



# Texas Manufacturing Outlook Survey

DALLAS FED

November 28, 2016

## TEXAS MANUFACTURING ACTIVITY CONTINUES TO EXPAND

Texas factory activity increased again in November, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, posted a fifth consecutive positive reading and edged up to 8.8.

Other measures of current manufacturing activity showed mixed movements. The new orders and growth rate of orders indexes posted their third consecutive negative readings in November but moved up, coming in at -1.4 and -0.8, respectively. The capacity utilization index rose three points to 3.6, while the shipments index dipped slightly negative to -1.9.

Perceptions of broader business conditions improved markedly this month. The general business activity index shot up to 10.2 after nearly two years of negative readings. The company outlook index also posted a large gain, increasing nine points to a reading of 11.0.

Labor market measures indicated increased employment levels and longer workweeks. The employment index came in at 4.5 after a near-zero reading last month. Seventeen percent of firms noted net hiring, compared with 13 percent noting net layoffs. The hours worked index returned to positive territory in November, coming in at 2.5.

Prices and wages rose this month. Input cost increases accelerated slightly, with the raw materials prices index rising from 13.7 to 18.2. The finished goods prices index posted a second positive reading, climbing from 1.2 to 8.0, and indicates a likely end to the period of deflation in manufactured goods prices that began in 2015. Wages and benefits continued to rise, with the index edging up to 18.4.

Expectations regarding future business conditions improved notably in November. The index of future general business activity advanced 27 points to 31.6. The index of future company outlook also jumped up more than 20 points, coming in at 34.9. Other indexes for future manufacturing activity pushed markedly higher in to positive territory.

**Next release:** December 27, 2016

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Nov. 14–22, and 111 Texas manufacturers responded to the survey. Firms are asked whether output, employment, orders, prices and other indicators increased, decreased or remained unchanged over the previous month.

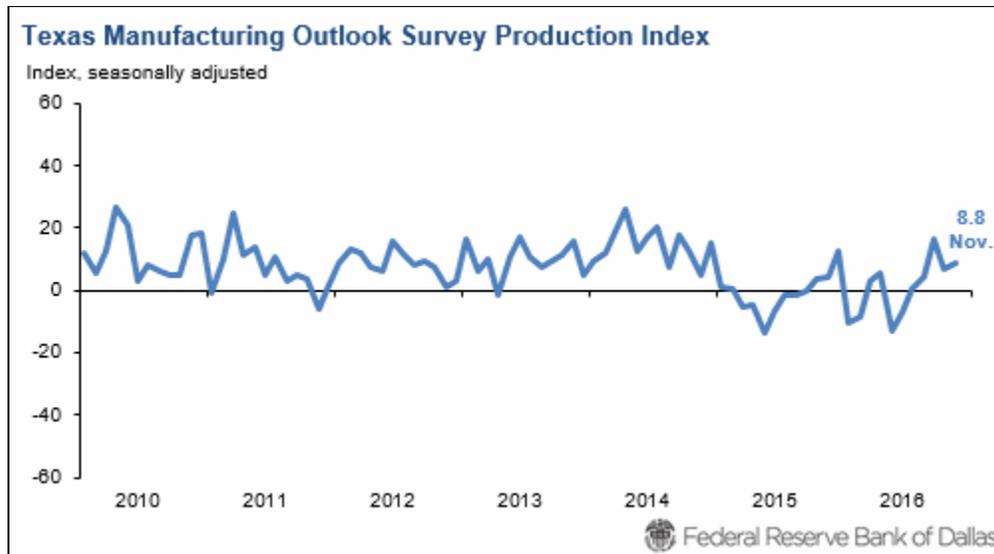
Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. When the share of firms reporting an increase exceeds the share reporting a decrease, the index will be greater than zero, suggesting the indicator has increased over the prior month. If the share of firms reporting a decrease exceeds the share reporting an increase, the index will be below zero, suggesting the indicator has decreased over the prior month. An index will be zero when the number of firms reporting an increase is equal to the number of firms reporting a decrease. Data have been seasonally adjusted as necessary.

