Texas Service Sector Outlook Survey

DALLASFED

September 1, 2015

Texas Service Sector Activity Continues to Increase but at a Slower Pace

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 August, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, remained positive but retreated from 19.1 to 9.3.

Labor market indicators reflected slower employment growth and slightly longer workweeks this month. The employment index fell 4 points to 6.1. The hours worked index dipped from 5.3 to 2.3.

Perceptions of broader economic conditions reflected less optimism in August. The general business activity index declined from 7.9 to 2.1. The company outlook index moved down 6 points to 2.8, with 16 percent of respondents reporting that their outlook improved from last month, compared with 13 percent noting that it worsened.

Price and wage pressures eased this month. The selling prices index edged down to a reading near zero, indicating prices were unchanged from July. The wages and benefits index fell slightly from 14.8 to 12.9, suggesting labor costs increased at a slower pace than in July, although the great majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions reflected less optimism in August. The index of future general business activity fell sharply from 20.6 to 9.7. The index of future company outlook dropped from 21.3 to 12. Indexes of future service sector activity, such as future revenue and employment, also reflected less optimism this month.

Retail Sales Fall

Retail sales declined in August, according to business executives responding to the Texas Retail Outlook Survey. After two consecutive months in positive territory, the sales index plunged from 11.5 to -3.6. Inventories increased at the same pace as last month.

Labor market indicators worsened in August. The employment index fell sharply from 7 to -4.2, indicating retail jobs decreased this month. After bouncing into positive territory last month, the hours worked index slipped back into negative territory to a reading of -4.9, suggesting shorter workweeks.

Retailers' perceptions of broader economic conditions reflected less optimism this month. The general business activity index fell from 5.3 to a reading near zero. The company outlook index remained positive but declined from 12 to 3.3, with 19 percent of respondents noting an improved company outlook over the prior month, compared with 15 percent reporting their outlook had worsened.

Retail price and wage pressures eased in August. The selling prices index fell to its lowest reading this year at -3.6, indicating retail prices decreased this month. The wages and benefits index moved down almost 6 points to 1.6, indicating labor costs were largely unchanged from last month.

Retailers' perceptions of future broader economic conditions continued to reflect optimism in August. The index of future general business activity fell from 27.2 to 19.8. The index of future company outlook edged up from 20.3 to 22.9. Indexes of future retail sector activity reflected less optimism 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 Aug. 18–26, and 266 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: September 29, 2015

TEXAS SERVICE SECTOR OUTLOOK SURVEY

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
Revenue	9.3	19.1	-9.8	Increasing	70	25.7	57.9	16.4
Employment	6.1	10.1	-4.0	Increasing	66	14.5	77.1	8.4
Part-time employment	4.4	6.4	-2.0	Increasing	22	10.6	83.2	6.2
Hours worked	2.3	5.3	-3.0	Increasing	5	9.0	84.3	6.7
Wages and benefits	12.9	14.8	-1.9	Increasing	71	16.3	80.3	3.4
Input prices	17.1	20.8	-3.7	Increasing	76	23.4	70.3	6.3
Selling prices	-0.9	1.8	-2.7	Decreasing	1	8.1	82.9	9.0
Capital expenditures	11.4	7.7	+3.7	Increasing	72	18.3	74.8	6.9

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	2.8	8.8	-6.0	Improving	5	16.0	70.9	13.2
General business activity	2.1	7.9	-5.8	Improving	4	16.7	68.7	14.6

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
Revenue	35.2	44.2	-9.0	Increasing	78	48.1	39.0	12.9
Employment	20.9	25.8	-4.9	Increasing	77	33.2	54.5	12.3
Part-time employment	8.3	8.2	+0.1	Increasing	38	17.7	72.9	9.4
Hours worked	5.3	5.6	-0.3	Increasing	21	11.6	82.1	6.3
Wages and benefits	39.1	39.1	0.0	Increasing	104	42.1	54.9	3.0
Input prices	44.8	43.7	+1.1	Increasing	104	49.7	45.4	4.9
Selling prices	23.1	24.2	-1.1	Increasing	76	30.6	61.9	7.5
Capital expenditures	22.6	25.5	-2.9	Increasing	77	31.6	59.5	9.0

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	12.0	21.3	-9.3	Improving	48	24.6	62.8	12.6
General business activity	9.7	20.6	-10.9	Improving	47	23.3	63.0	13.6

