Texas Manufacturing Outlook Survey

DALLASFED

February 29, 2016

Texas Manufacturing Activity Contracts Again

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 contracted again in February, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, remained negative but edged up from -10.2 to -8.5, suggesting output declined but at a slightly softer pace than in January.

Most other indexes of current manufacturing activity also indicated further contraction in February. The new orders index fell 8 points to -17.6, reaching its lowest level since May 2009, when Texas was in recession. The growth rate of orders index remained strongly negative at -17.4. The capacity utilization index was largely unchanged at -8.2. Meanwhile, the shipments index rose 10 points to -1.1 after plunging last month.

Perceptions of broader business conditions remained strongly negative in February. The general business activity index has been negative for more than a year and came in at -31.8, up slightly from the January reading. The company outlook index posted a third negative reading in a row but edged up to -17.4. More than a quarter of manufacturers noted their outlook had worsened from January.

Labor market indicators reflected further decline in February. The employment index dropped 7 points to -11.1, hitting its lowest reading since November 2009. Eleven percent of firms noted net hiring, while 22 percent noted net layoffs. The hours worked index was fairly steady at -9.8, suggesting a continued pullback in employee hours.

The survey's price measures remained negative in February, but wages continued to rise. The raw materials prices index declined 3 points to -12.0, although 73 percent of manufacturers noted no change in input costs. The finished goods prices index also declined three points, coming in at -12.5. Meanwhile, the wages and benefits index stayed positive but dipped from 16.5 to 12.3, suggesting a smaller rise in compensation.

Expectations regarding future business conditions were mixed in February. The index of future general business activity reversed its 22-point decline in January with a 22-point increase this month, with the index coming in at -2.1. The index for future company outlook rebounded strongly to 15.1 after dipping into negative territory last month. Indexes for future manufacturing activity pushed further into 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. 16–24, and 118 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 28, 2016

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	-8.5	-10.2	+1.7	Decreasing	2	22.0	47.4	30.5
Capacity Utilization	-8.2	-7.0	-1.2	Decreasing	2	20.2	51.4	28.4
New Orders	-17.6	-9.2	-8.4	Decreasing	3	18.0	46.3	35.6
Growth Rate of Orders	-17.4	-17.5	+0.1	Decreasing	16	14.7	53.2	32.1
Unfilled Orders	-11.4	-17.2	+5.8	Decreasing	15	12.9	62.8	24.3
Shipments	-1.1	-11.0	+9.9	Decreasing	2	28.6	41.7	29.7
Delivery Time	-6.1	-9.3	+3.2	Decreasing	3	8.6	76.7	14.7
Materials Inventories	-12.9	-9.9	-3.0	Decreasing	7	15.3	56.5	28.2
Finished Goods Inventories	-1.7	1.8	-3.5	Decreasing	1	15.4	67.5	17.1
Prices Paid for Raw Materials	-12.0	-8.6	-3.4	Decreasing	8	7.4	73.2	19.4
Prices Received for Finished Goods	-12.5	-9.6	-2.9	Decreasing	14	5.2	77.1	17.7
Wages and Benefits	12.3	16.5	-4.2	Increasing	75	17.2	77.9	4.9
Employment	-11.1	-4.2	-6.9	Decreasing	2	11.0	66.9	22.1
Hours Worked	-9.8	-9.2	-0.6	Decreasing	2	12.3	65.6	22.1
Capital Expenditures	-1.6	3.4	-5.0	Decreasing	1	15.7	67.0	17.3

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	-17.4	-19.5	+2.1	Worsening	3	10.6	61.4	28.0
General Business Activity	-31.8	-34.6	+2.8	Worsening	14	6.9	54.4	38.7

