Texas Manufacturing Outlook Survey

DALLASFED

August 31, 2015

TEXAS MANUFACTURING ACTIVITY HOLDS STEADY, BUT OUTLOOKS DETERIORATE

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 was essentially flat in August, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, climbed to near zero (-0.8), suggesting output held steady after five months of declines.

Other measures of current manufacturing activity showed mixed movements in August. The capacity utilization index, like the production index, rose to zero after several months in negative territory. The shipments index also edged up, coming in at -3. Sharp declines were seen in measures of demand, however. The new orders index plunged 13 points to -12.5 after rebounding to positive territory last month, and the growth rate of orders index fell from -5.2 to -14.

Perceptions of broader business deteriorated markedly in August. The general business activity index dropped 11 points from -4.6 to -15.8, and the company outlook index also posted a double-digit decline, coming in at -10.3.

Labor market indicators reflected slight employment declines and stable workweek length. The August employment index was negative for a fourth month in a row but edged up to -1.4. Fifteen percent of firms reported net hiring, compared with 16 percent reporting net layoffs. The hours worked index rose from -6.3 to 0.6, with the near-zero reading suggesting no change in workweek length from July.

There was notable downward pressure on prices in August, while upward wage pressure persisted. The raw materials prices index fell to -8 after a zero reading last month and a positive reading in June. The finished goods prices index declined 13 points to -15.7, hitting its lowest level since October 2009, when Texas was working its way out of the latest recession. Meanwhile, the wages and benefits index remained positive and rose slightly to 18.2.

Expectations regarding future business conditions deteriorated notably in August. The indexes of future general business activity and future company outlook both posted double-digit declines, but they remained slightly positive. Indexes for future manufacturing activity fell as well, but also remained in 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 Aug. 18–26, and 114 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: September 28, 2015

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	-0.8	-1.9	+1.1	Decreasing	6	25.0	49.2	25.8
Capacity Utilization	-0.2	-4.2	+4.0	Decreasing	7	22.5	54.8	22.7
New Orders	-12.5	0.7	-13.2	Decreasing	1	22.7	42.1	35.2
Growth Rate of Orders	-14.0	-5.2	-8.8	Decreasing	10	15.8	54.4	29.8
Unfilled Orders	-4.6	-6.5	+1.9	Decreasing	9	15.3	64.8	19.9
Shipments	-3.0	-4.3	+1.3	Decreasing	7	25.2	46.6	28.2
Delivery Time	1.3	0.8	+0.5	Increasing	2	14.0	73.3	12.7
Materials Inventories	-5.2	8.9	-14.1	Decreasing	1	12.9	69.0	18.1
Finished Goods Inventories	-0.9	10.7	-11.6	Decreasing	1	15.8	67.5	16.7
Prices Paid for Raw Materials	-8.0	0.1	-8.1	Decreasing	1	11.9	68.2	19.9
Prices Received for Finished Goods	-15.7	-2.9	-12.8	Decreasing	8	6.3	71.6	22.0
Wages and Benefits	18.2	14.4	+3.8	Increasing	69	21.1	76.0	2.9
Employment	-1.4	-3.3	+1.9	Decreasing	4	14.7	69.2	16.1
Hours Worked	0.6	-6.3	+6.9	Increasing	1	16.0	68.6	15.4
Capital Expenditures	4.0	1.6	+2.4	Increasing	5	16.7	70.6	12.7

General Business Conditions
Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-10.3	1.2	-11.5	Worsening	1	13.4	62.9	23.7
General Business Activity	-15.8	-4.6	-11.2	Worsening	8	12.2	59.8	28.0

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	28.0	37.4	-9.4	Increasing	78	46.4	35.1	18.4
Capacity Utilization	22.8	36.8	-14.0	Increasing	78	42.4	38.1	19.6
New Orders	25.8	39.0	-13.2	Increasing	78	41.8	42.2	16.0
Growth Rate of Orders	18.6	29.7	-11.1	Increasing	78	34.7	49.2	16.1
Unfilled Orders	0.4	8.8	-8.4	Increasing	2	14.6	71.2	14.2
Shipments	28.4	38.9	-10.5	Increasing	78	44.1	40.2	15.7
Delivery Time	-6.8	6.4	-13.2	Decreasing	1	9.0	75.2	15.8
Materials Inventories	-0.9	1.9	-2.8	Decreasing	1	16.5	66.1	17.4
Finished Goods Inventories	-2.8	1.0	-3.8	Decreasing	1	14.8	67.6	17.6
Prices Paid for Raw Materials	12.8	18.8	-6.0	Increasing	77	22.0	68.8	9.2
Prices Received for Finished Goods	2.7	11.4	-8.7	Increasing	38	15.7	71.3	13.0
Wages and Benefits	32.4	31.2	+1.2	Increasing	135	34.9	62.6	2.5
Employment	11.4	17.4	-6.0	Increasing	33	23.9	63.6	12.5
Hours Worked	4.4	14.6	-10.2	Increasing	6	17.5	69.4	13.1
Capital Expenditures	9.4	13.5	-4.1	Increasing	69	23.4	62.6	14.0

