Texas Service Sector Outlook Survey

DALLASFED

March 1, 2016

TEXAS SERVICE SECTOR ACTIVITY EXPANDS BUT OUTLOOK WORSENS

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, was unchanged from January at 9.7, indicating activity increased at the same pace as last month.

Labor market indicators reflected stable employment and slightly longer workweeks this month. The employment index fell to a reading near zero. The hours worked index edged down from 3.5 to 1.3.

Perceptions of broader economic conditions reflected more pessimism in February. The general business activity index retreated from -10.4 to -19.2. The company outlook index held steady at -6.3, with 15 percent of respondents reporting that their outlook improved from last month and 21 percent noting that it worsened.

Price and wage pressures were unchanged this month. The selling prices index remained near zero, indicating prices were unchanged from last month. The wages and benefits index held steady at 20.6, suggesting labor costs increased at the same pace as in January, although the majority of firms continued to note no change in compensation costs.

Respondents' expectations regarding future business conditions were mixed in February. The index of future general business activity remained in negative territory and fell slightly to a reading of -11.0. The index of future company outlook edged down to a reading near zero. However, indexes of future service sector activity, such as future revenue and employment, remained in solid positive territory this month.

RETAIL SALES DECLINE

Retail sales fell in February, according to business executives responding to the Texas Retail Outlook Survey. The sales index plunged 16 points into negative territory to a reading of -5.1, its lowest level in nine months. Inventories fell for a second consecutive month.

Labor market indicators reflected continued employment growth and slightly longer workweeks. The employment index was unchanged at 4.8 this month, indicating retail hiring continued at the same pace as in January. The hours worked index dipped 3 points to 3.1.

Retailers' perceptions of broader economic conditions were pessimistic this month. The general business activity index plunged from -4.8 to -26.1. The company outlook index fell 9 points into negative territory to a reading of -2.2, with 17 percent of respondents reporting that their outlook improved from last month and 19 percent noting that it worsened.

Retail prices declined, while wage pressures eased in February. The selling prices index remained negative for a second consecutive month but rose 7 points to -7.2. The wages and benefits index edged down from 17.8 to 16.2.

Retailers' perceptions of future broader economic conditions were also pessimistic this month. The index of future general business activity declined from -9.0 to -18.3. The index of future company outlook fell sharply into negative territory to a reading of -3.8. However, indexes of future retail sector activity continued to reflect 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 Feb. 16–24, and 296 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 29, 2016

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	9.7	10.0	-0.3	Increasing	75	29.9	50.0	20.2
Employment	0.5	10.0	-9.5	Increasing	72	13.1	74.3	12.6
Part-time employment	-0.6	1.8	-2.4	Decreasing	1	7.5	84.4	8.1
Hours worked	1.3	3.5	-2.2	Increasing	8	8.1	85.1	6.8
Wages and benefits	20.6	20.4	+0.2	Increasing	77	23.5	73.7	2.9
Input prices	18.6	13.2	+5.4	Increasing	82	23.6	71.5	5.0
Selling prices	-0.2	0.7	-0.9	Decreasing	1	12.0	75.8	12.2
Capital expenditures	9.1	2.2	+6.9	Increasing	78	18.0	73.2	8.9

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	-6.3	-5.8	-0.5	Worsening	2	14.8	64.1	21.1
General business activity	-19.2	-10.4	-8.8	Worsening	2	8.4	64.0	27.6

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	31.6	30.4	+1.2	Increasing	84	47.8	36.0	16.2
Employment	18.0	18.9	-0.9	Increasing	83	31.9	54.2	13.9
Part-time employment	4.2	2.0	+2.2	Increasing	44	14.5	75.2	10.3
Hours worked	3.5	1.9	+1.6	Increasing	4	10.8	81.9	7.3
Wages and benefits	35.3	40.6	-5.3	Increasing	110	39.1	57.2	3.8
Input prices	33.3	36.3	-3.0	Increasing	110	38.3	56.8	5.0
Selling prices	17.6	19.6	-2.0	Increasing	82	27.0	63.6	9.4
Capital expenditures	16.6	16.8	-0.2	Increasing	83	27.3	62.0	10.7

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	-0.1	2.3	-2.4	Worsening	1	21.2	57.5	21.3
General business activity	-11.0	-8.1	-2.9	Worsening	2	16.0	57.0	27.0

*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.
**Number of months moving in current direction.
Data have been seasonally adjusted as necessary.