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	33.4	26.5	+6.9	Increasing	84	46.5	40.4	13.1
Capacity Utilization	35.9	22.2	+13.7	Increasing	84	45.2	45.6	9.3
New Orders	30.2	25.4	+4.8	Increasing	84	42.5	45.2	12.3
Growth Rate of Orders	18.7	16.8	+1.9	Increasing	84	31.6	55.5	12.9
Unfilled Orders	7.0	1.4	+5.6	Increasing	5	15.8	75.4	8.8
Shipments	26.4	22.7	+3.7	Increasing	84	42.6	41.2	16.2
Delivery Time	-2.6	-1.5	-1.1	Decreasing	7	8.5	80.4	11.1
Materials Inventories	2.7	2.6	+0.1	Increasing	5	19.8	63.1	17.1
Finished Goods Inventories	1.8	-6.2	+8.0	Increasing	1	17.1	67.6	15.3
Prices Paid for Raw Materials	10.8	11.5	-0.7	Increasing	83	20.7	69.4	9.9
Prices Received for Finished Goods	0.9	-5.3	+6.2	Increasing	1	15.2	70.5	14.3
Wages and Benefits	34.5	28.5	+6.0	Increasing	141	34.5	65.5	0.0
Employment	20.9	7.7	+13.2	Increasing	39	32.6	55.7	11.7
Hours Worked	12.7	-0.5	+13.2	Increasing	1	21.9	68.9	9.2
Capital Expenditures	21.8	8.9	+12.9	Increasing	75	28.2	65.5	6.4

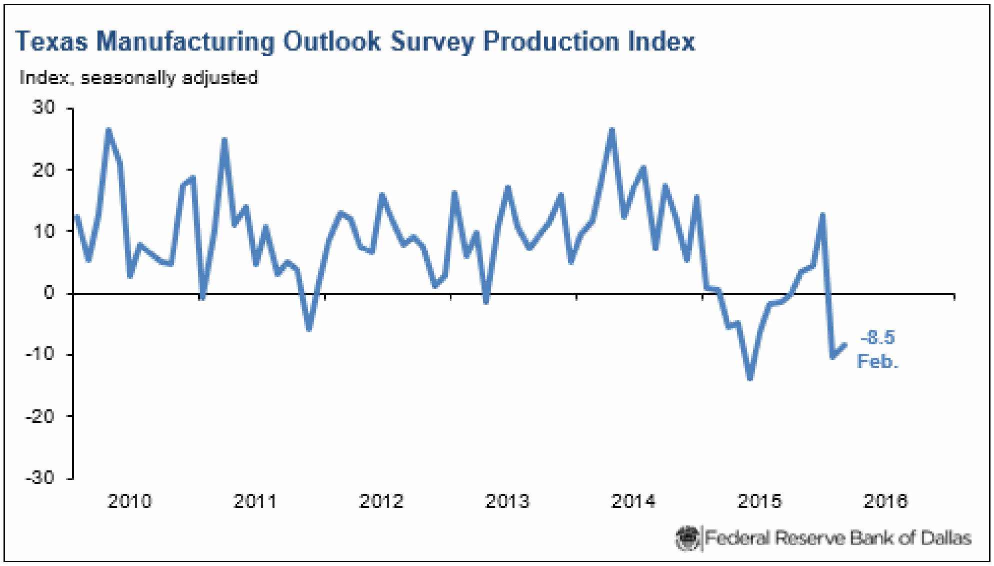
General Business Conditions
Future (six months ahead)

Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.1	-1.3	+16.4	Improving	1	30.1	54.9	15.0
General Business Activity	-2.1	-24.0	+21.9	Worsening	3	17.0	64.0	19.1

*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.

Chemical Manufacturing

- Last October we lost about 40 percent of our volume due to customer internal consolidations because of the weak economy. Most of the loss was due to product sourcing out of China. Our U.S.-based customer closed U.S. plants' processing units and are buying from China sources, so it has no need for us to package its products for export around the globe. We have been granted new business that will come on board in March and April 2016. This will make up for some of the losses.
- Don't know if it is the weather, uncertainty created by the presidential election, or just a slowdown in the world economy, but things are definitely slowing down. Volumes are down and new orders are quiet. Low energy prices are the saving grace keeping margins good.