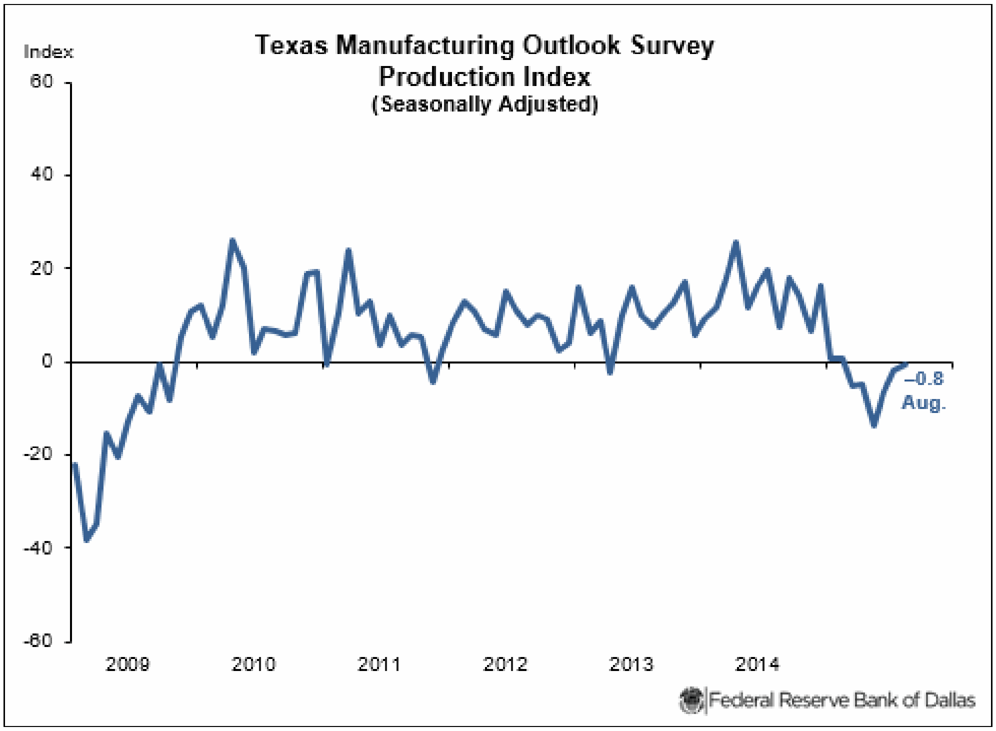
General Business Conditions
Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	6.4	24.5	-18.1	Improving	77	26.3	53.8	19.9
General Business Activity	3.4	18.8	-15.4	Improving	4	24.1	55.2	20.7

*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

- Overall business is slowing.
- The strength of the dollar is impacting us through an inability to export and high volume of imports.
- The price of finished product dropped dramatically.

