NABE Business Conditions Survey

Profits and Prices Up on Solid Sales Growth in Third Quarter of 2018; NABE Panel Expects Additional Investment and Job Gains

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The October 2018 NABE Business Conditions Survey report presents the responses of 127 NABE members to a survey on business conditions in their firms or industries conducted between September 26 and October 11, 2018, and reflects third-quarter results and the near-term outlook.

COMMENTS: "The results of the October 2018 NABE Business Conditions Survey indicate firms experienced improved profit margins in the third quarter of 2018, with solid sales growth and rising prices offsetting cost increases," said **NABE Business Conditions Survey Chair Sara Rutledge**, independent real estate economist and data science research fellow at StratoDem Analytics. "Panelists' expectations for growth in inflation-adjusted gross domestic product—real GDP growth—over the next 12 months are anchored in the 2.1%-to-3.0% range, with 16% of panelists anticipating stronger growth, and 10% expecting slower—but still positive—economic growth. Tight labor market conditions with skilled labor shortages continue to push firms to raise wages, increase training, and consider additional automation.

"The 2017 Tax Cuts and Jobs Act has not broadly impacted hiring and investment plans at panelists' firms, although panelists from the goods-producing sector do report some incidence of increased investments, and a shift toward hiring and investments from abroad to the U.S.," added Rutledge. "While nearly eight out of 10 panelists indicate that trade policy changes are not impacting hiring, investment, and/or pricing, a larger share of panelists from the goods-producing sector compared to other sectors reports that adjustments are being made at their firms, with higher prices and delayed investments cited as the most prevalent changes."

This NABE survey provides insights into these questions:

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HIGHLIGHTS

- **The share of panelists reporting rising sales at their firms increased for a fourth consecutive quarter.** Sixty-one percent of respondents report higher sales—the largest share since the January 2014 survey. The percentage of respondents reporting falling sales decreased to 6%, and the remaining 34% indicate no change over the past three months. The Net Rising Index (NRI)—the percentage of panelists reporting rising sales minus the percentage reporting falling sales—rose to 55, up from 50 in July, and the highest NRI value since the October 1994 survey.

- **Expectations regarding future sales increases are less widespread than in the previous survey.** Sixty-one percent of respondents expect sales to increase, down from 68% in July, while the share anticipating falling sales also declined, to 6%. As a result, the NRI fell to 56, lower than the NRI of 60 in July, but still above all the readings since the April 2015 survey. Goods-producers remain the most optimistic, as 80% of respondents from that sector expect sales to rise, and none from that sector expect sales to decline.

- **More than one-third of respondents—37%—report rising profit margins at their firms, the highest percentage since the April 2012 survey.** The share of panelists reporting falling profits increased to 8%, up slightly from 6% in the previous survey. The NRI rose to 29, the highest value since April 2011. Consistent with views expressed in the July 2018 survey, 37% of respondents expect rising profit margins at their firms over the next three months, resulting in a forward-looking NRI of 29.

- **The NRI for prices charged rose from 34 in July to 37 in October—the highest reading since early 2006.** The NRIs for the transportation, utilities, information, communications (TUIC) and finance, insurance, and real estate (FIRE) sectors are up sharply in October from July, with the NRI for the goods-producing sector holding steady, and the NRI for the services sector falling slightly. The share of respondents from the goods-producing sector reporting rising prices is larger than the shares of respondents from the other sectors reporting rising prices.

- **The October NRI for materials costs is 53, down from 65 in the July survey.** Despite the decline, the October NRI is the second-highest reading since 2011, indicating elevated materials costs among respondent firms. Respondents' expectations for cost increases over the next three months are similar, with a forward-looking NRI of 57 compared to 64 in July, and 36 a year ago.

- **The NRI for wages and salaries remains strong, rising in October to a new all-time high of 56.** Wage increases are likely to remain strong over the next three months, as the NRI for expected wage costs is also 56.

- **Job growth was not as widespread during the third quarter of 2018 as in the previous two quarters.** Less than one-third of respondents reports rising employment at their firms over the past three months, while 61% indicate hiring was unchanged. The forward-looking NRI is 29, down from 38 in July, but an increase from 18 a year ago.

- **Capital spending was robust in the third quarter of 2018, with the October NRI up slightly to 39 from 38 in the July survey, and its highest level since the January 2015 survey.** Expectations for the next three months are similar, with an NRI of 37. Information and communications technology spending was considerably stronger than structures capital spending over the past three months, with expectations for capital spending by category following the same pattern.

- **All panelists expect expansion in real gross domestic product (real GDP) to continue over the next 12 months.** Ninety percent of panelists anticipate real GDP growth of more than 2% in the coming four quarters, with 74% expecting growth in the 2.1%-to-3.0% range, 14% calling for GDP growth in the 3.1%-to-4.0% range, and 2% anticipating growth of over 4%. The remaining 10% expect growth in the 0.1%-to-2.0% range over the coming four quarters.

- **The share of respondents reporting no input shortages declined to 38% in the October survey, down from 47% in July and 46% in October 2017.** For those reporting shortages, skilled labor remains the primary issue, cited by 47% of panelists—a significant increase from 36% in October 2017. The second most-often cited shortage is unskilled labor, with 13% of respondents reporting hiring difficulties.

- **Fewer firms are hiring without difficulty, while more firms report no open positions.** In the October survey, 23% of respondents report their firms had no difficulty in hiring over the past three months, down from 36% in July and 42% a year ago. Eighteen percent of respondents indicate their firms have no open positions, an increase from results reported in the previous two surveys. Thirty-seven percent of respondents from firms that are struggling to hire report that their firms are raising wages, 35% are training internally, and 23% are investing in labor-saving processes.

