Texas Manufacturing Outlook Survey

DALLASFED

February 23, 2015

TEXAS MANUFACTURING ACTIVITY REMAINS FLAT

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 factory activity posted a second month of no growth in February, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, remained near zero (0.7) and indicated output was essentially unchanged from January levels.

Other measures of current manufacturing activity reflected contraction in February. The new orders index pushed further into negative territory, coming in at -12.2, its lowest reading since June 2009. The shipments index fell to -3.3, also reaching a low not seen since 2009. The capacity utilization index turned negative as well, dropping from 5.1 to -4.9.

Perceptions of broader business conditions remained rather pessimistic this month. The general business activity index moved further negative to -11.2, posting its lowest reading in nearly two years. The company outlook index remained slightly negative and edged down from -3.8 to -4.4.

Labor market indicators reflected only minor employment growth and slightly shorter workweeks. The February employment index moved down from 9 to 1.3. Fifteen percent of firms reported net hiring, compared with 14 percent reporting net layoffs. The hours worked index edged further into negative territory, coming in at -1.6.

Prices fell slightly in February and upward pressure on wages continued to ease. The raw materials prices index held steady at -1.7, indicating marginal downward pressure on input costs. The finished goods prices index was also slightly negative but edged up from -6.7 to -4.4. Manufacturers are no longer expecting sizable price increases six months ahead, as the indexes of future prices were in single digits this month, down markedly from 2014 readings. The wages and benefits index edged down for a second month in a row and came in at 16.8.

Expectations regarding future business conditions rebounded somewhat in February. The index of future general business activity shot up 12 points to 5.5 after posting a negative reading in January. The index of future company outlook rose nearly 10 points to 11.8, although it remains well below the index level seen throughout 2014. Indexes for future manufacturing activity showed mixed movements in February but remained in solidly positive territory.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Feb. 10–18, and 108 Texas manufacturers responded to the survey. Firms are asked whether output, employment, orders, prices 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.

Next release: March 30, 2015

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	0.7	0.7	0.0	Increasing	22	26.0	48.6	25.3
Capacity Utilization	-4.9	5.1	-10.0	Decreasing	1	20.0	55.1	24.9
New Orders	-12.2	-7.7	-4.5	Decreasing	2	21.5	44.7	33.7
Growth Rate of Orders	-16.3	-18.0	+1.7	Decreasing	4	15.1	53.5	31.4
Unfilled Orders	-17.3	-9.3	-8.0	Decreasing	3	8.8	65.1	26.1
Shipments	-3.3	6.0	-9.3	Decreasing	1	24.6	47.4	27.9
Delivery Time	-3.8	1.0	-4.8	Decreasing	1	11.1	74.0	14.9
Materials Inventories	-1.0	15.6	-16.6	Decreasing	1	21.0	57.0	22.0
Finished Goods Inventories	-3.8	7.6	-11.4	Decreasing	1	16.8	62.6	20.6
Prices Paid for Raw Materials	-1.7	-1.7	0.0	Decreasing	2	15.4	67.4	17.1
Prices Received for Finished Goods	-4.4	-6.7	+2.3	Decreasing	2	7.8	80.0	12.2
Wages and Benefits	16.8	19.1	-2.3	Increasing	63	20.3	76.2	3.5
Employment	1.3	9.0	-7.7	Increasing	21	15.4	70.6	14.1
Hours Worked	-1.6	-0.1	-1.5	Decreasing	2	15.7	67.0	17.3
Capital Expenditures	-4.8	0.0	-4.8	Decreasing	1	9.4	76.4	14.2

General Business Conditions Current (versus previous month)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-4.4	-3.8	-0.6	Worsening	2	16.0	63.6	20.4
General Business Activity	-11.2	-4.4	-6.8	Worsening	2	10.8	67.2	22.0

