Texas Manufacturing Outlook Survey

DALLASFED

November 24, 2014

Texas Manufacturing Activity Posts Slower Growth

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 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, fell from 13.7 to 6, indicating output growth slowed in November.

Other measures of current manufacturing activity also reflected slower growth during the month. The capacity utilization index fell sharply from 18.1 to 9.8. The new orders index also declined notably from 14.2 to 5.6, although more than a quarter of firms continued to note increases in new orders over October levels. The shipments index was 12.1, nearly unchanged from its October reading.

Perceptions of broader business conditions remained positive this month, while outlooks were less optimistic. The general business activity index held steady at a solid reading of 10.5. The company outlook index dropped from 18.2 to 8.8, due to a smaller share of firms noting an improved outlook in November than in October.

Labor market indicators reflected continued employment growth and longer workweeks. The November employment index posted a sixth robust reading, coming in at 9.6. Twenty-one percent of firms reported net hiring, compared with 11 percent reporting net layoffs. The hours worked index slipped from 8.3 to 5.7, indicating a smaller increase in hours worked than last month.

Upward pressures on wages and prices were mixed. The raw materials prices index fell from 19.7 to 15.3, its lowest reading in seven months. The finished goods prices index edged up from 7.1 to 9.7. The wages and benefits index was little changed, at a reading of 23.9, with 76 percent of manufacturers noting no change in wages and benefits this month.

Expectations regarding future business conditions remained optimistic in November. The index of future general business activity rose 5 points to 18.3, while the index of future company outlook held steady at 23.1. Indexes for future manufacturing activity held steady or improved in November.

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.10–19, and 108 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.

Next release: December 29, 2014

Business Indicators Relating to Facilities and Products in Texas
Current (versus previous month)

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	6.0	13.7	-7.7	Increasing	19	25.8	54.4	19.8
Capacity Utilization	9.8	18.1	-8.3	Increasing	24	24.1	61.6	14.3
New Orders	5.6	14.2	-8.6	Increasing	19	26.0	53.6	20.4
Growth Rate of Orders	-2.9	7.4	-10.3	Decreasing	1	17.1	62.9	20.0
Unfilled Orders	1.0	0.8	+0.2	Increasing	2	13.1	74.8	12.1
Shipments	12.1	12.8	-0.7	Increasing	19	29.3	53.5	17.2
Delivery Time	-2.2	4.2	-6.4	Decreasing	1	10.0	77.8	12.2
Materials Inventories	15.3	9.4	+5.9	Increasing	2	26.4	62.5	11.1
Finished Goods Inventories	-1.9	4.5	-6.4	Decreasing	1	15.7	66.7	17.6
Prices Paid for Raw Materials	15.3	19.7	-4.4	Increasing	64	23.3	68.7	8.0
Prices Received for Finished Goods	9.7	7.1	+2.6	Increasing	16	17.0	75.7	7.3
Wages and Benefits	23.9	24.5	-0.6	Increasing	64	24.0	75.9	0.1
Employment	9.6	10.2	-0.6	Increasing	18	20.8	68.0	11.2
Hours Worked	5.7	8.3	-2.6	Increasing	11	17.0	71.7	11.3
Capital Expenditures	13.3	10.8	+2.5	Increasing	38	18.7	75.9	5.4

General Business Conditions
Current (versus previous month)

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	8.8	18.2	-9.4	Improving	18	18.6	71.6	9.8
General Business Activity	10.5	10.5	0.0	Improving	18	18.5	73.4	8.0

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

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	40.9	41.2	-0.3	Increasing	69	48.9	43.0	8.0
Capacity Utilization	35.1	33.9	+1.2	Increasing	69	44.4	46.4	9.3
New Orders	37.6	38.1	-0.5	Increasing	69	46.0	45.6	8.4
Growth Rate of Orders	29.8	22.3	+7.5	Increasing	69	39.2	51.4	9.4
Unfilled Orders	8.9	3.5	+5.4	Increasing	16	19.6	69.7	10.7
Shipments	38.7	34.2	+4.5	Increasing	69	46.0	46.7	7.3
Delivery Time	-0.2	1.7	-1.9	Decreasing	1	7.8	84.2	8.0
Materials Inventories	8.9	6.7	+2.2	Increasing	3	21.8	65.3	12.9
Finished Goods Inventories	7.9	-1.0	+8.9	Increasing	1	17.8	72.3	9.9
Prices Paid for Raw Materials	28.0	31.4	-3.4	Increasing	68	34.0	60.0	6.0
Prices Received for Finished Goods	23.5	15.2	+8.3	Increasing	29	29.4	64.7	5.9
Wages and Benefits	42.3	40.8	+1.5	Increasing	126	43.1	56.1	0.8
Employment	27.5	31.7	-4.2	Increasing	63	37.3	52.9	9.8
Hours Worked	14.2	6.3	+7.9	Increasing	18	19.5	75.2	5.3
Capital Expenditures	21.0	20.6	+0.4	Increasing	60	30.0	61.0	9.0

