Texas **Service Sector** Outlook Survey

November 28, 2017

Texas Service Sector Activity Strengthens Further

What's New This Month

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

Texas service sector activity increased again in November, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, rose from 19.2 in October to 24.4 in November, reaching its highest reading since November 2014.

Labor market indicators reflected faster employment growth and longer workweeks this month. The employment index rose slightly from 8.3 to 9.8. The hours worked index was unchanged at 7.9.

Perceptions of broader economic conditions continued to reflect optimism in November. The general business activity index edged up two points to 20.4. The company outlook index dipped to 14.2, with 23 percent of respondents reporting that their outlook improved from last month and 9 percent noting it worsened.

Price pressures eased while wage pressures increased this month. The selling prices index moved down three points to 7.2. The wages and benefits index rose slightly from 16.9 to 19.1, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions continued to reflect optimism in November. The index of future general business activity edged up from 30.5 to 33.0. The index of future company outlook held steady at 32.0. Indexes of future service sector activity, such as future revenue and employment, reflected slightly more optimism this month.

Texas **Retail** Outlook Survey

Retail Sales Pick Up

Retail sales climbed in November, according to business executives responding to the Texas Retail Outlook Survey. The sales index jumped from 17.7 in October to 30.4 in November. Inventories increased at a slower pace than last month.

Labor market measures indicated slower retail employment growth and slightly longer workweeks this month. The employment index remained positive but fell six points to 2.0. The hours worked index edged down from 7.5 to 5.6.

Retailers' perceptions of broader economic conditions reflected more optimism in November. The general business activity index moved up from 22.0 to 25.4. The company outlook index rose five points to 24.6, with 29 percent of respondents reporting that their outlook improved from last month and 5 percent noting it worsened.

Retail price pressures increased while wage pressures eased this month. The selling prices index edged up to 26.1. The wages and benefits index fell slightly from 18.5 to 16.0, although the majority of firms continued to note no change in compensation costs.

Retailers' perceptions of future broader economic conditions reflected less optimism in November. The index of future general business activity fell from 26.7 to 21.4. The index of future company outlook dipped one point to 24.6. Indexes of future retail sector activity also reflected less optimism this month.

The Texas Retail Outlook Survey (TROS) is a component of the TSSOS that uses information only from respondents in the retail and wholesale sectors.

Next release: December 27, 2017

Data were collected Nov. 13–21, and 292 Texas 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	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	24.4	19.2	+5.2	Increasing	96	36.0	52.4	11.6
Employment	9.8	8.3	+1.5	Increasing	93	17.6	74.6	7.8
Part-Time Employment	4.8	4.1	+0.7	Increasing	17	10.6	83.6	5.8
Hours Worked	7.9	7.8	+0.1	Increasing	13	13.0	81.9	5.1
Wages and Benefits	19.1	16.9	+2.2	Increasing	98	21.7	75.8	2.6
Input Prices	30.8	28.6	+2.2	Increasing	103	31.4	68.0	0.6
Selling Prices	7.2	10.2	–3.0	Increasing	21	15.2	76.8	8.0
Capital Expenditures	14.8	19.4	–4.6	Increasing	99	18.6	77.6	3.8

General Business Conditions
Current (versus previous month)

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	14.2	16.4	–2.2	Improving	17	23.4	67.4	9.2
General Business Activity	20.4	18.6	+1.8	Improving	15	25.9	68.6	5.5

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

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Revenue	48.9	47.9	+1.0	Increasing	105	57.6	33.7	8.7
Employment	30.5	29.4	+1.1	Increasing	104	36.0	58.6	5.5
Part-Time Employment	12.9	15.0	–2.1	Increasing	65	18.0	76.9	5.1
Hours Worked	8.5	9.4	–0.9	Increasing	15	12.9	82.7	4.4
Wages and Benefits	43.8	43.8	0.0	Increasing	131	46.2	51.4	2.4
Input Prices	49.6	45.6	+4.0	Increasing	131	51.1	47.4	1.5
Selling Prices	30.1	27.9	+2.2	Increasing	103	35.1	59.9	5.0
Capital Expenditures	28.6	30.4	–1.8	Increasing	104	34.3	60.0	5.7