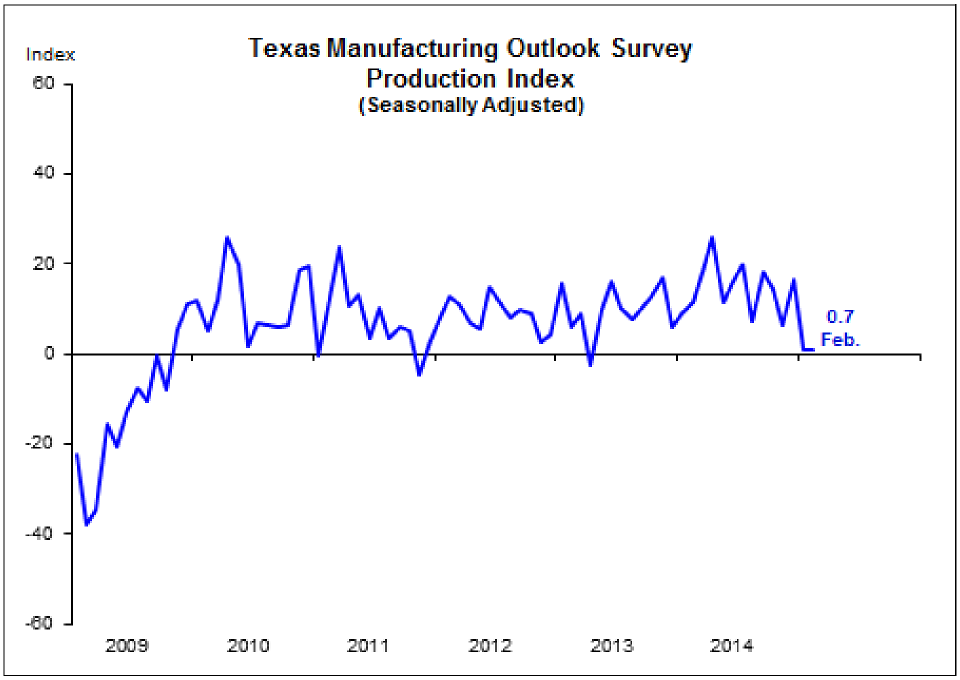
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	24.9	22.1	+2.8	Increasing	72	42.8	39.4	17.9
Capacity Utilization	17.4	20.4	-3.0	Increasing	72	38.3	40.7	20.9
New Orders	25.3	25.9	-0.6	Increasing	72	45.0	35.2	19.7
Growth Rate of Orders	12.8	12.9	-0.1	Increasing	72	31.6	49.6	18.8
Unfilled Orders	-6.1	-2.0	-4.1	Decreasing	3	14.7	64.5	20.8
Shipments	24.0	19.8	+4.2	Increasing	72	44.4	35.2	20.4
Delivery Time	-12.5	-5.5	-7.0	Decreasing	4	9.5	68.5	22.0
Materials Inventories	-3.9	2.0	-5.9	Decreasing	1	20.4	55.3	24.3
Finished Goods Inventories	-6.8	-5.0	-1.8	Decreasing	2	13.6	66.0	20.4
Prices Paid for Raw Materials	5.9	10.1	-4.2	Increasing	71	26.5	52.9	20.6
Prices Received for Finished Goods	3.9	5.0	-1.1	Increasing	32	24.3	55.3	20.4
Wages and Benefits	37.2	28.2	+9.0	Increasing	129	41.0	55.2	3.8
Employment	9.2	15.3	-6.1	Increasing	27	29.4	50.4	20.2
Hours Worked	-0.8	0.7	-1.5	Decreasing	1	15.6	68.0	16.4
Capital Expenditures	14.0	3.0	+11.0	Increasing	63	30.0	54.0	16.0

General Business Conditions Future (six months ahead)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	11.8	2.5	+9.3	Improving	71	31.6	48.6	19.8
General Business Activity	5.5	-6.4	+11.9	Improving	1	24.5	56.6	19.0

*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.



Comments from Survey Respondents

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

Primary Metal Manufacturing

- The price of copper has dropped dramatically in the last month.
- Health insurance costs are really high.
- There has been a rapid decline in orders over the past 30 days, primarily in energy-related work. Overall, business has declined by 30 percent in the past month, and our forecasts, based on customer feedback and order volumes, indicate further decline in overall business. Materials prices continue to decline as well, and a further decline is expected for most of the raw materials used in our processes.
- Imported steel continues to be a major issue into Houston and other ports. It has very low prices, often subsidized.

Fabricated Metal Manufacturing

- Our work is generally energy related, and the decrease in capital budgets for 2015 and 2016 will have a short- and long-term effect on our production and profitability. We are not adding to our backlog from the fourth quarter.
- We are starting to feel a slowdown with our oil and gas production equipment customers. We anticipate the slowdown has just started and it will not hit both until another six months because the current backlog is hiding the immediate slowdown that had already started three months ago in well drilling.
- We are very much affected by the crash in oil prices.
- At the beginning of the month there was a wave of projects that were either cancelled or placed on hold by the customer.
- A slowdown in capital spending is happening quickly. Maintenance spending is on hold due to the strike.
- We are starting our fifth year of recovery in nonresidential construction, but new construction volumes are still below 50-year troughs. The recovery is occurring but it is at a modest pace.