Fabricated Metal Manufacturing

- New orders have dropped to half of what they were last year. Capital project equipment continues to be sourced in China and Korea as the owners are chasing every dollar of savings possible. We had our first layoff in 15 years.
- We are currently experiencing a large surge in the automotive industry due to our relationship and close proximity to an automotive plant during a new vehicle implementation period.
- It seems like if you are in a position to take on work and able to turn it around quickly there seems to be plenty of small to medium-range quantity types knocking. We are hoping that as oil prices continue to fall, food and other commodities fall also. A little more deflation could certainly help.
- Our oil and gas business, historically 50 percent of our revenues, is still down. Inventories have been consumed fairly well, which now offsets the second drop of oil prices. The growth we expect is due to our efforts to grow our non-oil and gas business.
- The continued decline in the West Texas Intermediate crude oil price is expected to soften the demand for our basic fabricated products.
- The volatility in the stock market and decreased energy costs always have a negative impact on replacement windows orders. Even though there is a substantial decrease in raw material prices, capacity levels in PVC and glass are extremely constrained. The reason for the decreased capacity levels is that during the housing crisis no capital expenditures were made and now most vendors are at full capacity.
- The current sequential increases of some 40 percent in volume are the result of low single-digit growth in low-rise nonresidential construction volumes. This was enhanced by a catch-up from the effects of poor weather that extended into May and June that inhibited the normal start of the construction season. Of note, nonresidential new construction starts for low-rise buildings (less than five stories) has grown by 1.6 percent, while mid- and high-rise buildings (greater than six stories) have grown by 17.3 percent.
- August will be our worst production and delivery month since March 2014.

Machinery Manufacturing

- The quantitative easing hangover is starting.
- July was a particularly bad month for the oil patch. August has shown an uptick as people are showing signs of releasing orders, i.e., pent up demand. Customers have starved vendors for the first half of the year, and things are turning loose now. Who knows how long it will last. Uncertainty about where the price of oil is headed has everyone on pins and needles.
- Certain customers' business is growing briskly, while others are flat or even down. Overall, our business sales continue to grow at almost a double-digit rate.

Computer and Electronic Product Manufacturing

- The broader market is incrementally weaker, not falling off a cliff.
- The interest in manufacturing has increased; however, the orders have not followed. Quoting is certainly up, but it appears to be companies just testing the waters, curious to see if the changes in China will be beneficial.

Transportation Equipment Manufacturing

- Part of our revenue comes from the support of offshore oil activity, which has been seriously impacted due to low oil prices.

Wood Product Manufacturing

- We are deeply concerned about the markets and the effects they are having globally.

Paper Manufacturing

- There has been a consistent softness in business activity for the outlook to move from same to 5–10 percent decline as compared with last year.

Printing and Related Support Activities

- Our optimism as reflected in the "improved" business outlook is based on an initiative in our Illinois sister plant that has doubled throughput with minimal capital and reduced labor. We have some consultants helping us and it's not easy, but we are making organization changes, breaking down departmental barriers and holding people accountable for execution. It is a breakthrough in manufacturing performance, critical to our future survival .It's really quite exciting.
- There seems to be a general slowdown in the regional economy. We typically get busy in the August to December timeframe, and while we are seeing an uptick in activity, it's below what we expected. August billing will be much lower than July, and July was a weak month.

Food Manufacturing

- All our time is spent complying with increasing government regulations.
- The strong dollar has significantly impacted our export business. We have balanced this with domestic growth.

Beverage and Tobacco Product Manufacturing

- We sell soft drinks. We are facing market declines in our largest categories. Despite outperforming our industry, we are still swimming upstream. Yet the cost of doing business and regulation continues to go up.

Textile Product Mills

- We are experiencing a normal seasonal downturn in the summer months. Our business should increase for the balance of the year. Margins are very tight.

Miscellaneous Manufacturing

- Oil and gas prices, weather, world outlook and politics make for a poor forecast.

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/.

Texas Business Outlook Surveys

DALLASFED

August 31, 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 Aug. 10–13, and 275 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?

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Increase	40.7	39.3	47.7
Leave Unchanged	46.2	45.0	46.2
Decrease	13.1	15.7	6.1

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Yes	71.8	66.4	73.6
No	28.2	33.6	26.4

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Lack of technical competencies (hard skills)	62.0	67.2	57.7
Lack of workplace competencies (soft skills)	46.0	42.2	43.4
Lack of available applicants/no applicants	44.5	48.4	46.9
Lack of experience	41.0	44.3	39.8
Looking for more pay than is offered	39.0	40.1	38.3
Inability to pass drug test and/or background check	28.5	31.8	29.1

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	57.9	58.8	63.2
Increase wages and or benefits	49.0	49.6	52.6
Offer additional training	36.0	38.8	40.4
Increase variable pay, including bonuses	28.3	32.0	33.8
Improve working conditions	22.3	22.8	25.9
Reduce education and other requirements for new hires	8.5	6.0	5.7
Other	10.9	6.8	10.1

5. If labor costs are increasing, are you passing the cost on to customers in the way of price increases?	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Yes	31.9	37.0	36.8
No	53.8	49.3	50.6
Not Applicable	14.3	13.8	12.6

NOTE: Survey respondents were given the opportunity to provide comments. These comments can be found below the individual survey Special Questions results.