Primary Metal Manufacturing

- Our business is holding steady for now.

Fabricated Metal Product Manufacturing

- The refinery turnaround season has helped with new orders, but the general level of capital goods orders and prospects has decreased significantly. The summer season is the slowest, and we are expecting a very depressed market prior to the fall refinery turnaround season.
- Our backlog has declined (50 percent less than the same time last year). We are receiving a very high volume of requests for proposals, but either are not winning them or the projects are on hold. Pricing to obtain any work has decreased for the benefit of the owner/contractor.
- We're seeing an uptick in trade training facilities and have been asked to accommodate intern students. We are willing to do this on a grant basis. Previously, training young people has been totally out of our pocket. The precision machining trade has been suffering for years as baby boomers have been retiring and no one is available to fill their positions. Advances in the machine trade help to compensate some, but new blood is sorely needed.
- After the normal year-end slowdown of orders, based upon the popular press, I expected orders not to pick up again very quickly. On the contrary, orders have picked up in February and continue to do so at a faster rate. Wages are going up, the cost of labor is going up and qualified people willing to work are hard to find.
- We are investing in training and processes in the hopes it will increase our profitability. We are seeing signs of an increase in quoting activity in February compared with the last quarter of 2015.
- We are experiencing a severe downturn in our business, as the oil and gas exploration and production segment has significantly reduced their capital budgets for 2016 based on declines in the WTI price.
- Sales bottomed out in February after weakening in January from fourth-quarter volumes. Feedback from customers indicates slower business conditions and a cautionary tightening of inventory levels. A key customer is moving additional production to China and to a large vertically integrated U.S. supplier, adversely impacting our sales after the first quarter. Additional staff reductions will be required.

Machinery Manufacturing

- Our overall forecast is level; however, we should be on an increased path for volume and pressuring our manufacturing capacity. Due to the low price of oil, there is a direct impact on the overall forecast of increased sales and manufacturing. Other segments of industries such as aerospace and general manufacturing seem static. The end result is we believe the economy overall is not positive.
- Low commodity prices within the energy industry are brutal. Further rounds of headcount reductions are being planned now after multiple waves of reductions in 2015. Trying to plan cash flow in this environment is nearly impossible, as producers continue to cut activity and demand steeper and steeper discounts on products and services. Failure rate of companies in the energy industry will start to ramp up materially in 2016.
- Customers are becoming more cautious about investing in expansion than they were this time a year ago.
- We are in a recession. Oil prices are a symptom, not the cause.
- There is continued weakness in oil- and gas-related equipment manufacturing. We anticipate improvement in the second half of the year, but no change in wages.
- It's a tough time in the oil patch. We plan on cutting 20 percent of staff this month after cutting 25 percent a year ago. We are not sure how we can sustain our skill sets with these dramatic troughs.

Computer and Electronic Product Manufacturing

- Our company is in the process of developing new products to sell and gaining some certifications. We expect to increase our overall sales volume in the near future from these two activities.

Electrical Equipment, Appliance, and Component Manufacturing

- The justification for optimism looking out six months relates to new product designs, which we envision finding favor, taking market share from competition. This expansion of our product offering will require carrying higher parts inventories, and we anticipate higher capital expenditures and new hires. There is uncertainty in the architectural and construction markets, which could derail our optimism.

Transportation Equipment Manufacturing

- Our business is heavily tied to the health of the Texas economy. Depending on the fallout from the energy sector, our six-month projections may turn negative. If we are able to quickly move into an emerging market, even if the broader Texas outlook turns negative, this may act as a mitigating factor for our business. The coming year does represent the least confidence we've had in knowing where conditions were heading since 2010.
- Our business is seasonal, and we generally see an uptick in the spring. With the relatively mild winter this year we may be seeing the spring uptick early. So we remain cautious about our usual spring surge.

Food Manufacturing

- The low oil price is helping our cost side, but the decrease in oil jobs is concerning. As a consumer packaged goods food company, we are seeing softness in some markets dependent on energy. The strong dollar continues to impact exports as well.

