Federal Reserve Bank of Dallas

Texas Manufacturing Outlook Survey

January 30, 2017

Texas Manufacturing Activity Continues to Expand

What's New This Month

This month's survey data include annual seasonal factor revisions. In January of each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Manufacturing Outlook Survey after calculating new seasonal adjustment factors. Annual seasonal revisions result in slight changes in the seasonally adjusted series. Read more information on seasonal adjustment. This month, manufacturers were also asked supplemental questions on exports and the impact of the energy industry.

Texas factory activity increased for the seventh consecutive month in January, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, edged down but remained positive at 11.9, suggesting output growth continued but at a slightly slower pace this month.

Other measures of current manufacturing activity also indicated expansion. The new orders index climbed to a multiyear high of 15.7, while the growth rate of orders index returned to positive territory, rising 8 points to 6.7. The capacity utilization index posted a seventh positive reading in a row, although it moved down to 9.1 this month. The shipments index rose 10 points to 15.8, with more than a third of manufacturers noting a rise in shipment volumes from December.

Perceptions of broader business conditions improved further this month. The general business activity index posted a fourth consecutive positive reading and moved up to 22.1, its highest reading since April 2010. The company outlook index pushed up to 25.0, also a level not seen since 2010.

Labor market measures indicated employment gains and longer workweeks. The employment index bounced back to 6.1 after dipping into negative territory last month. Twenty-three percent of firms noted net hiring, compared with 17 percent noting net layoffs. The hours worked index moved up to 9.1, its strongest reading since the end of 2015.

Upward price pressures remained relatively strong, and wages continued to rise in January. The raw materials and finished goods prices indexes were nearly unchanged at 30.8 and 17.7, respectively. The wages and benefits index also held fairly steady at 20.8.

Expectations regarding future business conditions generally improved this month. The index of future general business activity edged up to 43.7. The index of future company outlook also inched up, coming in at 48.8. Most other indexes of future manufacturing activity pushed higher into positive territory.

Next release: Monday, February 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 Jan. 17–25, and 115 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.

Historical data are available from June 2004 to the most current release month.

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

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	11.9	14.8	–2.9	Increasing	7	31.2	49.4	19.3
Capacity Utilization	9.1	15.6	–6.5	Increasing	7	26.6	55.9	17.5
New Orders	15.7	10.1	+5.6	Increasing	3	36.0	43.7	20.3
Growth Rate of Orders	6.7	–1.1	+7.8	Increasing	1	26.2	54.2	19.5
Unfilled Orders	5.2	–2.3	+7.5	Increasing	1	17.4	70.3	12.2
Shipments	15.8	5.8	+10.0	Increasing	2	33.6	48.6	17.8
Delivery Time	–5.4	–7.9	+2.5	Decreasing	4	7.8	79.0	13.2
Materials Inventories	–5.3	–2.2	–3.1	Decreasing	18	17.8	59.1	23.1
Finished Goods Inventories	–8.8	–2.7	–6.1	Decreasing	3	14.9	61.4	23.7
Prices Paid for Raw Materials	30.8	30.0	+0.8	Increasing	11	31.3	68.2	0.5
Prices Received for Finished Goods	17.7	16.2	+1.5	Increasing	6	21.0	75.7	3.3
Wages and Benefits	20.8	19.8	+1.0	Increasing	86	22.3	76.2	1.5
Employment	6.1	–3.4	+9.5	Increasing	1	23.1	59.9	17.0
Hours Worked	9.1	3.1	+6.0	Increasing	3	23.2	62.7	14.1
Capital Expenditures	16.3	6.7	+9.6	Increasing	5	23.0	70.3	6.7

General Business Conditions
Current (versus previous month)

Indicator	Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	25.0	19.4	+5.6	Improving	5	37.7	49.7	12.7
General Business Activity	22.1	17.7	+4.4	Improving	4	36.7	48.7	14.6