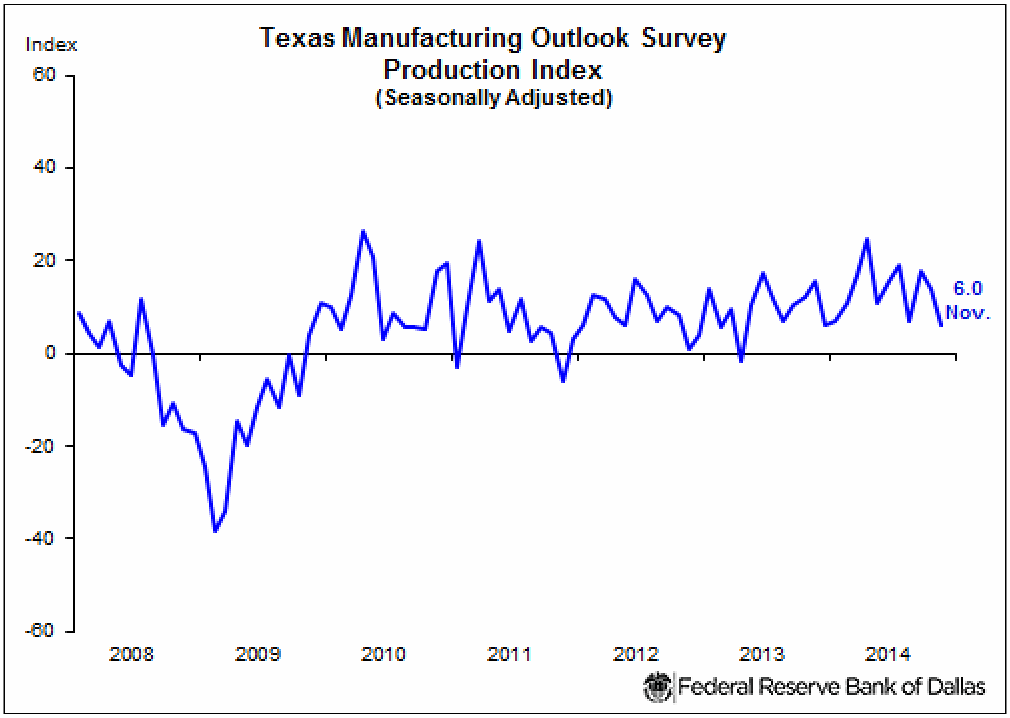
General Business Conditions
Future (six months ahead)

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	23.1	23.6	-0.5	Improving	68	31.0	61.1	7.9
General Business Activity	18.3	13.3	+5.0	Improving	18	26.0	66.3	7.7

*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.



Comments from Survey Respondents

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

Fabricated Metal Manufacturing

- The drop in oil prices has created a lot of uncertainty.
- We have recently added a significant number of new customers, which makes our outlook optimistic. From a larger perspective, though, the declining price of oil is concerning, but we are not yet ready to declare an impending downturn in our business because of it.
- Modest single-digit improvement in shipments is occurring in the short term. Expectations—supported by bookings, backlogs and shipping schedules—point to a mid-single digit improvement in the next six months on a year-over-year basis comparison.

Machinery Manufacturing

- After the election, we have seen an increase in optimism and capital equipment purchasing.
- Weaker global energy demand is resulting in lower energy prices, which is having a negative effect on demand for our products and services.
- Volume of business varies based on the end customer's business level. Overall, the industry is growing moderately; however, certain brands are growing rapidly and others are growing slowly or even shrinking.
- A stable oil price will help, but our medium-term outlook is still positive that oil prices will rebound and our business will be steady after the fourth quarter lull.
- We expect to benefit from expanding activity from our midstream and downstream energy customers (refining, petrochemical, power and pipelines).

Computer and Electronic Product Manufacturing

- Without a real positive government policy to incentivize businesses to invest in this economy, we see stagnation for another two years.

