

Texas Manufacturing Outlook Survey

March 28, 2016

Texas Manufacturing Activity Rebounds in March

What's New This Month

Is your Texas-based company interested in becoming a survey panelist, or do you know a company in Texas that would like to be a survey panelist? Find more information about enrolling in the survey and answers to commonly asked questions in our Texas Business Outlook Surveys flyer. Beginning this month, a link to the Texas Business Outlook Surveys flyer can be found online at the link located above the right-hand corner of the Current Report.

Texas factory activity expanded slightly in March, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rebounded to positive territory this month—coming in at 3.3—after two months of negative readings.

Other indexes of current manufacturing activity also rose this month, although some remained in contractionary territory. The new orders index jumped 13 points but was still negative at -4.8, suggesting demand continued to fall but at a slower pace than last month. The growth rate of orders index has been negative since October 2014, although it did rise in March, to -11.7. The capacity utilization index bounced back to positive territory after negative readings so far this year, coming in at 3.3. Shipment volumes were largely unchanged this month as the shipments index remained near zero.

Perceptions of broader business conditions remained negative but showed signs of slight stabilization in March. The general business activity index jumped 18 points but remained negative for a 15th month, posting a reading of -13.6. The company outlook index posted a fourth negative reading in a row but edged up to -11.0.

Labor market indicators reflected continued decline in March. The employment index was largely unchanged at -10.3, with 12 percent of firms noting net hiring and 22 percent noting net layoffs. The hours worked index remained negative for a third month in a row but edged up to -5.6.

Price pressures were mixed and wages continued to rise. Abatement in downward pressure on input costs was seen in March, as the raw materials prices index moved up to zero. The finished goods prices index has been negative for more than a year and edged up to -8.2 this month. Meanwhile, the wages and benefits index stayed positive and rose from 12.3 to 14.7, suggesting a slightly accelerated rise in compensation.

Expectations regarding future business conditions improved in March. The index of future general business activity came in at 6.1, its first positive reading in four months. The index for future company outlook posted a second positive reading, at 11.6. Indexes for future manufacturing activity remained in solid positive territory.

Next release: Monday, April 25

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Mar. 15–23, and 114 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.

Results Summary

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	3.3	-8.5	+11.8	Increasing	1	25.1	53.1	21.8
Capacity Utilization	3.3	-8.2	+11.5	Increasing	1	22.7	57.9	19.4
New Orders	-4.8	-17.6	+12.8	Decreasing	4	23.8	47.5	28.6
Growth Rate of Orders	-11.7	-17.4	+5.7	Decreasing	17	16.2	55.9	27.9
Unfilled Orders	-9.0	-11.4	+2.4	Decreasing	16	10.5	70.0	19.5
Shipments	0.3	-1.1	+1.4	Increasing	1	25.9	48.5	25.6
Delivery Time	-7.7	-6.1	-1.6	Decreasing	4	7.2	77.9	14.9
Materials Inventories	-7.2	-12.9	+5.7	Decreasing	8	16.3	60.2	23.5
Finished Goods Inventories	-4.5	-1.7	-2.8	Decreasing	2	15.0	65.5	19.5
Prices Paid for Raw Materials	-0.2	-12.0	+11.8	Decreasing	9	12.5	74.8	12.7
Prices Received for Finished Goods	-8.2	-12.5	+4.3	Decreasing	15	6.7	78.4	14.9
Wages and Benefits	14.7	12.3	+2.4	Increasing	76	17.0	80.7	2.3
Employment	-10.3	-11.1	+0.8	Decreasing	3	11.6	66.5	21.9
Hours Worked	-5.6	-9.8	+4.2	Decreasing	3	13.3	67.8	18.9
Capital Expenditures	-0.9	-1.6	+0.7	Decreasing	2	14.2	70.7	15.1

General Business Conditions

Current (versus previous month)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-11.0	-17.4	+6.4	Worsening	4	10.9	67.2	21.9
General Business Activity	-13.6	-31.8	+18.2	Worsening	15	11.4	63.6	25.0

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Decrease
Production	31.8	33.4	-1.6	Increasing	85	42.0	47.9	10.2
Capacity Utilization	26.3	35.9	-9.6	Increasing	85	37.9	50.5	11.6
New Orders	29.7	30.2	-0.5	Increasing	85	40.9	47.8	11.2
Growth Rate of Orders	17.4	18.7	-1.3	Increasing	85	29.6	58.2	12.2
Unfilled Orders	7.3	7.0	+0.3	Increasing	6	16.4	74.5	9.1
Shipments	25.6	26.4	-0.8	Increasing	85	38.6	48.4	13.0
Delivery Time	-0.6	-2.6	+2.0	Decreasing	8	9.0	81.4	9.6
Materials Inventories	2.8	2.7	+0.1	Increasing	6	16.8	69.2	14.0
Finished Goods Inventories	-7.5	1.8	-9.3	Decreasing	1	8.4	75.7	15.9
Prices Paid for Raw Materials	18.9	10.8	+8.1	Increasing	84	26.4	66.0	7.5
Prices Received for Finished Goods	13.9	0.9	+13.0	Increasing	2	20.4	73.1	6.5
Wages and Benefits	34.7	34.5	+0.2	Increasing	142	35.9	62.9	1.2
Employment	13.0	20.9	-7.9	Increasing	40	24.0	65.0	11.0
Hours Worked	-0.9	12.7	-13.6	Decreasing	1	11.4	76.3	12.3
Capital Expenditures	13.3	21.8	-8.5	Increasing	76	23.8	65.7	10.5

General Business Conditions
Future (six months ahead)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Worsened
Company Outlook	11.6	15.1	-3.5	Improving	2	27.3	57.0	15.7
General Business Activity	6.1	-2.1	+8.2	Improving	1	23.2	59.7	17.1

*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.

