Texas Manufacturing Outlook Survey

November 27, 2017

Manufacturing Expansion Slows but Remains Solid

What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on employment expectations and the labor market. Results for these questions from the Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS) have been released together.

Texas factory activity continued to expand in November, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell 10 points from its October reading but remained elevated at 15.1.

Other measures of manufacturing activity also pointed to November growth that was slightly slower than in October but still well above average. The new orders index moved down five points to 20.0, and the capacity utilization and shipments indexes similarly fell to 17.3 and 16.7, respectively. Meanwhile, the growth rate of orders index signaled a stronger pickup in demand, climbing six points to 18.1. This represents the index's highest reading since 2010.

Perceptions of broader business conditions remained highly positive in November. The general business activity index came in at 19.4, down eight points from October. The company outlook index posted its 15th consecutive positive reading but dipped to 18.5.

Labor market measures suggested slower employment growth and longer workweeks this month. The employment index fell 10 points from October to 6.3, reflecting a more normal index level after several months of elevated readings. Nineteen percent of firms noted net hiring, compared with 13 percent noting net layoffs. The hours worked index edged down but remained positive at 11.5, indicating a continued lengthening of workweeks.

Upward pressure on prices and wages continued in November. The raw materials prices and finished goods prices indexes held steady at 32.2 and 15.1, respectively. The wages and benefits index moved down eight points to 14.2, slightly below the average reading for that index.

Expectations regarding future business conditions remained highly optimistic. The index of future general business activity held steady at 39.0, while the index of future company outlook edged up to 40.8. Other indexes for future manufacturing activity showed mixed movements but remained solidly in positive territory.

Next release: Tuesday, December 26

Data were collected Nov. 13–21, and 101 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	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	15.1	25.6	–10.5	Increasing	17	32.2	50.7	17.1
Capacity Utilization	17.3	22.5	–5.2	Increasing	17	29.4	58.5	12.1
New Orders	20.0	24.8	–4.8	Increasing	13	36.5	47.0	16.5
Growth Rate of Orders	18.1	12.3	+5.8	Increasing	11	30.3	57.5	12.2
Unfilled Orders	11.4	10.4	+1.0	Increasing	11	21.3	68.8	9.9
Shipments	16.7	20.9	–4.2	Increasing	12	35.0	46.8	18.3
Delivery Time	4.8	3.0	+1.8	Increasing	5	15.4	74.0	10.6
Materials Inventories	6.8	10.6	–3.8	Increasing	5	23.1	60.6	16.3
Finished Goods Inventories	0.0	9.9	–9.9	Unchanged	1	18.8	62.4	18.8
Prices Paid for Raw Materials	32.2	32.3	–0.1	Increasing	21	34.8	62.6	2.6
Prices Received for Finished Goods	15.1	15.3	–0.2	Increasing	16	21.8	71.5	6.7
Wages and Benefits	14.2	22.5	–8.3	Increasing	96	18.1	78.0	3.9
Employment	6.3	16.7	–10.4	Increasing	11	19.3	67.7	13.0
Hours Worked	11.5	13.7	–2.2	Increasing	13	22.8	65.9	11.3
Capital Expenditures	15.8	13.3	+2.5	Increasing	15	22.1	71.6	6.3

General Business Conditions

Current (versus previous month)

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	18.5	25.8	–7.3	Improving	15	28.8	60.9	10.3
General Business Activity	19.4	27.6	–8.2	Improving	14	28.3	62.8	8.9

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

Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	46.1	46.0	+0.1	Increasing	105	51.7	42.7	5.6
Capacity Utilization	45.4	47.2	–1.8	Increasing	105	49.4	46.6	4.0
New Orders	48.9	45.3	+3.6	Increasing	105	53.2	42.5	4.3
Growth Rate of Orders	40.9	36.7	+4.2	Increasing	105	43.9	53.1	3.0
Unfilled Orders	14.2	10.1	+4.1	Increasing	26	21.7	70.8	7.5
Shipments	43.2	50.8	–7.6	Increasing	105	49.1	45.0	5.9
Delivery Time	3.8	0.5	+3.3	Increasing	12	14.5	74.8	10.7
Materials Inventories	13.2	3.7	+9.5	Increasing	12	24.0	65.2	10.8
Finished Goods Inventories	6.2	–0.9	+7.1	Increasing	1	20.6	64.9	14.4
Prices Paid for Raw Materials	48.4	36.5	+11.9	Increasing	104	51.5	45.4	3.1
Prices Received for Finished Goods	35.8	18.9	+16.9	Increasing	22	43.2	49.5	7.4
Wages and Benefits	46.6	36.9	+9.7	Increasing	162	49.0	48.6	2.4
Employment	29.8	34.2	–4.4	Increasing	60	40.5	48.8	10.7
Hours Worked	22.1	13.8	+8.3	Increasing	18	27.0	68.1	4.9
Capital Expenditures	34.1	30.2	+3.9	Increasing	96	41.5	51.1	7.4

