



Texas Service Sector Outlook Survey

DALLAS **FED**

May 28, 2014

SPECIAL QUESTIONS

1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to twelve months?

	May '14 (percent)	Mar. '12 (percent)	Jan. '11 (percent)
Increase	43.1	49.0	47.7
Leave Unchanged	47.9	40.7	44.4
Decrease	9.0	10.3	7.9

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

	May '14 (percent)
Yes	71.4
No	28.6

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

	May '14 (percent)
Lack of technical competencies (hard skills)	55.9
Lack of available applicants/no applicants	46.5
Lack of experience	44.9
Lack of workplace competencies (soft skills)	44.1
Looking for more pay than is offered	37.8
Inability to pass drug test and/or background check	29.1

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

	May '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	58.0
Increase wages and or benefits	47.3
Offer additional training	39.3
Increase variable pay, including bonuses	34.0
Improve working conditions	16.7
Reduce education and other requirements for new hires	6.7
Other	13.3

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

	May '14 (percent)
Yes	41.8
No	43.0
Not Applicable	15.2

TEXAS RETAIL OUTLOOK SURVEY

1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to twelve months?			
	May '14 (percent)	Mar. '12 (percent)	Jan. '11 (percent)
Increase	47.5	50.9	49.2
Leave Unchanged	50.0	43.9	44.4
Decrease	2.5	5.3	6.3

2. Are you having problems finding qualified workers when hiring?	
	May '14 (percent)
Yes	82.5
No	17.5

3. If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.	
	May '14 (percent)
Lack of workplace competencies (soft skills)	55.9
Lack of experience	52.9
Lack of technical competencies (hard skills)	50.0
Lack of available applicants/no applicants	50.0
Inability to pass drug test and/or background check	47.1
Looking for more pay than is offered	35.3

4. What, if anything, are you doing to recruit and retain employees? Please check all that apply.	
	May '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	70.0
Increase wages and or benefits	50.0
Increase variable pay, including bonuses	42.5
Offer additional training	40.0
Improve working conditions	17.5
Reduce education and other requirements for new hires	12.5
Other	5.0

5. If labor costs are increasing, are you passing the cost on to customers in the way of price increases?	
	May '14 (percent)
Yes	51.3
No	41.0
Not Applicable	7.7

NOTE: Data were collected May 5–8, and 168 Texas business executives responded to the survey.

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Truck Transportation

- > What we are seeing appears to be the normal tightening of a labor market pursuant to a postrecession business upsurge. With a graduating college daughter, I am pleased to see graduate hiring "up" and the graduates holding to their compensation expectations.

Support Activities for Transportation

- > We can pass costs on to customers as possible, but it is not always possible to do so.

Publishing Industries (except Internet)

- > We are located in a small, rural Texas market. We are experiencing significant difficulties recruiting our skilled positions. Recent college graduates appear unwilling to relocate here, preferring to live and work in large, metro areas. Compensation does not appear to be the key issue; lifestyle issues loom large.

Broadcasting (except Internet)

- > We are most challenged in finding workers at the \$10 per hour wage level and below. The "boom" in West Texas is making it harder to find qualified workers for that wage.

Credit Intermediation and Related Activities

- > Rural markets are difficult to attract prospects unless they want to come back home. The employee pool in a small community is very shallow when it comes to education, generally a high school degree, so even offering continued education does not usually appeal to that class of employee. It is easier to hire someone in a metro area, pay the going rate and develop business in those markets. The problem in our size of bank is succession, unless you have kids who want to come back home.
- > Even though overhead costs are slowly increasing, competitive pressures restrict the ability to increase income. Compression of the interest rate margin continues.
- > Any reasonable employer is always concerned with its staff.
- > We are in a good spot right now to compete for quality skills on new hires. Some of the large banks have been downsizing and that has been a great source, plus we have a really good culture with exceptional benefits, so that helps as well.
- > Our major issue is the unknown for new banking regulations and how examiners will enforce them.

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

- > We pass on increased costs, if possible. Our industrial service business is very competitive. Right now, the availability of expensing equipment used in the manufacturing process against revenue, up to \$500 million, under Section 179 of the U.S. Internal Revenue Code has not been renewed. This situation also applies to Section 166 and to bonus depreciation. This amounts to a very, very significant increase in federal income taxes. We are holding off on several capital equipment expenditures, which holds up hiring of additional personnel. These situations are extremely negative for business expansion and hiring additional personnel. Health insurance, U.S. Department of Energy offshore regulations, and additional Environmental Protection Agency regulations are also taking their toll on the business.

Insurance Carriers and Related Activities

- > In the short term, increased labor costs won't necessarily impact insurance product pricing. Underwriting results will have a more significant impact. Over time it does factor into the price of the product.
- > We are an office and clerical, so our issue is finding prospects with people skills and ideally some prior training in insurance.

Real Estate

- > Most of our personnel are independent contractors (real estate licensees). We've had no turnover in nearly ten years, so we're not up to speed on the quality of current job seekers.