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

DALLASFED

August 31, 2015

Special Questions

Data were collected Aug. 10–13, and 86 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?

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Increase	41.9	38.6	45.8
Leave Unchanged	41.9	43.4	45.8
Decrease	16.3	18.1	8.4

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Yes	74.4	69.9	77.1
No	25.6	30.1	22.9

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Lack of technical competencies (hard skills)	76.9	78.3	72.3
Lack of workplace competencies (soft skills)	52.3	51.7	52.3
Lack of experience	43.1	50.0	44.6
Lack of available applicants/no applicants	36.9	41.7	35.4
Looking for more pay than is offered	35.4	43.3	35.4
Inability to pass drug test and/or background check	32.3	36.7	41.5

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	58.1	54.1	59.7
Increase wages and or benefits	44.6	48.6	52.8
Offer additional training	37.8	40.5	41.7
Increase variable pay, including bonuses	27.0	25.7	27.8
Improve working conditions	21.6	23.0	29.2
Reduce education and other requirements for new hires	12.2	6.8	6.9
Other	13.5	5.4	19.4

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Yes	35.7	36.6	42.2
No	52.4	48.8	47.0
Not Applicable	11.9	14.6	10.8

Special Questions Comments

These comments have been edited for publication.

Primary Metal Manufacturing

- There is a lack of skilled trades in our area. We have a very low unemployment rate. Once we hire someone, a large majority stay with the company for many years. Our turnover is primarily due to retirements.
- Our biggest problem is free trade. Other countries work harder, longer hours for less money than we do.

Fabricated Metal Manufacturing

- With changes coming to temporary workers under the Affordable Care Act, we will have to rethink how we utilize temporary workers. This change is in addition to changes in exempt and nonexempt classifications and will force us to look hard at automation to reduce our exposure to increasing compensation costs in order to be competitive in the marketplace.
- Backlog and new orders have decreased substantially with reduced oil market pricing.
- The vast majority of job applicants coming from universities do not have the CAD skills required to be an effective employee until one to two years after hiring. Applicants who have a few years' experience are looking for salaries approaching six figures, which cannot be justified in this area or our market.
- A large proportion of our sales goes toward filling inventories for oil and gas drilling and finishing equipment. Inventories seem to be diminished enough that we're starting to see modest replenishment in orders.
- We provide manufacturing jobs and are unable to fill them. My staff continues to get older, and young people really do not want to do this type of work. Also, it is really hard to find truck drivers, as once again, the majority of the workforce in the transportation industry continues to age and no one in school is thinking that they want to be a long-haul truck driver.
- Benefits costs—especially new health care mandated rules—are driving up costs that we are unable to pass on to customers if we are to remain competitive in a global manufacturing environment. This will impact future growth and job growth because of increasing use of automation to drive labor requirements down.
- Due to the drop in oil prices and reduction of capital expenditures, price competition has gotten extremely tough.
- Qualified labor is difficult to find and our biggest issue. We are increasing pay rates but are unable to pass costs on to customers. The reality is we are extending hours for existing employees until we find qualified applicants, but those are hard to find.

Machinery Manufacturing

- Skilled workers such as welders are harder to find and keep now than in previous years. Unskilled and clerical applicants are plentiful but typically lack workplace competencies, and passing the drug test is a 50-50 situation with those who you would hire.
- The price of oil is hurting our business in both the near and long term.
- The downturn in energy prices is having a material negative impact on our business, leading to large scale layoffs, wages freezes and facility closures.

Computer and Electronic Product Manufacturing

- Our business is highly competitive, making it impossible to absorb higher costs through price increases. We fear that the actions of the Department of Labor to increase nonexempt compensation will create additional problems. Moving manufacturing offshore may become a more attractive option.
- Technical talent is always hard to find. We recruit across the U.S. and internationally—including in India and China—for our operations.
- Unless we fix our education system and emphasize math and science, we will continue to have problems.
- It is time for a small business incentive from the federal government. This has been the weakest recovery we have ever seen in our industry.

