



Texas Service Sector Outlook Survey

DALLAS FED

February 24, 2015

TEXAS SERVICE SECTOR ACTIVITY CONTINUES TO EXPAND AND BUSINESS CONDITIONS IMPROVE SLIGHTLY

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 service sector activity continued to reflect expansion in February, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, edged up from 12.1 to 13.6 but remained below its 2014 average.

Labor market indicators reflected faster employment growth and slightly longer workweeks. The employment index rose from 5.8 to 12 in February, indicating hiring picked up pace this month. The hours worked index was unchanged at 1.4 this month, suggesting work hours increased at the same pace as in January.

Perceptions of broader economic conditions reflected slightly more optimism in February. The general business activity index rebounded from a negative reading last month to 1.7. The company outlook index moved up from 0.3 to 3.5, with 18 percent of respondents reporting that their outlook improved from last month and 14 percent noting that it worsened.

Price and wage pressures increased slightly this month. The selling prices index ticked up a point to 3.9. The wages and benefits index rose slightly from 13.5 to 15.4, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected more optimism in February. The index of future general business activity edged up from 6.1 to 8.9. The index of future company outlook rose from 8.8 to 14.3. Indexes of future service sector activity, such as future revenue and employment, remained in solid positive territory this month.



RETAIL SALES EXPAND BUT AT A SLOWER PACE

Retail sales increased at a slower pace in February, according to business executives responding to the Texas Retail Outlook Survey. The sales index remained positive but dipped from 10.6 to 6.8. Inventories increased.

Labor market indicators were mixed in February. The employment index rebounded from a negative reading last month to 1.8, indicating retail jobs increased slightly this month. The hours worked index edged down 3 points to -0.1, suggesting workweek length was unchanged from January.

Retailers' perceptions of broader economic conditions were mixed this month. The general business activity index fell 3 points to -2.2, its lowest reading since April 2013. After a negative reading last month, the company outlook index moved back into positive territory to 3.1, with 20 percent of respondents noting an improved company outlook over the prior month, compared with 17 percent reporting their outlook had worsened.

Retail prices rose, while wage pressures eased this month. The selling prices index advanced back into positive territory in February with a reading of 1.9. The wages and benefits index declined from 12.9 to 6.6, although the great majority of firms noted no change in labor costs.

Retailers' perceptions of future broader economic conditions continued to reflect optimism in February. The index of future general business activity dropped from 12.1 to 2.3. The index of future company outlook ticked up from 11.3 to 12.9. Indexes of future retail sector activity were mixed this month.

The Texas Retail Outlook Survey (TROS) is a component of the TSSOS that uses information only from respondents in the retail and wholesale sectors.

The Dallas Fed conducts the Texas Service Sector Outlook Survey monthly to obtain a timely assessment of the state's service sector activity. Data were collected Feb. 10–18, and 244 Texas business executives responded to the survey. Firms are asked whether revenue, employment, prices, general business activity 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 31, 2015

TEXAS SERVICE SECTOR OUTLOOK SURVEY

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	
Revenue	13.6	12.1	+1.5	Increasing	64	30.3	53.0	16.7	
Employment	12.0	5.8	+6.2	Increasing	60	19.4	73.2	7.4	
Part-time employment	5.9	1.0	+4.9	Increasing	16	13.1	79.7	7.2	
Hours worked	1.4	1.3	+0.1	Increasing	15	9.7	81.9	8.3	
Wages and benefits	15.4	13.5	+1.9	Increasing	65	18.4	78.6	3.0	
Input prices	18.9	11.4	+7.5	Increasing	70	24.8	69.3	5.9	
Selling prices	3.9	2.8	+1.1	Increasing	51	12.9	78.1	9.0	
Capital expenditures	7.0	7.5	-0.5	Increasing	66	15.7	75.6	8.7	
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	3.5	0.3	+3.2	Improving	31	17.7	68.1	14.2	
General business activity	1.7	-2.8	+4.5	Improving	1	16.5	68.7	14.8	
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	
Revenue	38.3	33.6	+4.7	Increasing	72	52.3	33.7	14.0	
Employment	21.7	24.8	-3.1	Increasing	71	35.6	50.4	13.9	
Part-time employment	10.3	9.0	+1.3	Increasing	32	19.6	71.1	9.3	
Hours worked	3.7	5.1	-1.4	Increasing	15	13.5	76.7	9.8	
Wages and benefits	37.2	43.3	-6.1	Increasing	98	41.8	53.6	4.6	
Input prices	40.5	38.2	+2.3	Increasing	98	45.3	49.9	4.8	
Selling prices	19.3	25.6	-6.3	Increasing	70	29.1	61.1	9.8	
Capital expenditures	18.7	22.2	-3.5	Increasing	71	29.5	59.7	10.8	
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	14.3	8.8	+5.5	Improving	42	30.5	53.3	16.2	
General business activity	8.9	6.1	+2.8	Improving	41	25.6	57.7	16.7	

*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.