- **For respondents reporting difficulties in hiring at their firms, the positions most difficult to staff are high-skill positions (75%)—those which require a college degree or higher and/or equivalent work experience.** Forty-eight percent of panelists cite difficulty hiring mid-skill positions which require some college or technical schooling and/or equivalent work experience. Among the various sectors, respondents from FIRE and services firms are finding high-skill positions the most difficult to fill, while hiring mid-skill and high-skill positions are equally challenging for TUIC sector respondents; goods-producing sector respondents report the most difficulties filling mid-skill positions.

- **Eighty-one percent of respondents indicate that the 2017 Tax Cuts and Jobs Act (TCJA) has not caused their firms to change hiring or investment plans.** This share is an increase from the roughly two-thirds of panelists reporting no changes as a result of the TCJA in the previous two surveys. Among firms making adjustments, the most prevalent change is to accelerate investments—cited by 12% of all respondents, and by 38% of goods-producing sector respondents.

- **A majority of respondents (77%) also indicates that trade concerns have not caused their firms to change investment, hiring, and pricing plans.** This share also represents an increase from results in the previous survey. Goods-producing firms are more likely to have made changes, with 46% raising prices and 38% delaying investments, larger shares than reported in the July survey.

DETAILED RESULTS

Sales

Sixty-one percent of panelists participating in the October 2018 survey indicate that sales at their firms rose in the third quarter of 2018, up from 58% in the July survey. The share of respondents reporting falling sales decreased to 6%, and the remaining 34% report no change over the past three months. The Net Rising Index (NRI)—the percentage of panelists reporting rising sales minus the percentage reporting falling sales—rose to 55, up from 50 in July, and is the highest NRI value since the October 1994 survey.

Rising sales were broad-based across all sectors, as a majority of respondents from the goods-producing, the finance, insurance, and real estate (FIRE), and the transportation, utilities, information, communications (TUIC) sectors report rising sales. No sector has more than 8% of respondents reporting falling sales from the second quarter of 2018 to the third quarter. Nearly three-quarters of respondents from the FIRE (74%) and goods-producing (73%) sectors report rising sales, contributing to equal NRI values of 67. While a smaller percentage of TUIC respondents reports rising sales—60%—none report falling sales, resulting in an NRI of 60 for that sector. The services sector has the lowest NRI, at 42.

Expectations for sales increases over the next three months are less widespread than in the previous survey. Sixty-one percent of respondents expect sales to increase, down from 68% in the July survey, and the share anticipating falling sales also declined slightly, to 6%. As a result, the NRI declined to 56—lower than the NRI of 60 in July, but still higher than any other reading since the April 2015 survey. Goods-producers remain the most optimistic; the forward-looking NRI for that sector is 80, as 80% of respondents expect sales to rise, and none anticipate sales will decline. The services sector is the only industry with a higher NRI value than in the July survey, 57 in October compared to 48 in July, as the same share of panelists expects sales to increase (58% in both surveys), but the share expecting falling sales declined from 10% in July to 2% in the current survey.

Percent of total respondents (122) reporting that over the past 3 months, their companies' product or services sales, adjusted for inflation, have been:

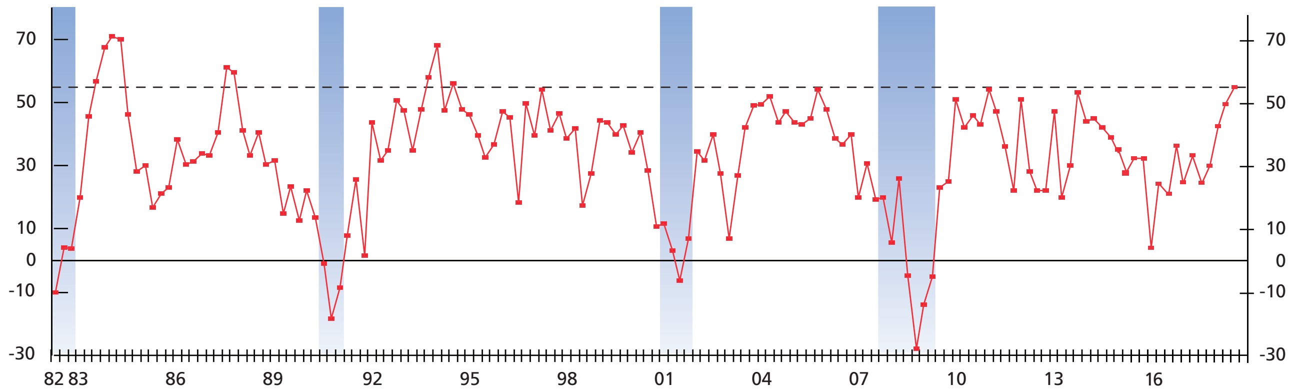
Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**61**	**34**	**6**	**55**	
July '18	58	35	8	50	
April '18	54	36	11	43	
January '18	47	36	17	30	
October '17	46	33	22	24	
By Sector—October '18					*No. responding*
Goods-producing	73	20	7	67	*15*
TUIC	60	40	0	60	*15*
FIRE	74	18	8	67	*39*
Services	47	47	6	42	*53*

Note: In this and all tables, percentages may not sum to 100% due to rounding.

Expected next 3 months—percent of total respondents (122)

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**61**	**33**	**6**	**56**	
July '18	68	24	8	60	
April '18	53	39	8	46	
January '18	51	35	15	36	
October '17	61	29	10	51	
By Sector—October '18					*No. responding*
Goods-producing	80	20	0	80	*15*
TUIC	60	33	7	53	*15*
FIRE	59	28	13	46	*39*
Services	58	40	2	57	*53*

Figure 1 – Sales Net Rising Index



Note: In this and all figures, shaded areas represent recessions.

