



Texas Manufacturing Outlook Survey

May 31, 2016

Texas Manufacturing Activity Declines

Texas factory activity declined in May after two months of increases, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell from 5.8 to -13.1, hitting its lowest reading in a year.

Other measures of current manufacturing activity also reflected contraction this month. The new orders index fell more than 20 points to -14.9 after pushing into positive territory last month. The growth rate of orders index has been negative since late 2014 and fell to -14.7 in May after climbing to near zero in April. The capacity utilization and shipments indexes returned to negative territory after two months of positive readings, coming in at yearlong lows of -11.0 and -11.5, respectively.

Perceptions of broader business conditions were more pessimistic this month. The general business activity index declined from -13.9 to -20.8, and the company outlook index fell 10 points to -16.1.

Latest readings on employment and workweek length indicated a fifth consecutive month of contraction in May. The employment index moved down three points to -6.7. Sixteen percent of firms noted net hiring, and 22 percent noted net layoffs in May. The hours worked index posted a double-digit decline from its April reading, coming in at -11.8.

Price pressures were mixed, and wages continued to rise. Input costs rose for a second month in a row, as the raw materials prices index pushed up to 12.4, its highest level since October 2014. The pace of decline in selling prices has slowed in recent months according to the finished goods prices index, which edged up for a third month in a row and came in at -3.3 in May. Meanwhile, the wages and benefits index stayed positive and rose from 16.7 to 21.8, suggesting a slightly accelerated rise in compensation.

Expectations regarding future business conditions were mixed in May. The index of future general business activity fell 2 points to -1.8, while the index measuring future company outlook remained positive but moved down to 4.4 this month. Indexes for future manufacturing activity fell but remained solidly positive.

Next release: Monday, June 27

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected May 17–25, 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.

Results Summary

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

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	-13.1	5.8	-18.9	Decreasing	1	16.8	53.3	29.9
Capacity Utilization	-11.0	8.2	-19.2	Decreasing	1	13.9	61.2	24.9
New Orders	-14.9	6.2	-21.1	Decreasing	1	18.2	48.6	33.1
Growth Rate of Orders	-14.7	-0.7	-14.0	Decreasing	19	14.9	55.5	29.6
Unfilled Orders	-9.3	-8.8	-0.5	Decreasing	18	10.8	69.1	20.1
Shipments	-11.5	7.1	-18.6	Decreasing	1	19.3	49.9	30.8
Delivery Time	-4.6	-6.9	+2.3	Decreasing	6	8.6	78.2	13.2
Materials Inventories	-2.5	-2.9	+0.4	Decreasing	10	19.3	58.9	21.8
Finished Goods Inventories	-8.1	0.0	-8.1	Decreasing	1	13.5	64.9	21.6
Prices Paid for Raw Materials	12.4	5.5	+6.9	Increasing	2	22.2	68.0	9.8
Prices Received for Finished Goods	-3.3	-6.6	+3.3	Decreasing	17	7.3	82.1	10.6
Wages and Benefits	21.8	16.7	+5.1	Increasing	78	24.8	72.3	3.0
Employment	-6.7	-3.7	-3.0	Decreasing	5	15.6	62.1	22.3
Hours Worked	-11.8	-1.0	-10.8	Decreasing	5	10.0	68.2	21.8
Capital Expenditures	-6.6	1.6	-8.2	Decreasing	1	13.3	66.8	19.9

General Business Conditions

Current (versus previous month)

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-16.1	-5.9	-10.2	Worsening	6	11.2	61.5	27.3
General Business Activity	-20.8	-13.9	-6.9	Worsening	17	10.6	58.0	31.4