Machinery Manufacturing

- Oil at $50 per barrel is painful. We laid off 25 percent of our workforce to match labor with demand. The current thinking is if we can get through the first half of 2015 unscathed, we will be okay in the second half. We're optimistic that things will be better in the second half of the year in the offshore energy market.
- The oil price is driving down drilling activity in North America, and our business is strongly correlated to the number of active drilling rigs. We have a tough couple of quarters ahead.
- Customer order activity has slowed a little more than is seasonally normal. We do not know if it is temporary and primarily winter weather related, or a future planning disruption caused by the sharp drop in oil prices.
- Oil prices have not affected backlog or sales yet. But we assume that they will in the future.

Computer and Electronic Product Manufacturing

- We believe we need to provide incentives for U.S.-based manufacturing, especially small business.
- Business is stable to improving slightly. Not hot, but good.

Food Manufacturing

- Our export business has slowed significantly due to the high value of the U.S. dollar. The lower cost of energy is helping decrease production and transportation expenses.

Wood Product Manufacturing

- So far, the downtrend in oil production (and related employment) has not translated into reduced construction.

Paper Manufacturing

- So far business has been steady and a little behind the January 2014 level.

Printing and Related Support Activities

- We have unleashed the hounds of capital spending, finally. We are transitioning to newer, more productive technology while expanding capacity. Hiring will go flat once the new equipment is in (for the past year we've been increasing throughput by throwing labor at it), as less labor is required for higher unit output.

Electrical Equipment, Appliance, and Component Manufacturing

- Our business new orders, volume, capacity, inventories and so forth are heavily influenced by large project construction work overseas, principally in Asia and the Middle East. We see this continuing and are waiting for the U.S. market new construction to pick up meaningfully.

Miscellaneous Manufacturing

- We are being bogged down by regulatory issues and tax planning that is taking critical resources away from growing the core business. We expect it will take at least six months to work through issues associated with having over 50 employees, more intense regulation in general, high costs with no increase to revenue, and being in a highly regulated industry. Regulation seems to stifle innovation and benefit the biggest companies in the industry at the expense of smaller and younger firms. We will consider selling to a larger firm if we can’t work through nonbusiness issues due to not being able to focus on our vision and serving our customers.
- The West Coast labor problems in off-shore shipping are hurting our cash flow, inventory and labor hours. This may aid in some more manufacturing being returned to the U.S.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org.
The Texas Manufacturing Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tmos/.

February 23, 2015

SPECIAL QUESTIONS

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 Feb. 2–5, and 280 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 twelve months?

	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Increase	39.3	47.7	44.8
Leave Unchanged	45.0	46.2	46.9
Decrease	15.7	6.1	8.4

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

	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Yes	66.4	73.6	70.4
No	33.6	26.4	29.6

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)	67.2	57.7	60.1
Lack of available applicants/no applicants	48.4	46.9	43.8
Lack of experience	44.3	39.8	43.3
Lack of workplace competencies (soft skills)	42.2	43.4	46.1
Looking for more pay than is offered	40.1	38.3	37.1
Inability to pass drug test and/or background check	31.8	29.1	32.0

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.	58.8	63.2	56.9
Increase wages and or benefits	49.6	52.6	44.9
Offer additional training	38.8	40.4	41.7
Increase variable pay, including bonuses	32.0	33.8	32.4
Improve working conditions	22.8	25.9	15.3
Reduce education and other requirements for new hires	6.0	5.7	7.4
Other	6.8	10.1	13.0

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	37.0	36.8	38.8
No	49.3	50.6	44.7
Not Applicable	13.8	12.6	16.5

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

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org, and questions regarding the Texas Service Sector Outlook Survey or the Texas Retail Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.

The Texas Business Outlook Surveys can be found online at www.dallasfed.org/research/surveys/.

Texas Manufacturing Outlook Survey

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February 23, 2015

Special Questions

Data were collected Feb. 2–5, and 83 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 twelve months?

	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Increase	38.6	45.8	48.6
Leave Unchanged	43.4	45.8	44.4
Decrease	18.1	8.4	6.9

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

	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Yes	69.9	77.1	68.1
No	30.1	22.9	31.9

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)	78.3	72.3	70.6
Lack of workplace competencies (soft skills)	51.7	52.3	51.0
Lack of experience	50.0	44.6	39.2
Looking for more pay than is offered	43.3	35.4	35.3
Lack of available applicants/no applicants	41.7	35.4	37.3
Inability to pass drug test and/or background check	36.7	41.5	39.2

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.	54.1	59.7	54.5
Increase wages and or benefits	48.6	52.8	39.4
Offer additional training	40.5	41.7	47.0
Increase variable pay, including bonuses	25.7	27.8	28.8
Improve working conditions	23.0	29.2	12.1
Reduce education and other requirements for new hires	6.8	6.9	9.1
Other	5.4	19.4	12.1

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	36.6	42.2	31.9
No	48.8	47.0	48.6
Not Applicable	14.6	10.8	19.4

Special Questions Comments

These comments have been edited for publication.