Profits

Profit margin increases were more widespread in the third quarter of 2018 than in the second quarter. The share of respondents reporting rising profit margins increased to 37%, the largest share since the April 2012 survey. The percentage reporting falling profits remains nearly unchanged at 8%, compared to 7% in the previous survey. As a result, the NRI rose to 29, the highest reading since the April 2011 survey.

This trend in profit margins was broad-based across sectors. Compared to the July survey, larger shares of respondents from the TUIC, FIRE, and services sectors report rising profits, while the percentage of respondents from goods-producing firms reporting rising profits declined to 38% from 44%. The share reporting falling profit margins is consistent with the July survey results, with the exception of the goods-producing sector: 23% of respondents from that sector report falling profits compared to only 6% in July. Consequently, NRIs improved for the TUIC, FIRE, and services sectors, with the largest increase in the TUIC sector—the NRI rose to 43, up from 25 in July. The NRI for goods-producers declined to 15, down from 28 in the previous survey.

Expectations for profit margins in the fourth quarter of 2018 are similar to those reported in July regarding the third quarter of the year. The forward-looking NRI rose to 29, up from 25 in the previous survey. Most of the increase, however, is due to the share of services-sector respondents expecting profit margins to rise—39%, up from 25%—resulting in the NRI increasing from 11 in July to 29 in the current survey. Respondents from FIRE sector firms appear the most optimistic, with an NRI of 35 for that sector, as 41% of respondents expect rising profit margins and only 5% expect falling profit margins.

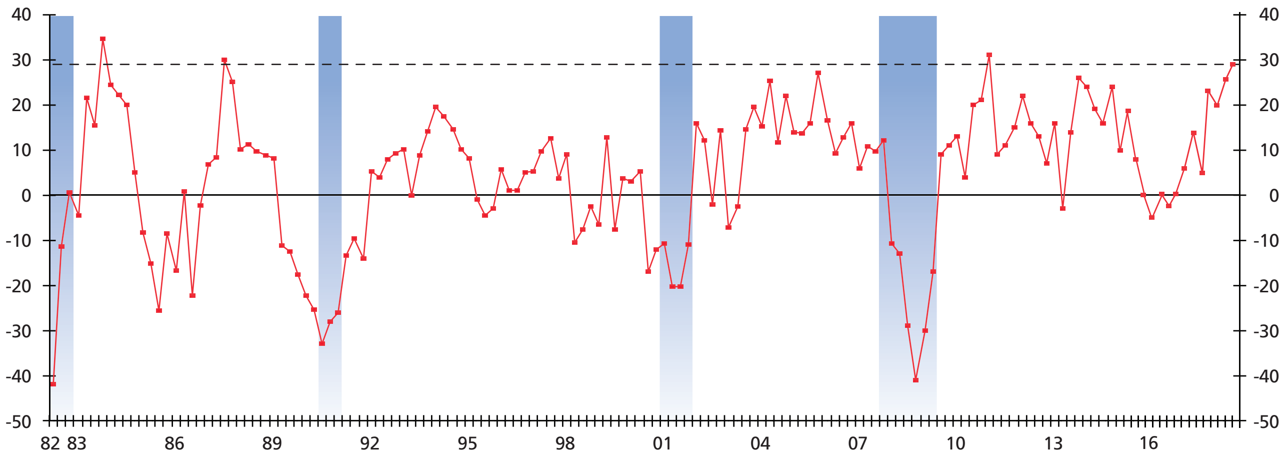
Percent of total respondents (115) reporting that over the past 3 months, their companies' profit margins have been:

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**37**	**56**	**8**	**29**	
July '18	33	60	7	26	
April '18	35	49	16	20	
January '18	35	53	12	23	
October '17	21	63	16	5	
By Sector—October '18					*No. responding*
Goods-producing	38	38	23	15	*13*
TUIC	43	57	0	43	*14*
FIRE	41	57	3	38	*37*
Services	31	59	10	22	*51*

Expected next 3 months—percent of total respondents (115)

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**37**	**54**	**9**	**29**	
July '18	36	53	11	25	
April '18	34	51	15	19	
January '18	33	55	12	21	
October '17	28	59	14	14	
By Sector—October '18					*No. responding*
Goods-producing	31	46	23	8	*13*
TUIC	29	71	0	29	*14*
FIRE	41	54	5	35	*37*
Services	39	51	10	29	*51*

Figure 2 – Profit Margins Net Rising Index



Prices Charged

The NRI for prices charged rose from 34 in July to 37 in October—the highest reading since early 2006. The share of respondents reporting rising prices increased to 40% in October, up slightly from 38% in July, while the share reporting falling prices held steady at 3%. The NRIs for the TUIC and FIRE sectors jumped in October—from 11 in July to 33 in October for TUIC, and from 29 to 41 for the FIRE sector. The NRI for the goods-producing sector held steady, while the NRI for services firms fell slightly. The percentage of respondents from the goods-producing sector reporting rising prices is higher than the percentage of respondents from the other three sectors who report rising prices—similar to the results in January, April, and July. The share of respondents from the goods-producing sector reporting rising prices increased to 73% in October, up from 67% in July. The forward-looking NRI for prices rose to 37—the highest reading since the question was first asked in July 2014, and up a bit from 33 in April. NRIs for prices charged over the next three months increased across all sectors.