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

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	24.6	33.9	-9.3	Increasing	87	42.1	40.4	17.5
Capacity Utilization	25.7	35.3	-9.6	Increasing	87	39.4	46.9	13.7
New Orders	24.0	32.6	-8.6	Increasing	87	42.6	38.7	18.6
Growth Rate of Orders	10.2	22.4	-12.2	Increasing	87	28.0	54.2	17.8
Unfilled Orders	2.1	1.8	+0.3	Increasing	8	14.8	72.5	12.7
Shipments	24.4	33.7	-9.3	Increasing	87	42.9	38.6	18.5
Delivery Time	-4.4	-2.5	-1.9	Decreasing	10	8.0	79.6	12.4
Materials Inventories	-6.7	0.0	-6.7	Decreasing	1	17.3	58.7	24.0
Finished Goods Inventories	-8.6	-2.1	-6.5	Decreasing	3	11.4	68.6	20.0
Prices Paid for Raw Materials	20.0	20.2	-0.2	Increasing	86	28.6	62.9	8.6
Prices Received for Finished Goods	3.8	2.1	+1.7	Increasing	4	15.2	73.3	11.4
Wages and Benefits	31.4	33.8	-2.4	Increasing	144	34.5	62.4	3.1
Employment	2.7	9.4	-6.7	Increasing	42	20.8	61.1	18.1
Hours Worked	-4.4	14.6	-19.0	Decreasing	1	13.7	68.2	18.1
Capital Expenditures	2.9	8.5	-5.6	Increasing	78	18.6	65.7	15.7

General Business Conditions
Future (six months ahead)

Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Worsened
Company Outlook	4.4	8.9	-4.5	Improving	4	26.5	51.4	22.1
General Business Activity	-1.8	0.4	-2.2	Worsening	1	23.4	51.4	25.2

*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.

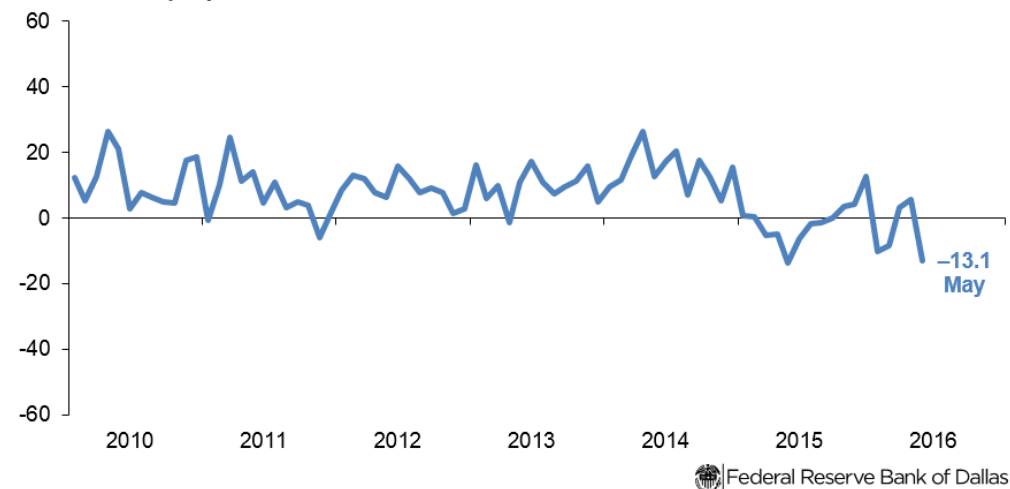
**Number of months moving in current direction.

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.

Primary Metal Manufacturing

- We are experiencing a decrease in overall demand. Our customers in the transportation markets are feeling the downturn the most. There seems to be quite a bit of uncertainty with many of our customers regarding overall business demand for manufactured products.

Fabricated Metal Product Manufacturing

- We are working to seek new higher-margin business to replace business where margins have eroded due to global competition pressures.
- We are now seeing the refiners reduce utilization as the competition from overseas is beginning to affect their markets.
- The WTI crude oil price predictions indicate the market should stabilize in the second half of this calendar year, giving our company reason for optimism. However, rapidly escalating raw material (hot rolled coil steel) prices are very difficult to pass through to the end user, thus further compressing our gross margins.
- We are somewhat disappointed in new sales. Typically, May through September are our best sales months, but not so this May.
- Material costs are rising following the imposition of import duties on Chinese steel earlier this month.
- Customers have provided little or no visibility on demand beyond July.

