Texas Manufacturing Outlook Survey

DALLASFED

November 30, 2015

Texas Manufacturing Activity Increases Again

Texas factory activity increased for a second month in a row in November after exhibiting weakness in the first three quarters, according to business executives responding to the Texas Manufacturing Outlook Survey.[1] The production index, a key measure of state manufacturing conditions, edged up from 4.8 to 5.2.

Some other indexes of current manufacturing activity also reflected growth in November, but the survey's demand measures remained in negative territory. New orders, an indicator of incoming demand, stabilized somewhat this month. The index rose 6 points but stayed slightly negative at -1.6. The growth rate of orders index has been negative for 13 months and held fairly steady at -7.3 in November. Meanwhile, the capacity utilization index posted a third positive reading but slipped to 5.9, and the shipments index remained positive but moved down to 4.2.

Perceptions of broader business conditions were mixed in November. The general business activity index was negative again but less so, rising nearly 8 points to -4.9. The company outlook index pushed up to 0.8—with the near-zero reading reflective of essentially unchanged outlooks from October—after three months in negative territory.

Labor market indicators reflected a notable rise in November. The employment index posted a double-digit increase to 11.6, its highest reading since August 2014. Twenty-four percent of firms noted net hiring, while 12 percent noted net layoffs. The hours worked index also rose sharply to a high not seen in more than a year, coming in at 9.9.

The survey's price measures have been negative most of this year and pushed further negative in November. The raw materials prices index declined to -5.1, suggesting a slightly steeper decline in input costs than last month. The finished goods prices index posted its eleventh negative reading in a row and moved down to -12.1. Meanwhile, the wages and benefits index edged down but stayed strong at 16.

Expectations regarding future business conditions increased in November. The index of future general business activity rose three points to 7.3, and the index of future company outlook rose six points to 16.2. Indexes for future manufacturing activity showed mixed movements but remained strongly positive.

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. 16–24, and 124 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 28, 2015

NOTE
1. We regard index readings between -1.0 and 1.0 as near zero and indicative of no change in the underlying indicator.

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	5.2	4.8	+0.4	Increasing	3	28.8	47.7	23.6
Capacity Utilization	5.9	8.6	-2.7	Increasing	3	27.2	51.5	21.3
New Orders	-1.6	-7.6	+6.0	Decreasing	4	27.2	43.9	28.8
Growth Rate of Orders	-7.3	-7.7	+0.4	Decreasing	13	20.3	52.1	27.6
Unfilled Orders	-4.2	-3.1	-1.1	Decreasing	12	13.2	69.4	17.4
Shipments	4.2	6.4	-2.2	Increasing	3	28.0	48.2	23.8
Delivery Time	1.0	-9.2	+10.2	Increasing	1	12.6	75.8	11.6
Materials Inventories	-3.4	-0.6	-2.8	Decreasing	4	13.9	68.8	17.3
Finished Goods Inventories	-5.7	0.9	-6.6	Decreasing	1	15.3	63.7	21.0
Prices Paid for Raw Materials	-5.1	-1.2	-3.9	Decreasing	4	15.0	64.9	20.1
Prices Received for Finished Goods	-12.1	-9.5	-2.6	Decreasing	11	8.6	70.7	20.7
Wages and Benefits	16.0	17.9	-1.9	Increasing	72	18.0	80.0	2.0
Employment	11.6	0.3	+11.3	Increasing	2	23.7	64.2	12.1
Hours Worked	9.9	-1.7	+11.6	Increasing	1	24.1	61.7	14.2
Capital Expenditures	2.1	-0.4	+2.5	Increasing	1	17.0	68.1	14.9

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	0.8	-4.1	+4.9	Improving	1	19.5	61.8	18.7
General Business Activity	-4.9	-12.7	+7.8	Worsening	11	17.0	61.1	21.9

