

Texas Manufacturing Outlook Survey

December 26, 2017

Texas Manufacturing Activity Shows Robust Growth

Texas factory activity expanded strongly in December, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, spiked 18 points to 32.8, reaching its highest level in more than 11 years.

Other measures of manufacturing activity also pointed to more rapid growth in December. The new orders index jumped 10 points to 30.1, another 11-year high, and the growth rate of orders index moved up to 21.4. The capacity utilization index increased nine points to 26.3, and the shipments index rose from 16.7 to 21.5 this month.

Perceptions of broader business conditions were markedly more positive in December. The general business activity index and the company outlook index posted double-digit increases, coming in at 29.7 and 31.5, respectively. Both represent highs last seen in 2006.

Labor market measures suggested more rapid employment growth and longer workweeks this month. The employment index came in at 20.4, up 14 points from November. More than 30 percent of firms noted net hiring, compared with 11 percent noting net layoffs. The hours worked index shot up to 23.3, a 12-year high.

Upward pressure on prices continued in December, and wage pressures escalated. The raw materials prices index held steady at 32.5 and the finished goods prices index edged up to 17.9. Meanwhile the wages and benefits index jumped up 11 points to 25.1. Looking ahead, price expectations increased notably for a second month in a row. The index of future finished goods prices rose to 42.7, up from 18.9 in October and 35.8 in November, and more than 20 points above its series average.

Expectations regarding future business conditions remained highly optimistic. The index of future general business activity inched up to 40.9, while the index of future company outlook held steady at 40.1. Other indexes for future manufacturing activity showed mixed movements but remained solidly in positive territory.

Next release: Monday, January 29

Data were collected Dec. 12–20, and 104 Texas manufacturers responded to the survey. The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. 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	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	32.8	15.1	+17.7	Increasing	18	41.8	49.2	9.0
Capacity Utilization	26.3	17.3	+9.0	Increasing	18	36.9	52.5	10.6
New Orders	30.1	20.0	+10.1	Increasing	14	40.0	50.1	9.9
Growth Rate of Orders	21.4	18.1	+3.3	Increasing	12	34.5	52.4	13.1
Unfilled Orders	9.2	11.4	-2.2	Increasing	12	19.1	71.0	9.9
Shipments	21.5	16.7	+4.8	Increasing	13	36.3	49.0	14.8
Delivery Time	8.0	4.8	+3.2	Increasing	6	16.3	75.4	8.3
Materials Inventories	12.7	6.8	+5.9	Increasing	6	24.5	63.7	11.8
Finished Goods Inventories	-2.0	0.0	-2.0	Decreasing	1	18.4	61.2	20.4
Prices Paid for Raw Materials	32.5	32.2	+0.3	Increasing	22	35.0	62.5	2.5
Prices Received for Finished Goods	17.9	15.1	+2.8	Increasing	17	24.0	69.9	6.1
Wages and Benefits	25.1	14.2	+10.9	Increasing	97	25.8	73.5	0.7
Employment	20.4	6.3	+14.1	Increasing	12	31.6	57.2	11.2
Hours Worked	23.3	11.5	+11.8	Increasing	14	30.0	63.3	6.7
Capital Expenditures	19.0	15.8	+3.2	Increasing	16	22.6	73.8	3.6

General Business Conditions

Current (versus previous month)

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	31.5	18.5	+13.0	Improving	16	39.0	53.5	7.5
General Business Activity	29.7	19.4	+10.3	Improving	15	38.4	52.9	8.7

Business Indicators Relating to Facilities and Products in Texas

Future (six months ahead)

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Decrease
Production	47.4	46.1	+1.3	Increasing	106	56.2	35.0	8.8
Capacity Utilization	39.9	45.4	-5.5	Increasing	106	48.9	42.1	9.0
New Orders	50.8	48.9	+1.9	Increasing	106	55.7	39.4	4.9
Growth Rate of Orders	40.1	40.9	-0.8	Increasing	106	43.6	52.9	3.5
Unfilled Orders	16.2	14.2	+2.0	Increasing	27	25.0	66.2	8.8
Shipments	46.9	43.2	+3.7	Increasing	106	54.6	37.7	7.7
Delivery Time	6.9	3.8	+3.1	Increasing	13	15.8	75.3	8.9
Materials Inventories	11.8	13.2	-1.4	Increasing	13	24.1	63.6	12.3
Finished Goods Inventories	12.4	6.2	+6.2	Increasing	2	22.7	67.0	10.3
Prices Paid for Raw Materials	52.1	48.4	+3.7	Increasing	105	53.1	45.8	1.0
Prices Received for Finished Goods	42.7	35.8	+6.9	Increasing	23	46.9	49.0	4.2
Wages and Benefits	44.2	46.6	-2.4	Increasing	163	45.7	52.8	1.5
Employment	36.6	29.8	+6.8	Increasing	61	44.5	47.6	7.9
Hours Worked	13.5	22.1	-8.6	Increasing	19	18.7	76.1	5.2
Capital Expenditures	43.2	34.1	+9.1	Increasing	97	49.5	44.2	6.3

General Business Conditions

Future (six months ahead)