Machinery Manufacturing

- We are very concerned about the new Department of Labor overtime rules to go into effect later this year. They will either cause a substantial increase in costs or a significant reduction in benefits; neither are good for the long term.
- The overall activity has decreased, as has the level of inquiry. We hope to see an increase after the election.
- Things are pretty bleak in the oil patch. Apparently the Office of the Comptroller of the Currency went to my bank and audited their books. I've never missed a loan payment, and yet the bank has "fired" me as a customer. They told me they don't want to bank me anymore. I really didn't need this distraction/disruption on top of the already turbulent times. That is not a government activity that is helping small businesses. I've cut payroll, suspended 401(k) matches, etc. trying to hold on, but I'm not optimistic about the options moving forward.

- It is encouraging to see oil prices ticking up, but it is too soon to tell when it will be likely to influence the capital spending behavior of our customer base.

Computer and Electronic Product Manufacturing

- Our production will increase with the relocation/consolidation of our Pennsylvania operations into our Texas facility over the next two to three months.

Electrical Equipment, Appliance, and Component Manufacturing

- The Obama administration's new rule on threshold level for determination of overtime pay will have a modest impact on compensation of some portion of our employee workforce. It does present problems as to whether we should characterize some employees as exempt when they do not have supervisory responsibility. Anecdotally, a prominent architectural firm we work with believes the new rule presents real problems to compensation of their workforce because they are constrained as to what fees they can charge for professional services and rely on young talent that work longer hours, talent they cannot afford to move into an exempt category. They will have to forgo employment of some young professionals to make their overall finances balance. This is an unsatisfactory outcome because the young talent need the experience, much like an internship, to gain the skill sets to justify higher compensation.

Transportation Equipment Manufacturing

- Our outlook is dependent on the oil price. It's beginning to tick up.
- Our decreased outlook for six months ahead is due to seasonality of our market, not due to a perceived downturn or weakness.

Furniture and Related Product Manufacturing

- Construction seems to be slowing. Target dates for deliveries continue to move out from original plans. We are unsure if this is due to weather, labor shortages, slowed demand or other causes.

Food Manufacturing

- In general, what the federal government currently decides to spend its time on is almost always neutral or detrimental to improving the economy.

Wood Product Manufacturing

- While single-family residential construction permits and starts may go up and down, the actual pace of construction, and therefore our shipments, will remain steady in a +/- 5 percent range for at least the next six months.

Paper Manufacturing

- Current orders have experienced sharp decline in the last three weeks. This is echoed by many competitors in the North Texas market. It is hard to predict when this slowdown will end. A few more weeks of the current pace and the year 2016 will be guaranteed a reduction compared with 2015.
- Business was up 10 percent in April. We have seen about a 10 percent decline in May. Normally our business is very stable.

Printing and Related Support Activities

- We are much busier than we have been, partly from singular big orders but also from increased activity in general. I'm not sure at all what six months from now will bring, with uncertainty from a crazy election coming up plus a higher trend in gasoline costs impacting transportation costs.

Miscellaneous Manufacturing

- The Department of Labor rules and other government regulations are seriously slowing down business development, increasing overhead costs, reducing productivity and causing increased management time spent on noncustomer-focused/nonvalue-added efforts. We have a serious productivity problem with office workers and estimated that less than 50 percent of their time is spent on value-creating business activities. The younger workers are often off task, engaged on social media, on the internet, texting on phones and other unproductive activities. The Department of Labor must realize that if we are supposed to pay them overtime for work they should do during normal work this will make us have to focus on micromanaging employees and reducing compensation to reflect actual productivity of a mandated 40 hour or less workweek. All the government regulations and Department of Labor rules are doing is making our country less competitive, creating more part-time workers, reducing workers to a max of 35–39 hours, creating divisions and demotivating the top achievers. New workers who want to take on special projects to gain experience or prove themselves will not get the chance as employers will not want to incur the additional overtime costs with unclear outcomes. We want to compete, we want to hire more people and we want to innovate. Let adults agree to employment terms and conditions.
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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.