General Business Conditions
Future (six months ahead)

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	32.0	32.4	–0.4	Improving	21	38.8	54.4	6.8
General Business Activity	33.0	30.5	+2.5	Improving	21	36.1	60.9	3.1

Texas Retail Outlook Survey

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

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	30.4	17.7	+12.7	Increasing	4	38.2	54.0	7.8
Employment	2.0	8.0	–6.0	Increasing	3	6.4	89.2	4.4
Part-Time Employment	7.1	3.7	+3.4	Increasing	2	12.5	82.1	5.4
Hours Worked	5.6	7.5	–1.9	Increasing	5	12.0	81.6	6.4
Wages and Benefits	16.0	18.5	–2.5	Increasing	81	18.2	79.6	2.2
Input Prices	31.1	32.2	–1.1	Increasing	22	31.1	68.9	0.0
Selling Prices	26.1	23.8	+2.3	Increasing	7	29.6	66.9	3.5
Capital Expenditures	12.3	25.0	–12.7	Increasing	16	15.8	80.7	3.5
Inventories	4.6	6.0	–1.4	Increasing	14	18.7	67.2	14.1
Companywide Retail Activity								
Companywide Sales	22.1	12.9	+9.2	Increasing	4	31.3	59.5	9.2
Companywide Internet Sales	12.1	10.9	+1.2	Increasing	10	19.5	73.1	7.4

General Business Conditions, Retail
Current (versus previous month)

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	24.6	19.6	+5.0	Improving	4	29.2	66.2	4.6
General Business Activity	25.4	22.0	+3.4	Improving	6	26.6	72.2	1.2

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

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	30.8	46.8	–16.0	Increasing	105	39.7	51.4	8.9
Employment	16.8	23.7	–6.9	Increasing	6	20.1	76.6	3.3
Part-Time Employment	8.2	12.7	–4.5	Increasing	3	9.9	88.4	1.7
Hours Worked	4.5	7.9	–3.4	Increasing	4	6.8	90.9	2.3
Wages and Benefits	27.8	35.2	–7.4	Increasing	107	27.8	72.2	0.0
Input Prices	33.9	36.4	–2.5	Increasing	103	37.5	58.9	3.6
Selling Prices	35.7	33.9	+1.8	Increasing	103	37.5	60.7	1.8
Capital Expenditures	17.8	29.1	–11.3	Increasing	14	23.2	71.4	5.4
Inventories	13.3	10.2	+3.1	Increasing	13	25.3	62.7	12.0
Companywide Retail Activity								
Companywide Sales	16.6	48.8	–32.2	Increasing	104	23.3	70.0	6.7
Companywide Internet Sales	17.1	23.0	–5.9	Increasing	16	22.0	73.2	4.9

General Business Conditions, Retail
Future (six months ahead)

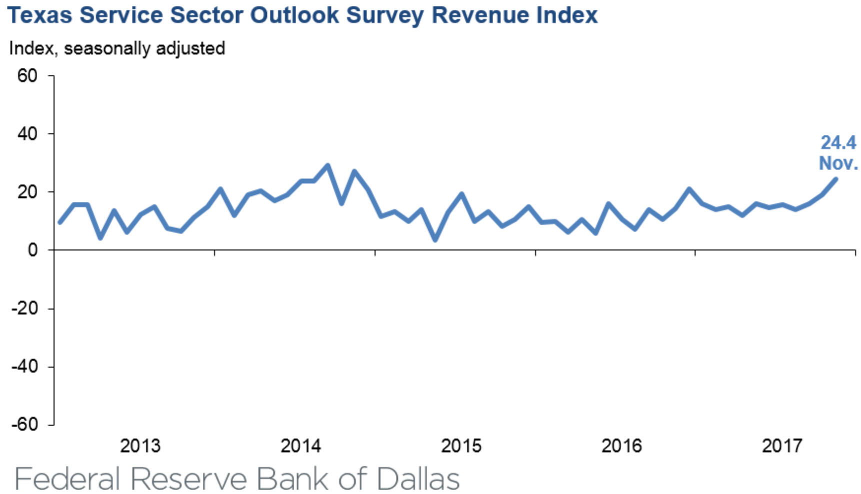
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	24.6	25.5	–0.9	Improving	12	28.0	68.6	3.4
General Business Activity	21.4	26.7	–5.3	Improving	15	25.7	70.0	4.3