General Business Conditions
Future (six months ahead)

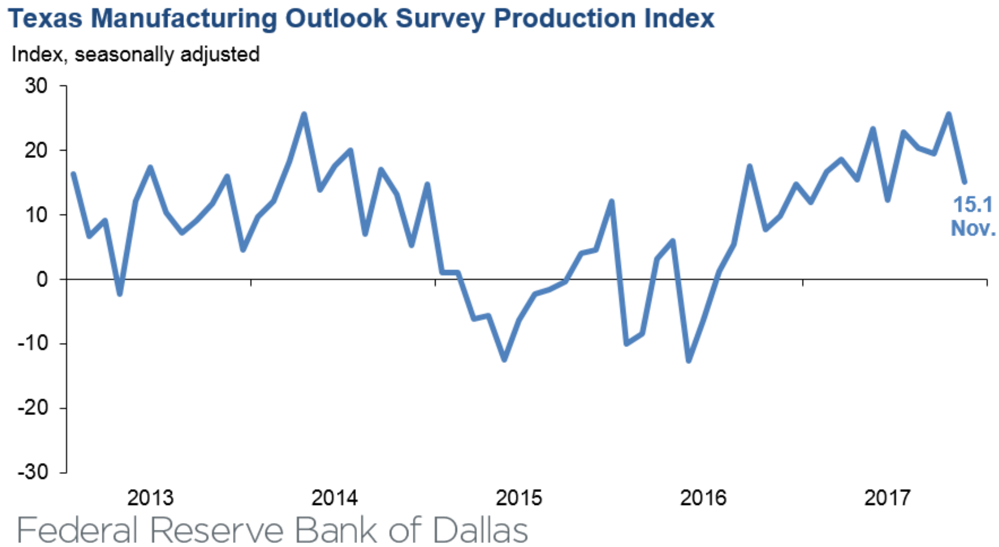
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Worsened
Company Outlook	40.8	39.0	+1.8	Improving	22	46.1	48.6	5.3
General Business Activity	39.0	38.5	+0.5	Improving	18	41.5	56.0	2.5

*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



Comments from Survey Respondents

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

Primary Metal Manufacturing

- We have unusually high order bookings for this time of the year.

Fabricated Metal Product Manufacturing

- We are feeling slightly optimistic with the recent increase in the price of crude but will need to see what the refiners' budget for maintenance work for 2018 will be.
- The end of year has slipped as far as orders for goods. We are trying a new sales approach for increase in another profit area.
- The global economies and U.S. economy are very weak and uncertain.
- We have just completed our restoration efforts in our plant and should see full production efficiencies in November. We have our highest backlog of orders in over nine months.

Machinery Manufacturing

- We have seen a 60 percent decrease in booked orders from September to October. We are anticipating the same for November.

Computer and Electronic Product Manufacturing

- General activity continues to strengthen broadly.

Printing and Related Support Activities

- October was a busy month, and while we are busy now, we don't have as many temporary workers. We continue to be very concerned with low activity levels in our industry, and a competitor in New York that looked a lot like us is closing this month and auctioning off its equipment.

Apparel Manufacturing

- Military apparel orders have increased exponentially.

Food Manufacturing

- Lack of available labor continues to be the biggest impediment to growth. We simply cannot find manufacturing labor or technical skilled employees.

- On capacity utilization, there is a shortage of labor in the area of our Mexico operation, so we are transferring more work to China and also doing some more (minor) work here in Texas.

Miscellaneous Manufacturing

- We really need tax reforms based on President Trump's plan. The Republicans and Democrats don't understand how uncompetitive the U.S. tax structure is compared to the international.
- The Christmas rush in our business is over.