Paper Manufacturing

- We are not ready to commit to the next six months based on the better environment in November versus October.

Printing and Related Support Activities

- There has been no particular change month to month. Longer-term prospects remain strong, and capital expenditures are increasing.

Plastics and Rubber Products Manufacturing

- Our manufacturing business annually slows in November and December and then picks up starting in January.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Laila Assanie at laila.assanie@dal.frb.org.
The Texas Manufacturing Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tmos/.

November 24, 2014

Special Questions

Results below include responses from participants of all three surveys: Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

Data were collected Nov. 3–6, and 262 Texas business executives responded to the surveys.

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

	Mar. '12 (percent)	May '14 (percent)	Nov. '14 (percent)
Increase	51.1	44.8	47.7
Leave Unchanged	39.8	46.9	46.2
Decrease	9.1	8.4	6.1

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

	May '14 (percent)	Nov. '14 (percent)
Yes	70.4	73.6
No	29.6	26.4

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

	May '14 (percent)	Nov. '14 (percent)
Lack of technical competencies (hard skills)	60.1	57.7
Lack of available applicants/no applicants	43.8	46.9
Lack of workplace competencies (soft skills)	46.1	43.4
Lack of experience	43.3	39.8
Looking for more pay than is offered	37.1	38.3
Inability to pass drug test and/or background check	32.0	29.1

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

	May '14 (percent)	Nov. '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	56.9	63.2
Increase wages and or benefits	44.9	52.6
Offer additional training	41.7	40.4
Increase variable pay, including bonuses	32.4	33.8
Improve working conditions	15.3	25.9
Reduce education and other requirements for new hires	7.4	5.7
Other	13.0	10.1

5. If labor costs are increasing, are you passing the cost on to customers in the way of price increases?	May '14 (percent)	Nov. '14 (percent)
Yes	38.8	36.8
No	44.7	50.6
Not Applicable	16.5	12.6

NOTE: Survey respondents were given the opportunity to provide comments. These comments can be found on the individual survey Special Questions results pages, accessible by the tabs above.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Laila Assanie at laila.assanie@dal.frb.org, and questions regarding the Texas Service Sector Outlook Survey or the Texas Retail Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.
The Texas Business Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tbos/.

November 24, 2014

Special Questions

Data were collected Nov. 3–6, and 83 Texas manufacturers 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?

	Mar. '12 (percent)	May '14 (percent)	Nov. '14 (percent)
Increase	56.3	48.6	45.8
Leave Unchanged	37.5	44.4	45.8
Decrease	6.3	6.9	8.4

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

	May '14 (percent)	Nov. '14 (percent)
Yes	68.1	77.1
No	31.9	22.9

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

	May '14 (percent)	Nov. '14 (percent)
Lack of technical competencies (hard skills)	70.6	72.3
Lack of workplace competencies (soft skills)	51.0	52.3
Lack of experience	39.2	44.6
Inability to pass drug test and/or background check	39.2	41.5
Lack of available applicants/no applicants	37.3	35.4
Looking for more pay than is offered	35.3	35.4

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

	May '14 (percent)	Nov. '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	54.5	59.7
Increase wages and or benefits	39.4	52.8
Offer additional training	47.0	41.7
Improve working conditions	12.1	29.2
Increase variable pay, including bonuses	28.8	27.8
Reduce education and other requirements for new hires	9.1	6.9
Other	12.1	19.4

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

	May '14 (percent)	Nov. '14 (percent)
Yes	31.9	42.2
No	48.6	47.0
Not Applicable	19.4	10.8

Special Questions Comments

These comments have been edited for publication.

Fabricated Metal Manufacturing

- We are getting squeezed on wages in the Gulf Coast, and due to international competition and the strong dollar we have to eat the cost increase and reduce margins. It is tough.
- The retirement of higher-paid employees has offset low-experience employees hired at higher starting rates than in the past.
- One of the more challenging areas for recruiting is truck drivers to counter the greater federal restrictions placed on available driving hours.

Machinery Manufacturing

- The labor market is only tight for blue collar employees that come to work every day and put in a full day's work for a better-than-average wage. It usually takes two or three hires to find one that sticks.

Chemical Manufacturing

- We have contracts with our major customers, so they will not accept price increases.

Plastics and Rubber Products Manufacturing

- Degreed engineers and business professionals are available, while toolmakers and technicians are not. Office staff is also readily available.