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

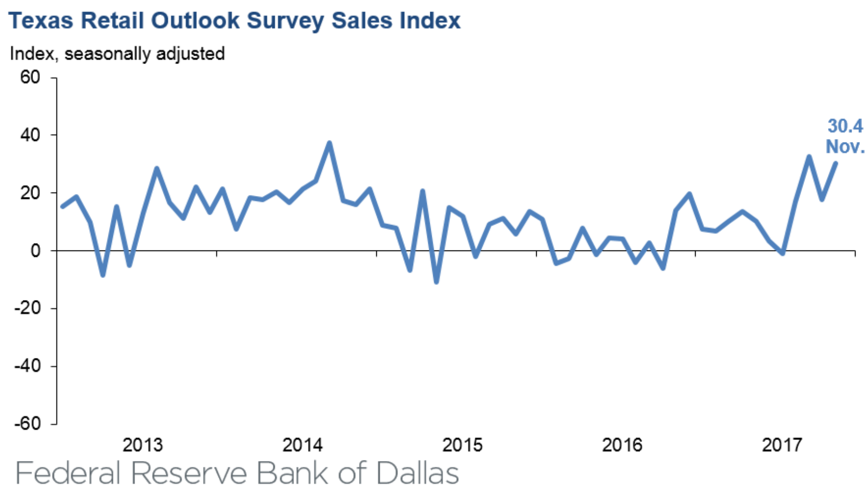
**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

Texas Service Sector Outlook Survey



Texas Retail Outlook Survey



Texas Service Sector Outlook Survey

November 28, 2017

Comments from Survey Respondents

Telecommunications

- The flooding in Houston during August and September continues to negatively impact our business. News that several major companies are going to leave the Houston area due to the last two years of flooding is very concerning in how it will impact the economy in future years.

Data Processing, Hosting and Related Services

- We are worried a bit about how the significant increase in health care benefits costs, which start next month, will impact our finances and hiring. It's quite a rub between the two. We need to continue to hire more employees but are likely to hire fewer because of the incremental health care expense. Regulatory requirements continue to slow down the buying process by our customers. The due diligence during the purchase cycle has gotten to be borderline absurd. It has added time and cost to selling with no incremental benefit for either party—just a lot more paperwork and time.

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

- We face the same issues with compounding effects: regulations, taxes and insurance moving up and the oil and gas business segment still slow.

Credit Intermediation and Related Activities

- The South Texas area is continuing to recover from Hurricane Harvey, so there is not yet an identifiable normal.
- There is a lot of activity resulting in an improved economic environment. The first wind turbine electric generator was delivered to the site for erecting, and work crews are spending time and money in the county. This, combined with the hunting season traffic, continues to increase sales tax revenue and revenue to local businesses. In addition, the new jail is under construction and also contributing to increased personnel spending money locally. More revealing is that liquor sales are up.

Real Estate

- We have a broad view that things are great, but we are not seeing continued improvements, yet also not seeing any big negative changes. I do think the interest rate changes are dampening general business optimism, the lack of clarity on health care is weighing on the consumer, and immigration uncertainty is dampening activity in the border regions.

Professional, Scientific and Technical Services

- Year to date, sales are off 12 percent from 2016. There is no sign that they will pick back up to the level of 2016, so we are projecting 2018 to be the same or slightly down from 2017.
- We are definitely seeing a slowdown in both the residential and commercial real estate markets. Orders are continuing to trend down, and revenue is beginning to follow. We are still very bullish on the Texas economy due to the amount of people still moving here but feel we are experiencing a pause after a very long run.
- It is late in the calendar year, which puts us at the end of the budget cycle for most of our major commercial clients. As such, we don't expect significant change in client spending through Dec. 31. Come Jan. 1, clients will have new budgets, and we are expecting a modest increase in spending on engineering services and capital projects in 2018.
- We struggle greatly with entry-level labor. Without a returning worker exemption for the H2B visa program, we will likely not have sufficient labor to execute our contracts and, thus, likely lay off a number of supervisors, estimators and project managers.
- We are seeing a huge uptick in business from the Middle East and Asia particularly.
- We are very focused on activity in Washington right now around tax reform. We are somewhat nervous the administration will not get this done. If it fails, then views for 2018 could shift negative.
- High construction costs and high land costs conspire to thwart additional growth in the real estate sector.