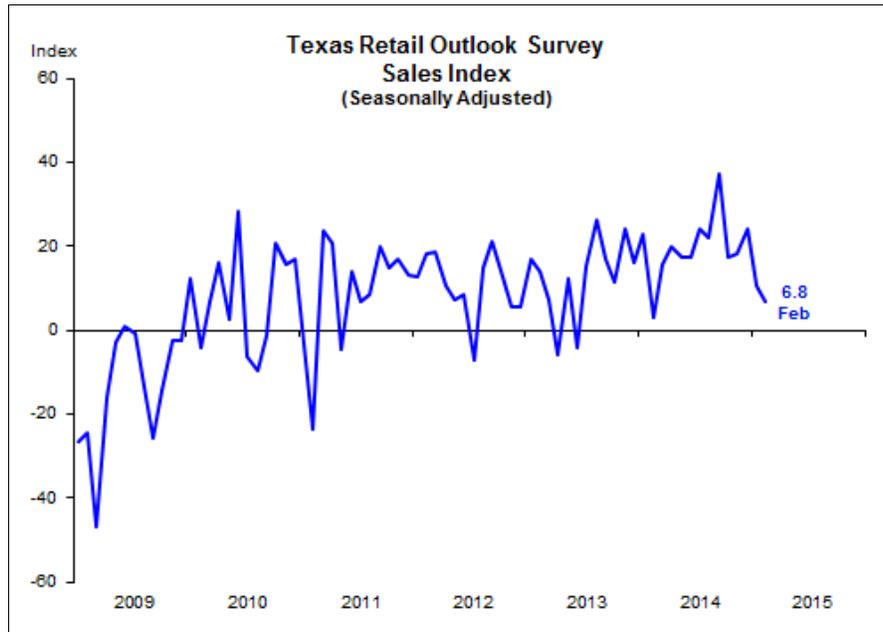
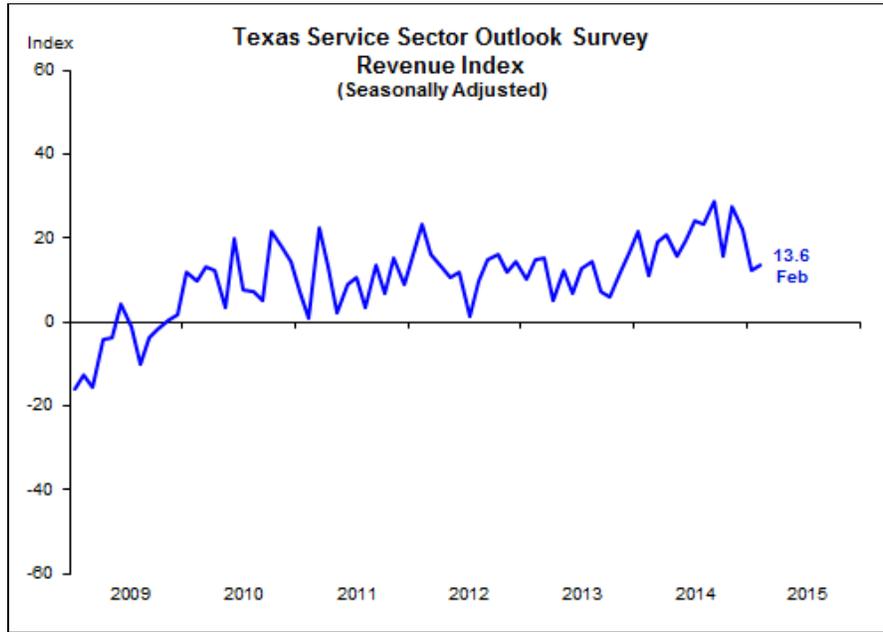
TEXAS RETAIL OUTLOOK SURVEY