Primary Metal Manufacturing

- Imports (including dumping) are causing price depression in the marketplace. Much of this is due to currency valuations, especially the recent appreciation of the dollar, and due to the U.S. economy being relatively good compared with much of the rest of the world.

Fabricated Metal Manufacturing

- We need more people to replace retirees and to meet continuing customer demand in the automotive sector. We are converting temporary employees to permanent employees.
- We are trying to use this period of much slower refinery activity to improve the quality of people we have on the payroll and will at the same time be reducing certain headcounts. The cost of the unskilled workforce we get to pick from is leaving us in a very noncompetitive environment.
- The oil crash is affecting our incoming orders, so some cutback in the workforce is very possible. We encourage sales to non-oil industries to help mitigate our risk, but it seems the best we can achieve is only about 50 percent non-oil since we remain a very popular supplier to our oil-related customers.
- With the decline in the oil economy, we expect there will be more available applicants in the near future. However, this will be offset by a decline in consumer spending until the lower fuel prices are reflected in consumer buying patterns.
- We expect to reduce staff over the next six months as (1) a key customer moves a portion of component production both to a Chinese supplier and to a very large U.S. competitor, and (2) energy industry customers respond to lower oil prices. In the metal manufacturing and assembly sector, we have found a limited pool of key skilled employees (tool and die design/manufacturing, experienced machine operators). Hiring for unskilled positions has not been a problem. Although it is not an immediate solution, we have enhanced in-house training to attempt to address the problem.
- We are finding it difficult to find machine operators (presses, shears, benders, etc.). There are very few experienced people, and we have hired several with limited experience that haven't worked out. We are not understaffed but are actively looking to hire experienced people.
- A very competitive market and apprehension about the effect of lower oil prices on long-term planning create a lot of pressure from business owners to force price reductions in products delivered. Also, we are seeing large companies taking longer to pay for our shipments. We are getting paid, but it is taking 45–60 days longer than usual from existing customers.
- We are a machine shop and the lack of technical skills is hurting our profitability by hurting our ability to complete jobs in a timely manner. We have been and continue to train on the job and through other training facilities, but that does not help our immediate needs.

Machinery Manufacturing

- The strong dollar is hurting our export business. We are in deep sea drilling, and the uncertainty in the future of oil prices has delayed new sales from customers that forced us to lay off 25 percent of our workforce.
- Competitive pressures are allowing us to only pass on outside material costs to our customers. For our labor/benefit cost increases, we continue to seek productivity improvements.

Chemical Manufacturing

- In the petrochemical business, a lack of available railroad cars is a continuing bottleneck.

Computer and Electronic Product Manufacturing

- We are in a very competitive market. Passing on increased costs is very difficult, and to the extent it is possible, there is generally a significant time lag. Price increases can seldom be implemented except at the beginning of a contract.
- The aerospace industry has long-term contracts, so pricing is constantly driven down, not up. New contracts for new aircraft this year leave us hopeful that the business will grow.

Transportation Equipment Manufacturing

- The outlook for the drilling industry is somewhat bleak. We have expanded our product lines to include other items just to keep equivalent volume going through manufacturing. We have to discount deeply to entice customers to purchase new products when they have no problems with their current supplier.
- Over the last two years we have had trouble finding skilled maintenance personnel for a night shift position. We have found people with the basic skills, but often they don't stay due to the hours or shift. We offer a premium for night shift work, but even that doesn't seem to be enough to retain them.

Food Manufacturing

- Our customers will not pay any more for our products in order for us to pass on our increased labor costs.
- We are already seeing indications that a lot of the oil services employees are looking for work (perhaps to get ahead of the curve).

Paper Manufacturing

- We get a lot of applicants, but their overall skill level and their work experience is not good.
- Our current employee count is adequate with some overtime. We are trying not to add employees because of the added health cost. The percent that health costs add to our benefit costs is at an all-time high. We don’t see any relief in sight, as our workforce

is getting older along with the high cost of health care in the Dallas–Fort Worth area. We passed on some of the cost to our employees, but it does not come close to the overall cost increase we incurred.

Printing and Related Support Activities

- As a commercial printer, it is hard to find good employees with experience.

Miscellaneous Manufacturing

- Drug and criminal records are our biggest problem.

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 hourlies, 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

DALLASFED

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

Special Questions Comments

These comments have been edited for publication.

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.