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

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	53.9	54.8	–0.9	Increasing	95	61.9	30.1	8.0
Capacity Utilization	49.9	48.6	+1.3	Increasing	95	58.7	32.5	8.8
New Orders	55.2	48.0	+7.2	Increasing	95	61.8	31.5	6.6
Growth Rate of Orders	48.4	36.0	+12.4	Increasing	95	53.4	41.6	5.0
Unfilled Orders	16.6	10.9	+5.7	Increasing	16	22.6	71.4	6.0
Shipments	51.8	48.7	+3.1	Increasing	95	59.5	32.8	7.7
Delivery Time	4.4	5.7	–1.3	Increasing	2	11.2	82.1	6.8
Materials Inventories	3.7	1.9	+1.8	Increasing	2	19.5	64.7	15.8
Finished Goods Inventories	13.7	11.3	+2.4	Increasing	7	22.9	67.9	9.2
Prices Paid for Raw Materials	38.7	40.2	–1.5	Increasing	94	45.0	48.6	6.3
Prices Received for Finished Goods	32.8	26.0	+6.8	Increasing	12	37.3	58.2	4.5
Wages and Benefits	42.5	43.6	–1.1	Increasing	152	45.3	51.9	2.8
Employment	37.7	37.5	+0.2	Increasing	50	46.4	44.9	8.7
Hours Worked	14.3	14.2	+0.1	Increasing	8	23.5	67.2	9.2
Capital Expenditures	26.6	36.8	–10.2	Increasing	86	35.2	56.2	8.6

General Business Conditions
Future (six months ahead)

Indicator	Index	Dec Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Worsened
Company Outlook	48.8	47.1	+1.7	Improving	12	54.6	39.6	5.8
General Business Activity	43.7	42.5	+1.2	Improving	8	49.1	45.5	5.4

*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.

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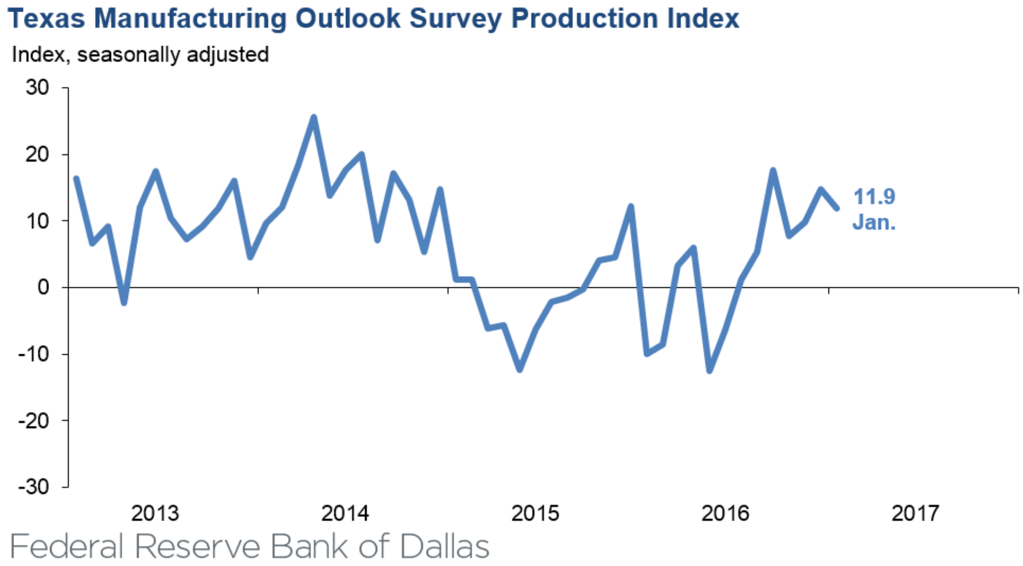

January 30, 2017

Comments from Survey Respondents

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

Primary Metal Manufacturing

- We have seen an improvement since the election.

Fabricated Metal Product Manufacturing

- Equipment purchases remain sluggish with a "wait and see" approach being taken by the refinery operators regarding crack spreads and available cash flow.
- We feel if the news of the new administration holds, we should be on an uptrend throughout the Trump presidency.
- Order and shipment volumes have increased from low fourth-quarter levels across most industry sectors. We are experiencing some material price pressure.
- Generally, since the election, all activity has increased and quote activity for projects down the road has increased.
- The global economies and U.S. economy are very weak and uncertain.
- During my 40 years in business, I have never seen such a positive result from an election as I have experienced since the November election.

Machinery Manufacturing

- One of our manufacturing facilities is in Mexico. There is some uncertainty around potential impacts related to NAFTA and other policy changes from the Trump administration. Several large chain customers are asking for backup plans should there be any supply chain disruption.

Computer and Electronic Product Manufacturing

- President Trump looks to do things that will be favorable for business, which would improve employment and growth if successful. However, protesters are all over the place, so I tend to think that will cause trouble for the country and for business.