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

Texas **Manufacturing** Outlook Survey

Special Questions

November 27, 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 Nov. 13–21, and 378 Texas business executives responded to the surveys.

1. **Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to 12 months?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Increase	47.2	46.9	39.0
Leave unchanged	43.5	43.1	43.8
Decrease	9.3	10.1	17.2

2. **Are you having problems finding qualified workers when hiring?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	67.3	63.4	62.9
No	32.7	36.6	37.1

3. **If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.**

NOTE: This question was added to survey in November 2017.

	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	47.2
Mid-skill positions (typically require some college or technical schooling)	60.4
High-skill positions (typically require college degree or higher)	37.6

4. **If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Lack of available applicants/no applicants	58.6	43.2	49.2
Lack of technical competencies (hard skills)	49.8	59.8	66.8
Looking for more pay than is offered	39.0	34.4	45.8
Lack of workplace competencies (soft skills)	37.3	43.2	48.9
Lack of experience	32.5	40.5	41.6
Inability to pass drug test and/or background check	32.1	29.3	28.6

5. **What, if anything, are you doing to recruit and retain employees? Please check all that apply.**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	63.5	57.1	57.8
Increase wages and or benefits	49.4	47.9	45.5
Offer additional training	35.7	34.8	39.5
Increase variable pay, including bonuses	29.2	30.1	30.4
Improve working conditions	23.4	23.2	25.0
Reduce education and other requirements for new hires	8.8	5.4	6.0
Other	6.7	9.8	8.4

6. **If labor costs are increasing, are you passing the cost on to customers in the way of price increases?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	34.5	33.8	31.7
No	50.0	49.5	52.2
Not applicable	15.5	16.8	16.1

NOTE: Survey respondents were given the opportunity to provide comments. These comments can be found on the individual survey Special Questions results pages.

Texas Manufacturing Outlook Survey

Data were collected Nov. 13–21, and 99 Texas manufacturers responded to the survey.

1. **Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to 12 months?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Increase	46.9	57.1	41.6
Leave unchanged	42.9	33.0	44.2
Decrease	10.2	9.8	14.2

2. **Are you having problems finding qualified workers when hiring?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	72.7	68.5	66.1
No	27.3	31.5	33.9

3. **If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.**

NOTE: This question was added to survey in November 2017.

	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	61.1
Mid-skill positions (typically require some college or technical schooling)	66.7
High-skill positions (typically require college degree or higher)	30.6

4. **If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Lack of technical competencies (hard skills)	61.1	72.2	82.5
Lack of available applicants/no applicants	51.4	44.3	37.5
Inability to pass drug test and/or background check	45.8	29.1	28.8
Lack of workplace competencies (soft skills)	37.5	45.6	48.8
Looking for more pay than is offered	36.1	36.7	48.8
Lack of experience	31.9	44.3	38.8

5. **What, if anything, are you doing to recruit and retain employees? Please check all that apply.**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	67.4	63.5	56.0
Increase wages and or benefits	51.7	58.3	46.2
Offer additional training	40.4	33.3	40.7
Increase variable pay, including bonuses	28.1	30.2	35.2
Improve working conditions	24.7	21.9	27.5
Reduce education and other requirements for new hires	11.2	5.2	6.6
Other	5.6	5.2	8.8

6. **If labor costs are increasing, are you passing the cost on to customers in the way of price increases?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	37.8	35.8	27.4
No	53.1	55.0	56.6
Not applicable	9.2	9.2	15.9

Special Questions Comments

These comments have been edited for publication.

Fabricated Metal Product Manufacturing

- We have to work smarter, as it is very difficult to increase priced received.

Chemical Manufacturing

- We have our largest plant about an hour north of a major industrial area, so we have no trouble attracting and retaining workers due to the commute distance. If I were answering for our smaller plant, which is in the midst of an industrial area, I would answer much differently as retaining employees is a problem due to the multiple opportunities in that area.

Machinery Manufacturing

- Our market is very price sensitive, forcing us to find other ways to cut costs because we have not been able to reduce wages for labor.

Furniture and Related Product Manufacturing

- There is a large gap in both skills and work ethic among the applicant pool. It is very hard to find applicants who actually want to work—most just want a job.

Printing and Related Support Activities

- Our challenge has been filling production floor positions that require some specific machine operator competencies.