Transportation Equipment Manufacturing

- We are a small company that manufactures and sells domestically and internationally. Both sectors have been reduced 40 percent for two primary reasons. First, our domestic customers are getting equivalent products from Asia because of U.S. dollar strength and few tariffs to hold up incoming pricing. Second, our international customers cannot afford our high U.S. dollar-priced products compared with competing countries' products. Exports have virtually dropped to a standstill for Canada, Australia, Italy and France.

Textile Product Mills

- We are not able to pass along any price increases. Clients will not accept them. We just have to reduce margins or try to find other cost-cutting areas. Most of our labor force is in Mexico. Increases there reflect more items coming back from Asia or reductions in labor in the U.S.

Wood Product Manufacturing

- We primarily supply materials to new single-family construction. Our customers are significantly constrained by lack of job site labor. There is rampant poaching of construction crews by one builder from another, with the worst among semi-skilled trades like concrete and framing.

Paper Manufacturing

- It is difficult to increase hiring because of the extreme increases in medical insurance costs to us. The insurance carrier states that the primary reason for increases is the Affordable Care Act.
- We have set up a task force to develop plans to help improve our retention. If we can reduce our turnover, it will relieve the problem with finding qualified applicants.

Printing and Related Support Activities

- In the short term, low oil prices are affecting the local economy and business spending but hopefully that reverses in the midterm.
- It is hard to pass on increases to our customers when our market is so competitive. If we passed on increasing costs to our customers, they would be finding a new printer.

Food Manufacturing

- We don't pay recruiting bonuses.

Texas Service Sector Outlook Survey

DALLASFED

August 31, 2015

Special Questions

Data were collected Aug. 10–13, and 189 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?

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Increase	40.2	39.6	48.6
Leave Unchanged	48.1	45.7	46.4
Decrease	11.6	14.7	5.0

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Yes	70.6	65.0	71.9
No	29.4	35.0	28.1

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Lack of technical competencies (hard skills)	54.8	62.1	50.4
Lack of available applicants/no applicants	48.1	51.5	52.7
Lack of workplace competencies (soft skills)	43.0	37.9	38.9
Looking for more pay than is offered	40.7	38.6	39.7
Lack of experience	40.0	41.7	37.4
Inability to pass drug test and/or background check	26.7	29.5	22.9

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	57.8	60.8	64.7
Increase wages and or benefits	50.9	50.0	52.6
Offer additional training	35.3	38.1	39.7
Increase variable pay, including bonuses	28.9	34.7	36.5
Improve working conditions	22.5	22.7	24.4
Reduce education and other requirements for new hires	6.9	5.7	5.1
Other	9.8	7.4	5.8

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Yes	30.2	37.1	34.3
No	54.5	49.5	52.2
Not Applicable	15.3	13.4	13.5

Special Questions Comments

These comments have been edited for publication.

Credit Intermediation and Related Activities

- It is tough to compete with the Houston market.
- For our entry level positions, a major issue is finding applicants who want to work, have a presentable appearance, have a genuine interest in staying with one employer more than 12 months and are willing to deal with the massive amount of regulatory training that is required. This final issue applies to entry-level through VP-level positions. Our concern is that entry-level and promising young officer-level talent are looking outside of banking once they see the amount of very detailed regulations they are required to learn and execute.
- We engage in building the business for the long term.
- Things are in somewhat of a transition in our labor market. The softening oil price has softened hiring in that sector. There have been layoffs, but the labor market in Houston is still tight in the area of support positions. If we see further declines in energy prices, the pool of available candidates should become more accommodating. The energy sector had been a drain on hiring, and we lost a number of employees to higher paying positions in oil and gas.
- Overregulation is increasing overhead due mainly to contracting with outside audit firms for specialized audit functions like IT and Bank Secrecy Act compliance.

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

- Our operations are predominately in the oil and gas area. Our sales volume is off; therefore, we are downsizing to meet the decrease in revenue. The price of oil is the main factor in the revenue stream. Basically, our operations are OK, except on a reduced scale.

Insurance Carriers and Related Activities

- We do charge some service fees on certain types of accounts, such as worker's comp and auto accounts with lots of movement. Outside of this, we do very well with commissions.
- We are an insurance sales office, so our work force is clerical but specialized because licenses are needed.

Funds, Trusts, and Other Financial Vehicles

- We may be in a unique position in the financial services industry serving high net worth clients, but finding senior client relationship officers with the requisite skills in the Houston area has been a hardship for some time now. Nonofficer staff can be trained to fill back office or other support positions, but senior, technically qualified candidates are just not there without offering pay and benefits far outside our capability.