Wood Product Manufacturing

- Activity among homebuilders is very strong right now and was similar in December and January. It will pick up some more but not much (5 percent?), as I feel they are building as fast as labor and lot supply will allow.

Paper Manufacturing

- We are seeing a slight reduction in raw material costs.

Printing and Related Support Activities

- We made heavy investments in new equipment and new capabilities over the last three years, and finally the nationwide salesforce is feeding this plant new business opportunities at a rate I've not seen in my 10 years here. Plus our largest customer went out to bid for the umpteenth time and for the first time, all of the competitors raised prices, and a bunch of business came back our way. I am more optimistic about the future for this plant than I've been in a while.
- Qualified candidates for machine operator positions are very difficult to fill. The lack of workers is limiting production in this manufacturing business.
- We cannot figure out why it is so slow right now, other than we are indirectly impacted by the downturn in energy. We are four months into our fiscal year and are behind 21 percent compared with last year on incoming orders, and last fiscal year was a down year!

Miscellaneous Manufacturing

- Improvements are related to market popularity of our goods. The tax, regulation and business climate still is slowing down our ability to seize full market potential. Exports are falling due to export regulation burdens and high dollar. The labor market is still tight, and we are not finding enough qualified candidates with a good work ethic to get the job done.

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 29, 2016

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. 16–24, and 395 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. '16 (percent)	Aug. '15 (percent)	Feb. '15 (percent)
Increase	39.0	40.7	39.3
Leave Unchanged	43.8	46.2	45.0
Decrease	17.2	13.1	15.7

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

	Feb. '16 (percent)	Aug. '15 (percent)	Feb. '15 (percent)
Yes	62.9	71.8	66.4
No	37.1	28.2	33.6

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)	66.8	62.0	67.2
Lack of available applicants/no applicants	49.2	44.5	48.4
Lack of workplace competencies (soft skills)	48.9	46.0	42.2
Looking for more pay than is offered	45.8	39.0	40.1
Lack of experience	41.6	41.0	44.3
Inability to pass drug test and/or background check	28.6	28.5	31.8

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.	57.8	57.9	58.8
Increase wages and or benefits	45.5	49.0	49.6
Offer additional training	39.5	36.0	38.8
Increase variable pay, including bonuses	30.4	28.3	32.0
Improve working conditions	25.0	22.3	22.8
Reduce education and other requirements for new hires	6.0	8.5	6.0
Other	8.4	10.9	6.8

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	31.7	31.9	37.0
No	52.2	53.8	49.3
Not Applicable	16.1	14.3	13.8

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

DALLASFED

February 29, 2016

Special Questions

Data were collected Feb. 16–24, and 113 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. '16 (percent)	Aug. '15 (percent)	Feb. '15 (percent)
Increase	41.6	41.9	38.6
Leave Unchanged	44.2	41.9	43.4
Decrease	14.2	16.3	18.1

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

	Feb. '16 (percent)	Aug. '15 (percent)	Feb. '15 (percent)
Yes	66.1	74.4	69.9
No	33.9	25.6	30.1

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)	82.5	76.9	78.3
Lack of workplace competencies (soft skills)	48.8	52.3	51.7
Looking for more pay than is offered	48.8	35.4	43.3
Lack of experience	38.8	43.1	50.0
Lack of available applicants/no applicants	37.5	36.9	41.7
Inability to pass drug test and/or background check	28.8	32.3	36.7

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.	56.0	58.1	54.1
Increase wages and or benefits	46.2	44.6	48.6
Offer additional training	40.7	37.8	40.5
Increase variable pay, including bonuses	35.2	27.0	25.7
Improve working conditions	27.5	21.6	23.0
Reduce education and other requirements for new hires	6.6	12.2	6.8
Other	8.8	13.5	5.4

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	27.4	35.7	36.6
No	56.6	52.4	48.8
Not Applicable	15.9	11.9	14.6

Special Questions Comments

These comments have been edited for publication.

