Texas **Manufacturing** Outlook Survey

March 26, 2018

Texas Manufacturing Expansion Continues but at a Slower Pace

Texas factory activity continued to expand in March, albeit at a markedly slower pace than last month, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell 15 points to 12.7, signaling a deceleration in output growth.

Other indexes of manufacturing activity also remained positive but posted double-digit declines in March. The new orders and growth rate of orders indexes fell to 8.3 and 3.8, respectively. The capacity utilization index dropped to 9.6, and the shipments index plunged 23 points to 9.3. Although these indexes are down notably from their February readings, they remain well above their postrecession averages.

Perceptions of broader business conditions remained positive on net, but the share of firms reporting an improvement declined from last month. The general business activity index fell 16 points to 21.4, and the company outlook index declined 12 points to 19.6. While both of these March readings represent the lowest this year, they are on par with last year's average indexes and far above their postrecession average levels.

Labor market measures suggested growth was weaker for employment and workweek length. The employment index came in at 10.8, down eight points from February. Twenty percent of firms noted net hiring, compared with 9 percent noting net layoffs. The hours worked index moved down to 9.4.

Price and wage pressures remained elevated in March. The raw materials prices index ticked up to 41.4, its highest reading since mid-2011. The finished goods prices index edged down to 18.5. The wages and benefits index retreated nearly 10 points to 22.9, reversing the 10-point increase seen last month. Even so, the index remained above its 2017 average and well above its postrecession average.

Expectations regarding future business conditions remained optimistic in March. The indexes of future general business activity and future company outlook slipped to 32.0 and 30.9, respectively, but both remained significantly above their average readings. Other indexes for future manufacturing activity showed mixed movements but remained highly positive.

Next release: Monday, April 30

Data were collected March 13–21, and 112 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	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	12.7	27.9	–15.2	Increasing	21	26.1	60.5	13.4
Capacity Utilization	9.6	19.6	–10.0	Increasing	21	22.1	65.4	12.5
New Orders	8.3	25.3	–17.0	Increasing	17	24.7	58.9	16.4
Growth Rate of Orders	3.8	15.3	–11.5	Increasing	15	18.4	67.0	14.6
Unfilled Orders	6.0	11.5	–5.5	Increasing	15	16.4	73.2	10.4
Shipments	9.3	32.1	–22.8	Increasing	16	24.6	60.1	15.3
Delivery Time	2.5	4.8	–2.3	Increasing	9	12.8	76.9	10.3
Finished Goods Inventories	1.8	7.6	–5.8	Increasing	2	17.0	67.9	15.2
Prices Paid for Raw Materials	41.4	39.8	+1.6	Increasing	25	45.6	50.2	4.2
Prices Received for Finished Goods	18.5	22.5	–4.0	Increasing	20	22.9	72.7	4.4
Wages and Benefits	22.9	32.2	–9.3	Increasing	100	23.6	75.7	0.7
Employment	10.8	19.1	–8.3	Increasing	15	19.8	71.2	9.0
Hours Worked	9.4	16.3	–6.9	Increasing	17	20.7	68.0	11.3
Capital Expenditures	17.7	23.7	–6.0	Increasing	19	21.7	74.3	4.0

General Business Conditions

Current (versus previous month)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	19.6	31.5	–11.9	Improving	19	28.5	62.6	8.9
General Business Activity	21.4	37.2	–15.8	Improving	18	30.2	61.0	8.8

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	2.8	–5.8	+8.6	Increasing	1	19.0	64.8	16.2

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	45.7	46.0	–0.3	Increasing	109	53.3	39.1	7.6
Capacity Utilization	46.9	45.9	+1.0	Increasing	109	53.1	40.7	6.2
New Orders	44.5	49.6	–5.1	Increasing	109	52.9	38.7	8.4
Growth Rate of Orders	34.1	37.5	–3.4	Increasing	109	42.0	50.1	7.9
Unfilled Orders	16.4	18.2	–1.8	Increasing	30	23.5	69.4	7.1
Shipments	48.4	44.4	+4.0	Increasing	109	55.9	36.6	7.5
Delivery Time	6.3	2.8	+3.5	Increasing	16	15.3	75.7	9.0
Finished Goods Inventories	5.7	5.9	–0.2	Increasing	5	15.1	75.5	9.4
Prices Paid for Raw Materials	50.5	43.0	+7.5	Increasing	108	53.3	43.9	2.8
Prices Received for Finished Goods	28.7	31.6	–2.9	Increasing	26	34.3	60.2	5.6
Wages and Benefits	48.9	49.7	–0.8	Increasing	166	49.3	50.3	0.4
Employment	34.3	34.0	+0.3	Increasing	64	43.4	47.6	9.1
Hours Worked	18.9	15.1	+3.8	Increasing	22	25.5	67.9	6.6
Capital Expenditures	36.1	39.6	–3.5	Increasing	100	40.7	54.6	4.6

General Business Conditions
Future (six months ahead)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Worsened
Company Outlook	30.9	34.5	–3.6	Improving	26	38.6	53.7	7.7
General Business Activity	32.0	40.6	–8.6	Improving	22	38.8	54.4	6.8