Transportation Equipment Manufacturing

- This is a more negative view than we typically see. One caveat to this response is that we are not necessarily confident in some sales forecast assumptions we are getting in our data. If the data are correct, our company outlook will be negative for the next 6–8 months, and possibly longer. If the data are, as we believe, incorrect, then our outlook is neutral. We believe overall business activity at a macro level is good. We believe our particular sector of our industry is regionally hampered by reduced tax receipts created by the fallout of the energy sector slowdown.
- Imports coming from Asia continue to plague the drilling equipment market. Foreign-governmental subsidized products are being brought over and sold at unprecedented low prices (prices not seen in the last 35 years).
- We are waiting to see whether the new administration in Washington follows through on the threats to place additional tariffs on parts imported from Mexico and Asian countries. That could cause the price of our finished products to increase.

Beverage and Tobacco Product Manufacturing

- An unchanged outlook means it is still not good. I still seem to be in a secular 2–3 percent decline in sales. We are working to diversify, and while such efforts have been successful, they aren't big enough yet to move the needle.

Printing and Related Support Activities

- Maybe it's because we have hit the January doldrums that can occur for us this time of year, but it seems way slower with much less activity both in order entering and in quoting. It's as if our customers are still out on vacation or taking a wait and see to the new president this Friday. Normally we lag way behind national trends, so I doubt it's the Trump administration change affecting us, but we need orders to pick up in a big way and soon.
- The printing industry has been hurting for a long time and continues to decline. At the end of December we purchased a small print shop in order to increase sales, but we also increased overhead. Our lost sales have been a result of mergers and companies selling off divisions that are not profitable. We are still hopeful that a change in the economy will help increase sales.

Paper Manufacturing

- Although slight, the overall outlook has improved, supported by actual increase in orders and activity. We have been looking for additional employees (skilled) who have been hard to find. Overtime continues to hurt the bottom line along with a relentless increase in health care costs that are more than we can pass along to employees.
- We expect President Trump's policies towards NAFTA and Mexico will have a negative impact in the borderland in the next six months.

Miscellaneous Manufacturing

- We are expecting President Trump to have a very positive impact on the business environment. We need less regulation, less red tape, better trade deals and lower taxes.

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

Federal Reserve Bank of Dallas

Surveys

Special Questions

January 30, 2017

Texas Business Outlook Surveys

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 Jan. 17–25, and 392 Texas business executives responded to the surveys.

1. **Over the past three years, were your firm's revenues directly impacted by energy industry activity?**

	Percent
Yes, my business is strongly impacted by energy industry activity	32.7
Yes, my business is slightly impacted by energy industry activity	40.0
No, my business is not directly impacted by energy industry activity	27.3

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.

Surveys

Special Questions

January 30, 2017

Texas Manufacturing Outlook Survey

Data were collected Jan. 17–25, and 109 Texas manufacturers responded to the survey.

1. **Approximately what percentage of your overall revenues came from exports over the past year? (Please consider both direct exports from your firm and indirect exports of your products through an intermediary.)**
   A similar set of questions on exports was asked in December 2015

   http://www.dallasfed.org/~/media/Documents/research/surveys/tmos/2015/1512/specquest.pdf

   .

	Percent
None	31.2
1 to 4	31.2
5 to 9	13.8
10 to 19	10.1
20 or more	13.8

2. **How do exports as a share of your overall revenue compare with a year ago (if applicable) ?**

	Percent
Increased substantially	5.9
Increased somewhat	15.3
No change	52.9
Decreased somewhat	18.8
Decreased substantially	7.1

3. **How has demand for your products from each of these regions/countries changed from a year ago (if applicable)?**

	Canada (percent)	Mexico (percent)	South America (percent)	Euro Area (percent)	Japan (percent)	China (percent)	Other Asia (percent)
Substantially weaker	8.2	10.3	18.2	13.0	12.9	10.8	10.0
Somewhat weaker	21.3	13.8	18.2	17.4	9.7	5.4	10.0
No change	54.1	48.3	50.0	45.7	67.7	62.2	55.0
Somewhat stronger	13.1	24.1	11.4	21.7	0.0	16.2	10.0
Substantially stronger	3.3	3.4	2.3	2.2	9.7	5.4	15.0

4. **Over the past three years, were your firm's revenues directly impacted by energy industry activity?**

	Percent
Yes, my business is strongly impacted by energy industry activity	43.8
Yes, my business is slightly impacted by energy industry activity	36.2
No, my business is not directly impacted by energy industry activity	20.0

Special Questions Comments

These comments have been edited for publication.

Chemical Manufacturing

- We are seeing increased imported competition from China and Europe as they are seeking better outlets for their products.
- China implemented a high tariff on commodities produced in Texas, where we have two manufacturing locations, and a 10 percent tariff on commodities packaged by the U.S. This was to protect their new manufacturing business developing in China and exporting to other regions. Both our plants in Texas have closed and we laid off about 40 workers. The transition was from October 2015 to December 2016.