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Current (versus previous month)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	8.8	6.7	+2.1	Increasing	5	28.8	51.2	20.0
Capacity Utilization	3.6	0.8	+2.8	Increasing	5	23.2	57.2	19.6
New Orders	-1.4	-3.5	+2.1	Decreasing	3	26.4	45.8	27.8
Growth Rate of Orders	-0.8	-5.1	+4.3	Decreasing	3	22.3	54.6	23.1
Unfilled Orders	-2.5	-7.5	+5.0	Decreasing	24	12.4	72.7	14.9
Shipments	-1.9	1.9	-3.8	Decreasing	1	22.4	53.3	24.3
Delivery Time	-3.1	-1.2	-1.9	Decreasing	2	7.2	82.5	10.3
Materials Inventories	-4.3	-5.5	+1.2	Decreasing	16	13.9	67.9	18.2
Finished Goods Inventories	-6.3	1.8	-8.1	Decreasing	1	17.1	59.5	23.4
Prices Paid for Raw Materials	18.2	13.7	+4.5	Increasing	8	20.1	78.0	1.9
Prices Received for Finished Goods	8.0	1.2	+6.8	Increasing	2	12.4	83.2	4.4
Wages and Benefits	18.4	16.4	+2.0	Increasing	84	18.4	81.6	0.0
Employment	4.5	0.2	+4.3	Increasing	3	17.2	70.1	12.7
Hours Worked	2.5	-1.8	+4.3	Increasing	1	18.7	65.1	16.2
Capital Expenditures	2.0	8.7	-6.7	Increasing	3	11.4	79.2	9.4
<b>General Business Conditions</b>								
<b>Current (versus previous month)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	11.0	1.8	+9.2	Improving	3	26.4	58.2	15.4
General Business Activity	10.2	-1.5	+11.7	Improving	1	22.5	65.2	12.3
<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Future (six months ahead)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	52.3	33.0	+19.3	Increasing	93	57.4	37.5	5.1
Capacity Utilization	46.4	32.8	+13.6	Increasing	93	52.1	42.2	5.7
New Orders	48.1	32.2	+15.9	Increasing	93	53.8	40.5	5.7
Growth Rate of Orders	42.4	23.5	+18.9	Increasing	93	47.2	47.9	4.8
Unfilled Orders	14.3	0.7	+13.6	Increasing	14	20.1	74.1	5.8
Shipments	44.3	26.5	+17.8	Increasing	93	52.0	40.3	7.7
Delivery Time	-2.9	-5.6	+2.7	Decreasing	4	8.2	80.7	11.1
Materials Inventories	11.3	0.9	+10.4	Increasing	3	24.5	62.3	13.2
Finished Goods Inventories	3.8	0.9	+2.9	Increasing	5	16.3	71.2	12.5
Prices Paid for Raw Materials	34.2	25.9	+8.3	Increasing	92	35.2	63.8	1.0
Prices Received for Finished Goods	31.1	14.0	+17.1	Increasing	10	34.9	61.3	3.8
Wages and Benefits	40.4	36.4	+4.0	Increasing	150	41.5	57.4	1.1
Employment	30.6	14.2	+16.4	Increasing	48	37.3	56.0	6.7
Hours Worked	19.2	2.8	+16.4	Increasing	6	23.8	71.6	4.6
Capital Expenditures	30.4	14.0	+16.4	Increasing	84	37.1	56.2	6.7
<b>General Business Conditions</b>								
<b>Future (six months ahead)</b>								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	34.9	12.2	+22.7	Improving	10	43.5	47.8	8.6
General Business Activity	31.6	4.8	+26.8	Improving	6	40.9	49.9	9.3

\*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.

### Nonmetallic Mineral Product Manufacturing

- > October was our best month, ever (60 years). We are gearing up for big growth in 2017, after a slight seasonal lull in November through January.