Transportation Equipment Manufacturing

- The problem is not finding qualified workers. The problem is that most candidates are over-qualified and willing to take deep salary cuts to find work.
- We utilize a staffing agency to provide us with temporary employees who can convert to full-time employees after three months, if they meet our requirements such as the ability to learn the processes and no tardiness or absences. Many of these temporary employees do not complete the three-month period because they determine this job isn't for them. This self-selection system forces us to continue the search process more than we would prefer.

Wood Product Manufacturing

- We believe that corporate America (large and small) can and should be taking advantage of the downsizing of the U.S. military (all branches). Good people can be recruited by attending Hiring Our Heroes hiring fairs throughout the country.

Food Manufacturing

- Commodity prices for our products are falling while at the same time it is harder and harder to find people who want to work in a mill.
- Customers won't pay increased costs.

Printing and Related Support Activities

- Recruiting has always been a challenge, but it gets especially challenging for manufacturing, and especially when unemployment is dropping towards 5 percent. We have difficulty reaching younger folks even though our starting pay of $11.50 to $12.50 per hour is very competitive. We don't require college degrees. We train everybody because we assume we can't get anyone with experience in our niche. It’s a pretty good apprentice program. We've used Catholic Social Services, local schools with programs oriented towards our industry, temp agencies, agencies that mine the job boards, employee referrals and anything else we can think of. It's very frustrating.

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Texas Service Sector Outlook Survey

DALLASFED

November 24, 2014

SPECIAL QUESTIONS

Data were collected Nov. 3–6, and 179 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?

	Mar. '12 (percent)	May '14 (percent)	Nov. '14 (percent)
Increase	49.0	43.1	48.6
Leave Unchanged	40.7	47.9	46.4
Decrease	10.3	9.0	5.0

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

	May '14 (percent)	Nov. '14 (percent)
Yes	71.4	71.9
No	28.6	28.1

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

	May '14 (percent)	Nov. '14 (percent)
Lack of available applicants/no applicants	46.5	52.7
Lack of technical competencies (hard skills)	55.9	50.4
Looking for more pay than is offered	37.8	39.7
Lack of workplace competencies (soft skills)	44.1	38.9
Lack of experience	44.9	37.4
Inability to pass drug test and/or background check	29.1	22.9

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

	May '14 (percent)	Nov. '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	58.0	64.7
Increase wages and or benefits	47.3	52.6
Offer additional training	39.3	39.7
Increase variable pay, including bonuses	34.0	36.5
Improve working conditions	16.7	24.4
Reduce education and other requirements for new hires	6.7	5.1
Other	13.3	5.8

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

	May '14 (percent)	Nov. '14 (percent)
Yes	41.8	34.3
No	43.0	52.2
Not Applicable	15.2	13.5

Special Questions Comments

These comments have been edited for publication.

Credit Intermediation and Related Activities

- The most recent trend that we have seen is a notable increase in applicants in our rural market. This is the most qualified applicant pool we have had to consider going back at least five years. It will be interesting to ask the ones we hired what the key factor was in their decision to come to work here.
- We always have endeavored to retain qualified staff. Over the past couple decades, this has meant minimizing debt so that in downturns we can retain our staff and continue development. We are a small company and 18 percent of our staff has been with us about 20 years.

Publishing Industries (except Internet)

- Our health care insurance costs per employee continue to go up every year. In addition, brokers selling us insurance are struggling to keep up with changes in the health care law and implementation. This uncertainty is a major drag on our business, especially for planning and hiring.

Telecommunications

- In the Houston market, the economy is doing well, but finding qualified technicians is driving our hiring and compensation costs higher than expected.

Rental and Leasing Services

- The Texas oil fields are obviously a blessing, but it is also a curse as that industry has no ceiling on what they can and will pay prospective employees. Most businesses do not enjoy that business latitude. In Texas, finding and keeping good people is our greatest challenge.

Professional, Scientific and Technical Services

- We are able to acquire talent and are paying for those hires. We do not want to relax our requirements as that could impact the quality of service we deliver.
- To be awarded most of our work, our proposed fees must be competitive in the marketplace; therefore we are not always able to pass along employment and other cost increases. We are able to more directly pass on these costs on noncompetitive proposals and on hourly fee projects.

Management of Companies and Enterprises

- Because of regulations and associated compliance costs, we have had to significantly increase the cost to the consumer. The cost of generating a note document, from the annual maintenance fee to the software provider on loan forms, runs around $135 per loan. We have added a cost of $50 per consumer loan and $250 per commercial loan. To comply with loan requirements, we must do additional analysis not previously required on virtually every commercial loan over $250,000. Compliance is now running our bank, versus safety and soundness.
- Retaining employees is difficult due to Dodd–Frank compliance in terms of offering bonuses.