Administrative and Support Services

- People are being more cautious about luxury spending.
- Hiring in the tech sector is still lackluster at best. There is still a low level of opportunity in this sector, coupled with customers being slow to make decisions.
- We need labor and the H2B visa returning-worker exemption.
- The market in general seems to be cooling with more decision-makers feeling reluctant to commit to new expenses or increased budgets.
- The aircraft sector in general has remained low since the middle of October. This is seasonal for us and should pick up after Jan. 1. Aircraft are being utilized in the corporate market at this time for personal movements. The industrial sector has become slower in regard to completed products needing final inspections. We see no increase in this area for the foreseeable future. The military sector has slowed with some customers under merger talks or waiting on contracts to be become active at the beginning of 2018.

Ambulatory Health Care Services

- We are fully recovered from the hurricane—running at record volumes and revenues this month.
- We are in the health services sector and following the national trend, we are seeing increasing cost of business and decreasing revenue per unit of service as Medicare, Medicaid and health insurance payers tighten qualifying and quality metrics, requiring increasing cost in human resources to meet stricter standards. This is leading to many of the small, medium and stand-alone businesses in health care exiting or consolidating. This is independent of general economic activity and tends to follow the health care business environment.
- Revenue will improve in November and future months related to increased levels of activity from both existing and new clients. Higher volumes and new product offerings will result in an increased head count. With a tight labor market, new hires are coming in at the higher side of the pay grades. Average workweeks are longer in the short term and possibly long term as we adapt to the continuing increase in volumes. Capital expenditure spending will pick up at the start of the new year.

Hospitals

- Rural health care systems are being financially hindered through decreased reimbursement and increased regulation.

Nursing and Residential Care Facilities

- Uncertainty in insurance markets and high levels of the underinsured provide pressure on volumes and revenue.

Amusement, Gambling and Recreation Industries

- We are dealing with several factors. We lost three weekends in October. No one wants to hold large events on weekends when the University of Texas plays football in town, when the two weekends of the Austin City Limits festival is going on or during F-1 race weekend. We will make up for that in November. Austin continues to open new restaurants. It also continues to be a challenge to hire people, especially since Hurricane Harvey took many of the lower-skilled labor force to Houston where they can make more money in construction. Parking issues downtown and the lack of any reasonable public transportation have continued to be major problems.

Food Services and Drinking Places

- The biggest change is that sales have moved to the best increases in well over a year, and that is happening with very little increased labor as the higher volumes are making the stores more labor efficient. The sales increase is looking more and more solid and ongoing. The improved outlook in the six-month horizon is tentative, but we are definitely getting more optimistic about the coming year. We have seen some significant increases in cost of goods sold (COGS) for particular products. But we just completed a fiscal period, and the overall COGS for this period versus the last period is down slightly, so the net of price changes in COGS is still indicating very little increase. Of course, increased volume also has the tendency to increase productivity—you are managing to sell a greater percentage of food prepared rather than having significant waste, so that is part of what is holding the cost of COGS in line despite some items taking significant jumps in cost.
- I believe that business will pick up. I'm investing in this belief; it just hasn't happened yet.
- We are closed and in a restoration period from Hurricane Harvey.
- We have planned a price increase for January to cover employee wages, increased health care costs and other increases from vendors.

Support Activities for Transportation

- We are having a seasonal increase in revenues during November through mid-January. There is also a slight increase in contract employees running through February due to seasonal factors. We have a temporary (30 days) increase in staff due to year-end retirements and cross training replacements. We expect an increase in 2018 activity, which will require little additional cost to develop increased revenues.

Utilities

- Wholesale electricity prices are up in Texas, as it was recently announced that several coal plants will be retired at the end of 2017/beginning of 2018.