### Fabricated Metal Product Manufacturing

- > We have seen some activity related to refinery turnarounds, but the price competition is fierce and the purchasing managers all indicate they are in a "wait and see" mode until more is known about the direction of the new administration and growth in the economy.
- > The construction market and demand for steel in particular has remained strong throughout the year. We saw mill increases this month after a succession of decreases earlier in the year.
- > Ninety percent of our revenue comes from the manufacturing of "downhole" tools.
- > There is a great deal of optimism from our customers that the new pro-growth and lower-tax focus by the incoming administration will be a positive change from the past eight years.
- > We are experiencing a decline in volume similar to the first quarter. We have had lower volumes across almost all customer sectors going into yearend. We have some early indications of new activity ahead.
- > The EPA's Significant New Alternatives Policy (SNAP) program would put us out of business. I am now cautiously optimistic that the regulations would render every air conditioner, refrigerator and freezer currently in use obsolete. It would also make it illegal to repair any of these existing systems. The owner of the unit would have to replace the entire system or appliance with a new one that uses the new and only approved refrigerant, which is highly flammable. The EPA's onerous regulations on wood burning stoves has already put several of our customers out of business and caused a significant decrease in our 2016 fourth quarter revenues and 2017 first quarter revenues.

### Machinery Manufacturing

- > Chain restaurant activity remains slow with less spending on equipment. We are also seeing a slowdown in spending from fine dining and fast casual segments. Spending from convenience store chains remains strong as they continue to expand food offerings. Retail deli remains steady after a very strong year last year driven by new program rollouts at several national chains.

### Computer and Electronic Product Manufacturing

- > We are seasonal in some aspects and always start to pick up in March and see increases through October usually. Last year we remained busy through the end of the year. This year looks to be the same. We have also been working on four new products that we hope to release in early next year.
- > This year looks to be as expected, another year of low growth.
- > Manufacturing and U.S. capital equipment is suffering over the sky-high dollar around the world. Other countries are going wild on their currency devaluations, and the U.S. does nothing to control it. This is hurting manufacturing, energy and agricultural businesses.

## Transportation Equipment Manufacturing

- > Our manufacturing is being attacked more strongly than in the past by competition in Asia-Pacific. Specifically, China, India and South Korea have undercut our domestic prices by over 30 percent on most comparable products.
- > We expect the election to improve confidence in the economy with above average growth. Hopefully, the Federal Reserve System will make the right interest adjustment; it is a distortion and will fuel inflation.

## Printing and Related Support Activities

- > We continue to be very busy, which is normal for this time of year but still a good thing and we are thankful for it. I would like to think that business will remain steady now that the election is over and a pro-business candidate will be president. There is so much government interaction, interference and added cost that businesses have to endure that any positive change to reduce that impact will be a huge benefit. Time will tell and hopefully it's not a long time that is required.

## Wood Manufacturing

- > It is a surprise to me but new home construction is at the highest pace it has been all year, so no indication of slowing this quarter and even next, weather notwithstanding.

## Paper Manufacturing

- > Improvements are small but there. Raw materials and labor costs continue to increase faster than selling prices. Manufacturing efficiencies are maxed out at this time.
- > Having commercial activity on both sides of the U.S.–Mexico border, we are concerned about the potential impact of announced revisions to the NAFTA agreement by the new administration.

## Food Manufacturing

- > There is seasonality in the food industry. We are a specialty food manufacturer and expect a sales increase after Thanksgiving.
- > The recent devaluation of the peso will make our products much less competitive in Mexico and much of Latin America. We could see a double-digit decrease in exports to this region. Tight labor in Texas continues to make staffing second and third shifts problematic. We have had two 10-percent increases in wages the last 18 months in order to remain fully staffed. We have also had challenges in the quality of candidates as well.

## Miscellaneous Manufacturing

- > We are looking forward to the end of the disastrous socialist policies of the last eight years. Please reduce the regulation, taxes and government interference so we can compete globally. We hope the new administration makes good on its promises and, if so, it will increase our business expansion, hiring and investments.

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Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at [emily.kerr@dal.frb.org](mailto:emily.kerr@dal.frb.org). The Texas Manufacturing Outlook Survey can be found online at [www.dallasfed.org/microsites/research/surveys/tmos/](http://www.dallasfed.org/microsites/research/surveys/tmos/).

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