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	-5.1	11.0	-16.1	Decreasing	1	21.3	52.3	26.4
Employment	4.8	5.3	-0.5	Increasing	5	8.7	87.4	3.9
Part-time employment	0.0	2.1	-2.1	No Change	1	7.0	86.0	7.0
Hours worked	3.1	6.1	-3.0	Increasing	3	10.1	82.9	7.0
Wages and benefits	16.2	17.8	-1.6	Increasing	70	17.3	81.6	1.1
Input prices	2.9	-7.6	+10.5	Increasing	1	9.8	83.3	6.9
Selling prices	-7.2	-14.3	+7.1	Decreasing	3	8.2	76.4	15.4
Capital expenditures	6.8	2.0	+4.8	Increasing	2	15.3	76.3	8.5
Inventories	-1.7	-16.3	+14.6	Decreasing	2	24.1	50.1	25.8
Companywide Retail Activity								
Sales	5.7	17.8	-12.1	Increasing	9	26.8	52.1	21.1
Internet sales	0.9	9.5	-8.6	Increasing	6	12.6	75.7	11.7
Catalog sales	-5.0	-6.3	+1.3	Decreasing	2	5.0	85.0	10.0

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	-2.2	6.8	-9.0	Worsening	1	16.5	64.8	18.7
General business activity	-26.1	-4.8	-21.3	Worsening	4	5.0	63.9	31.1

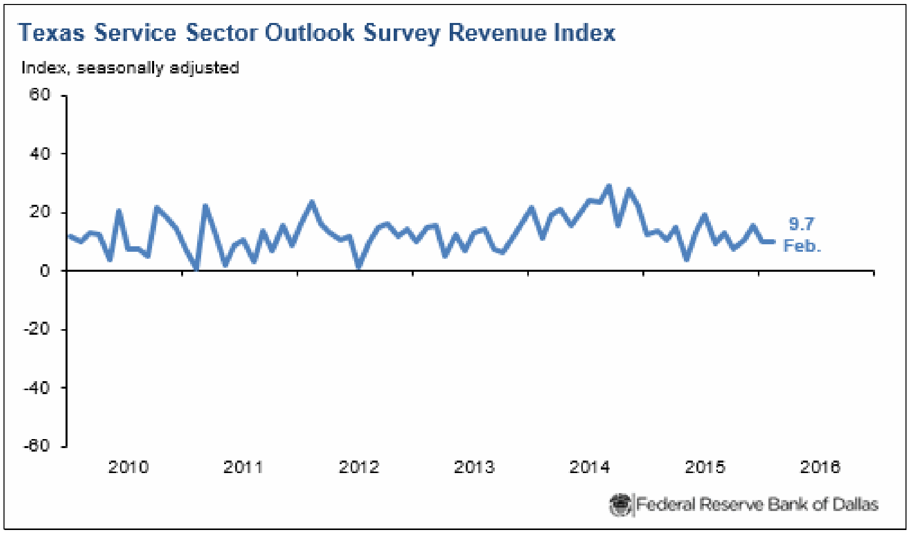
Business Indicators Relating to Facilities and Products in Texas, Retail
Future (six months ahead)