Merchant Wholesalers, Durable Goods

- Albeit slow, we will continue to see a shift of revenue from the traditional sales model to the internet.
- Demand for our products and prices have both increased, so I am slightly optimistic about the next six months.

Merchant Wholesalers, Nondurable Goods

- We are looking to pending acquisitions to add to the bottom line in the next six months.
- Sales tax revenue in Houston is not increasing. Sales are weak and internet sales keep increasing.

Motor Vehicle and Parts Dealers

- Qualified optimism. The Senate version of the tax bill with the 30 percent limit on interest deduction would be detrimental to our business plan as well as a majority of, if not all, automotive, truck and heavy equipment dealers. Our business is a Sub S corporation and would be taxed at the pass-through rate of 25 percent, which would likely drastically lower our profits if not eliminate them or would require inflating the sales price that would likely result in lost sales.

Clothing and Clothing Accessories Stores

- Stabilization of the peso versus the dollar and moderating energy prices have sales at border stores and oil patch stores trending flat with last year.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.

Texas **Service Sector** Outlook Survey

Special Questions

November 27, 2017

Texas Business Outlook Surveys

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

Data were collected Nov. 13–21, and 378 Texas business executives responded to the surveys.

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Increase	47.2	46.9	39.0
Leave unchanged	43.5	43.1	43.8
Decrease	9.3	10.1	17.2

2. **Are you having problems finding qualified workers when hiring?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	67.3	63.4	62.9
No	32.7	36.6	37.1

3. **If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.**

NOTE: This question was added to survey in November 2017.

	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	47.2
Mid-skill positions (typically require some college or technical schooling)	60.4
High-skill positions (typically require college degree or higher)	37.6

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Lack of available applicants/no applicants	58.6	43.2	49.2
Lack of technical competencies (hard skills)	49.8	59.8	66.8
Looking for more pay than is offered	39.0	34.4	45.8
Lack of workplace competencies (soft skills)	37.3	43.2	48.9
Lack of experience	32.5	40.5	41.6
Inability to pass drug test and/or background check	32.1	29.3	28.6

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	63.5	57.1	57.8
Increase wages and or benefits	49.4	47.9	45.5
Offer additional training	35.7	34.8	39.5
Increase variable pay, including bonuses	29.2	30.1	30.4
Improve working conditions	23.4	23.2	25.0
Reduce education and other requirements for new hires	8.8	5.4	6.0
Other	6.7	9.8	8.4

6. **If labor costs are increasing, are you passing the cost on to customers in the way of price increases?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	34.5	33.8	31.7
No	50.0	49.5	52.2
Not applicable	15.5	16.8	16.1

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 Nov. 13–21, and 99 Texas manufacturers responded to the survey.

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Increase	46.9	57.1	41.6
Leave unchanged	42.9	33.0	44.2
Decrease	10.2	9.8	14.2

2. **Are you having problems finding qualified workers when hiring?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	72.7	68.5	66.1
No	27.3	31.5	33.9

3. **If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.**

NOTE: This question was added to survey in November 2017.

	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	61.1
Mid-skill positions (typically require some college or technical schooling)	66.7
High-skill positions (typically require college degree or higher)	30.6

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Lack of technical competencies (hard skills)	61.1	72.2	82.5
Lack of available applicants/no applicants	51.4	44.3	37.5
Inability to pass drug test and/or background check	45.8	29.1	28.8
Lack of workplace competencies (soft skills)	37.5	45.6	48.8
Looking for more pay than is offered	36.1	36.7	48.8
Lack of experience	31.9	44.3	38.8

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	67.4	63.5	56.0
Increase wages and or benefits	51.7	58.3	46.2
Offer additional training	40.4	33.3	40.7
Increase variable pay, including bonuses	28.1	30.2	35.2
Improve working conditions	24.7	21.9	27.5
Reduce education and other requirements for new hires	11.2	5.2	6.6
Other	5.6	5.2	8.8

6. **If labor costs are increasing, are you passing the cost on to customers in the way of price increases?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	37.8	35.8	27.4
No	53.1	55.0	56.6
Not applicable	9.2	9.2	15.9

Special Questions Comments

These comments have been edited for publication.