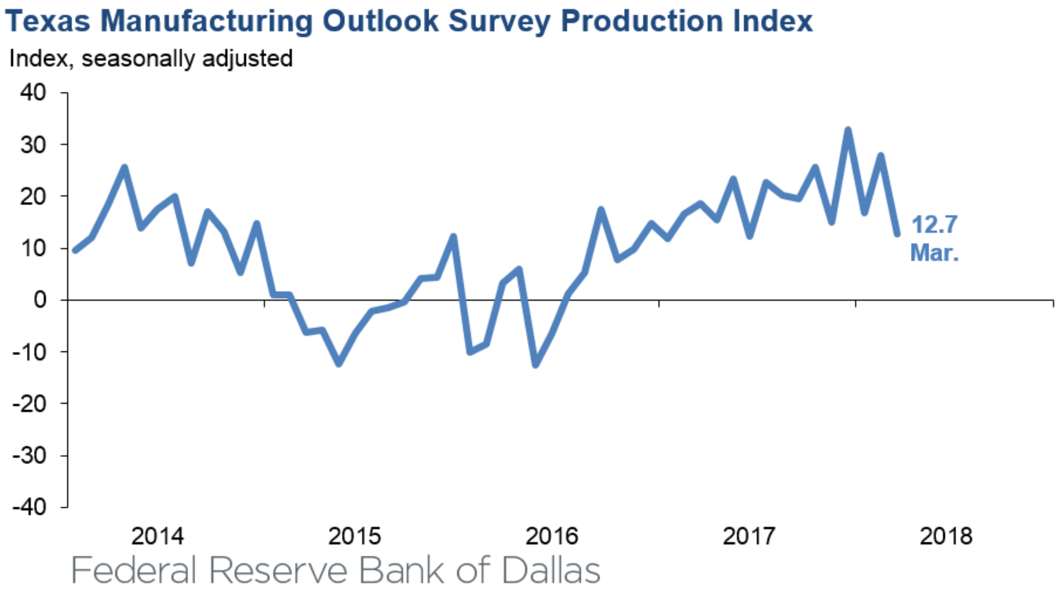
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

†Added to survey in January 2018.

Data have been seasonally adjusted as necessary, with the exception of the outlook uncertainty index which does not yet have a sufficiently long time series to test for seasonality.

Production Index



Comments from Survey Respondents

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

Petroleum and Coal Products Manufacturing

- The steel tariffs are a real concern.

Primary Metal Manufacturing

- The steel tariff could hurt.
- Our business has had a sudden, dramatic change in outlook due to the new steel tariffs. We expect a large increase in volume and prices, but neither will be sustainable. The biggest uncertainty is the timing as to when the tariffs will be removed and the negative impact once that occurs. We expect a wild, unpredictable ride as there are also large, negative and unintended consequences which will hurt us. On balance, we will have temporary large increases in profits. We are fundamentally fair traders and not in favor of the heavy hand of government intervention, but we will enjoy it while it lasts.

Fabricated Metal Product Manufacturing

- The steel tariffs are a big issue for us. I'm ok with tariffs, but the uncertainty is making it difficult to price our product.
- We are seeing continued strong activity, across many sectors. This market has been strong since September 2017 and continues.
- The national rhetoric regarding steel tariffs immediately raised the price of steel significantly. We had a large amount of steel under contract, yet to be purchased, which will ultimately increase costs and reduce profits considerably.
- The recent steel tariffs could severely impact our business.
- Steel tariffs may put a damper on our business because of the increase in the price of finished goods and shortage of raw material.
- We are still working on achieving full production-machinery restoration from the effects of Hurricane Harvey flooding.

Machinery Manufacturing

- We are expecting to see a major increase in business this year over last year. Additionally, since we cannot find truly quality workers, we have gone to a workweek of six days, 12 hours per day until we either hire the right people or we accept longer delivery times. We are working both issues currently to determine which works for our customers. We expect that this trend will last over the next six months at a minimum.

- Business remains very strong. Sales for January/February were up nearly 35 percent versus the same period last year, which was a great year.
- Orders since Jan. 1 have declined. This is typical; however, orders normally pick up by early March. Quote activity has increased, which gives us the expectation of increased sales soon.

Computer and Electronic Product Manufacturing

- Tax and trade policies are helping the manufacturing industry in a big way, according to many of our capital-equipment customers. Exports will be up in six months.

Transportation Equipment Manufacturing

- We will likely have to raise prices due to the effects of aluminum tariffs.
- Uncertainty regarding the pricing of steel and aluminum products (due to the potential impact of tariffs) is adversely impacting our capability to plan for future activity.

Food Manufacturing

- We buy bulk lentils, vegetables and fortified rice, and commodity prices have been dropping or, at worst, remaining steady.

Beverage and Tobacco Product Manufacturing

- Aluminum is one component of our cost of goods sold.

Apparel Manufacturing

- Once again, the demand for military textile manufacturing is increasing exponentially.

Printing and Related Support Activities

- We are busier now than normal for this time of year, which is a good thing, and we have some nice projects in the works that could indicate an improvement in overall business activity for us and our industry. We are getting numerous price-increase notices from vendors, and I am hopeful we can pass along a minor price increase to cover our increase in wages, property taxes and health insurance.

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