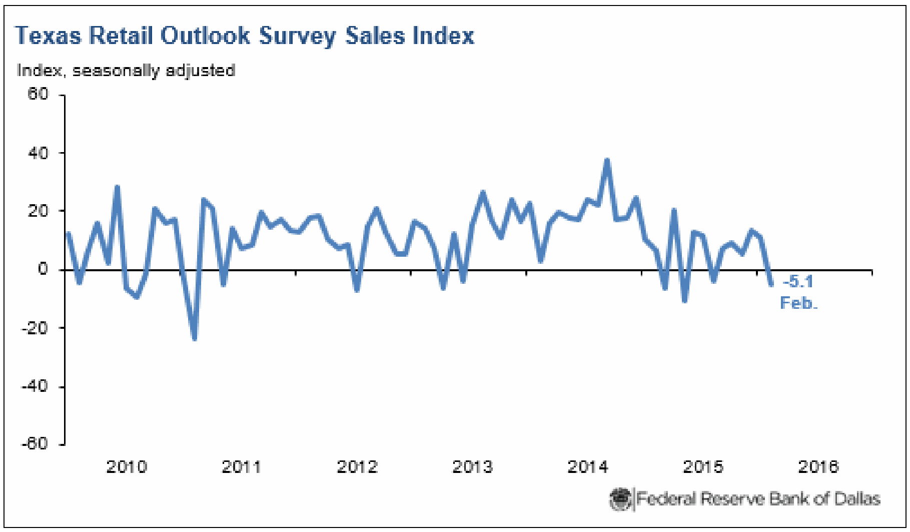
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Retail Activity in Texas								
Sales	27.5	26.9	+0.6	Increasing	84	43.6	40.3	16.1
Employment	1.2	9.5	-8.3	Increasing	12	12.2	76.8	11.0
Part-time employment	2.0	3.8	-1.8	Increasing	6	12.3	77.4	10.3
Hours worked	-2.1	-2.5	+0.4	Decreasing	2	5.6	86.7	7.7
Wages and benefits	21.4	24.7	-3.3	Increasing	86	24.6	72.2	3.2
Input prices	17.6	20.9	-3.3	Increasing	82	24.6	68.4	7.0
Selling prices	19.0	22.9	-3.9	Increasing	82	25.9	67.2	6.9
Capital expenditures	12.1	8.3	+3.8	Increasing	59	22.4	67.2	10.3
Inventories	-4.4	10.0	-14.4	Decreasing	1	19.2	57.2	23.6
Companywide Retail Activity								
Sales	29.0	30.8	-1.8	Increasing	83	41.9	45.2	12.9
Internet sales	20.5	27.0	-6.5	Increasing	83	23.1	74.4	2.6
Catalog sales	2.8	5.5	-2.7	Increasing	13	6.6	89.6	3.8

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	-3.8	13.0	-16.8	Worsening	1	17.7	60.8	21.5
General business activity	-18.3	-9.0	-9.3	Worsening	2	9.6	62.5	27.9

*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
Index, seasonally adjusted
60
40
20
0
-20
-40
-60
9.7
Feb.
2010
2011
2012
2013
2014
2015
2016
Federal Reserve Bank of Dallas


Texas Retail Outlook Survey Sales Index
Index, seasonally adjusted
60
40
20
0
-20
-40
-60
-5.1
Feb.
2010
2011
2012
2013
2014
2015
2016
Federal Reserve Bank of Dallas

Comments from Survey Respondents

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

Credit Intermediation and Related Activities

- Oil prices are having an abnormal influence on all other sectors; our hope is this will settle down in the coming months.
- Economic activity is still considered good, with certain ancillary industries impacted by the reduction in oil production. This seems to be the case across the state. New business development, especially in commercial real estate construction and renovation, is still going at a steady pace. Transportation infrastructure will begin benefitting more areas than just metropolitan areas, and the increased spending to provide additional future sources of water will stimulate the economy in Texas for many communities. The stock market and the U.S. government have everyone spooked.
- We are seeing more requests for debt consolidation in the commercial sector.
- We are being influenced by two issues: in South Texas, the decline in oil prices and associated reduction in oil field activities have had an increasing impact on business activity; and in banking, the increased cost of compliance with federal regulations has become oppressive and is leading to dropping certain services such as residential mortgage lending.
- We have seen a noticeable slowdown in our ability to attract outside capital to fund our business growth. We had to delay our IPO because of market volatility, and finding debt capital is becoming more difficult. If access to capital issues continue, we will have to slow down our growth prospects for this year.

Securities, Commodity Contracts and Other Financial Investments and Related Activities

- Oil and natural gas weakness takes the momentum out of the Panhandle economy. Drops in cattle and farm products prices hurt disposable income.
- Our business is heavily dependent on the oil and natural gas industries. The present selling prices of both oil and natural gas have brought massive layoffs and significant cutbacks in capital investments, e.g., drilling and development. All of this comes at a time when expensive federal governmental regulations continue to be put in place. Our outlook is not good for several months, possibly years.

Insurance Carriers and Related Activities

- Our insurance clients are reporting lower payrolls and fewer new jobs to work on.

Real Estate

- Business sentiment still seems muted. While all indicators are up and things look generally good, leasing activity is decent but not as robust as we think it should be, given the activity in housing and the low unemployment rate. We believe the continued decline of the stock market and bad news from around the world are making the public afraid to be too aggressive.
- We remain cautiously optimistic about the housing market.

Rental and Leasing Services

- Weakness in the oilfield is a net negative to a capital expenditure company like ours. Equipment rental is a large part of our business, and it is down 20 percent. Our markets are down, and although our business was up 5 percent last year, that is very unacceptable to a 56-year old business like ours. We started this year down 9 percent year over year, and we are concerned about this year and the Texas economy. We have instituted hiring and expenditure freezes.

