



Texas Service Sector Outlook Survey

DALLAS**FED**

February 29, 2016

SPECIAL QUESTIONS

Data were collected Feb. 16–24, and 282 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. '16 (percent) | Aug. '15 (percent) | Feb. '15 (percent) |
| Increase | 37.9 | 40.2 | 39.6 |
| Leave Unchanged | 43.6 | 48.1 | 45.7 |
| Decrease | 18.4 | 11.6 | 14.7 |

| 2. Are you having problems finding qualified workers when hiring? | | | |
|--------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| | Feb. '16 (percent) | Aug. '15 (percent) | Feb. '15 (percent) |
| Yes | 61.7 | 70.6 | 65.0 |
| No | 38.3 | 29.4 | 35.0 |

| 3. If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply. | | | |
|-----------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| | Feb. '16 (percent) | Aug. '15 (percent) | Feb. '15 (percent) |
| Lack of technical competencies (hard skills) | 59.9 | 54.8 | 62.1 |
| Lack of available applicants/no applicants | 54.4 | 48.1 | 51.5 |
| Lack of workplace competencies (soft skills) | 48.9 | 43.0 | 37.9 |
| Looking for more pay than is offered | 44.5 | 40.7 | 38.6 |
| Lack of experience | 42.9 | 40.0 | 41.7 |
| Inability to pass drug test and/or background check | 28.6 | 26.7 | 29.5 |

| 4. What, if anything, are you doing to recruit and retain employees? Please check all that apply. | | | |
|-------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| | Feb. '16 (percent) | Aug. '15 (percent) | Feb. '15 (percent) |
| Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc. | 58.5 | 57.8 | 60.8 |
| Increase wages and or benefits | 45.2 | 50.9 | 50.0 |
| Offer additional training | 39.0 | 35.3 | 38.1 |
| Increase variable pay, including bonuses | 28.6 | 28.9 | 34.7 |
| Improve working conditions | 24.1 | 22.5 | 22.7 |
| Reduce education and other requirements for new hires | 5.8 | 6.9 | 5.7 |
| Other | 8.3 | 9.8 | 7.4 |

| 5. If labor costs are increasing, are you passing the cost on to customers in the way of price increases? | | | |
|------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| | Feb. '16 (percent) | Aug. '15 (percent) | Feb. '15 (percent) |
| Yes | 33.5 | 30.2 | 37.1 |
| No | 50.4 | 54.5 | 49.5 |
| Not Applicable | 16.2 | 15.3 | 13.4 |

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Credit Intermediation and Related Activities

- > We are not looking to add employees at this time.
- > Given the current rate environment and competition for quality loans, we cannot pass along cost increases from labor, technology or noninterest expenses. Regarding the issue of finding and retaining qualified workers, there are few truly qualified lenders, lender assistants and loan documentation specialists with marketplace know-how and regulatory savvy. Those that have it are pricey, hard to find and hard to keep. We've responded by trying to train our own employees with some success. Unfortunately, we lose some to head hunters who are enticing them with significantly higher salaries even when they are not sufficiently seasoned or qualified.

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

- > We have reduced our workforce approximately 30 percent. We are trying to hold on to most of our experienced and technical staff.

Insurance Carriers and Related Activities

- > Our older employees are having a hard time adjusting to the tech world that is upon us. We're going paperless, and they are fighting the change. We will be training all employees in the changes coming their way, but it will be their choice to embrace this change or fire themselves by not accepting and resisting the change.

Telecommunications

- > We really need the federal government to reduce regulations, encourage competition, stop pandering to special interest groups and allow the marketplace to select winners and losers. We also think they should implement a free market in à la carte programming for local stations and programmers.

Real Estate

- > One of the biggest problems facing business is the increasing pressure from property taxes, which have continued to increase to the extent that there is no real increase in profits. Additionally, more entities are trying to reduce the taxes on the residential sector, with the net result being that the business sector is not growing sufficiently, is increasing automation and not increasing employment.

Professional, Scientific and Technical Services

- > We operate on a 5 to 8 percent net margin. If we did not pass along our increased expenses, we would become insolvent.

