



Texas Service Sector Outlook Survey

DALLASFED

February 23, 2015

SPECIAL QUESTIONS

Data were collected Feb. 2–5, and 197 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 twelve months?			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Increase	39.6	48.6	43.1
Leave Unchanged	45.7	46.4	47.9
Decrease	14.7	5.0	9.0

2. Are you having problems finding qualified workers when hiring?			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Yes	65.0	71.9	71.4
No	35.0	28.1	28.6

3. If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Lack of technical competencies (hard skills)	62.1	50.4	55.9
Lack of available applicants/no applicants	51.5	52.7	46.5
Lack of experience	41.7	37.4	44.9
Looking for more pay than is offered	38.6	39.7	37.8
Lack of workplace competencies (soft skills)	37.9	38.9	44.1
Inability to pass drug test and/or background check	29.5	22.9	29.1

4. What, if anything, are you doing to recruit and retain employees? Please check all that apply.			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	60.8	64.7	58.0
Increase wages and or benefits	50.0	52.6	47.3
Offer additional training	38.1	39.7	39.3
Increase variable pay, including bonuses	34.7	36.5	34.0
Improve working conditions	22.7	24.4	16.7
Reduce education and other requirements for new hires	5.7	5.1	6.7
Other	7.4	5.8	13.3

5. If labor costs are increasing, are you passing the cost on to customers in the way of price increases?			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Yes	37.1	34.3	41.8
No	49.5	52.2	43.0
Not Applicable	13.4	13.5	15.2

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Credit Intermediation and Related Activities

- > We are having a very difficult time hiring an experienced commercial loan officer.
- > The local employment scene is changing rapidly. Due to the collapse of energy prices, a really tight market is relaxing very quickly. It seems the oil and gas sector has stopped hiring, and laid-off employees are entering the market.

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

- > We are in a very competitive service business, with a significant portion dedicated to the oil and gas industry. Our particular skills are not plentiful. Our rates for skilled labor are OK. We continue to improve our training programs along with workplace conditions. The additional costs of health insurance and general federal regulations are escalating rapidly. We have not been able to quickly pass on these costs in selling prices. At the moment, with the current prices of oil and natural gas, we are faced with some selling price decreases. This is a squeeze now.

Insurance Carriers and Related Activities

- > We are a regulated insurance broker. The insurance policy prices are regulated and set by the market, so we cannot increase prices.
- > Employee benefits costs, especially complying with the Affordable Care Act, have been an enormous challenge. Our firm has experienced significant health insurance rate increases over the past five years, and we now have to deal with additional reporting and compliance issues.

Publishing Industries (except Internet)

- > We are experiencing a critical shortage of applicants who have the desire and skills to sell and market our product. When we recruit for sales jobs, prospective employees typically reply, "Oh, I can't do sales." These are respectable jobs in rural markets, but we also find it difficult to attract talent to rural areas.

Broadcasting (except Internet)

- > We are in the television and radio industry, located in West Texas. We expect a significant slowdown in our economy due to the reduction in oil field development. As a result, we are trying to manage expenses, such as payroll, more closely. The economy is still excellent, and we still need to be in a position to help our customers succeed in their businesses; therefore, we will increase our sales staff and marketing efforts to try and capture additional market share, while our competition is likely to pull back. We will continue to make capital improvements to our infrastructure to maximize our efficiency for ourselves and effectiveness for our customers. Payroll reductions will come from operations staff as new technology is implemented.

Telecommunications

- > The most significant concern in the Houston area is what effect the price of oil will have on petroleum companies. Many companies have announced layoffs, and we are concerned about how it will ripple through housing, apartment and commercial business growth.

Rental and Leasing Services

- > We would like to pass on increased costs from all the sources creating the extra expenses, including regulation, insurance and taxes, but we cannot and remain competitive in the market.

