the commercial and housing markets are booming.

Furniture and Related Product Manufacturing

- We expect an increase of 18–20 percent, driven by the strong economy and further boosted by the foreign tariffs.
- Increased marketing efforts; new products.
- Brick and mortar retail coming back.

Paper Manufacturing

- We are working on a lot of new projects that should result in higher revenues.
- Increased sales effort. It could affect margin/selling prices negatively.
- The consumer goods flexible-packaging sector is growing better than GDP. We are adding production capacity, which will allow us to reduce our backlog and increase our share.

Printing and Related Support Activities

- In part from an increase in pricing we implemented. We are really just now seeing the results from that, plus we have some significant publishing customer opportunities for next spring.
- Positive sales efforts leading into next year.

Miscellaneous Manufacturing

- Product life-cycle timing issues and improved competitiveness by investments in technology for both operations and product innovations coming to market.

If you expect *lower* production, revenue or sales in 2020, why?

These comments have been edited for publication.

Chemical Manufacturing

- Lower car sales decreases demand.

Fabricated Metal Product Manufacturing

- Competition from low-cost countries. Market price being driven lower.
- Oil and gas prices.
- Expected slowdown in domestic oil new-well drilling.
- General slowdown in the automotive industry and, therefore, lower production driven by lower customer demand.

Machinery Manufacturing

- Election years are notoriously bad years … instability.

Computer and Electronic Product Manufacturing

- It's time to gain new customers to replace revenue lost due to increased losses due to tariffs.

Transportation Equipment Manufacturing

- The media has gotten the public thinking negatively. The China deal has hurt trucking volumes; however, we need to stay the course and get them on a level field. Short-term hurt, long-term gain.

Food Manufacturing

- Milk has been trending down for years, and we don't see that changing soon.

Wood Product Manufacturing

- Increase selling prices to increase real dollar margins. The tariffs have destroyed the domestic lumber prices and all the other costs, especially fleet insurance, have doubled. It is very hard to make money with depressed lumber prices. We are selling more product—just not getting enough for it.

Miscellaneous Manufacturing

- Chinese competition and tariffs.

If you expect production, revenue or sales to be *about the same* in 2020, why?

These comments have been edited for publication.

Chemical Manufacturing

- We do not anticipate improvement in the oilfield business.

Fabricated Metal Product Manufacturing

- No immediate indication the RFQs [requests for quotations] will actually lead to purchase orders.

Nonmetallic Mineral Product Manufacturing

- We've had a good year. 2020 should be the same.

Computer and Electronic Product Manufacturing

- Concern over tariff taxes.
- It is an election year, so we can't determine where we will be at the end of 2020. The outcome of the election could swing business heavily in either direction. The best scenario will be steady business as this year has been.
- We are down double digits. If the macro economy stabilizes, so too should our revenue.

Transportation Equipment Manufacturing

- Our costs will be higher, which we will attempt to offset by selling more volume overseas.

Food Manufacturing

- Election year.

Apparel Manufacturing

- 2019 volumes have hit an all-time high, and 2020 should be comparable.

Printing and Related Support Activities

- We are in a stagnant industry.

Special Questions Comments

These comments have been edited for publication.

Primary Metal Manufacturing

- Our margins are spreading for the first time in several years.

Machinery Manufacturing

- Wages are flat due to extreme pricing pressure. We see competitors quoting cost or less to get work, us included. Our health insurance went up 15 percent for 2020. It must be nice to have a fixed market.

Transportation Equipment Manufacturing

- Part of our revenue decline is switching from retail to wholesale distribution in 2019.
- The tariffs on imported steel have hurt U.S. manufacturers who were already using U.S. steel. The day the imports were imposed, the U.S. steel mills immediately increased their prices (up to 25 percent). Therefore, we saw our prices increase immediately to the higher level. The more complicated issue is that tariffs were not imposed at the same time on finished-goods manufacturing from steel in the Asian countries. The American manufacturers were quickly hit with foreign competitors who manufactured the raw steel into finished parts and shipped to the U.S. with no tariffs attached. Until our government can apply tariffs to all steel and aluminum products manufactured from the restricted countries, a huge imbalance has been created for the U.S. manufacturer.

Food Manufacturing

- Rather than implement raises for many of our factory workers, including supervisors and plant managers, we are offering bonuses based on achieving key performance indicators on a quarterly basis.
- Here's to hoping tariffs in 2020–2021 are nonexistent. That would be positive.