Management of Companies and Enterprises

- > We have not yet tried to pass additional costs on to our customers, but that will be in the making at some point. Overall, the biggest burden we have is regulations.

Administrative and Support Services

- > The Affordable Care Act is a big problem for us. We have spent more than \$1,500 setting up a Minimum Essential Coverage plan for our employees, and not one person has signed up for it. This is what our insurance broker said to expect. Also, Affordable Care Act reporting is very onerous, and we're not sure we're doing it correctly and no one can provide any guidance.
- > As a recruiting firm supplying both contractors and full-time candidates, we use every available resource for sourcing candidates. Companies are slow to commit to a hire, and as such are very resistant to cost increases.
- > The cost of general liability insurance has increased substantially. We have not suffered any loss in the last 10 years, and our renewal rates offered have increased more than 22 percent. Our insurance agent is of the mindset that the market has suffered a premium loss and is combating that with higher premiums for its existing customers.
- > We have difficulty passing increased costs on to existing customers, but we increase pricing to new customers.
- > There is a real lack of qualified labor available. It is extremely difficult to get applicants that are skilled and have the necessary work ethic. We offer to train but with no results.
- > At the basic labor level, employees have a sense of entitlement before proving themselves. There is also a bitter attitude about having to work at such a perceived menial job. Therefore, customer service is poor, customers respond poorly and the technician escalates the situation instead of ameliorating it.

Educational Services

- > Due to strength of the local economy, employees are demanding higher pay. The IT market is very competitive in our area and we have fewer applicants in this area, mainly due to pay.
- > Employees without criminal records and with the ability to pass a drug test are becoming harder to find.

Ambulatory Health Care Services

- > Since outpatient imaging is a deflationary business, the key is to manage costs and improve efficiencies. Wage inflation occurs with the aging retained employees inexorably, albeit slowly. We are fast approaching the limit of efficiency in terms of being able to be profitable as a business. This bodes ill for the long term.
- > In order to decrease overhead, we have merged with another mature practice in the same specialty area.
- > It is particularly difficult to find accounting, finance and IT candidates. Candidates with little experience are demanding high wages. We cannot increase prices as Medicare sets pricing and managed care contracts and generally do not allow midterm adjustments.
- > As a health care provider, the cost to the customer is pretty much set by the government. There is no one to pass the increased cost to.

Hospitals

- > Since so much of our business is related to Medicare and other government sources, we are effectively unable to pass along cost increases.
- > Health care costs continue to rise while reimbursements continue to decrease.

Nursing and Residential Care Facilities

- > Providers have very limited opportunity to pass the cost on to customers in the way of price increases, since so much of our revenue is fixed through Medicare, Medicaid and a few commercial insurance contracts. The shortage of qualified labor places intense wage pressure on providers.
- > We have not felt significant wage pressure in the 26 states in which we do business. We have only a limited amount of business on either coast, which is where we are hearing from others in our industry that there is more significant wage pressure.

Accommodation

- > Labor is tight, and those applying have issues passing background checks. Therefore, to recruit and retain high achievers, we are raising wages and 401(k) matches, while lowering deductibles.
- > The ripple effects of the unionization of a major hotel will have a significant impact on sector wages over the next 12 to 18 months.

Food Services and Drinking Places

- > Because of the drop in oil-related jobs, our business has been able to find sufficient employees to meet our needs. Our revenue has benefitted from customers "trading down" from more expensive restaurants.
- > We have had to increase our hourly wages in several markets due to new competition and increases at competitors.
- > Conditions have not changed that much for us. We are still able to hire without pressure on existing wage levels or benefits offered. Retention is always a problem in our industry. We expect employment to increase over the next six to 12 months because we are opening a new restaurant next month. We do not expect any change in employment levels for our existing operations.
- > Costs associated with the Affordable Care Act are killing us.

Pipeline Transportation

- > We need specific expertise and experience—candidates with 15+ years of experience who can lead a team. We also need specific experience in particular engineering disciplines. Personnel with this experience and capability mix are typically currently working and not looking to change jobs. We can find candidates for most other vacancies, although at this time we are not actively recruiting. Salaries and selling prices are an issue as all customers in the oil and gas engineering space are requesting price reductions from all their suppliers. We provide cost savings to customers with a combination of better scope definition and tighter estimates. However, hourly billing rates have also been modestly reduced due to customers' cost reduction focus.