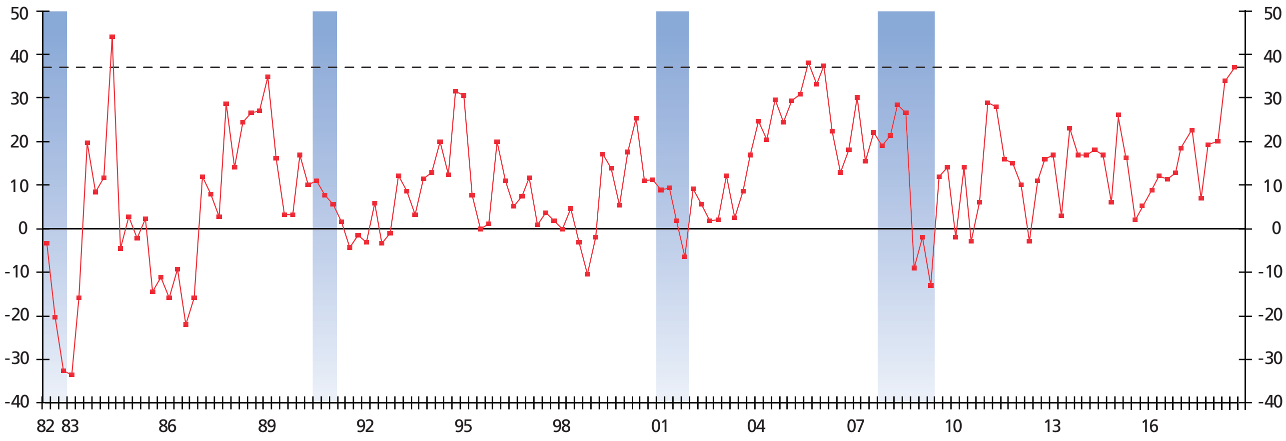
Percent of total respondents (119) reporting that over the past 3 months prices charged by their firms have been:

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**40**	**56**	**3**	**37**	
July '18	38	59	3	34	
April '18	27	65	8	20	
January '18	23	72	5	19	
October '17	17	73	10	7	
By Sector—October '18					*No. responding*
Goods-producing	73	20	7	67	*15*
TUIC	40	53	7	33	*15*
FIRE	44	54	3	41	*39*
Services	28	70	2	26	*50*

Expected next 3 months—percent of total respondents (118)

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**41**	**56**	**3**	**37**	
July '18	37	58	4	33	
April '18	31	60	9	22	
January '18	28	67	6	22	
October '17	27	67	6	21	
By Sector—October '18					*No. responding*
Goods-producing	71	29	0	71	*14*
TUIC	33	60	7	27	*15*
FIRE	44	51	5	38	*39*
Services	32	66	2	30	*50*

Figure 3 – Prices Charged Net Rising Index



Materials Costs

The October NRI for materials costs is 53, down from 65 in the July survey, but still the second-highest reading since 2011. Despite the decline, the current NRI still indicates that materials cost inflation continues to be elevated among respondent producer firms, a possible reflection of the stronger economy, rising commodity prices, and trade tariffs. The NRI for the goods-producing sector leads the way among the four sectors of production, with an NRI of 73. However, the survey results also indicate that rising producer inflation may be broad-based, as NRIs for both the FIRE and TUIC sectors are over 60. Respondents' expectations for cost increases over the next three months are also greater (NRI of 57) compared to a year earlier (NRI of 36). Only 2% of respondents expect falling costs during the next 3 months.

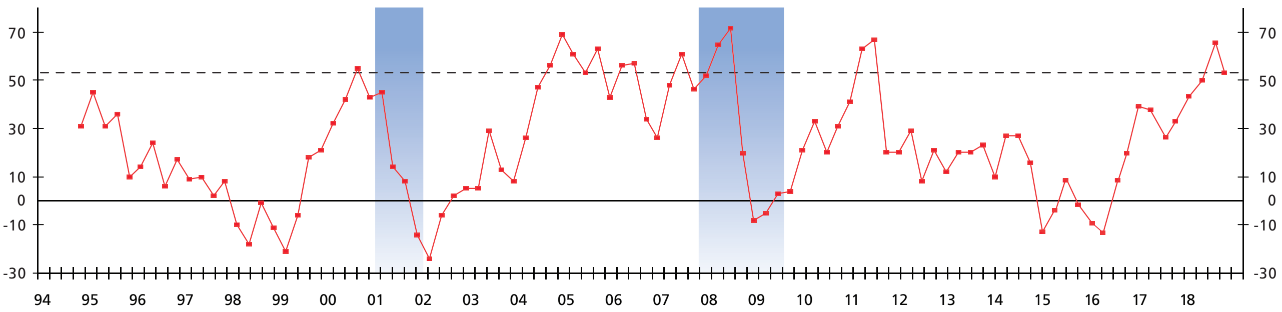
Percent of total respondents (86) reporting that the materials costs at their firms over the past 3 months have been generally:

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**55**	**44**	**1**	**53**	
July '18	65	35	0	65	
April '18	54	43	4	50	
January '18	47	49	3	44	
October '17	38	57	5	33	
By Sector—October '18					*No. responding*
Goods-producing	80	13	7	73	*15*
TUIC	62	38	0	62	*13*
FIRE	61	39	0	61	*23*
Services	37	63	0	37	*35*

Expected costs in next 3 months—percent of total respondents (86)

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**59**	**38**	**2**	**57**	
July '18	64	35	1	63	
April '18	54	43	4	50	
January '18	42	56	2	40	
October '17	38	61	2	36	
By Sector—October '18					*No. responding*
Goods-producing	80	13	7	73	*15*
TUIC	62	38	0	62	*13*
FIRE	70	26	4	65	*23*
Services	43	57	0	43	*35*

Figure 4 – Materials Costs Net Rising Index



Wages

Survey results suggest that wage and salary increases remain widespread, and that gains will persist over the next three months. After decreasing slightly in the second quarter, the NRI for wages and salaries bounced back in October to 56, surpassing its historical high reached in April of this year. All sectors continue to record strongly positive NRIs, with the FIRE and TUIC sectors showing particular strength. Wage increases are likely to continue over the next three months, as the NRI for expected wage costs is 56. While this is down slightly from a very strong 62 in July, no respondent expects wages to decrease over the next quarter. Wage cost increases are anticipated to be broad-based across sectors, as the NRIs for expected wage costs range from 46 in services to 68 in FIRE.