Wood Product Manufacturing

- Make a deal and end these silly tariffs. They are a tax on the American people, not punishment to the importers. The law of unintended consequences can't be repealed.

Texas Service Sector Outlook Survey

Data were collected Dec. 16–24, and 226 Texas business executives responded to the surveys.

See data files with a full history of results.

What annual percent change in wages and input prices did your firm experience in 2019, and what do you expect for 2020? Also, by how much did your firm change selling prices in 2019, and by how much do you expect to change selling prices in 2020?

	2019 actual (percent)*	2020 expected (percent)*
Wages	4.1	3.9
Input prices (excluding wages)	3.5	3.4
Selling prices	2.5	2.7

NOTE: 192 responses.

*Shown are trimmed means with the lowest and highest five percent of responses omitted.

For each category below, please select the extent to which your firm raised wages (excluding benefits) over the past 12 months:

	None	Less than four percent	Four percent or more
Low-skill positions (typically require high school diploma or less and minimal work experience)	25.8	48.8	25.4
Mid-skill positions (typically requires some college or technical training)	18.6	47.1	34.3
High-skill positions (typically requires college degree or higher)	18.2	40.2	41.6

NOTES: 210 responses.

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

	Dec. '18 (percent)	May '19 (percent)	Dec. '19 (percent)
Increased substantially	5.3	4.0	7.9
Increased slightly	22.6	22.5	30.1
Remained the same	27.9	31.7	23.6
Decreased slightly	33.7	33.7	29.2
Decreased substantially	10.6	8.0	9.3

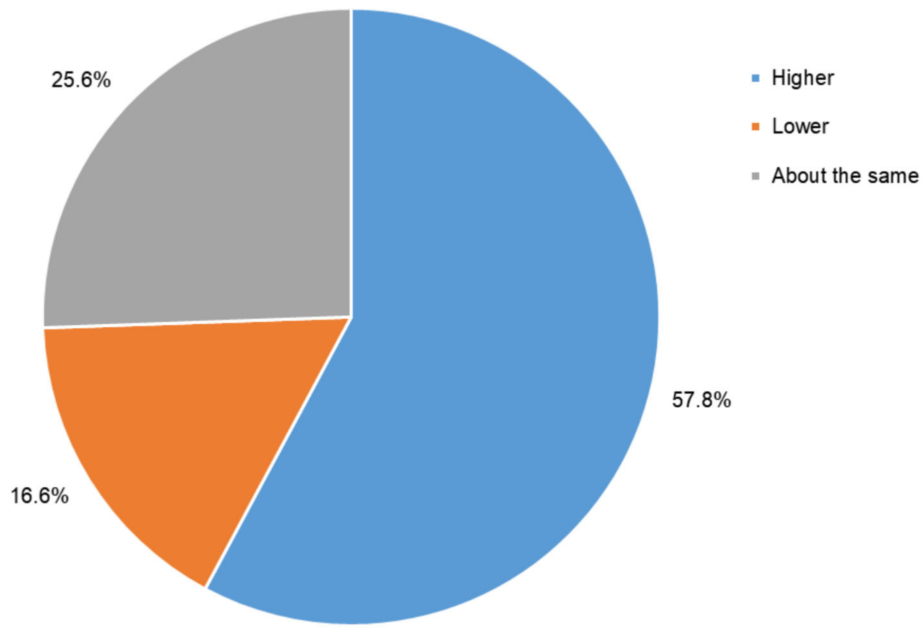
NOTES: 216 responses.

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?

	Current (2019)		Longer term (2020–2021)	
	Jun. '19 (percent)	**Dec. '19 (percent)**	**Jun. '19 (percent)**	**Dec. '19 (percent)**
No impact	63.4	56.1	32.5	42.9
Positive	2.9	1.4	5.6	2.8
Negative	22.6	33.5	38.9	34.1
Don't know	11.1	9.0	23.1	20.3

NOTES: 221 responses.

How do you expect your firm's production, revenue or sales in 2020 to compare with 2019?



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

	Dec. '19 (percent)
Higher	57.8
Lower	16.6
About the same	25.6

NOTES: 223 responses.

If you expect *higher* production, revenue or sales in 2020, why?

These comments have been edited for publication.

Support Activities for Mining

- Expanding market area and greater sales penetration.