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	34.1	34.3	-0.2	Increasing	81	46.4	41.2	12.3
Capacity Utilization	34.2	27.3	+6.9	Increasing	81	44.2	45.8	10.0
New Orders	35.2	30.7	+4.5	Increasing	81	45.8	43.6	10.6
Growth Rate of Orders	24.3	19.6	+4.7	Increasing	81	35.4	53.5	11.1
Unfilled Orders	4.1	4.8	-0.7	Increasing	2	15.2	73.7	11.1
Shipments	36.3	38.5	-2.2	Increasing	81	48.6	39.1	12.3
Delivery Time	-3.3	-6.6	+3.3	Decreasing	4	7.4	81.9	10.7
Materials Inventories	4.2	6.9	-2.7	Increasing	2	22.0	60.2	17.8
Finished Goods Inventories	-6.8	3.9	-10.7	Decreasing	1	16.1	61.0	22.9
Prices Paid for Raw Materials	22.0	15.7	+6.3	Increasing	80	27.1	67.8	5.1
Prices Received for Finished Goods	12.9	12.6	+0.3	Increasing	41	25.0	62.9	12.1
Wages and Benefits	33.6	33.3	+0.3	Increasing	138	35.1	63.4	1.5
Employment	24.6	19.1	+5.5	Increasing	36	32.7	59.2	8.1
Hours Worked	2.2	2.5	-0.3	Increasing	9	13.9	74.4	11.7
Capital Expenditures	14.0	20.0	-6.0	Increasing	72	30.7	52.6	16.7

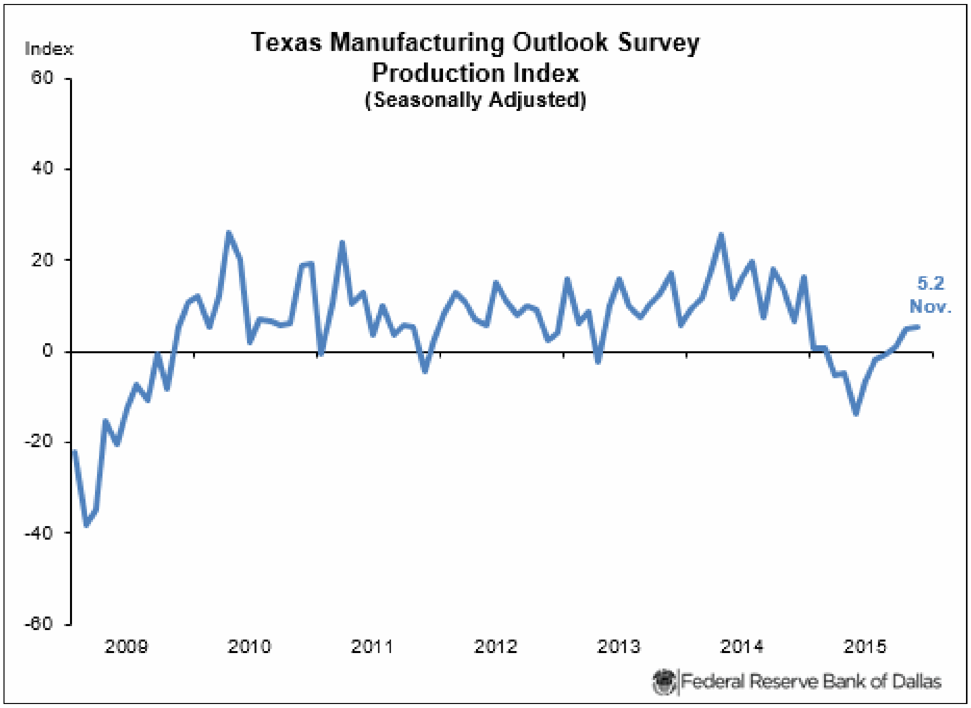
General Business Conditions
Future (six months ahead)

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	16.2	9.8	+6.4	Improving	80	30.0	56.2	13.8
General Business Activity	7.3	4.1	+3.2	Improving	7	23.9	59.5	16.6

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

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.



Comments from Survey Respondents

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

Chemical Manufacturing

- Extreme downward cost pressures on commodities produced in China have resulted in the movement of U.S.-based export sales from the U.S. to purchases and sales from China to other countries. The immediate result is a 10 percent decrease in our staffing. Pressure on increased wages for basic level production jobs has resulted in our plan to increase capital spending on robotic equipment. This will result in a 30 percent reduction in staffing in about 18 months.