Business Indicators Relating to Facilities and Products in Texas, Retail Current (versus previous month)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	6.8	10.6	-3.8	Increasing	20	27.0	52.8	20.2
Employment	1.8	-1.4	+3.2	Increasing	1	10.2	81.4	8.4
Part-time employment	2.0	-1.9	+3.9	Increasing	1	9.8	82.4	7.8
Hours worked	-0.1	2.9	-3.0	Decreasing	1	12.8	74.3	12.9
Wages and benefits	6.6	12.9	-6.3	Increasing	48	9.4	87.8	2.8
Input prices	9.2	-0.7	+9.9	Increasing	1	20.3	68.6	11.1
Selling prices	1.9	-2.3	+4.2	Increasing	1	16.7	68.5	14.8
Capital expenditures	3.6	1.9	+1.7	Increasing	16	10.9	81.8	7.3
Inventories	5.1	-1.6	+6.7	Increasing	1	22.7	59.7	17.6
Companywide Retail Activity								
Sales	18.0	16.6	+1.4	Increasing	22	31.9	54.2	13.9
Internet sales	15.0	12.2	+2.8	Increasing	21	18.8	77.4	3.8
Catalog sales	9.1	3.0	+6.1	Increasing	3	9.1	90.9	0.0
General Business Conditions, Retail Current (versus previous month)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	3.1	-1.7	+4.8	Improving	1	20.1	62.9	17.0
General business activity	-2.2	0.8	-3.0	Worsening	1	17.0	63.8	19.2
Business Indicators Relating to Facilities and Products in Texas, Retail Future (six months ahead)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	27.3	20.5	+6.8	Increasing	72	40.9	45.5	13.6
Employment	-0.9	12.9	-13.8	Decreasing	1	15.3	68.5	16.2
Part-time employment	2.7	4.1	-1.4	Increasing	20	18.2	66.3	15.5
Hours worked	-7.8	-0.7	-7.1	Decreasing	3	10.5	71.2	18.3
Wages and benefits	18.7	37.7	-19.0	Increasing	72	23.4	71.8	4.7
Input prices	28.8	22.0	+6.8	Increasing	70	34.6	59.6	5.8
Selling prices	21.5	30.7	-9.2	Increasing	70	33.3	54.9	11.8
Capital expenditures	19.2	22.0	-2.8	Increasing	47	26.9	65.4	7.7
Inventories	9.7	0.3	+9.4	Increasing	63	32.9	43.9	23.2
Companywide Retail Activity								
Sales	21.3	13.3	+8.0	Increasing	71	35.7	49.8	14.4
Internet sales	25.0	14.7	+10.3	Increasing	71	27.8	69.4	2.8
Catalog sales	6.0	-1.3	+7.3	Increasing	1	10.5	85.0	4.5
General Business Conditions, Retail Future (six months ahead)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	12.9	11.3	+1.6	Improving	71	28.1	56.7	15.2
General business activity	2.3	12.1	-9.8	Improving	41	21.5	59.3	19.2

* 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.

Credit Intermediation and Related Activities

- > The compensatory impact of the slowdown in the oil industry delayed the effect on the economy in the rural markets, but it is starting to show up.

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

- > The business environment is beginning to be affected by lower oil and natural gas prices. We are selectively making cuts based on the order input, which is slowing now. The outlook will tend to get worse as long as oil prices stay in a \$45 to \$55 range. Even with lower oil and gas prices, we still have increasing expenses because of regulations.

Publishing Industries (except Internet)

- > We began experiencing layoffs in the oil patch. In combination with the continuing drought and restrictions on water use, retailer confidence has been wounded. For those of us who provide marketing services to the retail and service sectors, the close has become much more difficult.

Telecommunications

- > We are very concerned about the price of oil and the impact on the Houston area. Layoffs are announced weekly, but we've seen no measurable impact to our business yet.

Professional, Scientific and Technical Services

- > Oil prices are no doubt impacting the business. Many of our clients are taking a wait-and-see attitude, looking for some stabilization. At present, we are planning for lower business activities in 2015 and will hope for better than expected results. Hopefully by the end of first quarter we have more clarity into the market and where activity is in fact headed.
- > Our numbers for the first month of 2015 show signs of a strong economy. Our order count for residential transactions is well above the 2014 number, and revenue exceeded 2014 as well. On the commercial side, the order count is tracking the same as 2014 with revenue slightly off. We anticipate a very strong year for the residential market, but feel the commercial market may cool due to the perception that the drop in oil prices will hurt the Texas economy. Once investors realize this drop will not have a major effect on the DFW market, we feel the market will return to 2014 levels.
- > The price of oil is wreaking havoc. The uncertainty of the world situation is causing some concern. Profitability continues to drop.
- > Business has to pick up. If it stays this slow, we won't be here.
- > Oil prices are the great unknown. Extended low prices, while good for the U.S. as a whole, can't possibly be great for Texas or Texas employment and real estate.
- > Activity in all private sectors of the design and construction industry appears to be strong.

Management of Companies and Enterprises

- > A short month impacted earnings.

Administrative and Support Services

- > The decrease in our average employee work week is due to the New Year's holiday.
- > The outlook for business activity is improving but not at a rapid pace. Budgets remain tight and competition stiff. The restaurant sector is improving, while manufacturing remains level.
- > We have had some weather problems that caused projects to slow down. Dealing with the Affordable Care Act is causing the company to review the business model in place. We will likely change the model that has served us for so long. We simply cannot maintain the 50-plus workforce.