Rental and Leasing Services

- > In Texas we have a number of oil shale plays that are both a blessing and a curse. The curse is that oil companies can offer, literally, two or three times what we pay, which is the top of our industry. They will take someone that the government would not even pay \$10 per hour and pay them \$35 per hour. We believe that boom will bust, and then all those people who could have been building a career with us will be back out on the street. Yes, we pass some of our increased costs from government regulatory burdens and increased wages onto the customer, but you cannot pass anywhere near all of it along. So no, we eat most of it and dissipate the equity and capital in the company we use to build and grow the company and hire more people.

Professional, Scientific, and Technical Services

- > We have some lower skilled positions we are phasing out. We need better qualified workers who can do more, reducing our overall headcount. Sometimes compensation expectations are out of line with what the market will bear.
- > Most of our employees are grumbling about low pay. However, none have left for better pay. Even in Houston where things are booming we don't think there are a lot of better paying jobs out there. The only workers who seem to be mobile are the younger ones, but they will leave for \$.50 more per hour. If the minimum wage is raised, all bets are off.
- > We have a three person human resources group. One person is a full-time recruiter who maintains a sizable database of potential applicants. When a need arises we have been able to fill spots for experienced people who have contacted us previously. We fill most of our entry-level professional positions with new graduates who have gone through our large internship program. We can get the "pick of the litter" this way. The problem we have is that other, smaller competitors have been luring away some of these graduates after 18 to 24 months with a sizable salary increase.

Administrative and Support Services

- > The Texas Back to Work program of the Texas Workforce Commission is a great help in filling open positions.
- > We are an IT contract staffing firm of 250 people on average, working in clients' offices. We of course have full time recruiters, use many social media tools, referrals, referral fees, user groups and job boards. There is definitely a shortage of qualified IT people in the higher skill positions.
- > For the first time in nearly four years, we are forced to start raising consumer pricing. The cost of being an employer continues to rise.
- > The current market is still inflexible on pricing service work. Customers are mixed on their ability to pass on price increases, and their budgets are not growing for service work.

Ambulatory Health Care Services

- > Because outpatient imaging is a deflationary business with constant decreased reimbursement, wages are stagnant. We cannot afford to pay our employees more at this time and anticipate worsening cash flow in the future. We have seen strong employees leaving for hospital system employment because of better employee benefit programs.
- > As a medical group we are bound by private contracts and Medicare fee schedules, so we cannot pass along increased costs. We must look for more efficiency.

Hospitals

- > Our ability to pass along increased costs is very limited due to long-term reimbursement contracts and heavy dependency on fixed rates established by governmental payers.

Nursing and Residential Care Facilities

- > Workforce challenges in health care are growing, partly as a result of the continuing financial pressure associated with implementation of the Affordable Care Act (reduced reimbursement, higher regulatory costs, no pricing flexibility), and partly as a result of an aging workforce with fewer young workers available to replace those who retire or reduce hours.

Social Assistance

- > We are concerned that we may need to downsize if the federal minimum wage increases at the rate being proposed.

Food Services and Drinking Places

- > We can't raise prices to cover the additional cost of labor, and government regulations are driving away any incentive to expand our business.
- > We answered yes to passing on increased labor costs to customers because we definitely factor wage and benefit increases into our calculations for price increases. However, wage increases have been quite modest up to this point, so they have not been a big factor in recent price increases. Benefits and the cost of goods have driven a far higher portion of our price increases. If wages do start to track up more sharply, we will definitely pass the cost on.

Merchant Wholesalers, Durable Goods

- > Our payroll pressure increased with talk of minimum wage rate increase. We pay more than the proposed increase, but the impact was felt in wage discussions with current employees.
- > For entry-level jobs we are competing with too many benefits in not working. Child support avoidance creates job turnover also. All areas need more skill training, not higher education.
- > We feel that we need new immigration laws and enforcement.

Motor Vehicle and Parts Dealers

- > Many of our applicants are not willing to work nights or Saturdays. We had one applicant say he was just looking around and still had 3 months of unemployment benefits left.
- > In the competitive retail environment today, we find it virtually impossible to pass increased labor costs on to the consumer.
- > Employees for entry-level positions are difficult to find and when we do, they often don't last long because they are lazy, don't understand they can't take off whenever they like and they want a promotion without putting in the time and effort to learn the current position sufficiently to justify a promotion. Available "experienced" employee applicants typically interview well, but do not perform up to the level they said they were capable of during the interview. For the most part, it appears the good employees have a job, and those that are looking for a job are lacking in ability and desire.
- > Schooling simply does not prepare students with anywhere near the technical knowledge they must have to be able to do the job. We need more, better vocational schools to prepare students for today's job requirements. We spend time and money training the employee and often lose him to oil companies who can afford to pay more than the market rate.

Food and Beverage Stores

- > Wage inflation has actually slowed down for our company in 2014 versus 2013.

General Merchandise Stores

- > We have been able to hire qualified associates; however, we are working harder (and/or taking longer) to hire qualified associates, primarily in IT and finance.