Paper Manufacturing

- It is becoming increasingly more difficult to find and hire people who want to work and are willing to work for a fair wage. I think our education system has failed, and I think our society has slipped, especially as it pertains to work ethic.

Food Manufacturing

- Our biggest issues are in finding competent accounting staff.
- Hiring is our biggest challenge, not only in our Texas plant, but others as well.
- Our products are commodities that fluctuate in value daily, so passing on increased costs is hard to do.

Texas Service Sector Outlook Survey

Data were collected Nov. 13–21, and 279 Texas business executives responded to the survey.

1. **Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to 12 months?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Increase	47.3	42.8	37.9
Leave unchanged	43.7	47.0	43.6
Decrease	9.0	10.2	18.4

2. **Are you having problems finding qualified workers when hiring?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	65.3	61.4	61.7
No	34.7	38.6	38.3

3. **If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.**

NOTE: This question was added to survey in November 2017.

	Nov. '17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	41.6
Mid-skill positions (typically require some college or technical schooling)	57.9
High-skill positions (typically require college degree or higher)	40.4

4. **If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Lack of available applicants/no applicants	61.6	42.8	54.4
Lack of technical competencies (hard skills)	45.2	54.4	59.9
Looking for more pay than is offered	40.1	33.3	44.5
Lack of workplace competencies (soft skills)	37.3	42.2	48.9
Lack of experience	32.8	38.9	42.9
Inability to pass drug test and/or background check	26.6	29.4	28.6

5. **What, if anything, are you doing to recruit and retain employees? Please check all that apply.**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	62.1	54.6	58.5
Increase wages and or benefits	48.6	43.8	45.2
Offer additional training	34.0	35.4	39.0
Increase variable pay, including bonuses	29.6	30.0	28.6
Improve working conditions	22.9	23.8	24.1
Reduce education and other requirements for new hires	7.9	5.4	5.8
Other	7.1	11.7	8.3

6. **If labor costs are increasing, are you passing the cost on to customers in the way of price increases?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	33.3	33.0	33.5
No	48.9	47.3	50.4
Not applicable	17.8	19.7	16.2

Special Questions Comments

These comments have been edited for publication.

Data Processing, Hosting and Related Services

- The result of fewer talented candidates in the market and higher health care costs is making us decide to cover more of our employees' health care premiums and hire fewer people. In addition, we have subcontracted high-skill tasks to part-time experts outside of the Texas market.

Credit Intermediation and Related Activities

- We are near full employment of the employable.
- The market is not supportive of price increases at this time. We are having to look at reducing other variable expenses, e.g., advertising and business development.

Securities, Commodity Contracts, and Other Financial Investments and Related Activities

- Our businesses are very competitive; therefore, the ability to pass on increased labor costs is difficult.

Insurance Carriers and Related Activities

- We need customer service representatives with some commercial background to be able to learn our process but yet be able to talk commercial insurance with potential clients.

Real Estate

- Education, particularly in math and organization, is a big hurdle.

Professional, Scientific and Technical Services

- We are in a squeeze between the increasing cost of engineering labor and tight pricing pressure from clients, making it difficult to pass along the full increases in labor costs. As a result, we must look at reducing other expenses, including our own capital and internal development projects.

- As a professional services firm, we pay at the top of market for talent necessary to deliver high-quality service to our client base. We have a strong reputation in Texas so have little difficulty here, although at times, the pool of applicants is thin. Outside of Texas can be more challenging—both in identifying and then attracting. Again, paying at the top of market helps.
- I am a sole proprietor and do not have any employees. With essentially no work, I do not expect to hire anyone.
- We are generating more business revenue so we do not have to increase costs. Since we are a technology software company, we have minimal fixed production cost.

Administrative and Support Services

- We are finding it difficult to pass along labor and insurance increases in several segments such as restaurant and some real estate environments.
- Staff employees are interested in benefits programs; agents want marketing and increased commissions.

Ambulatory Health Care Services

- In the health sector, as businesses, we are limited to revenue on the contract we have with Medicare, Medicaid and also insurance contracts. Therefore, the shortage of labor and increased cost of human resources (which tends to be 65 percent of the operating cost) tend to be absorbed by the business entity, leading to wrap-up or consolidation in all service areas of health care. In addition to quality metrics improvement, technology is also eliminating significant lines of services (medical transcription, call centers and entry-level IT staff), discouraging folks. The long-term career aspect of health care appears to be no longer valid.
- We are a deflationary business. Our expenses increase while our reimbursement always gradually decreases. We have learned to be very efficient; we work very hard. As I told a patient, we are good, we are fast, and we are cheap. Try to get that engineered.