Professional, Scientific and Technical Services

- > We are a professional organization, so many people we recruit are highly educated and have a very focused skill set. We are able to hire and are paying at the top of the market for talent. We are very concerned about commodity prices, though, and will likely cut some of our workforce as workload lightens in Houston, particularly in the energy market.
- > The dramatic reductions in the price of oil are now having an effect on our backlog. Our firm is involved in the design of office buildings, and several projects have been cancelled or postponed indefinitely in the recent weeks. As the Houston market is heavily dependent upon the energy industry, the extended depression of oil prices will have a significant effect on our revenue and consequently on our staffing.
- > Candidates have unrealistic benefits expectations. Competitors are recruiting our team and offering higher compensation and benefits.
- > Although the real estate market in Texas has been very strong over the past three to four years, we are starting to see a little cooling in the commercial sector due to the drop in oil prices. The residential market has actually seen some improvement in the first month of the year, and as long as rates remain low, it should have another banner year in 2015. The overwhelming majority of the commercial sector is convinced the drop in oil prices will not affect the DFW market, but our orders seem to be pointing to a small slowdown. We are still optimistic that 2015 will be another good year for the commercial real estate market and a great year for the residential market.
- > Many of the qualified candidates for employment are H-1B visa holders. Difficulty in processing and holding on to full-time H-1B holders, as well as financial costs in doing so, is a problem for us. Federal constraints need to be minimized.

Management of Companies and Enterprises

- > Our industry's employment growth has been in what we call "non-income-productive" positions. We are hiring people to help with compliance and cumbersome regulations that are getting to be a big expense for our institution.

Administrative and Support Services

- > It seems that everyone in the current generation of applicants has conditions under which they will work, including hours, days and types of work. That is not unusual for educated positions, but for candidates who have no advanced education, it appears they have unrealistic expectations.
- > We expect the benefit of lower gasoline prices to have a positive effect on our commercial customers. This will evolve over the year and hopefully enable them to increase budgets in our service sector. Currently, there is not enough flexibility in the economy to raise prices to offset cost increases. This may change by the second quarter.
- > We have had difficulty obtaining loans because of stringent requirements for documentation and a lender's ability to back out at the last minute.
- > The H-2B visa program has to be fixed with wages determinations.
- > We are in the IT staffing business, providing contract, contract-to-hire and full-time staff. There is a very profound shortage of technically qualified and experienced people in the principal technologies in use today.

Educational Services

- > Thus far, we have not had problems with recruiting qualified applicants for open or new positions. In general, we have three to five fully-qualified candidates for each position available.

Ambulatory Health Care Services

- > When the energy boom went through West Texas, it uprooted many small businesses as employees left to make higher income from small and independent business opportunities in the oil field. That created a significant challenge for nonenergy-related businesses to continue. Before the boom, we saw a significant need for soft skills in unlicensed staff. Now we see that licensed (nursing) staff applicants may have the education background but lack the minimal skills, including verbal and written communication skills, ability to think independently, critical thinking and ability to make relationships with coworkers to work as a team. There is a true need for such skills in every community for employees to succeed and be effective as professionals.
- > Pressure is increasing to give larger pay raises than in the past as the labor market tightens. We can train new hires, but applicants are seeking higher start pay. Also, staff has left for higher pay at other employers.
- > As an organization that provides mental health services, our biggest challenge is recruiting psychiatrists and other behavioral health care providers. There is a shortage of these professionals to meet the increasing demand for mental health services.
- > Our growth tracks with population growth in the counties we serve.

Hospitals

- > The labor market is very tight in the Permian Basin but expected to ease with falling oil prices.

Nursing and Residential Care Facilities

- > As a nonprofit, raising our prices to offset increased costs will typically take up to a year.

Amusement, Gambling, and Recreation Industries

- > We have created a very good benefits package for this type of business, which is actually quite expensive, and we have found that it does create stability and reduces turnover. The benefits do not actually get people employed, but once they are hired and stay for over two years, they tend to stay here for a very long time. The crucial component is just finding enough qualified people. The labor pool is really getting small.

Food Services and Drinking Places

- > Our increase in workforce is a result of a new store opening this month. We didn't have any problems finding qualified workers. We implemented a price increase in January to cover raises to management workers and the cost of providing health care to hourly workers, which was not previously covered.
- > We are not experiencing difficulty hiring and retaining employees beyond what would be normal for our industry over many years. We are also facing very little pressure to raise wages, which are very slowly creeping up around 1 percent a year. The only large increase we have faced for labor was for employee benefits, driven by increases for health care, which was a major factor in the decision to take a price increase in December 2014. The other significant factor in the decision to take that price increase was the increase in the cost of goods for proteins in January 2015, when a number of long-term contracts for product expired and had to be renewed at much higher prices.
- > We have not yet felt any pressure from increased employee costs due to the better economy or the lower unemployment figures.
- > Increased health insurance costs, taxes, regulations and associated paperwork are strangling small businesses like ours. It makes us consider selling the business after 30 years of developing it to its pinnacle of success.