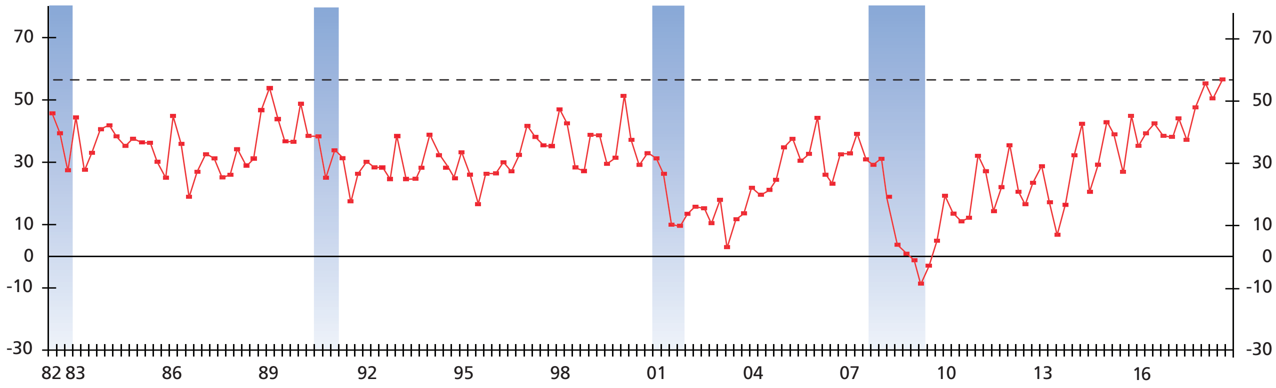
Percent of total respondents (115) reporting that in the past 3 months their firms' wages and salaries have been:

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**57**	**43**	**1**	**56**	
July '18	51	49	0	51	
April '18	56	43	1	55	
January '18	48	52	0	48	
October '17	42	53	5	37	
By Sector—October '18					*No. responding*
Goods-producing	43	57	0	43	*14*
TUIC	60	40	0	60	*15*
FIRE	73	24	3	70	*37*
Services	47	53	0	47	*49*

Expected wage costs in next 3 months—percent of total respondents (115)

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**56**	**44**	**0**	**56**	
July '18	63	36	1	62	
April '18	58	41	1	57	
January '18	58	42	0	58	
October '17	49	47	4	46	
By Sector—October '18					*No. responding*
Goods-producing	54	46	0	54	*13*
TUIC	60	40	0	60	*15*
FIRE	68	32	0	68	*37*
Services	46	54	0	46	*50*

Figure 5 – Wages Net Rising Index



Employment

Survey results suggest that firms continue to hire workers, although gains are somewhat less widespread than in the previous two surveys. The October NRI fell to 23, its lowest level since January. The biggest change since the July survey is in the goods-producing sector: the NRI fell from 63 in July to 27 in October. The NRI for employment gains expected over the next three months also declined—to 29 in October from 38 in July. The decline in future gains also is concentrated in the goods-producing sector, which has a forward-looking NRI of 13, down from 53 in July.

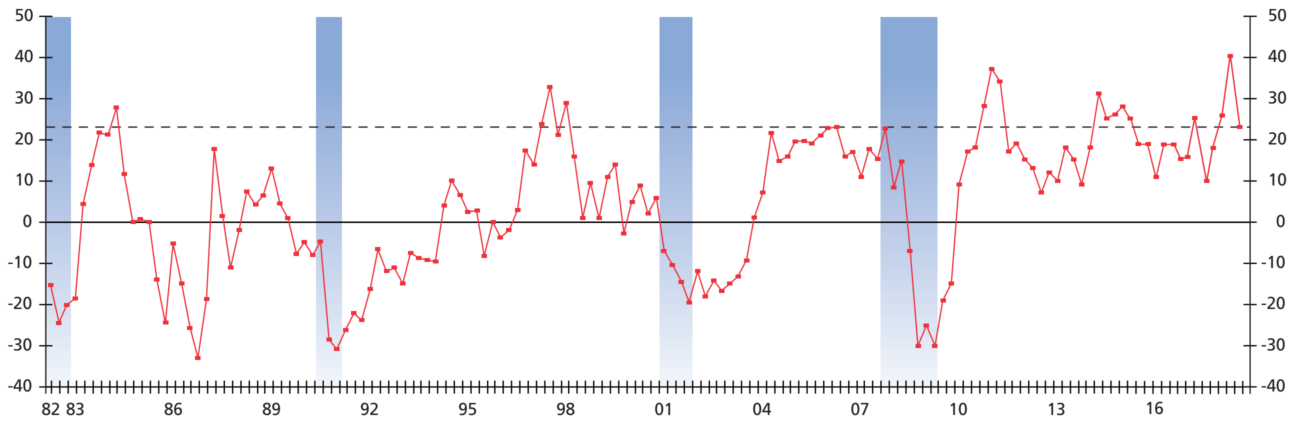
Percent of total respondents (120) reporting that over the past 3 months employment at their firms has been:

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**31**	**61**	**8**	**23**	
July '18	44	53	3	41	
April '18	36	55	10	26	
January '18	27	64	9	18	
October '17	25	59	16	10	
By Sector—October '18					*No. responding*
Goods-producing	33	60	7	27	*15*
TUIC	21	71	7	14	*14*
FIRE	36	51	13	23	*39*
Services	29	65	6	23	*52*

Expected next 3 months—percent of total respondents (119)

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**37**	**55**	**8**	**29**	
July '18	41	56	3	38	
April '18	39	52	9	30	
January '18	35	56	8	27	
October '17	26	65	8	18	
By Sector—October '18					*No. responding*
Goods-producing	33	47	20	13	*15*
TUIC	21	64	14	7	*14*
FIRE	41	51	8	33	*39*
Services	39	57	4	35	*51*

Figure 6 – Employment Net Rising Index



Capital Spending

Growth in capital spending remains robust. The NRI for total capital spending in the third quarter of 2018 rose slightly to 39 in the October survey, up from 38 in the July survey, and its highest level since the January 2015 survey. Expectations for the next three months are similar, with a forward-looking NRI of 37, down from 44 in the July survey, but still a historically high measure. The NRIs for capital spending in the third quarter of 2018 are especially strong in the TUIC and FIRE sectors, with no respondents from these sectors reporting falling capital spending. Likewise, TUIC and FIRE sectors have the highest NRIs for continued rising capital spending in the coming months.