Telecommunications

- The video part of our business needs regulatory relief by allowing programming to be sold a la carte, thus allowing customers to only purchase the programming they wish to view. This would include local stations. Over-the-top programming is good for the industry, but companies that own the programming are reluctant to allow cable companies to sell a la carte.

Rental and Leasing Services

- We try to pass on increased costs such as higher wages created by things like a hot oilfield—which is disintegrating quickly and should relieve some of the pressure on wages and availability of labor—but you can never pass on all the price increases and increased cost of doing business from government regulations. Our margins are being squeezed from every end—the customer, our manufacturers and the government.

Professional, Scientific and Technical Services

- We are shrinking in some areas, such as clerical, but still adding a few key positions. Most additions are specialty roles requiring technical and or financial competencies and a college degree.
- Our company is in the oil and gas engineering business. Qualified workers are available; there is no impetus to increase wages.

Management of Companies and Enterprises

- In the financial industry, the huge surge in new regulations coming out of Dodd–Frank is drowning our employees in paper work versus being able to service customer needs. For example, it is taking one full-time person plus help from other compliance staff to just track the Home Mortgage Disclosure Act reporting with the addition of more than 40 new fields. No one seems to give us a good answer to what this information is used for, but we are spending a small fortune tracking it. The cost of compliance in national studies is running from 15 to 20 percent of gross revenues. If every person that touches compliance were added in, it would probably exceed even this lofty amount. Our industry is probably past saying enough.

Administrative and Support Services

- We rely on soft skills labor. There are really not many workers available. We would have to raid competitors—since there are few applicants—which we simply do not do.

- Small bank lenders are tired of increased paperwork and risk, so younger buyers are going online for nontraditional lending sources.
- Our work is very labor intensive, and it is hard to find people who want to work that hard. From a customer perspective, there is still a concern that the market will not stay strong, so they are hesitant to make commitments and it is hard to pass along cost increases. Competition is always ready to under bid. We must maintain quality service but also a value price.
- Our business relies heavily on the success of our local economy. The extreme downturn in the energy sector continues to impact our business. The financial demands on our business due to the Affordable Care Act create an uneven playing field with our competition. The simple fact that we employ 70 people as opposed to 49 people is a big economic disadvantage.
- Our company has a difficult time recruiting through online initiatives.
- We are getting squeezed with higher costs of labor—including the costs associated with attracting and retaining talent—and not being able to pass them on to anyone. Our customers are absolutely unwilling to absorb any adjustment to price and will walk from a multiyear relationship for increasingly smaller sums. It is really a difficult environment at the moment.

Educational Services

- We are seeing market salaries rise significantly in the Austin area for IT positions.
- Certain skilled labor positions are difficult to hire—such as nurses and specialized diagnosticians—but others are not difficult to recruit.
- Our additional revenue comes from increased property values. Our overall tax rate is decreasing one cent for the upcoming school year.
- We are making a strong push for revenue from sources besides military services whose revenue is gradually decreasing.

Ambulatory Health Care Services

- Unfortunately, we cannot pass on increased costs to customers since over 80 percent of our business is with Medicare and those prices are not negotiable. It is very difficult to hire and retain good employees in the home health industry because we compete with hospitals that provide a single place of employment—instead of requiring travel to patients' homes—and better benefits.
- We are a home health and hospice service provider depending on Medicare, Medicaid and private third-party payers for reimbursement of our services. Therefore, we are unable to pass our increasing expenses to our staff. There is a severe shortage of registered nurses and licensed practical nurses. With an increasing volume of patients—and complex patients—to be seen, we need competent and qualified employees.
- As a medical practice, our fees are constrained by Medicare. In addition, our area has one of the lowest unemployment rates in Texas. This situation is squeezing margins as base salaries—along with medical benefits—continue to increase.

Nursing and Residential Care Facilities

- In health care, we have limited opportunity to pass the cost on to customers. Workforce shortages limit our ability to care for patients sometimes resulting in transfer of patients to another facility when demand exceeds our capacity.

Social Assistance

- The government has been blocking us on all price increases.
- We are experiencing an increase in the number of employees that lack good work ethics, such as arriving late, going home early, not showing up without calling in and low productivity per hour. Our turnover rate is increasing.