Fabricated Metal Product Manufacturing

- The price of our primary input material, hot rolled coil steel, continues to escalate as import tariffs allow the domestic mills to control the market. The oil exploration and production market for our equipment continues to be oversupplied, and thus price elasticity is causing margin compression.
- We are not working directly but indirectly with companies providing oil-related products. Our business suffered 20 to 25 percent of the revenue it gets versus when it is on.
- The continued meltdown in Venezuela has been a serious impact on what previously had been a significant part of our revenue stream. Colombian purchases were reduced to zero due to cash constraints resulting from low oil prices.

Computer and Electronic Product Manufacturing

- Availability of a trained manufacturing workforce continues to trend downward and remained an issue that hinders ability to grow.
- A high dollar plus weakness in the world economy are the main cause of U.S. weak exports and lower than expected GDP. Stopping countries from manipulating their currencies is something imperative to the success of our exports. We are not competitive. Also, we buy in dollars, so we can't even hedge on the strong dollar as an American manufacturer.

Electrical Equipment, Appliance, and Component Manufacturing

- It would be harmful for our profitability to have components of lighting fixtures imported from overseas not be deductible as part of our fixture costs, as suggested in new tax code changes for 2017. Our business model of imported components and automation have enabled us to compete with overseas lighting manufacturers and grow our export sales, while still substantially growing our employee base over the past 5–10 years. Politicians "truisms" about imports from overseas and automation as depriving U.S. employment are entirely contradicted by our direct business experience.

Transportation Equipment Manufacturing

- Sales in the automotive industry are closely tied to the price of gas at the pump. Our operation supports a local auto manufacturing plant so as long as gas prices were low, as they have been for the last year or so, sales of autos have been high. If gas prices increase significantly, then it could hurt sales.

Food Manufacturing

- The strong dollar is killing our export volume. Trade fears and political fallout from the election have already cost us some relationships. There is great unease amongst our Latin American customer base.

Beverage and Tobacco Product Manufacturing

- As I sell soft drinks, I am seeing a 2–3 percent secular decline in demand. Our decline since oil prices decreased has been above that secular trend. In my main sales areas, sales tax collections are hurdling a –9 percent sales tax collection with another –9 percent. While our sales aren't off 9 percent, we are somewhere in between that and the long-term secular trend.

Apparel Manufacturing

- While we are not directly in the energy industry, many of our customers are, and when their disposable income decreases they do not buy our product.

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

Special Questions

January 30, 2017

Texas Service Sector Outlook Survey

Data were collected Jan. 17–25, and 284 Texas business executives responded to the survey.

1. **Over the past three years, were your firm's revenues directly impacted by energy industry activity?**

	Percent
Yes, my business is strongly impacted by energy industry activity	28.6
Yes, my business is slightly impacted by energy industry activity	41.4
No, my business is not directly impacted by energy industry activity	30.0

Special Questions Comments

These comments have been edited for publication.

Credit Intermediation and Related Activities

- Slower energy activity around our geographic footprint negatively impacted the top lines of our clients in various industry segments (retail, heavy equipment, fuel distribution, etc.).
- All our markets were impacted to some extent, primarily in the service industries tied to the oil industry. Sales tax income was down, and some trucking and manufacturing companies reduced employees and/or salaries. Royalty interest cash flow was reduced substantially, primarily impacting smaller consumer royalty owners more directly.
- The area around Corpus Christi was significantly affected in a positive manner by the Eagle Ford drilling and production events and has been significantly affected by the downturn. I am of the opinion that the negative effects have just about worked their way through the area economy and that the current conditions are returning to normal, which will mean relatively slow growth but growth nonetheless.

Insurance Carriers and Related Activities

- Mainly just activity in the Houston area, which is a very small part of our overall footprint.

Telecommunications

- We serve the Houston area, and naturally all of the layoffs in the oil industry reduced our growth rate from previous years. The area that has a worse impact on our business has been programming costs to a point that we do not project or intend to grow our video product for the next three years.

Rental and Leasing Services

- While an oil patch bust is an economic good thing for most other businesses—lower energy costs lower input cost—the oil patch bust in Texas has by far been a net negative for our business. We have 23 stores across Texas. Oil prices started to decline June 2014; we were still up in gross revenues 5 percent in 2015, but we were down 7 percent in 2016. We have liquidated $30 million of rental fleet and $20 million of sales inventory directly due to the slowdown in the oilfield. Yes, we have been dramatically, negatively impacted by the lack of activity in the oilfield over the last two-and-a-half years.