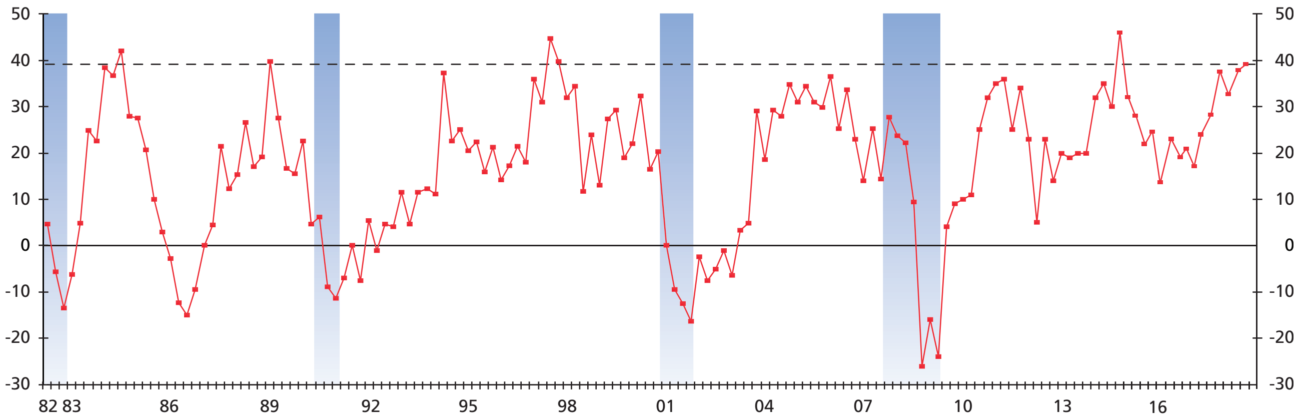
Percent of total reporting (108) that over the past 3 months, their firms' capital spending has been:

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**42**	**56**	**3**	**39**	
July '18	45	48	7	38	
April '18	39	55	6	33	
January '18	43	51	6	37	
October '17	33	62	5	28	
By Sector—October '18					*No. responding*
Goods-producing	31	54	15	15	*13*
TUIC	53	47	0	53	*15*
FIRE	55	45	0	55	*33*
Services	32	66	2	30	*47*

Expected next 3 months—percent of total reporting (108)

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**41**	**56**	**4**	**37**	
July '18	50	44	6	44	
April '18	45	47	8	36	
January '18	46	43	12	34	
October '17	37	57	6	30	
By Sector—October '18					*No. responding*
Goods-producing	46	38	15	31	*13*
TUIC	47	53	0	47	*15*
FIRE	55	42	3	52	*33*
Services	28	70	2	26	*47*

Figure 7 – Capital Spending Net Rising Index



Information and Communications Technology Capital Spending

The NRI for information and communications technology (IT) capital spending is 49, up from the July reading of 41, and also from the October 2017 reading of 43. The FIRE and goods-producing sectors have the highest NRIs of 67 and 55, respectively. The forward-looking NRI for IT spending in the next three months is 44, slightly lower than the results in the July survey.

Percent of total reporting (109) that over the past 3 months their firms' capital spending on information and communications technology has been:

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**51**	**46**	**3**	**49**	
July '18	47	47	6	41	
April '18	45	48	6	39	
January '18	45	52	3	42	
October '17	49	46	5	43	
By Sector—October '18					*No. responding*
Goods-producing	55	45	0	55	*11*
TUIC	43	50	7	36	*14*
FIRE	67	33	0	67	*36*
Services	42	54	4	38	*48*

Expected next 3 months—percent of total reporting (108)

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**48**	**48**	**4**	**44**	
July '18	51	45	5	46	
April '18	52	42	6	46	
January '18	51	40	8	43	
October '17	45	46	9	35	
By Sector—October '18					*No. responding*
Goods-producing	55	36	9	45	*11*
TUIC	36	57	7	29	*14*
FIRE	64	33	3	61	*36*
Services	38	60	2	36	*47*

Structures Capital Spending

Capital spending on structures at respondents' firms is largely unchanged in the October survey. Structures spending rose at 21% of respondents' firms and declined at 9%, resulting in an NRI of 11—slightly above the reading in the July survey. The TUIC and goods-producing sectors have the highest NRIs of 20 and 17, respectively. The outlook for spending on capital structures for the next three months is also relatively unchanged from the previous survey, with a forward-looking NRI of 9, down from 12 in July. The goods-producing sector accounts for the highest percentage—33%—of respondents reporting expected increases in structures capital spending in the next 3 months.