*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	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	-3.6	11.5	-15.1	Decreasing	1	20.2	56.0	23.8
Employment	-4.2	7.0	-11.2	Decreasing	1	4.3	87.2	8.5
Part-time employment	5.5	0.0	+5.5	Increasing	1	14.8	75.9	9.3
Hours worked	-4.9	6.0	-10.9	Decreasing	1	7.7	79.7	12.6
Wages and benefits	1.6	7.5	-5.9	Increasing	54	6.1	89.4	4.5
Input prices	-2.1	9.7	-11.8	Decreasing	1	15.6	66.7	17.7
Selling prices	-3.6	5.0	-8.6	Decreasing	1	13.6	69.2	17.2
Capital expenditures	8.7	6.9	+1.8	Increasing	22	17.5	73.7	8.8
Inventories	8.5	8.3	+0.2	Increasing	5	23.2	62.1	14.7
Companywide Retail Activity								
Sales	5.0	28.1	-23.1	Increasing	3	25.2	54.6	20.2
Internet sales	-2.4	10.8	-13.2	Decreasing	1	7.9	81.8	10.3
Catalog sales	8.8	10.8	-2.0	Increasing	5	8.8	91.2	0.0

General Business Conditions, Retail
Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	3.3	12.0	-8.7	Improving	5	18.7	65.9	15.4
General business activity	-0.2	5.3	-5.5	Worsening	1	17.7	64.4	17.9

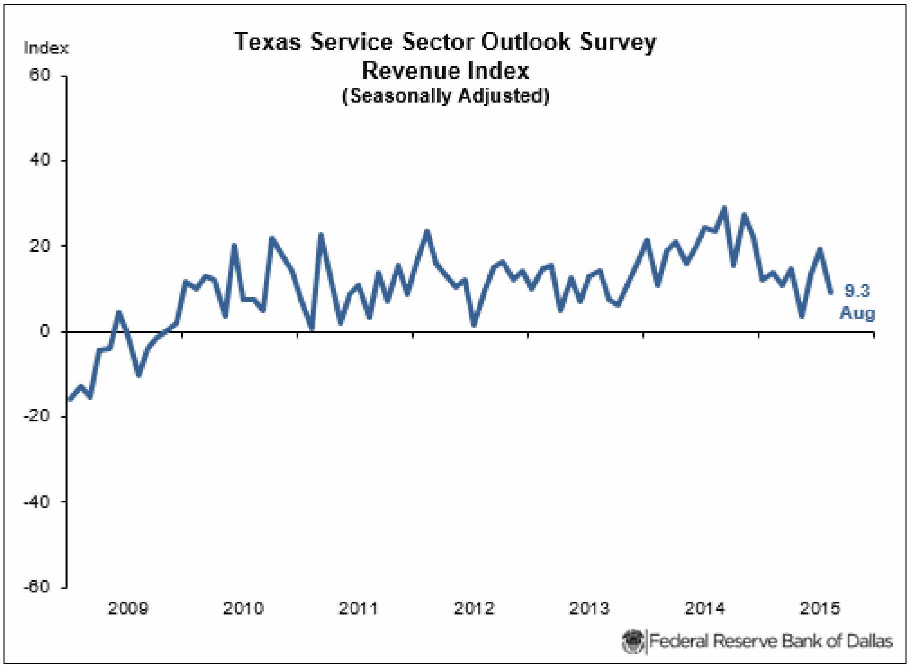
Business Indicators Relating to Facilities and Products in Texas, Retail
Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	30.7	34.5	-3.8	Increasing	78	45.9	38.9	15.2
Employment	9.3	15.1	-5.8	Increasing	6	24.0	61.3	14.7
Part-time employment	-5.0	-9.2	+4.2	Decreasing	2	13.8	67.4	18.8
Hours worked	3.8	4.7	-0.9	Increasing	3	13.5	76.8	9.7
Wages and benefits	30.2	23.6	+6.6	Increasing	78	34.0	62.3	3.8
Input prices	25.5	23.2	+2.3	Increasing	76	38.2	49.1	12.7
Selling prices	23.6	28.3	-4.7	Increasing	76	34.5	54.5	10.9
Capital expenditures	21.8	14.3	+7.5	Increasing	53	32.7	56.4	10.9
Inventories	12.3	9.1	+3.2	Increasing	69	27.4	57.5	15.1
Companywide Retail Activity								
Sales	36.0	31.3	+4.7	Increasing	77	47.2	41.6	11.2
Internet sales	22.2	25.0	-2.8	Increasing	77	27.8	66.7	5.6
Catalog sales	7.2	14.2	-7.0	Increasing	7	9.9	87.4	2.7

