Texas **Manufacturing**
Outlook Survey

Texas Manufacturing Activity Strengthens

March 27, 2017

Texas factory activity increased for the ninth consecutive month in March, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose two points to 18.6, suggesting output growth picked up pace this month.

Other measures of current manufacturing activity also indicated expansion in March. The new orders index inched down to 9.5, while the growth rate of orders index inched up to 3.2, registering a third positive reading in a row. The capacity utilization and shipments indexes moved down but stayed positive, posting readings of 13.2 and 6.5, respectively.

Perceptions of broader business conditions improved again this month. The general business activity index fell eight points but remained positive at 16.9, and the company outlook index was largely unchanged at 17.9. The March figures represent the sixth and seventh positive readings in a row for general business activity and company outlook indexes, respectively.

Labor market measures indicated employment gains and longer workweeks in March. The employment index posted a third consecutive positive reading and edged down from 9.6 to 8.4. Nineteen percent of firms noted net hiring, compared with 10 percent noting net layoffs. The hours worked index moved up one point to 8.7.

Upward price pressures eased a bit in March, and wages continued to rise at about the same pace. The raw materials prices index fell six points to 25.2, still very high but ending a five-month trend of rising readings. The finished goods prices index fell 12 points to 7.5. The wages and benefits index held fairly steady at 19.7, with nearly 80 percent of firms noting no change in compensation costs.

Expectations regarding future business conditions continue to improve. The indexes of future general business activity and future company outlook came in at 36.3 and 39.1, respectively, exhibiting mixed movements from their February readings but still solidly in positive territory. Most other indexes for future manufacturing activity slipped but remained positive.

Next release: Monday, April 24

Data were collected Mar. 14–22, and 115 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.

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	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	18.6	16.7	+1.9	Increasing	9	32.4	53.8	13.8
Capacity Utilization	13.2	14.7	–1.5	Increasing	9	28.6	56.0	15.4
New Orders	9.5	11.6	–2.1	Increasing	5	27.5	54.5	18.0
Growth Rate of Orders	3.2	2.0	+1.2	Increasing	3	20.7	61.8	17.5
Unfilled Orders	0.1	0.7	–0.6	Increasing	3	14.0	72.1	13.9
Shipments	6.5	12.2	–5.7	Increasing	4	26.8	52.9	20.3
Delivery Time	10.1	5.8	+4.3	Increasing	2	17.1	75.9	7.0
Materials Inventories	0.0	9.7	–9.7	Unchanged	1	18.3	63.5	18.3
Finished Goods Inventories	–1.8	–2.6	+0.8	Decreasing	5	13.0	72.2	14.8
Prices Paid for Raw Materials	25.2	31.5	–6.3	Increasing	13	28.0	69.2	2.8
Prices Received for Finished Goods	7.5	19.5	–12.0	Increasing	8	12.2	83.1	4.7
Wages and Benefits	19.7	19.5	+0.2	Increasing	88	20.4	78.9	0.7
Employment	8.4	9.6	–1.2	Increasing	3	18.6	71.2	10.2
Hours Worked	8.7	7.7	+1.0	Increasing	5	19.8	69.1	11.1
Capital Expenditures	12.7	14.4	–1.7	Increasing	7	18.6	75.5	5.9

General Business Conditions
Current (versus previous month)

Indicator	Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	17.9	17.6	+0.3	Improving	7	28.9	60.1	11.0
General Business Activity	16.9	24.5	–7.6	Improving	6	28.7	59.5	11.8

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	44.8	46.4	–1.6	Increasing	97	53.3	38.2	8.5
Capacity Utilization	37.3	45.2	–7.9	Increasing	97	45.9	45.5	8.6
New Orders	45.1	51.0	–5.9	Increasing	97	51.6	41.9	6.5
Growth Rate of Orders	38.3	39.9	–1.6	Increasing	97	44.1	50.1	5.8
Unfilled Orders	7.3	11.3	–4.0	Increasing	18	16.5	74.4	9.2
Shipments	45.7	42.8	+2.9	Increasing	97	52.2	41.3	6.5
Delivery Time	4.9	6.1	–1.2	Increasing	4	12.5	79.9	7.6
Materials Inventories	4.4	6.2	–1.8	Increasing	4	20.9	62.6	16.5
Finished Goods Inventories	5.5	4.6	+0.9	Increasing	9	17.4	70.6	11.9
Prices Paid for Raw Materials	42.5	36.4	+6.1	Increasing	96	44.4	53.7	1.9
Prices Received for Finished Goods	25.5	31.5	–6.0	Increasing	14	29.1	67.3	3.6
Wages and Benefits	45.0	45.0	0.0	Increasing	154	46.2	52.6	1.2
Employment	28.4	38.9	–10.5	Increasing	52	36.1	56.2	7.7
Hours Worked	9.4	12.2	–2.8	Increasing	10	18.8	71.8	9.4
Capital Expenditures	23.4	33.0	–9.6	Increasing	88	29.9	63.6	6.5