Professional, Scientific and Technical Services

- We saw declines in some legal work because of the downturn of prices, but we saw gains in bankruptcy work as a result of major filings in Houston rather than the historical practice of filing in New York or Delaware. Surprisingly, our real estate lawyers in Houston have remained very busy.
- Our energy clients are critical to our success.
- We provide design services for office and other types of buildings. The Houston commercial real estate industry has been hard hit by the downturn in the energy industry, which directly and immediately impacted our business.
- We are in the legal services business where one of our four core practices supports the energy industry.
- Fuel price fluctuations and ever-increasing energy costs affect everyone in business. We all use energy, and it's not getting cheaper with an endless supply of new rules and regulations.
- Higher oil prices mean more project work and therefore more consulting work for my business.

Administrative and Support Services

- Our average miles per service call is approximately 20 miles round trip. We average 10 thousand completed service calls per month. Combined with the miles driven to calls that are canceled en route, the fuel costs are significant.
- Our janitorial business has taken off in Midland—picked up major contracts from oil companies.
- Several customers were very negatively affected by the downturn in the energy sector.
- Logistics costs are an integral part of the cost of business both in purchasing products and selling services, so regulation and costs that increase the price of fuel have an effect on our business.

Educational Services

- We spend a lot of fuel to power our buses, so as gas prices fluctuate it impacts our business.
- While energy prices directly impacted some of our revenues, most of the price decrease was surprisingly offset by an increase in production.

Ambulatory Health Care Services

- Lower fuel prices improved bottom-line profit slightly by lowering facility utilities costs.

Hospitals

- All of Midland's local economy was impacted by the downturn in oilfield activity over the past two years. Impact on the hospital was multidimensional: Population outmigration reduced volumes in the emergency room, labor and delivery, etc.; job-related anxiety and increasing out-of-pocket costs resulted in reductions in elective admissions and surgeries. Overall, the last two years have been among our worst financial performance periods in recent memory.
- Over the past 24 months, we have seen a drop in sales tax receipts and some volumes within our various service lines.
- Property tax reduction due to closing or potential closing of plants impacted 1 percent of our net bottom line—huge impact.

Accommodation

- As a regional leisure destination, San Antonio is negatively impacted by the impact of low oil prices on Houston and the Eagle Ford Shale areas. Layoffs and cutbacks in these industries impact meetings and leisure travel to San Antonio.

Food Services and Drinking Places

- We are a byproduct of the economy with the majority of our business in Houston.
- Overall, no material impact. We lock electric rates in the deregulated markets and have had fairly good results.

Truck Transportation

- As a trucking company, energy prices are a major expense in our business. Long periods of price stability enable us to adjust our rates and fuel surcharges to cope with the price. The rapid price swings have to be absorbed more by us without being able to pass them on.

Utilities

- Our costs have gone down due to natural gas prices declining.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org .

Surveys

Special Questions

January 30, 2017

Texas Retail Outlook Survey

Data were collected Jan. 17–25, and 55 Texas retailers responded to the survey.

1. **Over the past three years, were your firm's revenues directly impacted by energy industry activity?**

	Percent
Yes, my business is strongly impacted by energy industry activity	35.2
Yes, my business is slightly impacted by energy industry activity	48.1
No, my business is not directly impacted by energy industry activity	16.7

Special Questions Comments

These comments have been edited for publication.

Merchant Wholesalers, Durable Goods

- Oilfield-related business is approximately 30 percent of our total business. Although it has been depressed for some time now, we are starting to see and feel increases in business volume and opportunity.

Merchant Wholesalers, Nondurable Goods

- Yes, our freight rates were directly impacted for both inbound supplies and outbound finished goods.

Motor Vehicle and Parts Dealers

- The price of gasoline has helped the sale of vehicles.
- The automotive industry was strongly impacted, especially commercial business (light duty and heavy duty trucks). Impact was both sales and service.
- Our retail sales are down 12 percent from 2016 to 2015. Part of this is energy and agriculture.
- Part of our business is the sale of light duty trucks. That business in Texas is always affected by the state of the energy industry.

Building Material and Garden Equipment and Supplies Dealers

- It's positive paying less for fuel, but negative with energy industry layoffs—would rather pay more for fuel and increase jobs.

Clothing and Clothing Accessories Stores

- The smaller workforce in the energy industry has definitely hurt retail sales.

Questions regarding the Texas Service Sector Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org .