General Business Conditions, Retail
Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company outlook	22.9	20.3	+2.6	Improving	77	32.8	57.3	9.9
General business activity	19.8	27.2	-7.4	Improving	5	34.2	51.4	14.4

*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 Service Sector Outlook Survey
Revenue Index
(Seasonally Adjusted)
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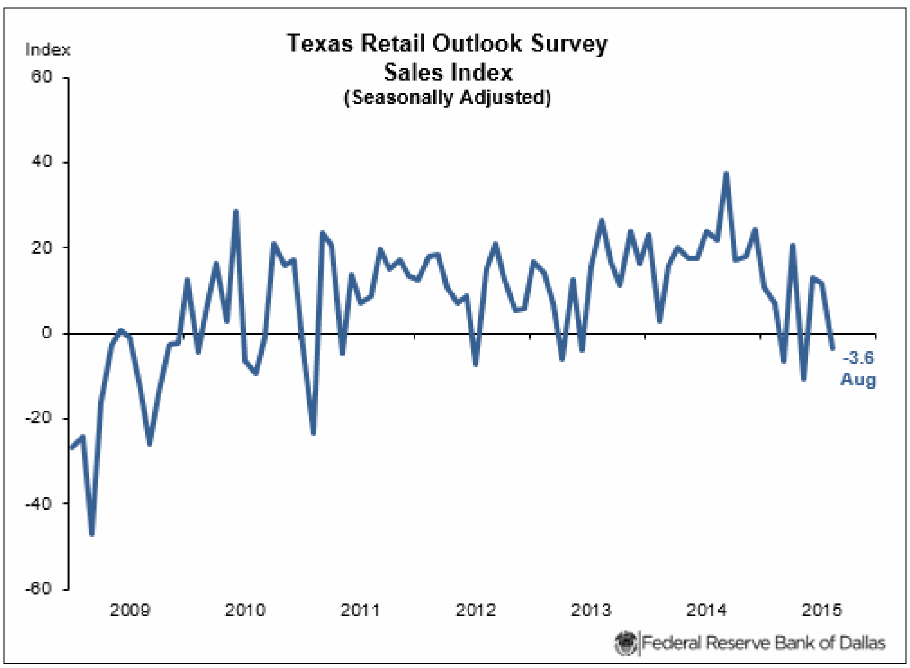
Texas Retail Outlook Survey
Sales Index
(Seasonally Adjusted)
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Comments from Survey Respondents

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

Credit Intermediation and Related Activities

- Compliance costs and activity continue to increase. Technology expenses have increased and will continue to increase, with emphasis on constant attempts to maintain security for our bank and customers. Lending activity has been steady with slight growth and is expected to increase gradually going forward as new markets expand.
- The wild card in the local economy is clearly related to the future of energy prices. A sustained period at current levels would continue to erode employment and real estate values in the Houston economy. Otherwise, all indicators are improving.
- We are definitely seeing more and better job candidates that are being laid off in the oil and gas industry. So while we are adding employees for our growing company, we don't see any wage pressure.

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

- Our area is seeing weak job growth and lower commodity prices. This has impacted construction.
- Business for the last two reportable months has moved lower by about 20 to 25 percent. Prices of oil and natural gas are reflecting in our business activity. Sales volume is down and pricing has decreased. We have made the appropriate adjustments for the longer term. We anticipate this business atmosphere will be with us for a long while.

Professional, Scientific and Technical Services

- Although our revenue and orders continue to outpace 2014, we are becoming more cautious about the coming year due to the volatility of the stock market and what effect it may have on the overall economy. The real estate market will be helped with the low 10-year yield, but only if we continue to see growth in the economy. We think the next couple of months should give us a clearer picture of what the future holds.
- A couple of client budget cuts reduced our revenue.
- The uncertainty about China is frightening everyone. Today's Dow is causing skittish behavior. Activity has slowed, and we hope that confidence can be restored. It is a time of global uncertainty and that is not good for business.
- Decreasing energy prices will have a resounding impact on our business and the economy in Texas as a whole. Until recently, management has been attempting to hold on; however, recent declines may make this alternative no longer feasible.
- The exisiting business environment is very strong. We do not foresee any change in the volume of available work over the next six months.

Management of Companies and Enterprises

- There is way too much government regulation. It drives up our costs and hurts our ability to help our customers. Some of the regulations make sense, but we think a lot of them are silly and don't accomplish anything.
- Federal government regulatory mandates create a huge expense that can not be offset by charges to customers anymore. It is past time for community bankers to exit this industry.