Fabricated Metal Product Manufacturing

- We have to work smarter, as it is very difficult to increase priced received.

Chemical Manufacturing

- We have our largest plant about an hour north of a major industrial area, so we have no trouble attracting and retaining workers due to the commute distance. If I were answering for our smaller plant, which is in the midst of an industrial area, I would answer much differently as retaining employees is a problem due to the multiple opportunities in that area.

Machinery Manufacturing

- Our market is very price sensitive, forcing us to find other ways to cut costs because we have not been able to reduce wages for labor.

Furniture and Related Product Manufacturing

- There is a large gap in both skills and work ethic among the applicant pool. It is very hard to find applicants who actually want to work—most just want a job.

Printing and Related Support Activities

- Our challenge has been filling production floor positions that require some specific machine operator competencies.

Paper Manufacturing

- It is becoming increasingly more difficult to find and hire people who want to work and are willing to work for a fair wage. I think our education system has failed, and I think our society has slipped, especially as it pertains to work ethic.

Food Manufacturing

- Our biggest issues are in finding competent accounting staff.
- Hiring is our biggest challenge, not only in our Texas plant, but others as well.
- Our products are commodities that fluctuate in value daily, so passing on increased costs is hard to do.

Texas Service Sector Outlook Survey

Data were collected Nov. 13–21, and 279 Texas business executives responded to the survey.

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Increase	47.3	42.8	37.9
Leave unchanged	43.7	47.0	43.6
Decrease	9.0	10.2	18.4

2. **Are you having problems finding qualified workers when hiring?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	65.3	61.4	61.7
No	34.7	38.6	38.3

3. **If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.**

NOTE: This question was added to survey in November 2017.

	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	41.6
Mid-skill positions (typically require some college or technical schooling)	57.9
High-skill positions (typically require college degree or higher)	40.4

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Lack of available applicants/no applicants	61.6	42.8	54.4
Lack of technical competencies (hard skills)	45.2	54.4	59.9
Looking for more pay than is offered	40.1	33.3	44.5
Lack of workplace competencies (soft skills)	37.3	42.2	48.9
Lack of experience	32.8	38.9	42.9
Inability to pass drug test and/or background check	26.6	29.4	28.6

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	62.1	54.6	58.5
Increase wages and or benefits	48.6	43.8	45.2
Offer additional training	34.0	35.4	39.0
Increase variable pay, including bonuses	29.6	30.0	28.6
Improve working conditions	22.9	23.8	24.1
Reduce education and other requirements for new hires	7.9	5.4	5.8
Other	7.1	11.7	8.3

6. **If labor costs are increasing, are you passing the cost on to customers in the way of price increases?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	33.3	33.0	33.5
No	48.9	47.3	50.4
Not applicable	17.8	19.7	16.2

Special Questions Comments

These comments have been edited for publication.

Data Processing, Hosting and Related Services

- The result of fewer talented candidates in the market and higher health care costs is making us decide to cover more of our employees' health care premiums and hire fewer people. In addition, we have subcontracted high-skill tasks to part-time experts outside of the Texas market.

Credit Intermediation and Related Activities

- We are near full employment of the employable.
- The market is not supportive of price increases at this time. We are having to look at reducing other variable expenses, e.g., advertising and business development.

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

- Our businesses are very competitive; therefore, the ability to pass on increased labor costs is difficult.

Insurance Carriers and Related Activities

- We need customer service representatives with some commercial background to be able to learn our process but yet be able to talk commercial insurance with potential clients.

Real Estate

- Education, particularly in math and organization, is a big hurdle.

Professional, Scientific and Technical Services

- We are in a squeeze between the increasing cost of engineering labor and tight pricing pressure from clients, making it difficult to pass along the full increases in labor costs. As a result, we must look at reducing other expenses, including our own capital and internal development projects.

- As a professional services firm, we pay at the top of market for talent necessary to deliver high-quality service to our client base. We have a strong reputation in Texas so have little difficulty here, although at times, the pool of applicants is thin. Outside of Texas can be more challenging—both in identifying and then attracting. Again, paying at the top of market helps.
- I am a sole proprietor and do not have any employees. With essentially no work, I do not expect to hire anyone.
- We are generating more business revenue so we do not have to increase costs. Since we are a technology software company, we have minimal fixed production cost.