Texas Retail Outlook Survey

DALLAS**FED**

February 29, 2016

SPECIAL QUESTIONS

Data were collected Feb. 16–24, and 58 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. '16 (percent) | Aug. '15 (percent) | Feb. '15 (percent) |
| Increase | 24.1 | 43.9 | 26.8 |
| Leave Unchanged | 56.9 | 48.8 | 53.7 |
| Decrease | 19.0 | 7.3 | 19.5 |

| 2. Are you having problems finding qualified workers when hiring? | | | |
|--------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| | Feb. '16 (percent) | Aug. '15 (percent) | Feb. '15 (percent) |
| Yes | 67.2 | 85.4 | 75.6 |
| No | 32.8 | 14.6 | 24.4 |

| 3. If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply. | | | |
|-----------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| | Feb. '16 (percent) | Aug. '15 (percent) | Feb. '15 (percent) |
| Lack of technical competencies (hard skills) | 63.4 | 61.1 | 64.5 |
| Lack of workplace competencies (soft skills) | 56.1 | 52.8 | 35.5 |
| Lack of available applicants/no applicants | 53.7 | 52.8 | 61.3 |
| Inability to pass drug test and/or background check | 48.8 | 50.0 | 54.8 |
| Lack of experience | 31.7 | 33.3 | 45.2 |
| Looking for more pay than is offered | 31.7 | 33.3 | 29.0 |

| 4. What, if anything, are you doing to recruit and retain employees? Please check all that apply. | | | |
|-------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| | Feb. '16 (percent) | Aug. '15 (percent) | Feb. '15 (percent) |
| Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc. | 61.8 | 67.5 | 71.4 |
| Offer additional training | 34.5 | 40.0 | 51.4 |
| Increase wages and or benefits | 34.5 | 40.0 | 42.9 |
| Increase variable pay, including bonuses | 30.9 | 32.5 | 40.0 |
| Improve working conditions | 25.5 | 22.5 | 17.1 |
| Reduce education and other requirements for new hires | 7.3 | 15.0 | 5.7 |
| Other | 5.5 | 7.5 | 8.6 |

| 5. If labor costs are increasing, are you passing the cost on to customers in the way of price increases? | | | |
|------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| | Feb. '16 (percent) | Aug. '15 (percent) | Feb. '15 (percent) |
| Yes | 37.9 | 43.9 | 40.0 |
| No | 48.3 | 41.5 | 47.5 |
| Not Applicable | 13.8 | 14.6 | 12.5 |

SPECIAL QUESTIONS COMMENTS

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Merchant Wholesalers, Durable Goods

- > Availability of trained technicians is still an issue for us. We have at least 60 technician openings around Texas and can't seem to find people to fill the jobs. We are trying to train prospective employees through workforce internships in high schools and working with the community college districts in our territory.
- > Increased costs are very difficult to pass through on government contracts.

Merchant Wholesalers, Nondurable Goods

- > We are not always able to pass on increased labor costs to customers.

Motor Vehicle and Parts Dealers

- > We are laying off less competent people in order to hire more qualified people that can perform better and receive higher pay. The more qualified people can lower overall costs with better output, but are hard to find.
- > It is difficult to raise prices with falling commodity prices. We must make up for higher labor costs with improved productivity.
- > We are being more selective as our business softens. More people are available; however, they are generally less qualified.
- > Qualified service technicians are extremely hard to find. We work closely with high school and community college technical training programs in order to find good applicants that we can hire and provide additional training.

Building Material and Garden Equipment and Supplies Dealers

- > Labor has always been an issue. What we see getting worse is too many people going to college and not enough to tech schools. In 47 years of business, we have always had problems finding good mechanics. We should implement an apprentice system.
- > We are doing our best to increase sales and margins, but the market is still very competitive. We are watching expenses, but employees are the largest expense when looking at payroll and benefits, and we were forced to give pay increases last year since it had been three years since the last pay increase.
- > The biggest problem we face is finding people that are interested in working. A poor work ethic is fairly common.