Ambulatory Health Care Services

- > Our six-month outlook depends on Medicare changes. Currently, there is a 20 percent decrease in fees scheduled for April 1. Also, in March we will begin a new benefit year with employee insurance costs going up 3 percent. These two factors combined will eliminate any salary increases.

Social Assistance

- > We have positive growth and outlook but challenges finding labor. Our overall expansion plans are going well. We think the Houston economy is slowing but not stopping.

Accommodation

- > We are cautiously watching the oil sector, as low prices have begun to reduce travel by oil-related companies and some groups have cancelled their meetings.

Food Services and Drinking Places

- > We are opening a new store in late February. Overall sales are up double digits, and we believe we are benefiting from low gasoline prices. We are putting in a new point of sale system in all restaurants this year, so capital expenditures will be up. We do not have plans to raise prices again, and cheese is dramatically lower so far in 2015 compared with 2014.
- > The Affordable Care Act has added significant costs and challenges for our business.
- > We experienced very strong sales increases last month, and they seem to be continuing, although they've been fluctuating more now that we are into a normal seasonal uptrend. We are attributing the impact primarily to the drop in the cost of gasoline. Wages have not started to climb yet, but we are expecting them to do so in the near future. Our cost of goods has been relatively stable for the last few months, except for the increase at the beginning of January when we renewed some long-term contracts on some products, but over the next six months, we expect to start seeing increases. Thus, we have a tentative price increase planned for May. Capital expenditures are up because we are in the early stages of building a new unit.

Repair and Maintenance

- > Oil drilling activity in the area is shutting down, so that sector is hurting the local economy. Our business is divided between the energy sector and industrial plants that provide products for the automotive industry. The latter looks to be in good shape with the stronger economic outlook.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- > Our organization does poorly when the oil and gas industry is not doing well.

Merchant Wholesalers, Durable Goods

- > We are hiring experienced salespeople to increase our market share. In addition, we hired an e-commerce manager and some part-time help to improve our e-commerce solution.
- > Moisture conditions are much better than last year, but commodity prices are lower, meaning a weaker market for our goods.

Motor Vehicle Parts Dealers

- > We are directly impacted by the oil price situation. We expect some business to drop off as a result. So far, it has been minimal, but some of our customers have advised they will retrench quickly.
- > In our area, January was definitely slower, possibly because of the extra cold weather. We expect February to return to the same level as 2014, if not better.
- > Oil prices are having a negative effect on drilling, fracking and support activities in the Eagle Ford. "Cutback" is the word of the day right now.
- > Oil prices are having a negative effect on high-end spending.

Building Material and Garden Equipment and Supplies Dealers

- > Oil has everyone worried. We don't think it will be as bad as in the 1980s, but everyone thinks things will slow down.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.
The Texas Service Sector Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tssos/.



Texas Service Sector Outlook Survey

DALLASFED

February 23, 2015

SPECIAL QUESTIONS

Data were collected Feb. 2–5, and 197 Texas business executives responded to the survey.

1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to twelve months?			
	Feb. '15 (percent)	Nov. '14 (percent)	May '14 (percent)
Increase	39.6	48.6	43.1
Leave Unchanged	45.7	46.4	47.9
Decrease	14.7	5.0	9.0

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

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

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

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

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Credit Intermediation and Related Activities

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

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

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

Insurance Carriers and Related Activities

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

Publishing Industries (except Internet)

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

Broadcasting (except Internet)

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

Telecommunications

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

Rental and Leasing Services

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

Professional, Scientific and Technical Services

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

Management of Companies and Enterprises

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

Administrative and Support Services

- > It seems that everyone in the current generation of applicants has conditions under which they will work, including hours, days and types of work. That is not unusual for educated positions, but for candidates who have no advanced education, it appears they have unrealistic expectations.
- > We expect the benefit of lower gasoline prices to have a positive effect on our commercial customers. This will evolve over the year and hopefully enable them to increase budgets in our service sector. Currently, there is not enough flexibility in the economy to raise prices to offset cost increases. This may change by the second quarter.
- > We have had difficulty obtaining loans because of stringent requirements for documentation and a lender's ability to back out at the last

minute.

- > The H-2B visa program has to be fixed with wages determinations.
- > We are in the IT staffing business, providing contract, contract-to-hire and full-time staff. There is a very profound shortage of technically qualified and experienced people in the principal technologies in use today.

Educational Services

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

Ambulatory Health Care Services

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

Hospitals

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

Nursing and Residential Care Facilities

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

Amusement, Gambling, and Recreation Industries

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

Food Services and Drinking Places

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

Repair and Maintenance

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

Pipeline Transportation

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

Truck Transportation

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



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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.