General Business Conditions
Future (six months ahead)

Indicator	Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Worsened
Company Outlook	39.1	35.6	+3.5	Improving	14	47.1	44.8	8.0
General Business Activity	36.3	37.0	–0.7	Improving	10	44.0	48.2	7.7

*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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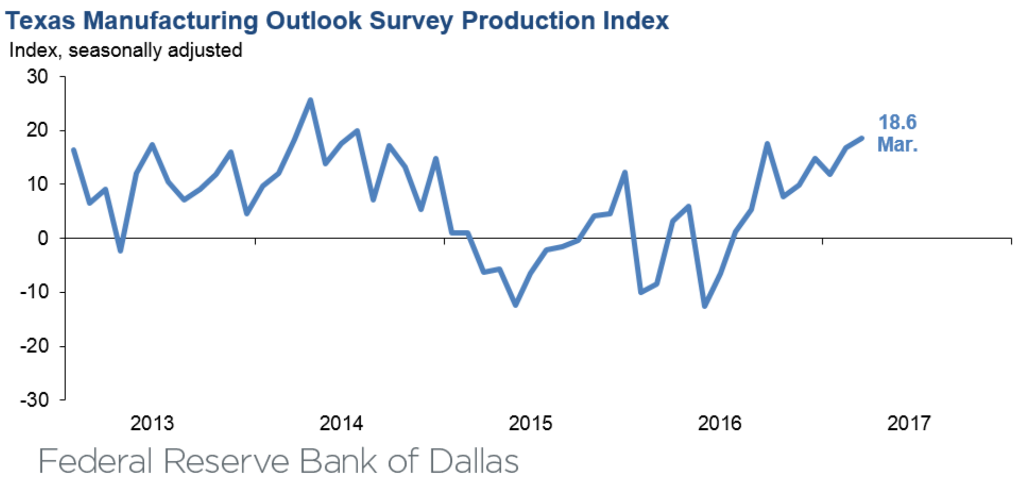

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Comments from Survey Respondents

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

Nonmetallic Mineral Product Manufacturing

- It seems like there is an increase in overall construction activity nationwide for our niche market, but all I have to base this on is inquiries on how to use our products, prices, delivery schedules, etc.

Fabricated Metal Product Manufacturing

- Since the third week in November 2016, bookings have improved from choppy to materially less choppy, which supports potentially higher growth in nonresidential new construction starts for 2017.
- The price of oil has been disappointing for the major players and is affecting their maintenance and capital spending levels. Traditionally this should be one of our busiest times of the year, but the uptick normally seen has not materialized. Our major concern is the summer, which for our industry is seasonally the slowest time of the year. It could be difficult.
- There is still optimism in the manufacturing business community for a better business environment, but we have not seen that translate into revenues yet.

Machinery Manufacturing

- The market for subsea equipment is still in heavy flux. We receive more quoting activity, however delivery dates continue to be pushed out.
- Raw material spending is driven largely by stainless steel, where surcharges have dramatically increased over the last several months, driven by chrome and nickel prices. Inventories will drop as we drive volume prior to our fiscal year-end in June.

Electrical Equipment, Appliance, and Component Manufacturing

- We hope 2017 will be better for us than 2016 due to some competitive pressures we faced in 2016. A weak competitor dressed itself up for sale last year and was bought by the biggest. We are No. 2. Generally, when this happens, the little guy pumps sales into the market to make itself look bigger and lowers margins for everyone. Margins are the issue for us. Volumes are pretty good, but not great.

Transportation Equipment Manufacturing

- Stronger expectations are a function of President Trump being successful with his plans.
- Our outlook is positive but we are experiencing some near term (6-12 month) negative pressure due to our customer base being a lagging indicator to the economy as a whole.

Printing and Related Support Activities

- Spring is a slow time for us, although there appears to be some increased activity in quoting which normally means an increase in orders to come. We still need more work for the next few months.

Paper Manufacturing

- Our outlook remains the same, which is positive. We are still trying to add employees (hard to find) to reduce overtime in production. A raw material price increase is coming this spring.
- Business continues to be strong.

Wood Product Manufacturing

- We sell to single-family homebuilders and their demand is very strong. We are very close to maximum capacity.

Miscellaneous Manufacturing

- As oil and gas goes, so goes our economy.
- Brexit and tumult in Europe will have a significant impact on our export sales. The proposed border adjustment tax is going to clobber our cost of goods sold. It is not looking good for medical devices.

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