Food Services and Drinking Places

- We have had to increase the average hourly wage in a number of our locations. In some areas, new competitors have entered the market and are paying well above minimum wage. In our El Paso market, the local competitors have moved their starting wage up to $8.25. We are going to have to change our starting wages as well to remain competitive. There is no need for the government to adjust the minimum wage; the market place does a fine job adjusting this on its own.

Repair and Maintenance

- It is hard to find people who have a proper skill level and are not too expensive to maintain a proper level of cost. We are losing cost effectiveness and competitiveness.

Truck Transportation

- Due to stiff competition, we have been unable to pass our increased cost of labor on to our customers. We are trying to make up for the expense by being more efficient in our operations.

Pipeline Transportation

- Finding top talent is always a challenge; however, because of low oil and gas prices and decreased activity levels in the energy sector, there are currently adequate talent resources available to fill most open positions.

Support Activities for Transportation

- We pass on costs when we can.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- The proposed Department of Labor Overtime Expansion Rule, if passed, will absolutely kill nonprofits, associations, small businesses, minority-owned businesses, veteran-owned businesses and many more.

Texas Retail Outlook Survey

August 31, 2015

Special Questions

Data were collected Aug. 10–13, 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?

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Increase	43.9	26.8	42.6
Leave Unchanged	48.8	53.7	51.1
Decrease	7.3	19.5	6.4

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Yes	85.4	75.6	82.6
No	14.6	24.4	17.4

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Lack of technical competencies (hard skills)	61.1	64.5	57.5
Lack of workplace competencies (soft skills)	52.8	35.5	50.0
Lack of available applicants/no applicants	52.8	61.3	45.0
Inability to pass drug test and/or background check	50.0	54.8	35.0
Lack of experience	33.3	45.2	27.5
Looking for more pay than is offered	33.3	29.0	37.5

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	67.5	71.4	79.1
Offer additional training	40.0	51.4	41.9
Increase wages and or benefits	40.0	42.9	46.5
Increase variable pay, including bonuses	32.5	40.0	41.9
Improve working conditions	22.5	17.1	20.9
Reduce education and other requirements for new hires	15.0	5.7	7.0
Other	7.5	8.6	4.7

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

	Aug. '15 (percent)	Feb. '15 (percent)	Nov. '14 (percent)
Yes	43.9	40.0	25.5
No	41.5	47.5	63.8
Not Applicable	14.6	12.5	10.6

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- We are in a transition point—the short-term economic cycle is pulling demand down but construction's recovery from the wet spring is pulling demand up. Pricing is very competitive, and we have been unable to achieve many of our gross margin targets.
- Everyone is getting tired of lack of competence and the need to constantly train new employees only to have them leave for a competitor. We are no longer willing to compromise quality of service for incompetence, and as a small business we cannot afford to run a training program.
- Independent shops and mechanics have a cost advantage over us when it comes to benefits and coverages required by law that we must adhere to.
- We think there are a lot of qualified unemployed workers out there who don't want to work.

Merchant Wholesalers, Nondurable Goods

- We have not yet passed on increasing costs to customers by increasing prices.
- We expect to offset some or all of our recruiting costs by having more hours of straight time pay and fewer hours of overtime pay. Labor in Houston for unskilled and semi-skilled positions is in tight supply.

Motor Vehicle and Parts Dealers

- The most difficult positions to fill with competent and experienced people are new and preowned sales and service technicians. We offer paid training and are fortunate to retain 10 percent after three to six months.
- For companies like ours, technical skills are key. Unfortunately, not enough is being done nationwide to promote technical schools that could provide qualified mechanics, A/C and electrical technicians, etc.
- The reality is that not all cost increases are able to be covered by an increased price. What the market will bear is critical.
- Finding qualified employees to work in retail is a huge challenge. Normal retail establishment hours are not viewed positively by most younger applicants, even though the financial incentives are above market.
- Very few of the applicants we see possess any bona fide skills. We need more technical schools.
- We have filled several positions recently but still have some vacancies due to the problems listed in question 3.

Nonstore Retailers

- We hire route drivers for our vending company. They must handle cash as well as drive our company vehicles to customer locations. Our screening requires us to hire employees with clean driving records as well as an absence of felony theft convictions or even multiple misdemeanor theft convictions. In addition, we must maintain a drug-free workplace for safety reasons. When we find good employees, we occasionally lose them to competitors who have similar requirements to our own but better benefit packages.