Percent of total reporting (87) that over the past 3 months their firms' capital spending on structures has been:

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**21**	**70**	**9**	**11**	
July '18	22	66	12	9	
April '18	23	66	11	11	
January '18	18	66	16	3	
October '17	19	67	14	5	
By Sector—October '18					*No. responding*
Goods-producing	25	67	8	17	*12*
TUIC	27	67	7	20	*15*
FIRE	25	61	14	11	*28*
Services	13	81	6	6	*32*

Expected next 3 months—percent of total reporting (85)

Survey Month	Rising	Unchanged	Falling	NRI	
October '18	**20**	**69**	**11**	**9**	
July '18	24	64	12	12	
April '18	24	66	10	13	
January '18	19	64	17	1	
October '17	22	65	13	9	
By Sector—October '18					*No. responding*
Goods-producing	33	67	0	33	*12*
TUIC	21	71	7	14	*14*
FIRE	29	54	18	11	*28*
Services	6	84	10	-3	*31*

Shortages

Forty-seven percent of respondents report shortages of skilled labor at their firms, a significant increase from 39% in July as well as the 36% of a year ago. The October result implies that the tightening labor market continues to have a perceptible adverse impact on the hiring of skilled labor by businesses. The percentage of panelists reporting difficulty hiring unskilled labor, while still low at 13%, has doubled from that reported in October 2017. The share of respondents reporting material input shortages for both raw materials and intermediate inputs continues to trend higher from a low base a year earlier.

Percent of total (127) reporting shortages at their firms over the past 3 months:

Type of input	October '18	July '18	April '18	January '18	October '17
Skilled labor	**47**	39	45	39	36
Unskilled labor	**13**	12	16	8	6
Intermediate inputs	**6**	4	5	3	0
Raw material inputs	**6**	4	4	2	1
Capital goods	**2**	3	0	1	1
No shortages	**38**	47	37	48	46
Don't Know	**11**	12	14	12	15

Note: Columns sum to more than 100% if respondents listed multiple shortages.

GDP Forecast Underpinning Current Planning

The panel's outlook for real GDP growth is slightly more optimistic than in the July survey, but remains consistent with expectations expressed in the last four surveys. Ninety percent of panelists expect real GDP growth of more than 2% in the coming four quarters, with nearly three-quarters (74%) anticipating growth in the 2.1%-to-3.0% range. Fourteen percent expect GDP growth in the 3.1%-to-4.0% range, and 2% of panelists expect growth to exceed 4% over the next four quarters. No panelist expects a decline in real GDP over the next four quarters, and only 10% expect growth of 2% or lower.

Percent of total (120) reporting that real GDP will grow from the third quarter of 2018 to the third quarter of 2019 by:

	0.0% or less	0.1% to 1.0%	1.1% to 2.0%	2.1% to 3.0%	3.1% to 4.0%	>4.0%
October '18	**0**	**3**	**7**	**74**	**14**	**2**
July '18	0	3	10	68	17	2
April '18	2	1	13	70	14	0
January '18	0	1	11	73	14	2
October '17	0	1	15	80	4	0

Note: The surveys differ in the time period covered by the GDP forecast question. For example, the October 2018 survey asked panelists to forecast real GDP growth from the third quarter of 2018 to the third quarter of 2019. The July 2018 survey asked panelists to forecast real GDP growth from the second quarter of 2018 to the second quarter of 2019.

Special Questions

1. The unemployment rate has been at or below 4.0% since April of 2018, suggesting tightness in labor markets. Is your firm taking any steps to address difficulties in staffing? *(Mark all that apply.)*

A smaller percentage of firms are hiring without difficulty compared to the percentage reporting such difficulty in the previous surveys: 23% report no difficulty in hiring, down from 36% in July and 42% in October 2017. In the current survey, 18% of respondents indicate their firms have no open positions, an increase from results in the July and April surveys. The most commonly reported steps that firms have taken to address hiring difficulties are "raised wages" (cited by 37% of respondents), "trained internally" (35%), and "invested in labor-saving processes" (23%).

Sector	*No. responding*	Raised wages	Paid retention bonuses	Paid referral and/or hiring bonuses	Lowered work requirements for position	Trained internal staff for promotion	Invested in labor-saving processes	No open positions	No difficulties experienced
Goods-producing	15	40%	27%	27%	20%	40%	33%	13%	20%
TUIC	13	46	23	23	8	38	31	0	23
FIRE	41	39	15	17	10	44	34	10	24
Services	51	31	8	16	14	25	10	31	24
All respondents	***120***	***37%***	***14%***	***18%***	***13%***	***35%***	***23%***	***18%***	***23%***

Note: Totals may sum to more than 100% if respondents entered more than one response.

2. If your firm is experiencing difficulties in hiring, which positions are challenging to fill? *(Mark all that apply; SKIP if not applicable.)*

For respondents reporting difficulties in hiring, the positions that are most difficult to staff are high-skill positions—cited by 75% of respondents—with 48% of respondents reporting difficulty filling mid-skill positions. These responses are consistent across the FIRE and services sectors, with the TUIC sector having comparable difficulties filling both mid-skill and high-skill positions. The goods-producing sector has more difficulties staffing mid-skill positions. Respondents were asked to consider low-skill positions as those requiring a high school diploma or less with minimal work experience, mid-skill positions as those requiring some college or technical schooling and/or equivalent work experience, and high-skill positions as those requiring a college degree or higher and/or equivalent work experience.

Sector	*No. responding*	Low-skill positions (require high school diploma or less and minimal work experience)	Mid-skill positions (require some college or technical schooling or equivalent work experience)	High-skill positions (require college degree or higher or equivalent work experience)
Goods-producing	11	36%	82%	64%
TUIC	9	22	56	56
FIRE	27	26	33	81
Services	24	25	46	79
All respondents	***71***	***27%***	***48%***	***75%***

3. Has your firm adjusted plans for hiring or investments as a result of the 2017 Tax Cuts and Jobs Act?

The majority—81%—of respondents indicates that the 2017 Tax Cuts and Jobs Act has not caused their firms to change hiring or investment plans—an increase from the share in previous surveys. For those firms that have made changes, the most prevalent change was to accelerate investments, cited by 12% of all respondents, by 38% of respondents from goods-producing firms, and by 18% of respondents from large firms.