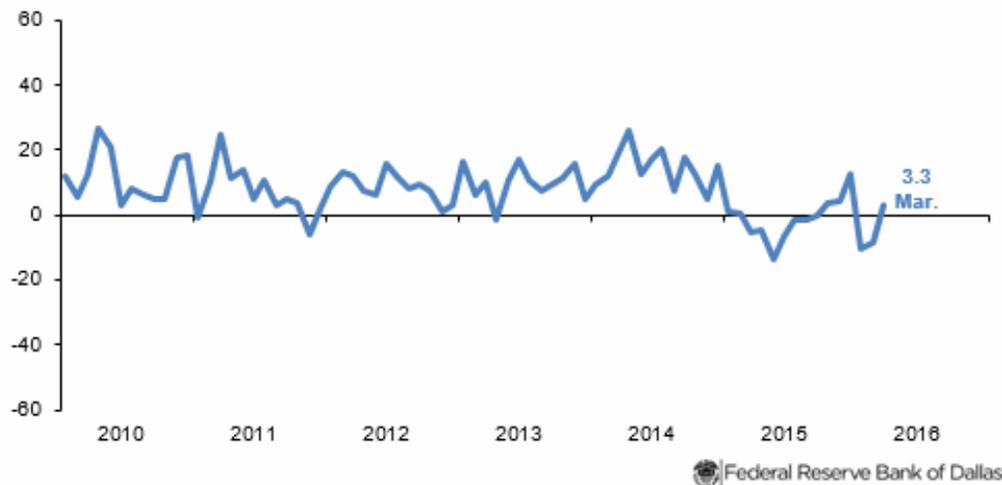
**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

Production Index

Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Comments from Survey Respondents

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

Chemical Manufacturing

- We have seen an upward trend with European sales as the dollar has weakened some and inflation there has increased. Asia continues to be a weak spot, and the U.S. is stable.

Fabricated Metal Product Manufacturing

- The instability of the domestic oil and gas exploration and production activity continues to wreak havoc on demand for our products.
- We have brought in multiple contracts for larger projects. Some of the projects now being released have been in process for over a year.
- We manufacture accessories for the HVAC industry so it is very seasonal. We are ramping up for the season but have also been very busy all year. It's hard to factor in the seasonality aspect when you're getting slammed. I think revenues will be up 10 percent this year.
- Uncertainty is the main issue regarding oil pricing and refining cash flows.
- Our six months ahead forward looking indicators project a 4-7 percent increase in volume, which would exceed normal year-over-year seasonal trends. We have seen in late January and February an increase in volumes quoted and booked.
- The positive March versus February comparison (as well as the six-months-ahead view) is due entirely to an extremely poor February. Volume remains well below monthly volume in the fourth quarter. Headcount was reduced in February, allowing remaining staff to return to a 40-hour workweek.

Machinery Manufacturing

- We are expanding due to longer-term strategy. While we are spread among a plethora of general manufacturing nationwide, we are experiencing a major falloff of inquiries and orders in Texas directly related to the restricted price of oil.
- As a long-lead-time capital equipment manufacturer, we are working off backlog. Anyone who says the economy is not in recession is peddling fiction.
- It appears the oil and gas business won't be back for 12-18 months. We are actively pursuing other industries, with varying degrees of success depending on the industry. We may very well survive.
- Orders were stronger in March versus January and February. Customer expansion plans appear to be steady.

- We are looking into new markets as the deepwater drilling is pretty slow.

Computer and Electronic Product Manufacturing

- We are generally just bumping along in a weak macro environment.
- Again, the dollar is too high affecting several of our customers, therefore creating a significant impact on our business. The uncertainty in business is huge, and everyone is holding cash including ourselves. We are not making investments on growth or capital expenditures at this time. Oil prices are also creating a major problem in the oil and gas industry, with consolidations and layoffs happening very frequently.

Transportation Equipment Manufacturing

- We expect the weakening in the energy sector to ripple through to our primary end users in Texas. So far activity statewide has maintained some strength, but we are cautious that it will start to have a broader impact later in the year and into 2017. The degree to which the Texas economy holds up to the trouble in energy will be a testament to the alleged diversification in the state. We are preparing for the worst and hoping for better.

Food Manufacturing

- Our export business continues to be our biggest challenge. The strong dollar will be an obstacle to growth for the foreseeable future. We are simply growing less competitive to our European challengers.

Beverage and Tobacco Product Manufacturing

- One of our customers has changed its terms, which has caused us to lose coolers at the front of the store. The coolers are really the only place in the store where our gross margin exceeds our cost of service. Couple this giant hit with a general 1–3 percent long-term decline in soft drink sales, and the next year looks bleak.

Printing and Related Support Activities

- We have been told that companies are cutting their advertising budgets that affect printing. We are getting more phone calls from press and bindery operators looking for work. I am hoping this slowdown is short lived and that the economy improves in the next few months.
- Our turnover in the past year has been triple of the previous nine years: competitors poaching employees, retirements, people we put a ton of training into for two or three years moving out of state for family reasons, and other reasons. We're trying to build staff for new customers coming on board but can't seem to hold our gains. It is very frustrating. I'm more optimistic about the year than I was in January.
- We have picked up in March but only because February was so dismal. We were super slow with many 3.5 to four-day workweeks in the plant. Activity is trying to pick up, and it appears we will be busier in the coming months than we have been.

Miscellaneous Manufacturing

- A merit pay increase goes into effect in March after our year-end audit report is presented and performance reviews are completed.

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/research/surveys/tmos.