Utilities

- Rate increase of 5 percent proposed for FY [fiscal year] 2020–21.
- We are expecting a better year in 2020 compared with 2019.

Specialty Trade Contractors

- We see capital expenditure spending decreasing; however, we are in the repair and replacement business—when cap ex decreases, repair increases. Repair is a better margin than replacement; however it takes more techs to repair than replace, so there are more man hours.
- The roll out of 5G will certainly create many new opportunities in 2020, and we are seeing a lot of posturing that indicates we will be able to fill in a lot of blanks for our customers.

Truck Transportation

- Trucking is expected to increase volumes.
- Our backlog of projects is greater than last year at this time.

Pipeline Transportation

- There is continued growth in the Permian Basin. Although, the rate of growth in oil volumes for 2020 is expected to be less than 2019, we still expect solid production gains.

Support Activities for Transportation

- Decreased regulation.

Warehousing and Storage

- Crude pipelines from the Permian Basin in West Texas have commenced operations in the third quarter, with another one expected to go in service in first quarter 2020. We expect 2020 revenues to be higher than 2019 by approximately 25 percent.

Publishing Industries (Except Internet)

- Increased adoption of learning and education-related enterprise plans and market demand for advanced tech-enabled solutions.

Data Processing, Hosting and Related Services

- We hired more sales people, so volume will increase.

Credit Intermediation and Related Activities

- Economic uncertainty has been reduced.
- We expect an increase in loan origination in 2020.
- Expanded into new markets in 2018 and 2019. Expect continued growth from these new markets.
- Launching new business unit.
- Internal growth accompanied by the status quo from the capital markets during an election year.

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

- Adoption of technology, hiring during 2019 and improved processes will allow more time to focus on growth.
- We are increasing our sales and marketing spend. We expect to take more existing contracts in the market. We have also outsourced a number of processes and increased efficiency through software integration. We are working to reduce face-to-face/person-to-person customer interaction through phone calls/visits and move to more chat interaction to reduce expenses.

Insurance Carriers and Related Activities

- Growth in market share.
- Better sales team, improved marketing and lead generation, and diversified distribution channel.
- Merger with a more regional firm.
- Continued growth in the economy and less available underwriting capacity for catastrophe-exposed property and higher casualty insurance pricing from insurance carriers.
- Increased investment in sales staff.
- General growth.

Real Estate

- More capital available.
- Additional resources allocated to this.
- Increased 2019 investment leading to 2020 profit.
- We are very disciplined real estate developers, and we are in a region that has very solid growth prospects and good residential development. So, we are developing neighborhood retail to serve those areas and buying value-add projects in underserved areas in other growth markets that we are confident can be improved; thus, we have a positive opinion of our growth.

Professional, Scientific and Technical Services

- Generally improved business climate.
- We raised our prices slightly in 2019 and expect growth in our business.
- Increased sales activity.
- Resolution of market uncertainty in trade issues is driving activity. Expect 2020 to be brutal for the election process, which may negatively impact activity.
- There is still demand in Texas that remains strong. Due to a labor force shortage, we are seeing the ability to push off work and not lose it in the short term. That may change for the long term if we don't backfill the labor shortage.
- Our program to increase market share and expand into new markets.
- USMCA [U.S.–Mexico–Canada Agreement].
- Increase in amounts charged to clients.
- Continued opportunities due to strong regional economy. Growth will be limited by insufficient labor pool.
- U.S. and global economies are very strong that we see from our vantage point. President Trump's policy is actually helping both U.S. companies like us and companies overseas. Only ones doing badly are companies in China we think.
- More consultants to take the work we are currently turning away.
- Adding new service line; raising rates slightly.
- Charging higher rates.
- Continued growth in Austin area.
- Growth in a few focused areas. Adding head count and will capture more hours.
- More business.

Management of Companies and Enterprises

- We hope to have additional clients.

Administrative and Support Services

- Investment in capital and people, as well as new services and improved marketing and sales automation.
- We are working with new customers who are taking us to new markets.
- Experienced strong volume growth (> 10 percent) in 2019 and expect volume growth to exceed 7.5 percent in 2020.
- Increased business activity and full employment in the area. People have money, and they have needs.

Educational Services

- Increased prices.
- New customers added due to Texas growth.