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Worsened
Company Outlook	40.1	40.8	-0.7	Improving	23	46.1	47.9	6.0
General Business Activity	40.9	39.0	+1.9	Improving	19	45.0	50.9	4.1

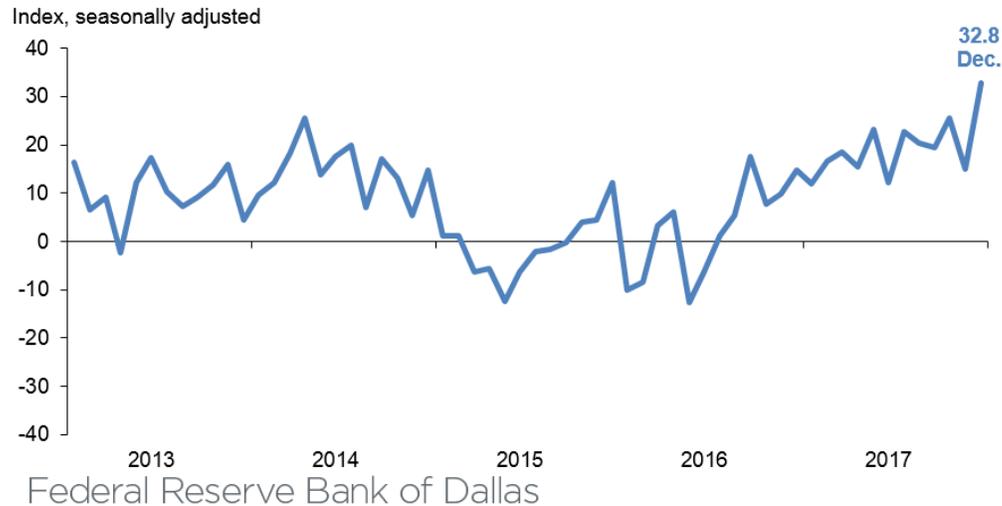
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

Production Index

Texas Manufacturing Outlook Survey Production Index



Comments from Survey Respondents

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

Chemical Manufacturing

- We expect to see a relatively significant increase in sales in 2018, due in large part to the initiation of several projects we have been working on for an extended period of time. We expect the increase in volume to afford us lower prices on our raw materials. But at the same time, due to the volume of material being consumed on these larger projects, our margins will remain flat due to the aggressive pricing required to earn the business (sales prices to our customers will decrease).

Plastics and Rubber Products Manufacturing

- Due to NAFTA (North American Free Trade Agreement) fears, companies had scaled back orders in 2017. But looking forward to 2018 and 2019, there has been communication that existing customers and new customers alike are interested in localizing business from the U.S. and Asia into Mexico.

Fabricated Metal Product Manufacturing

- December shipments will be dramatically below trend due to customer order pushbacks to balance year-end inventory, customer shutdowns around the holidays and a shortened production month due to scheduled vacation by our employees. The outlook for the next six months is generally flat, though there are initial indications of new business opportunities.
- December is always a very slow month for us; however, the near future looks promising.
- The global economies and U.S. economy are very weak and uncertain.
- With the passage of the tax relief bill, my feeling is that the manufacturing segment of the economy will continue to grow at a faster pace. The biggest problem for most manufacturing companies will be finding and hiring competent employees.

Machinery Manufacturing

- Hope springs eternal. We are looking forward to a better year in 2018.

Computer and Electronic Product Manufacturing

- If those who oppose Trump are successful, I believe business will be significantly affected, which is why I remain neutral on the six-month outlook even though, on paper, I should have a positive outlook with the tax-break promise.

Electrical Equipment, Appliance, and Component Manufacturing

- There are some nonrecurring events happening in December versus November—such as the postponement of shipping orders not requiring receipt in December—to January from December to take advantage of expected lower tax rates.

Transportation Equipment Manufacturing

- We want economic growth, but the numbers being discussed are going to put pressure on factors of production prices/availability, including interest rates.

Paper Manufacturing

- Most of our responses are no change, but that is good as we are at a strong level now. We are adding employees to cut down on the amount of premium overtime currently in our labor costs. This shows confidence that 2018 will be a good year: We don't like to add employees only to cut back later.

Printing and Related Support Activities

- Lingering effects of Hurricane Harvey suppressing the Houston metro-area economy are still with us.
- We have been way busier in December than November, in part from some large jobs that came in. We wish this would be the level of activity we will see in six months, but we doubt it. While reports of the economy being robust are all around us, we are not seeing it in the levels of estimating and quoting and projects we are talking to our printer customers about. We are hopeful that we can pass along some minor price increases, greater than our increases in materials and raw labor, which are both trending upward.

Apparel Manufacturing

- Military contracts are going gangbusters.

Miscellaneous Manufacturing

- Business prospects look very good in general. Overall our tax system is still not where it needs to be compared with alternatives internationally and still needs further improvement. What is really needed is an end to the double taxation of C-Corporations and a level and fair tax for all types of businesses. Government regulations and government spending still need to be addressed quickly or they will create long-term inefficiencies and instabilities in our economy. Finding quality management and skilled workers is a growing problem, but I think the situation for American workers is the best it has been for over a decade. Insurance costs keep rising.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org.