



Texas Manufacturing Outlook Survey

July 30, 2018

Robust Expansion in Texas Manufacturing Continues; Uncertainty Picks Up

The robust expansion in Texas factory activity continued in July, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose six points to 29.4, signaling an acceleration in output growth.

Other indexes of manufacturing activity also indicated continued solid expansion in July. The survey's demand measures—the new orders and growth rate of orders indexes—moved down but remained well above average at 23.3 and 17.0, respectively. The shipments index climbed five points to 30.8, and the capacity utilization index edged up to 25.0.

Perceptions of broader business conditions were a bit less positive this month versus June, and uncertainty increased. The general business activity index slipped four points to 32.3. The company outlook index dropped 13 points to 20.4, which is the second-lowest reading this year but still elevated relative to the average. A new question introduced to the survey in January 2018 asks, “How has uncertainty regarding your company's outlook changed in the current month vs. prior month?” In July, a quarter of firms said uncertainty increased, while only 8 percent said it decreased—bringing the outlook uncertainty index* to 17.0, well above its June reading and the highest level to date.

Labor market measures suggested a pickup in net hiring and longer work hours in July. The employment index pushed up five points to 28.9, a 13-year high. Thirty-six percent of firms noted net hiring, compared with 7 percent noting net layoffs. The hours worked index ticked up to 22.2.

Price and wage pressures remained highly elevated this month. While still well above average, the raw materials prices index moved down five points to 48.6, and the finished goods prices index ticked down to 22.9. Compensation costs continued to rise at a faster clip than normal, with the wages and benefits index holding fairly steady at 32.4.

Expectations regarding future business conditions remained largely optimistic in July. The indexes of future general business activity and future company outlook were largely unchanged at 36.2 and 37.2, respectively. Other indexes for future manufacturing activity showed mixed movements but remained in solidly positive territory.

*As with all survey indexes, the outlook uncertainty index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. A positive index suggests uncertainty regarding companies' outlooks has increased over the prior month.

Next release: Monday, August 27

Data were collected July 17–25, and 108 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	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	29.4	23.3	+6.1	Increasing	25	38.1	53.2	8.7
Capacity Utilization	25.0	21.7	+3.3	Increasing	25	33.9	57.2	8.9
New Orders	23.3	29.6	-6.3	Increasing	21	33.9	55.5	10.6
Growth Rate of Orders	17.0	22.2	-5.2	Increasing	19	26.7	63.6	9.7
Unfilled Orders	14.9	13.0	+1.9	Increasing	16	21.3	72.3	6.4
Shipments	30.8	25.5	+5.3	Increasing	20	39.1	52.6	8.3
Delivery Time	12.7	15.9	-3.2	Increasing	13	21.0	70.7	8.3
Finished Goods Inventories	-1.9	5.8	-7.7	Decreasing	1	12.0	74.1	13.9
Prices Paid for Raw Materials	48.6	53.6	-5.0	Increasing	29	51.7	45.2	3.1
Prices Received for Finished Goods	22.9	26.2	-3.3	Increasing	24	26.0	70.9	3.1
Wages and Benefits	32.4	31.4	+1.0	Increasing	108	33.2	66.0	0.8
Employment	28.9	23.9	+5.0	Increasing	19	35.7	57.5	6.8
Hours Worked	22.2	20.2	+2.0	Increasing	21	24.6	73.0	2.4
Capital Expenditures	26.6	23.8	+2.8	Increasing	23	30.7	65.2	4.1

General Business Conditions Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	20.4	33.2	-12.8	Improving	23	27.2	66.0	6.8
General Business Activity	32.3	36.5	-4.2	Improving	21	36.3	59.7	4.0

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	17.0	7.9	+9.1	Increasing	2	24.5	67.9	7.5