Ambulatory Health Care Services

- Increased sales volume and increased pricing.
- Consumer confidence remains high and will thus drive GDP [gross domestic product]. As cosmetic dentists, we thrive in a high-confidence environment. Growth will come from higher close rates on big cases as younger doctors gain experience and credibility in the market.
- New clinic opened after capital investment this year.

Hospitals

- Population growth.

Nursing and Residential Care Facilities

- We are expanding our services.
- Our campus renovations will be completed in January 2020.

Social Assistance

- Higher production per man hour because of improved production methodologies. Higher pricing.

Performing Arts, Spectator Sports and Related Industries

- More opportunity.

Food Services and Drinking Places

- I am planning to promote catering.
- Increased traffic.
- We will add franchises.
- We are expecting business activity to pick up in West Texas—oilfield dependent.
- This is based on current trends and a planned price increase.

Repair and Maintenance

- New customers and adding more employees.

Personal and Laundry Services

- Increase marketing efforts, more client retention requirements from employees and optimism.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- Inflation.
- The mere cost of everything rising. The new overtime rule restrictions and policies.

If you expect *lower* production, revenue or sales in 2020, why?

These comments have been edited for publication.

Utilities

- If the oil and gas workforce reductions materialize, I expect to see a material impact on economic activity.

Support Activities for Transportation

- Lower volume and more competition given the softening conditions.

Credit Intermediation and Related Activities

- Interest rates have decreased, resulting in loans repricing at lower rates.
- Production should be about the same. Revenue will be less due to declining interest rates and net interest margin.

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

- Lower sales, same or lower sales prices, and higher costs that cannot be passed on to consumers.

Professional, Scientific and Technical Services

- Uncertainty due to tariffs has reduced investments in energy and petrochemical projects, which reduces demand for consulting work.
- Our industry reduced its premium rates by 8 to 10 percent.
- Potential for impending recession due to trade policy, deficits, lack of cohesive long-term policies for health care, immigration, taxation and trade.

Management of Companies and Enterprises

- Lower interest rates.
- Increased expenses and lower interest income.
- Election years always hurt sales.

Administrative and Support Services

- Uncertainty in election year.

Accommodation

- Oil and gas industry.

Food Services and Drinking Places

- Change in public attitudes toward our business.
- Less availability of workers in order to produce.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- Tightening economy and uncertainty.
- While indicators are that the economy is strong (and the president never misses an opportunity to tell us this), we all know things move in cycles and this one has gone on for way too long. New set of rules for the economy? Don't know. But caution now prevails.

If you expect production, revenue or sales to be *about the same* in 2020, why?

These comments have been edited for publication.

Broadcasting (Except Internet)

- While we believe the general economy in West Texas will slow down substantially in 2020 compared with 2019, we also believe enough new businesses will spend money on marketing that our radio business will grow sales by 1 or 2 percent. Believing that radio is the most cost-effective form of advertising, we have greater opportunity in a down market because the entry cost is low compared with other forms of mass marketing.

Insurance Carriers and Related Activities

- The real estate market is slowing due to low inventory.

Rental and Leasing Services

- We are a heavy construction machinery dealer in Texas. The construction machinery industry is way overcrowded with manufacturers, dealers and national equipment rental companies. We cannot see margins or revenues increasing in 2020. What will increase is the cost of doing business: regulatory, bureaucracy costs, litigation costs, insurance costs, taxation; they will all increase and they all come out of a shrinking bottom line.

Professional, Scientific and Technical Services

- Currently at or near capacity. Substantial capital expenditure would be required to increase capacity, and there are too many political unknowns to inconvenience me to spend the amount of money needed.

Management of Companies and Enterprises

- Most of our revenue is tied to the amount of loans we make and interest rates. We don't expect loan volume to increase much, and interest rates are currently expected to be stable.
- Political winds will likely delay any opportunities for increase in rate of growth, thus loan demand for banks will remain stable. Low interest rates have been in place for some time, and borrowers' appetites for new cap ex spending and refinancing is nearer the end in this cycle.
- We have had two really good years in a row and expect another one in 2020. The obvious unknown is the presidential election.

Ambulatory Health Care Services

- Unlike retail, health care generally remains consistent.
- Reimbursement pressure.

Amusement, Gambling and Recreation Industries

- We could potentially do more, but we simply cannot get enough people to fill the positions to make that happen.