Administrative and Support Services

- We are expanding by adding new territories to our service area. Cost increases, such as labor, have been difficult to pass along due to competition, but we continue to work to elevate our prices. There has been margin erosion as a result of the cost increases in both labor and product.
- We are unable to pass on additional costs because most of our revenues come from insurance reimbursements.
- The biggest labor cost increase that we have ever faced is the Affordable Care Act, including the administrative burden and risks associated with complying with a law that is so complex and not well understood. It is hard to pass along the cost of an unknown risk.
- We are unable to pass any additional costs on to our clients—given our fixed rate contractual relationships—making the increased costs of talent a reduction in our profitability. There is no room for margin expansion in our business, only contraction.

Ambulatory Health Care Services

- Since we are medical services providers, we cannot pass along cost increases, like labor, as contracts do not allow it. Most contracts are tied to Medicare, so reimbursement is still dropping while costs go up.

Hospitals

- Our ability to pass along cost increases to customers is very limited due to long-term contracts and governmental payers, but we do so wherever we can.

Food Services and Drinking Places

- We are in the restaurant industry so we are not yet experiencing a significant tightening in the labor market. We do expect to start having trouble hiring quality applicants in the near future. In the last year, we have greatly increased the training we offer our management staff, both to help improve company results and to help them in their own careers by developing the managerial skills needed to succeed. We have also reviewed and updated our hourly training methods and materials, although we have not specifically expanded the scope of training offered at the hourly level. Both of these actions have been taken simply as the result of a decision that they would be good for the company and the employees, not in response to tightening labor market conditions.

Pipeline Transportation

- Shortage of talent is a chronic situation in the oil and gas industry and for certain classifications, such as engineering, and experience levels, i.e., 15 to 20 years. The lack of candidates is severe.

November 24, 2014

Special Questions

Data were collected Nov. 3–6, and 47 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?

	Mar. '12 (percent)	May '14 (percent)	Nov. '14 (percent)
Increase	50.9	47.5	42.6
Leave Unchanged	43.9	50.0	51.1
Decrease	5.3	2.5	6.4

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

	May '14 (percent)	Nov. '14 (percent)
Yes	82.5	82.6
No	17.5	17.4

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

	May '14 (percent)	Nov. '14 (percent)
Lack of technical competencies (hard skills)	50.0	57.5
Lack of workplace competencies (soft skills)	55.9	50.0
Lack of available applicants/no applicants	50.0	45.0
Looking for more pay than is offered	35.3	37.5
Inability to pass drug test and/or background check	47.1	35.0
Lack of experience	52.9	27.5

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

	May '14 (percent)	Nov. '14 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	70.0	79.1
Increase wages and or benefits	50.0	46.5
Increase variable pay, including bonuses	42.5	41.9
Offer additional training	40.0	41.9
Improve working conditions	17.5	20.9
Reduce education and other requirements for new hires	12.5	7.0
Other	5.0	4.7

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

	May '14 (percent)	Nov. '14 (percent)
Yes	51.3	25.5
No	41.0	63.8
Not Applicable	7.7	10.6

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- Price increases have been hard to pass on. The Texas construction market is continuing to improve. However, we saw a flatter market than what was projected earlier in the year. We beefed up employee head count and inventory for this projected growth, and even though it has not come to fruition, we took the profit hit this year and will see better results in 2015.
- The oil and gas fields are our major competitors, offering tremendous pay packages.
- We have not introduced wage increases into pricing yet. We will do so when we feel the market will accept increases.

Motor Vehicle and Parts Dealers

- Basically we are unable to compete with the oil industry on service personnel. We have to resell our tech time. This is a growing problem.
- One of our operations is in major jeopardy due to minimum wage planned increases in the next two years.

Building Material and Garden Equipment and Supplies Dealers

- All of our hiring plans depend on the elections. If Republicans control the Senate, we will hire more.

Food and Beverage Stores

- We are experiencing localized hiring pressures in the Permian Basin, Eagle Ford and Houston areas. Otherwise, labor is manageable.

Nonstore Retailers

- Since most of our hiring is for vending route drivers, we can't lower our requirements related to driving records or drug screening. Also, since these positions handle a lot of cash, we will not lower standards on our background checks for certain criminal activity. We are able to temporarily draw upon assistant managers and supervisors to fill open route positions until we ultimately find someone suited to the position.