Hospitals

- In the health care system, there are not enough qualified nurses and bilingual nurses.
- Most pricing is fixed per contract or government regulation, so there is little opportunity to pass along labor cost increases.

Food Services and Drinking Places

- We will be opening a new store in McAllen in 2018. There will be no change in staffing in existing stores.
- We have not had high increases in the cost of wages. Increases have been hovering just below 2 percent for over a year. Wages for some of the more skilled positions (e.g., cooks) are now climbing at a somewhat higher rate. Our average rate increase has not moved above 2 percent for the simple reason that waitstaff (tipped employees) have not received any increase in base pay (although the higher sales volume is definitely leading to higher income for them), and they are a very substantial segment of our workforce. Benefits have been the biggest cost driver in this segment of the profit and loss statement. We definitely have factored those costs into our calculations in the price increases we have taken.
- With labor costs increasing, we are trying to maintain customer pricing but will eventually be forced to increase pricing to the customer.

Personal and Laundry Services

- We need to increase the number of employees by an additional 10 to 15 percent to cover all shifts for two new locations. We are not receiving applications for licensed stylists and barbers, so we are currently offering $300 signing bonuses, $150 employee referral bonuses and higher-pay commissions. We are actively advertising but not receiving any applications.

Texas Retail Outlook Survey

Data were collected Nov. 13–21, and 55 Texas retailers responded to the survey.

1. **Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to 12 months?**

	Nov. ’17 (percent)	Feb. ’17 (percent)	Feb. ’16 (percent)
Increase	36.4	40.7	24.1
Leave unchanged	56.4	50.0	56.9
Decrease	7.3	9.3	19.0

2. **Are you having problems finding qualified workers when hiring?**

	Nov. ’17 (percent)	Feb. ’17 (percent)	Feb. ’16 (percent)
Yes	76.4	76.4	67.2
No	23.6	23.6	32.8

3. **If you are having problems finding qualified workers, in which categories are you experiencing difficulty? Please check all that apply.**

NOTE: This question was added to survey in November 2017.

	Nov. ’17 (percent)
Low-skill positions (typically require high school diploma or less and minimal work experience)	54.8
Mid-skill positions (typically require some college or technical schooling)	66.7
High-skill positions (typically require college degree or higher)	21.4

4. **If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.**

	Nov. ’17 (percent)	Feb. ’17 (percent)	Feb. ’16 (percent)
Lack of available applicants/no applicants	59.5	46.7	53.7
Lack of technical competencies (hard skills)	54.8	55.6	63.4
Inability to pass drug test and/or background check	47.6	48.9	48.8
Looking for more pay than is offered	38.1	28.9	31.7
Lack of experience	35.7	37.8	31.7
Lack of workplace competencies (soft skills)	33.3	46.7	56.1

5. **What, if anything, are you doing to recruit and retain employees? Please check all that apply.**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	66.0	53.1	61.8
Increase wages and or benefits	56.6	49.0	34.5
Increase variable pay, including bonuses	39.6	42.9	30.9
Offer additional training	34.0	30.6	34.5
Improve working conditions	24.5	22.4	25.5
Reduce education and other requirements for new hires	13.2	6.1	7.3
Other	5.7	10.2	5.5

6. **If labor costs are increasing, are you passing the cost on to customers in the way of price increases?**

	Nov. '17 (percent)	Feb. '17 (percent)	Feb. '16 (percent)
Yes	42.6	39.6	37.9
No	46.3	50.9	48.3
Not applicable	11.1	9.4	13.8

Special Questions Comments

These comments have been edited for publication.

Motor Vehicle and Parts Dealers

- The current Senate version of the tax bill with the 30 percent business interest deduction limit will lower profits, if any, to levels that would limit or even eliminate our ability to subsidize and offer training to help hire available applicants.
- Most of the issue for us is product related; while it is improving, it is still a limiting issue.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org, and questions regarding the Texas Service Sector Outlook Survey or the Texas Retail Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.