Repair and Maintenance

- > We expect labor supply tightness in our area will subside due to lower oil prices. Drilling and other related oil service businesses are slowing down. Most of these laborers are of the low to unskilled variety, so their availability will not help our company much, because we need industrial construction skills such as crane operators, riggers and welders, as well as qualified supervision. We are doing more in-house training to supplement our advertising and recruitment efforts.

Pipeline Transportation

- > We are in a transition period for energy-related business, so our employment situation could change.

Truck Transportation

- > It has been an employer's market for some time. In the midst of that, our firm stayed consistent with wages and benefits, thus reducing our exposure to an upsurging economy's impact on our workforce.



Texas Retail Outlook Survey

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February 23, 2015

SPECIAL QUESTIONS

Data were collected Feb. 2–5, and 41 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 twelve months?			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Increase	26.8	42.6	47.5
Leave Unchanged	53.7	51.1	50.0
Decrease	19.5	6.4	2.5

2. Are you having problems finding qualified workers when hiring?			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Yes	75.6	82.6	82.5
No	24.4	17.4	17.5

3. If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Lack of technical competencies (hard skills)	64.5	57.5	50.0
Lack of available applicants/no applicants	61.3	45.0	50.0
Inability to pass drug test and/or background check	54.8	35.0	47.1
Lack of experience	45.2	27.5	52.9
Lack of workplace competencies (soft skills)	35.5	50.0	55.9
Looking for more pay than is offered	29.0	37.5	35.3

4. What, if anything, are you doing to recruit and retain employees? Please check all that apply.			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	71.4	79.1	70.0
Offer additional training	51.4	41.9	40.0
Increase wages and or benefits	42.9	46.5	50.0
Increase variable pay, including bonuses	40.0	41.9	42.5
Improve working conditions	17.1	20.9	17.5
Reduce education and other requirements for new hires	5.7	7.0	12.5
Other	8.6	4.7	5.0

5. If labor costs are increasing, are you passing the cost on to customers in the way of price increases?			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Yes	40.0	25.5	51.3
No	47.5	63.8	41.0
Not Applicable	12.5	10.6	7.7

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Merchant Wholesalers, Durable Goods

- > We currently have a hiring freeze on all of our Texas business units. The recession in the oil patch has made workers more available than last year, so if we were hiring, we suspect we'd have less trouble than previously.
- > We are in the construction products market and are expanding market share, using topline sales and subsequent new income to cover labor costs. We are not seeing many competitors raising prices. Other than commodity-driven price increases from copper, cast iron and plastics, product prices are flat to nominal increases. We are able to get enough applicants without sign-up bonuses or extreme salary increases. However, we are spending time and money to provide a better work environment, including employee bonuses based on new income opportunities.

Motor Vehicle and Parts Dealers

- > Prices to customers are set by the competitive marketplace. Variable pay and bonuses are necessary in our industry in order to keep costs aligned with market-based sales revenue. Demand for qualified technicians in automotive repair services far exceeds the available supply, necessitating an ongoing training program.
- > We are simply not seeing any qualified applicants. As a truck dealer, we require basic skills. The oil fields absorb anyone who wants to work. We are unable to match their pay. We anticipate some relief going forward due to the low price of oil. In our opinion, many students should be directed to vocational training. There are many unfilled job opportunities out there.

Building Material and Garden Equipment and Supplies Dealers

- > It is hard to project in South Texas as the oil industry is unstable. As for employees, we need more trade schools and fewer universities; universities are not suitable for everyone, and if everyone gets a degree, who will build homes?

Nonstore Retailers

- > Our blue collar workforce does not require any particular skills or education. Most of our employees are route drivers who must pass standard preemployment screens and have good driving records. Recently, a higher percentage of applicants are failing the drug screening. We've seen a trend of our best employees being hired by our big competitors, and we are unable to compete on pay with them.