Administrative and Support Services

- Demand for full-time employees continues to be extremely soft, and companies that are interested in hiring are moving very slowly and being very picky. We think they are looking for reasons to rule candidates out rather than for reasons to hire. Contract demand also continues to be slow but we are increasing headcount a little.
- Lower fuel prices continue to impact sales in the public transportation industry.
- Revenues and profits are improving, but we see very little movement in wages and salaries despite rising rental and home costs in Dallas.
- We have a diversified customer base and certain sectors—such as restaurants—are affected by the increase in wages and food costs, while the manufacturing and energy sectors have been affected by the decrease in oil prices. Real estate has been positive, but they are concerned about competition and overbuilding in areas. Overall, we see a cautious outlook by all groups as they look to the near future and the potential for setbacks in the economy.

Telecommunications

- We are starting to feel the pressure and see a reduction in activity from the low price of oil in Houston.

Waste Management and Remediation Services

- Overseas markets may have a ripple impact on our revenue.

Ambulatory Health Care Services

- Recent rains will help the agricultural community but probably will not offset the decline in the price of oil. The outlook for the Texas and Oklahoma panhandles trends down for the next several months based on oil and gas prices and agricultural commodity prices being low.

Hospitals

- Rural hospitals continue to face increased regulation with lower reimbursements. The wage index numbers released this month will reduce reimbursements by an additional 10 percent. Smaller independent hospitals are going to struggle to remain solvent with continued requirements from the government lacking support funding.

Religious, Grantmaking, Civic, Professional and Similar Organizations

- With oil prices likely to be lower for longer, the outlook for our organization has become much worse over the past month.

Amusement, Gambling and Recreation Industries

- The unemployment rate in Austin is very low. It has become extremely hard to hire skilled workers—particularly cooks, good waiters and bartenders. It is not uncommon for these skilled folks to have five to six interviews for good jobs. We see this competition for top-level employees getting more and more challenging as there are going to be several new hotels and restaurants opening in the next several months. This is certainly putting upward pressure on wages and benefits.

Food Services and Drinking Places

- Our sales have slowed down significantly in August. We are still up over last year but only by a very narrow margin now. Capital expenditures are up because we are building a new restaurant, and in the six-month horizon, we are projecting increased employment because of the new restaurant. We are already hearing of the danger of a substantial increase in medical premiums for our benefit renewal in January. We also expect the cost of goods to start going up, and we have some substantial increases already scheduled in September and October. Because of these expected increases, we expect to have to take a price increase in November.
- Policies such as the Affordable Care Act and the scare of massive wage increases make it hard to have certainty. Rising interest rates are less of a concern—less than 0.3 percent of our sales are affected by a 1 percent rate rise. However, a $1 increase in minimum wages represents 4 percent of our sales and is not easily passed along.
- We will have a new location opening in the El Paso market in early 2016.

Repair and Maintenance

- Oil service companies seem to be pricing at break-even or at a loss. There will be business casualties within the next few months.

Truck Transportation

- We see no signs of an economic pullback.

Pipeline Transportation

- Overbuilding of competing midstream assets combined with a slowdown in volume growth from oil production has increased competition and pressured margins.

Merchant Wholesalers, Durable Goods

- Our responses to this survey reflect the fact that 75 percent of our business is oil and gas related. Obviously this industry has taken a downturn. We are attempting to broaden our customer base in order to level our sales.
- Our capital expenditures are increasing due to our efforts to improve the e-commerce portion of our business.

Merchant Wholesalers, Nondurable Goods

- We are very concerned about what is going on in the oil market. This is beginning to have a negative effect on our business. We will just need to make necessary adjustments to adapt to the new model.

Motor Vehicle Parts Dealers

- Crude oil prices appear to be the biggest problem.
- We are faced with a deterioration of our manufactuarer's position in the marketplace. This, coupled with the energy-related slowdown, is reflected in lower sales.

Building Material and Garden Equipment and Supplies Dealers

- We are getting a lot of applications from oilfield workers now that oil is not looking good.
- 2015 has not started out as good as 2014. Sales in the first seven months have been flat to lower. Our projections are for an increase in the last two quarters of 2015.This is based on open orders and projects that have been delayed for one reason or another. Overall, we are not happy with the current business climate.
- We are cautiously optimistic.

Food and Beverage Stores

- Summer sales are less than expected.

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

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.

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.