Accommodation

- Lower demand offset by increased rate.
- We are in the hotel industry, and our particular market is driven by conventions within the city. As it happens, 2020 is a flat year in comparison with 2019. No real indications that anything new or different will be occurring to grow demand beyond current levels for leisure business.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- General activity has been sluggish.

Special Questions Comments

These comments have been edited for publication.

Data Processing, Hosting and Related Services

- Hiring highly skilled technical people has been the No. 1 challenge in 2019 and is expected to be the biggest challenge in the coming years. Compared with just three years ago, our wages, benefits and recruiting fees to attract these workers has increased at least 35 percent, and the amount of time (months) it takes to find the right people has at least tripled. As a cloud service fintech provider, salaries are our highest expense.

Credit Intermediation and Related Activities

- Loan demand has slowed somewhat, and volume will be required to partially offset lower yields. Interest expense has been reduced, which helps offset lower yields on loans.
- Auto tariffs could have an impact next year.

Rental and Leasing Services

- Tariffs impact us in the cost of the products we buy from our manufacturers, which make us less competitive with those that buy less from the areas being taxed by the tariffs.

Professional, Scientific and Technical Services

- Unlike what the press reports, we expect 2020 to be the strongest business year of recent time as the U.S.–China deal has been done and U.S.–Mexico–Canada trade deal is also to be approved by Congress. President Trump's policies are actually producing strong growth worldwide, with the U.S. being the biggest beneficiary.

Administrative and Support Services

- It is hard to know how tariffs impact our consulting business directly but they clearly weigh on clients' planning/expectations during 2019, which impacts clients' decision-making processes. It could be noise that needs to be filtered out.

Educational Services

- There is increased trade certainty going into the 2020 year, and I am optimistic it will add to GDP growth.
- I don't think impeachment will have any economic or political impact simply because there is scant evidence supporting the articles. I think 2020 will be a quite robust year for equities and economic growth.

Ambulatory Health Care Services

- Outpatient imaging remains a deflationary business. We have no control over reimbursement/payment, so we continue to be extremely efficient in order to make a profit. We are seeing failures of competitors due to constant cuts. At the same time, we are one of the most (likely the most) cost-efficient deliverers of high-quality health care in Houston.

Texas Retail Outlook Survey

Data were collected Dec. 16–24, and 46 Texas retailers responded to the surveys.

See data files with a full history of results.

What annual percent change in wages and input prices did your firm experience in 2019, and what do you expect for 2020? Also, by how much did your firm change selling prices in 2019, and by how much do you expect to change selling prices in 2020?

	2019 actual (percent)*	2020 expected (percent)*
Wages	4.1	3.4
Input prices (excluding wages)	3.4	3.8
Selling prices	2.9	3.8

NOTE: 37 responses.

*Shown are trimmed means with the lowest and highest five percent of responses omitted.

For each category below, please select the extent to which your firm raised wages (excluding benefits) over the past 12 months:

	None	Less than four percent	Four percent or more
Low-skill positions (typically require high school diploma or less and minimal work experience)	17.8	51.1	31.1
Mid-skill positions (typically requires some college or technical training)	13.6	54.5	31.8
High-skill positions (typically requires college degree or higher)	20.9	32.6	46.5

NOTES: 45 responses.

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

	Dec. '18 (percent)	May '19 (percent)	Dec. '19 (percent)
Increased substantially	2.6	2.3	9.3
Increased slightly	10.3	15.9	20.9
Remained the same	23.1	27.3	14.0
Decreased slightly	41.0	43.2	39.5
Decreased substantially	23.1	11.4	16.3