Chemical Manufacturing

- The lower oil prices have returned some skilled workers to the local work force. That has helped.
- Skilled trade labor along the gulf coast remains tight.

Nonmetallic Mineral Product Manufacturing

- Highway spending in Texas and capital projects in the chemical and refining business will have a positive effect on potential revenue growth for the latter half of 2016. While not reflected in the backlog, there are more projects that will begin to go into production in the second half of the year.

Primary Metals Manufacturing

- Technical people such as industrial mechanics and instrumentation technicians are the most difficult to find.
- It seems that less folks want to work in manufacturing jobs these days. We currently bus workers in from Wichita Falls, 45 miles away.
- All cost increases are passed on to customers sooner or later, whether taxes or labor. If not, business goes broke.

Fabricated Metal Product Manufacturing

- We are seeing an increase in applicants. However, most of the qualified applicants have been working for much higher rates doing more technical work than our fabrication requires.
- We have had limited success in passing on the increased cost of labor (which includes health care, administration, etc.), and customers are actually asking for price reductions.
- We are trying to increase the prices we charge, but that is becoming more and more difficult in the times.
- It is great that the cost of gas is lower, but it does not translate into much savings for us. Wages continue to rise because of lack of tradesmen. A general malaise in the manufacturing arena is common from a glut of manufacturers from the energy community trying to survive and driving lower costs due to the overavailability of shops looking for work.
- We are trying to find skilled machinists, and the skill sets required are very scarce, even with the downturn in the marketplace.

Machinery Manufacturing

- Student debt has tripled over the last seven years. This succeeded in shifting people from the unemployment rolls to school, but failed to produce graduates with STEM (science, technology, engineering and math) skills needed in robotics and manufacturing.
- I consider technical competencies something learned after college. I have found multiple people who simply don't have the education to do the work provided, even after graduating from the secondary schools. Simple math and coherent sentences seem to be beyond those looking for work.
- Economic conditions in the oil and gas market are terrible. There is no hiring or capital expenditures; prospects for the next two years are bleak. No coherent energy policy from the federal government is destroying the industry.
- Obtaining other than a very modest 2 percent annual selling price increase is very difficult. Basic material costs are averaging less than 2 percent; however, employee benefit costs (especially health care with a 30 percent increase) and wage increases are greater than 2 percent, resulting in lower margins.
- An ongoing challenge for all capital equipment manufacturers is more with their distribution and end-user base having difficulty finding willing and qualified service technician and skilled trades.
- There are far too many degreed individuals with academic knowledge that is not in demand and lack of actual real life experience for what is in demand, like areas such as general electrical and mechanical combined with technological savvy.

Computer and Electronic Product Manufacturing

- We generally have challenges finding qualified employees, as we look mainly for electrical engineers including graduate/doctoral level. We have in place substantial efforts for recruiting, internship and rotational programs to attract the best talent. We do not believe this is a short-term problem; we have not intensified our efforts, it has always been intense. There are long-term issues in the U.S. and with immigration so that we cannot look just to the U.S. to fill our needs.

Transportation Equipment Manufacturing

- Employees can make more from the government than working for us part time. Cash is extremely tight, and the government is too hard on banks that try to help us.

Food Manufacturing

- Customers will not let us pass labor cost increases along.
- Turnover and lack of applicants are our biggest human resources challenge in certain regions.

Printing and Related Support Activities

- If our sales do not pick up, we will be laying off, not recruiting. Our customers are telling us their marketing budgets are being cut back. If advertising and marketing budgets are cut, that is less print sales, then layoffs.

Furniture and Related Product Manufacturing

- Benefit cost increases (specifically medical insurance) are preventing us from offering higher wages, while still maintaining competitiveness against foreign competition. We will not be able to provide the increase in wages we had hoped, due to medical insurance cost increases. Thus, it is making it even more difficult to recruit needed help.

Texas Service Sector Outlook Survey

DALLASFED

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

DALLASFED

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

These comments have been edited for publication.

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.