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction	Trend* (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	50.6	47.9	+2.7	Increasing	113	56.5	37.6	5.9
Capacity Utilization	46.4	46.5	−0.1	Increasing	113	50.3	45.8	3.9
New Orders	50.6	47.0	+3.6	Increasing	113	53.2	44.2	2.6
Growth Rate of Orders	35.1	37.7	−2.6	Increasing	113	40.5	54.1	5.4
Unfilled Orders	12.4	24.5	−12.1	Increasing	34	23.4	65.5	11.0
Shipments	49.7	43.9	+5.8	Increasing	113	55.1	39.5	5.4
Delivery Time	4.3	6.8	−2.5	Increasing	20	16.4	71.5	12.1
Finished Goods Inventories	3.8	7.2	−3.4	Increasing	9	17.3	69.2	13.5
Prices Paid for Raw Materials	46.1	49.0	−2.9	Increasing	112	51.9	42.3	5.8
Prices Received for Finished Goods	26.6	28.1	−1.5	Increasing	30	31.4	63.8	4.8
Wages and Benefits	53.2	53.2	0.0	Increasing	170	54.5	44.2	1.3
Employment	39.9	39.8	+0.1	Increasing	68	43.5	52.9	3.6
Hours Worked	18.1	9.7	+8.4	Increasing	26	23.1	71.9	5.0
Capital Expenditures	31.9	33.9	−2.0	Increasing	104	37.1	57.7	5.2

General Business Conditions
Future (six months ahead)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Worsened
Company Outlook	37.2	38.7	−1.5	Improving	30	41.1	55.0	3.9
General Business Activity	36.2	35.9	+0.3	Improving	26	41.5	53.2	5.3

*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.

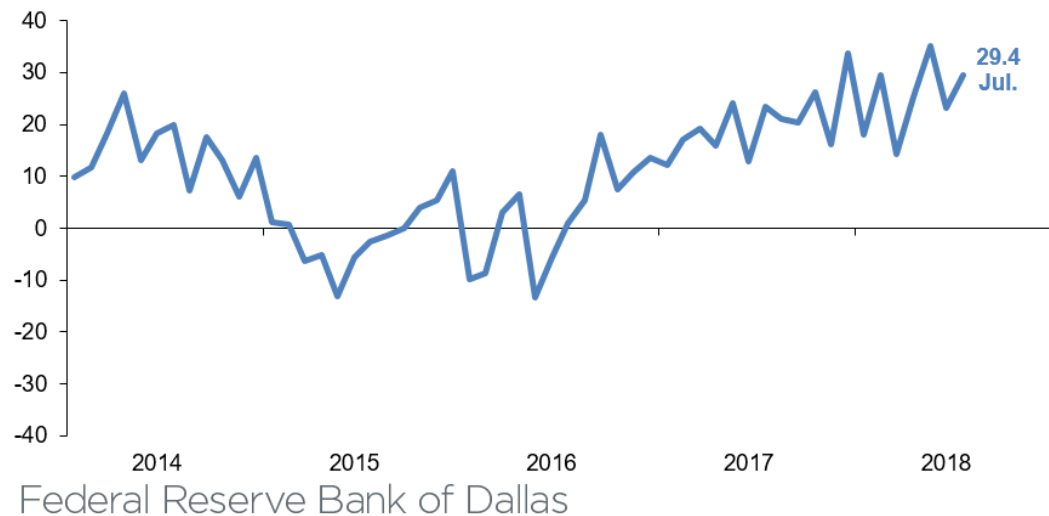
†Added to survey in January 2018.

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

Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Comments from Survey Respondents

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

Chemical Manufacturing

- Chinese tariffs will have a large negative impact on business.
- Trade policy is raising concerns about delivery times and trade flows changing to adjust for tariff risks. Some softness is noted in building and construction order flow. Logistics costs remain elevated and delivery times remain a concern as they lengthened.
- We are not seeing any impact from the tariffs introduced on U.S. goods, but we have been locked out of the Chinese markets for a number of years now due to political reasons. I have been advised by some raw material providers to increase our raw material inventories on products from Asia to avoid business interruptions.

Plastics and Rubber Products Manufacturing

- Cost and availability of labor continues to be a struggle.

Primary Metal Manufacturing

- What will President Trump do next, and will it hurt or help?
- The price of metals has dropped. We are a metal mining and processing company.