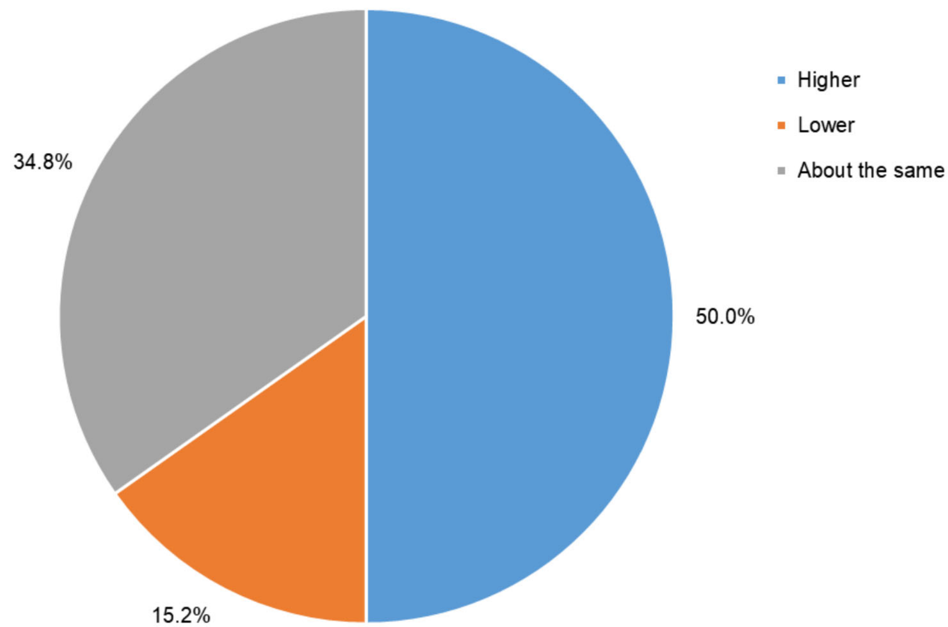
NOTES: 43 responses.

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?

	Current (2019)		Longer term (2020–2021)	
	Jun. '19 (percent)	**Dec. '19 (percent)**	**Jun. '19 (percent)**	**Dec. '19 (percent)**
No impact	58.3	39.1	25.5	41.3
Positive	0.0	0.0	6.4	4.3
Negative	27.1	43.5	40.4	34.8
Don't know	14.6	17.4	27.7	19.6

NOTES: 46 responses.

How do you expect your firm's production, revenue or sales in 2020 to compare with 2019?



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

	Dec. '19 (percent)
Higher	50.0
Lower	15.2
About the same	34.8

NOTES: 46 responses.

If you expect *higher* production, revenue or sales in 2020, why?

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- Aggressive selling.
- New customer acquisition in aerospace manufacturing.
- We are going to hire more people and add additional products.
- Overall industry growth and continued market share capture.

Merchant Wholesalers, Nondurable Goods

- We've added a new account for 2020.

Motor Vehicle and Parts Dealers

- We expect sales to be flat, revenue up (increase in cost of vehicles) and don't see anything to suggest our margins will improve. Net profit will be down this year from last, and we don't anticipate any significant changes in 2020.
- We will have to increase production/revenue/sales in 2020 to overcome losses incurred in 2019. This will have to include volume increases as well as some price increases.
- Inflationary and increased business.

Furniture and Home Furnishings Stores

- Current order file is strong for this time of year.

Building Material and Garden Equipment and Supplies Dealers

- I think people are tired of fighting over politics, and things are getting normal; most business people I know have plenty of cash.
- Revenue should increase in 2019 because of new operations coming online. However, wages and other costs should also increase.

Nonstore Retailers

- Focused sales efforts to gain new customers in all of our Texas markets: Austin, DFW, El Paso, Houston and San Antonio.

If you expect *lower* production, revenue or sales in 2020, why?

These comments have been edited for publication.

Merchant Wholesalers, Nondurable Goods

- Fewer customers.

Building Material and Garden Equipment and Supplies Dealers

- We're in the construction industry and are seeing a slowdown in the Florida market.
- Retail competition.

If you expect production, revenue or sales to be *about the same* in 2020, why?

These comments have been edited for publication.

Merchant Wholesalers, Nondurable Goods

- We still have the uncertainty of political maneuvering in 2020 as an election year.

Motor Vehicle and Parts Dealers

- We see sales volume holding steady but expect a slight increase in our luxury vehicle brands.

Clothing and Clothing Accessories Stores

- We are closing about 60 stores, but we believe our transition to off-price will increase sales at stores that were formerly department stores. The net impact should be about the same sales as the prior year.

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- Our China costs have increased with the tariffs, and we are not bound to customer contracts (as a distributor), so we raise our prices and pass the higher costs through.

Motor Vehicle and Parts Dealers

- Our cost prices are not in our control for our purchases from the automakers. The tariffs affect their costs and are passed to us as they go up or down.
- It's very difficult to determine accurately the cost increases on vehicles due to changes in equipment and options being made standard or being deleted from the standard equipment. In general, new-vehicle manufacturers are using variable incentives to offset price increases as needed.
- We have seen the market for preowned vehicles soften due to increased incentives on new vehicles, especially in leasing.

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