Administrative and Support Services

- We are finding it difficult to pass along labor and insurance increases in several segments such as restaurant and some real estate environments.
- Staff employees are interested in benefits programs; agents want marketing and increased commissions.

Ambulatory Health Care Services

- In the health sector, as businesses, we are limited to revenue on the contract we have with Medicare, Medicaid and also insurance contracts. Therefore, the shortage of labor and increased cost of human resources (which tends to be 65 percent of the operating cost) tend to be absorbed by the business entity, leading to wrap-up or consolidation in all service areas of health care. In addition to quality metrics improvement, technology is also eliminating significant lines of services (medical transcription, call centers and entry-level IT staff), discouraging folks. The long-term career aspect of health care appears to be no longer valid.
- We are a deflationary business. Our expenses increase while our reimbursement always gradually decreases. We have learned to be very efficient; we work very hard. As I told a patient, we are good, we are fast, and we are cheap. Try to get that engineered.

Hospitals

- In the health care system, there are not enough qualified nurses and bilingual nurses.
- Most pricing is fixed per contract or government regulation, so there is little opportunity to pass along labor cost increases.

Food Services and Drinking Places

- We will be opening a new store in McAllen in 2018. There will be no change in staffing in existing stores.
- We have not had high increases in the cost of wages. Increases have been hovering just below 2 percent for over a year. Wages for some of the more skilled positions (e.g., cooks) are now climbing at a somewhat higher rate. Our average rate increase has not moved above 2 percent for the simple reason that waitstaff (tipped employees) have not received any increase in base pay (although the higher sales volume is definitely leading to higher income for them), and they are a very substantial segment of our workforce. Benefits have been the biggest cost driver in this segment of the profit and loss statement. We definitely have factored those costs into our calculations in the price increases we have taken.
- With labor costs increasing, we are trying to maintain customer pricing but will eventually be forced to increase pricing to the customer.

Personal and Laundry Services

- We need to increase the number of employees by an additional 10 to 15 percent to cover all shifts for two new locations. We are not receiving applications for licensed stylists and barbers, so we are currently offering $300 signing bonuses, $150 employee referral bonuses and higher-pay commissions. We are actively advertising but not receiving any applications.

Texas Retail Outlook Survey

Data were collected Nov. 13–21, and 55 Texas retailers responded to the survey.

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Increase	36.4	40.7	24.1
Leave unchanged	56.4	50.0	56.9
Decrease	7.3	9.3	19.0

2. **Are you having problems finding qualified workers when hiring?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	76.4	76.4	67.2
No	23.6	23.6	32.8

3. **If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.**

NOTE: This question was added to survey in November 2017.

	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	54.8
Mid-skill positions (typically require some college or technical schooling)	66.7
High-skill positions (typically require college degree or higher)	21.4

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Lack of available applicants/no applicants	59.5	46.7	53.7
Lack of technical competencies (hard skills)	54.8	55.6	63.4
Inability to pass drug test and/or background check	47.6	48.9	48.8
Looking for more pay than is offered	38.1	28.9	31.7
Lack of experience	35.7	37.8	31.7
Lack of workplace competencies (soft skills)	33.3	46.7	56.1

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

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	66.0	53.1	61.8
Increase wages and or benefits	56.6	49.0	34.5
Increase variable pay, including bonuses	39.6	42.9	30.9
Offer additional training	34.0	30.6	34.5
Improve working conditions	24.5	22.4	25.5
Reduce education and other requirements for new hires	13.2	6.1	7.3
Other	5.7	10.2	5.5

6. **If labor costs are increasing, are you passing the cost on to customers in the way of price increases?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	42.6	39.6	37.9
No	46.3	50.9	48.3
Not applicable	11.1	9.4	13.8

Special Questions Comments

These comments have been edited for publication.

Motor Vehicle and Parts Dealers

- The current Senate version of the tax bill with the 30 percent business interest deduction limit will lower profits, if any, to levels that would limit or even eliminate our ability to subsidize and offer training to help hire available applicants.
- Most of the issue for us is product related; while it is improving, it is still a limiting issue.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.