Primary Metal Manufacturing

- We expect to grow our business through market share increases. Our largest competitor, which is foreign based, is having credibility issues, causing many of its customers to seek other suppliers.

Fabricated Metal Product Manufacturing

- We are having layoffs at five of our six facilities, and our backlog of work has dropped by 65 percent. Union agreements are driving wages, and the customers are cutting spending in an effort to conserve cash. The strength of the U.S. dollar continues to drive buyers to seek equipment overseas. Business conditions for us are the worst we have seen them in 15 years.
- We are slightly optimistic. Big corporate customers are almost desperate for price reductions. We are unable to offer price reductions because our costs are rising (health care, wages and occupancy costs).
- Contract manufacturing in north Texas seems to be slowing across the board. However, we continue to see opportunities for smaller quantities with shorter lead times.
- Depressed oil and natural gas commodity markets continue to have a negative impact on our outlook. End-of-year customer orders are weak compared with prior years.
- We do not see food prices dropping in pace with transportation costs. Scrap pricing is outpacing associated new material costs in metals. It seems to be an employers' market right now.
- Our leading indicator of low-rise nonresidential construction starts calls for a 3.8 percent increase year over year in volumes for November 2015 through October 2016. This reflects a more pessimistic view of U.S. economic growth than we first expected. However, our backlog for October 2015 is up 13 percent year over year, which foreshadows a strong fiscal first quarter (November–January) seasonally adjusted.

Machinery Manufacturing

- Our sales have increased by focusing outside the oilfield and overseas.
- Orders have slowed from several customers ahead of the normal winter slower order period; however, there is no indication of a long-term slowdown. Health care renewal costs skyrocketed over 50 percent even with higher copays and deductibles. Even with the company absorbing the majority of the cost, the insurance may be too expensive for some employees.
- The market still expects a large drop-off in the off-shore oil industry. It is bizarre—for the three months (August, September and October) we had a stellar amount of bookings, higher than last year's run rate. People say that our business is going to fall off,

but our bookings don't show that. We're running at a rate that we expected for the year. We have no clear idea of how 2016 will play out. We don't know if there is pent-up demand due to a slow second quarter or what. We're planning on the worst—figuring out layoffs for 2016. However, we're simultaneously hoping that business stays at least flat.

Computer and Electronic Product Manufacturing

- In the wireless/telecommunications business most of our large customers have been reducing staff, so we believe business will continue to slow down for us for the first half of 2016.

Electrical Equipment, Appliance, and Component Manufacturing

- We have authorized overtime to conduct a physical inventory and make up for lost shipping days around the Thanksgiving Day holiday. This may be a seasonal aberration.

Transportation Equipment Manufacturing

- Our only customer is the U.S. Department of Defense, and demand is brisk.
- We see the industrial world of oil and gas (including all related industries that thrive from it) changing from a maintenance mode to survival, with a substantial number of them putting up auctions for equipment to minimize their capital exposure.

Food Manufacturing

- The continued strength of the dollar hampers our export sales. We are having trouble finding qualified workers.

Wood Product Manufacturing

- Housing is back in Dallas, Austin and San Antonio.

Printing and Related Support Activities

- We are busy now and will stay that way into December, but we are worried about how the January through April time frame will play out.
- We are experiencing stagnant and soft sales. Heavy investment in new equipment and technologies is enabling us to eke out 2–3 percent sales increases. New customer acquisition is acutely difficult, and overcoming normal sales erosion makes you feel like you're on a hamster wheel.

Miscellaneous Manufacturing

- The impact of the Affordable Care Act continues to diminish our business through lower elective surgical procedure volumes, greater industry consolidation, increased competition and pricing pressures, and reduced investment and capital expenditures spending due to the medical device excise tax on U.S. product revenues. The relative exchange rate increase of the U.S. dollar against other currencies has also reduced/delayed international sales opportunities.
- Some sections of our business are flat, some have declined while others have increased. The increase we're seeing in November versus October is due to a seasonal upswing of one of our business segments. Overall, our business level is flat and appears to be flat for 2016.

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