Sector	*No. responding*	Delayed hiring	Delayed investments	Accelerated hiring	Accelerated investments	Redirected hiring & investments to the U.S.	Redirected hiring & investments from the U.S.	No changes to hiring or investments
Goods-producing	13	0%	8%	15%	38%	38%	0%	54%
TUIC	15	7	0	13	13	0	0	73
FIRE	39	3	0	8	15	3	3	77
Services	49	2	0	0	2	0	2	94
All respondents	***116***	***3%***	***1%***	***6%***	***12%***	***5%***	***2%***	***81%***

No. of Employees	*No. responding*	Delayed hiring	Delayed investments	Accelerated hiring	Accelerated investments	Redirected hiring & investments to the U.S.	Redirected hiring & investments from the U.S.	No changes to hiring or investments
≤100	55	2%	0%	4%	5%	0%	0%	91%
>100	61	3%	2%	8%	18%	10%	3%	72%

Note: Totals may sum to more than 100% if respondents entered more than one response.

4. U.S. trade policy has shifted with announcements of new tariffs and quotas, a pullback from free trade negotiations, and a threat to withdraw from the North American Free Trade Agreement (NAFTA). In response, foreign trade partners proposed retaliatory tariffs and quotas on U.S. exports. How have these events influenced your firm's plans regarding hiring, investing and pricing? *(Mark all that apply.)*

A majority of respondents (77%) indicates that trade concerns have not caused their firms to change investment, hiring, and pricing plans. This percentage is an increase from that reported in the previous survey. The panel's views are split regarding changes in hiring, with firms more likely to have redirected hiring to the United States, delayed investments, and delayed hiring. Goods-producing firms are more likely to have made changes, with 46% raising prices and 38% delaying investments, higher percentages than those in the July survey.

Sector	*No. responding*	Delayed hiring	Delayed investments	Accelerated hiring	Accelerated investments	Redirected hiring & investments to the U.S.	Redirected hiring & investments from the U.S.	Raised prices	Lowered prices	No changes
Goods-producing	13	15%	38%	8%	15%	8%	0%	46%	0%	23%
TUIC	14	0	0	0	7	0	0	29	0	71
FIRE	39	3	5	3	5	3	3	8	0	85
Services	50	4	10	2	0	2	2	4	0	86
All respondents	***116***	*4%*	*10%*	*3%*	*4%*	*3%*	*2%*	*13%*	*0%*	*77%*

No. of Employees	*No. responding*	Delayed hiring	Delayed investments	Accelerated hiring	Accelerated investments	Redirected hiring & investments to the U.S.	Redirected hiring & investments from the U.S.	Raised prices	Lowered prices	No changes
≤100	57	5%	11%	4%	2%	2%	2%	7%	0%	82%
>100	59	3%	10%	2%	7%	3%	2%	19%	0%	71%

Note: Totals may sum to more than 100% if respondents entered more than one response.

SURVEY PARTICIPATION AND DEFINITIONS

All survey panelists are NABE members who work for private-sector firms or industry trade associations. Panelists are classified into industry NAICS codes and then grouped into four sectors as follows: goods-producing; transportation, utilities, information, communications (TUIC); finance, insurance, real estate (FIRE); and services. Industry groupings, beginning with the January 2007 survey, are as follows:

- **Goods-producing:** NAICS 11 Agriculture, forestry, fishery, hunting; 21 Mining; 23 Construction; 31-33 Manufacturing.

- **Transportation, Utilities, Information, Communications (TUIC):** NAICS 22 Utilities; 48-49 Transportation & warehousing; 51 Information–publishing, software, broadcasting, Internet publishing and providers, telecommunications, etc.

- **Finance, Insurance, Real Estate (FIRE):** NAICS 52 Finance and insurance—credit intermediation, including commercial and savings banks, credit unions, mortgage bankers; securities and other financial investments, trust, pension funds; health insurance and other insurance; 53 Real estate, rental, leasing.

- **Services:** NAICS 42 Wholesale trade; 44-45 Retail trade; 54 Professional, scientific, technical services; 62 Health care services; 56 Administrative, support, waste management & remediation services; 71 Art, entertainment, recreation; 72 Accommodations & food service; 81 Other services.

The charts and many of the tables display a **Net Rising Index (NRI)**, a diffusion index calculated as the percent of responses reporting rising results minus the percent reporting falling results. Thus, the index has a possible range of +100 (all positive responses) to -100 (all negative), with 0 indicating an equal mix. All results shown are rounded to the nearest whole percentage; thus, details may not add to 100 and the NRI may not match the difference in rounded components. Shaded areas on charts indicate recessions.

A total of 127 panelists responded to the survey; the number of panelists responding to each question is included in the tables. Ten percent of the panelists were from single-person firms; 20% from firms with 2-10 employees; 16% from firms with 11-100 employees; 15% from firms with 101-1,000 employees; and 39% from firms with more than 1,000 employees.

The NABE Business Conditions Survey—formerly the NABE Industry Survey—has been conducted quarterly since 1982. This survey is one of three administered by NABE; the others are the quarterly NABE Outlook and the semiannual NABE Economic Policy Survey. Founded in 1959, the National Association for Business Economics is the professional association for people who use economics in their work. **Sara Rutledge,** StratoDem Analytics, (Survey Chair); **Sam Kyei, CBE,** SAK Economics, LLC; **Joe Cardinale, CBE,** Abbott Labs; **Carolyn Evans,** Intel; **Keith Phillips,** Federal Reserve Bank of Dallas; **Jordan Vickers,** Eaton; **Kevin Swift, CBE,** American Chemistry Council; and **Ken Simonson,** Associated General Contractors of America, conducted the analysis for this report.

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