Fabricated Metal Product Manufacturing

- The uncertainty in pricing of raw materials, primarily steel, has increased and has affected the actual start of major customer capital projects.
- Prices of materials and wages continue to rise, while the ability to hire new employees has become more difficult.
- Metal suppliers have dramatically increased prices. Price-increase percentages frequently exceed the new 25 percent tariff rates. Also, recruiting production labor has been more difficult than in previous cycles. Wage pressures are building as we compete for current and new employees.
- We were able to increase our pricing due to tariffs on steel effective on June 1 but have purchased steel at the old pricing on most gauges through Sept. 30. It seems like most volume steel users would have done the same. We are having a great year. Sales are up, and margins are up. We hope we have raised our prices enough to cover the higher-cost steel arriving in the fourth quarter.

- Steel tariffs create uncertainty. How long will they last? Will they be replaced with quotas? At the present time, the increase in steel pricing due to the tariffs has not impacted demand. There are potential cliffs that exist in the near-term future that are real (price elasticity of demand) and some that are manufactured (steel tariffs/quotas). Hopefully, we can exist gracefully.
- The first week of July was very soft. It has picked up since to our year-to-date average. Also, we have used more overtime to catch up on March-through-June heavy back orders.
- As stated before, tariffs or threats thereof are pushing prices on commodities which are used in manufacturing and are not seen as much in a service economy. However, like a service economy, pressure on wages continues to increase. Employee turnover, which is rarely talked about on financial news channels, is a more significant problem.

Machinery Manufacturing

- We are receiving more notifications of price increase from suppliers due to escalation in metal costs and tariff implementation. We are evaluating the level of a midyear price increase necessary to maintain margins. With our existing backlog and contracts in place, we know we will not recover all of these cost increases this year.
- Chinese imports continue to negatively impact our product value.
- Tariffs on steel and aluminum will drive significant increases in material costs. These will be offset with price increases. It appears there will be very little pushback in the industry since all manufacturers are facing the same increases and passing them along via price increases.
- I don't fear competition; I can beat the competition anywhere in the world. But I can't beat the tariff. I don't want protection—I want a level playing field and a global market.
- We see slight changes now compared to earlier. We see business as level over the next six to 12 months, with the possibility of improvement with the resolution to the tariffs outcome. The strength of the dollar should be good for my buying power overseas but bad for sales. Interest rates are going to reduce our profits short term, but with the increased overall business we have, we will pay off all of our debt and remain that way for some time to come. We will slow our investments in the business until we see either slowing of interest rates or a very good return on any capital expenditure. We will pay very good bonuses once we pay off all of our debt. We have made that clear to our employees, and they may not like our approach, but they understand that it is in their best interest long term.

Computer and Electronic Product Manufacturing

- The world economy is helping our company, but the dollar has continued to be manipulated by other countries. We need to stop that nonsense.
- Our two largest negatives are that the impact of trade tariffs are still a significant unknown for our customers' exports, and that due to peace talks, South Korea has canceled some large defense programs.
- Demand continues to be strong; trade and tariffs not surprisingly are a big worry. We have increased spending to keep up with demand, not because we know it will last, but just in case it does.

Transportation Equipment Manufacturing

- The sustainability of deliveries is questionable as we have been preparing to increase production. Increasing interest rates, trade disputes, international tensions, the tight labor market and political fighting all create uncertainty and instability that affect durable goods spending.
- Uncertainty regarding pricing indirectly related to tariffs is causing significant anticipatory increases in metal pricing.
- Qualified available production employees are diminishing quickly.

Printing and Related Support Activities

- June was a busy month for us, which is why our July readings are lower. Year to date, we are slightly ahead of incoming orders compared to prior years, and our fiscal year ends in September. These are all good signs, even though there appears to be some uncertainty with goofiness in Washington, D.C., and this tariff issue that makes no sense to us.

Food Manufacturing

- Lack of available labor is our No. 1 impediment to growth. We cannot find the people to add a third shift. We will stop growing until we can add more first- and second-shift capital improvements rather than adding a third shift on existing assets. Our freight costs are up 45 percent due to lack of truck drivers. Recent tariffs with our NAFTA partners are very concerning. We export to 33 countries, including all of Latin America.

Apparel Manufacturing

- We are still inundated with military apparel orders.

Wood Product Manufacturing

- I feel that residential construction in Dallas–Fort Worth is peaking.

Paper Manufacturing

- Volumes are good. Our outlook is steady at this point.
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