Professional, Scientific and Technical Services

- We are starting to feel the oil patch crunch in our engineering backlog.
- Credit is still too difficult and expensive to find unless we can demonstrate we have no need for the funds.
- Our concern over commercial real estate and whether global turmoil will diminish foreign investment flows that could impact values is growing. However, commercial real estate fundamentals remain solid nationwide, with a big exception for Houston as that economy adjusts to a new phase in its business cycle.
- Although revenue is up over 2015, we have seen a drop in the number of new orders in our commercial division and an easing of orders in our residential division. We are still bullish on the Texas economy but think commercial real estate may have hit a plateau and expect it to cool off a bit in 2016. The residential market should continue to grow at least through 2016.
- Our outlook remains the same; however, the caution flag is up. We are concerned that the present economic level cannot be maintained in this increasingly uncertain market.
- We expected our business to be doing worse with low oil prices and all of the political rhetoric, but the reality is we are doing better than expected.
- The slowdown in China has hurt our engine design business. Restarting nuclear power plants in Japan has improved our inspection business. The strengthening of the dollar has prompted international clients to request price concessions. Research in oil and natural gas production remains strong despite the reduction in prices.

Management of Companies and Enterprises

- The economy is very sluggish. Everyone is afraid of the current economy and issues overseas. None of our customers have any confidence in this current administration. We are concerned about the presidential outcome and where it will lead for the next four to eight years.

Administrative and Support Services

- The availability of highly skilled IT talent is very tight and has been for almost 12 months. People are getting multiple job offers. However, uncertainty still keeps businesses hiring at an anemic pace. The hiring process is elongated, and companies are looking for the perfect fit even for contract IT positions.
- Low fuel prices continue to impact sales in the public transportation industry.
- We are experiencing, and hearing, that investors are increasingly concerned about another global recession. We have had a number of investors ask us if we have a U.S. or global recession baked into our outlook. We are also hearing that many banks are starting to tighten their belts on employee travel much like they did in the 2008–09 recession. We are watching business activity closely and we continue to monitor the situation. Leisure travel is benefiting from the slowdown as airlines and hotels compress prices in an effort to stimulate demand.
- Our focus now is to expand our infrastructure to be more efficient. Our current building is too small. Any improved margin will be coming from implementation of technology in administration.
- West Texas is declining rapidly, while the Austin market remains strong. DFW is beginning to see more budget review as competition in real estate markets intensifies. Houston is experiencing a softening in business.
- We are seeing more activity from the industrial sector in regards to products that are not related to oilfield items. It seems like the machine shops that were not swamped with debt from purchases of capital equipment for the energy business are branching out to other sectors and trying to develop those leads. The aviation sector continues to increase, with more inspections for scheduled items due to increased utilization of the aircraft. Major inspections are being requested for bids. Thus, the outlook for the inspection side of aviation at this moment has definitely improved.
- Pending and unknown details of government regulation make it difficult to plan and execute a sound business plan. Changes to the qualified retirement plan market will dramatically impact the service we provide to our middle income market.

Publishing Industries (except Internet)

- Our clients have a high level of uncertainty on where to invest. There is increased fear of making wrong spending decisions, especially when it comes to digital investments. While innovation by providers in the digital services market is very high, buyers of these services are distracted by the fear of not knowing which digital investment and provider to choose.

Telecommunications

- The oil slump in Houston, which has created significant layoffs, is being felt in the reduced home occupancy levels. Many homes are up for sale or lease, which negatively impacts our ability to sell our services. Also, many homeowners are searching for deep discounts, which now are reflected by our promotions and those of our competitors even though our direct costs have increased. We will be reducing our labor costs in several departments by not filling vacancies and reducing overtime. Commercial lease space is increasing while occupancy is slowing, impacting our ability to sell commercial services too.

Educational Services

- Oil price decreases are beginning to be felt throughout the business community in North Texas. Many companies seem to be cutting back in preparation for a sustained low level of energy prices.

Ambulatory Health Care Services

- Nationwide, there is a systemic contraction of reimbursement for health care providers that is triggering significant consolidation in medium and large enterprises. Small business health providers are shutting down because they are unable to meet increasingly complex requirements including in quality, outcomes and coding.
- February revenue increased due to Medicare patients paying their 2016 deductible, which means more come in for services. Benefit costs are going up 3 percent in March for plan renewal. As the year progresses, we expect to see some downturn in revenue as low oil prices have a greater impact on jobs and disposable income in our area.
- The demand for periodontal surgery usually decreases in February and increases again in March and April. We will also be starting a marketing program in April, which should generate more business.
- We had a modest increase in February; volumes increased revenue slightly.

Hospitals

- Regulation continues to impact rural hospitals; independent hospitals will have to find opportunities to partner.

Nursing and Residential Care Facilities

- The health care economy continues to be unstable. We expect difficulty in replacing physicians and nurses as they age out of the workforce. The transition from a fee-for-service system to a bundled payments arrangement will dampen growth in the health care sector going forward.
- Our increase was due to fundraising activities. Our poor outlook is due to the depressed outlook for oil and natural gas prices.

Amusement, Gambling, and Recreation Industries

- The levels of business in Austin are still very good. Our pessimistic outlook has to do with the fact that the city of Austin has such limited parking in the central business district that it is affecting our lunch business and that of many of the downtown businesses. Evening business remains strong and growing. We have begun to see some easing of prices due to the decrease in gasoline prices. This is welcome. Our projected decrease in capital expenditures has a lot to do with how well our investments in the stock market are doing.

Accommodation

- Finding and retaining service sector employees continues to be very challenging. At the same time, weakness in the energy sector in our key feeder markets of Houston and South Texas is having a negative impact on our sales of business, leisure and group hotel rooms.

Food Services and Drinking Places

- Our expected increase in six months is only from new store openings. Our business has actually softened in the last month.
- We were hit hard by government intervention in our work force.
- We have lost our momentum. We are still slightly up in the current fiscal period but by substantially less than our price increases in place. We don't see any signs at this point to indicate we will move off of this sluggish performance any time in the near future. We will be opening a new restaurant next month and expect increased revenue and number of employees. Our core operations will not see much change, if any, unless things pick up substantially. Capital expenditures will be decreasing in the six-month horizon as they will be returning to normal following heavy expenditures to build the new restaurant.
- Beef prices have come down, but labor costs have increased to offset. The labor market in San Antonio and South Texas is very tight.

Pipeline Transportation

- New projects receive greater and longer duration scrutiny by customers before proposals are requested. Customers take longer to evaluate proposal responses before making an award. New oil-related projects are effectively nonexistent. Natural-gas-related projects provide the majority of our current and new work.

Repair and Maintenance

- We are a seasonal business that increases significantly by the end of the first quarter each year.

Merchant Wholesalers, Durable Goods

- We are experiencing general sluggishness as we get the year started. Oil and natural gas prices are having some effect on the economy in Texas, but the economy is still fairly strong due to diversified markets in the state. Legislation that passed last fall should increase expenditures for road-related equipment. The DFW metroplex and Austin homebuilding and commercial construction markets are still very strong.
- We hired several additional salespeople in 2015 and should see a positive impact in 2016. We have plans to continue to hire additional salespeople throughout 2016. We are in the process of constructing an entirely new web-based storefront, which we believe will generate additional revenues beginning in the second half of 2016.
- We are very concerned over oil pricing and the impact on investments in construction projects. Houston is already slowing down. West Texas is way off and getting worse. Oklahoma is showing weakness in residential construction. Layoffs impact home purchases and foreclosures. Plumbing trade is still under-staffed for construction.

Merchant Wholesalers, Nondurable Goods

- The problems in the oil patch are hitting our customers. We are having to cut our margins to maintain the same business we have had in the past. We are actively looking for lower cost suppliers to make this work.

Motor Vehicle Parts Dealers

- Energy industry layoffs are beginning to have a negative effect on new vehicle unit sales volume. Margins on new vehicle sales are under severe pressure.
- We are feeling the impact of lower oil activity. As a truck dealer, parts of our business are feeling the lower overall industry performance.

Building Material and Garden Equipment and Supplies Dealers

- Revenues and gross profit are level with last year, but general business expenses are up. Property and health insurances and pressure on wages are all contributing factors in reducing profits from the prior years.
- We are currently quite busy but are expecting things to slow in the upcoming months based on the near-term economic forecast.
- We are in the downstream oil industry, so we are not as bad as others. Some areas of the state are still good, but others are now slowing.

Nonstore Retailers

- Despite some sales weakness in a few of our markets in existing segments, we are currently implementing a new segment with very strong results. Any weakness in other segments is being more than offset with new sales. Thus, we maintain a positive outlook for our company against a backdrop of weakened business activity.

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 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.