



# Texas Manufacturing Outlook Survey

July 29, 2019

## Texas Manufacturing Continues Moderate Expansion

Texas factory activity continued to expand in July, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, moved from 8.9 to 9.3, indicating output growth continued at roughly the same pace as in June.

Other measures of manufacturing activity suggested a slightly faster expansion in July. The new orders index edged up to 5.5, and the growth rate of orders index rebounded into positive territory, climbing nine points to 2.7. The capacity utilization index inched up to 11.2, and the shipments index jumped nine points to 10.2.

Perceptions of broader business conditions were less negative in July. The general business activity index rose six points but remained in negative territory for a third month in a row, coming in at -6.3. The company outlook index rose five points to -0.9, with the near-zero reading indicating that the share of firms noting a worsened outlook roughly equaled the share noting an improved outlook. The index measuring uncertainty regarding companies' outlooks retreated 12 points from its June peak, coming in at 9.7.

Labor market measures suggested robust growth in employment and work hours in July. The employment index rose seven points to 16.0, a reading well above average. Twenty-four percent of firms noted net hiring, while 8 percent noted net layoffs. The hours worked index pushed further above average as well with a reading of 6.6.

Input costs and wages continued to rise in July, while selling prices held mostly steady. The raw materials prices index was largely unchanged at 17.0, holding well below the readings seen last fall. The wages and benefits index inched down to 20.1, close to the long-run average for this measure. Meanwhile, the finished goods prices index hovered around zero for a third month in a row, suggesting no growth in selling prices again this month.

Expectations regarding future business conditions improved in July. The index of future general business activity returned to positive territory, rising nine points to 6.0. The index of future company outlook moved up six points to 9.1. Both readings, while positive, remain well below average. Other indexes for future manufacturing activity pushed further into positive territory.

**Next release:** Monday, August 26

Data were collected July 16–24, and 105 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	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	9.3	8.9	+0.4	10.5	37(+)	30.2	48.9	20.9
Capacity Utilization	11.2	9.6	+1.6	8.2	37(+)	30.4	50.4	19.2
New Orders	5.5	3.7	+1.8	6.5	33(+)	28.6	48.3	23.1
Growth Rate of Orders	2.7	-6.7	+9.4	0.1	1(+)	23.0	56.7	20.3
Unfilled Orders	-2.8	3.4	-6.2	-2.8	1(-)	11.8	73.6	14.6
Shipments	10.2	1.7	+8.5	9.2	32(+)	30.4	49.5	20.2
Delivery Time	-4.8	-0.3	-4.5	-0.5	2(-)	9.4	76.4	14.2
Finished Goods Inventories	-10.6	-6.1	-4.5	-2.9	4(-)	7.7	74.0	18.3
Prices Paid for Raw Materials	17.0	16.4	+0.6	24.9	40(+)	25.9	65.2	8.9
Prices Received for Finished Goods	-1.7	1.2	-2.9	6.6	1(-)	6.8	84.7	8.5
Wages and Benefits	20.1	22.7	-2.6	18.8	120(+)	23.5	73.1	3.4
Employment	16.0	8.8	+7.2	6.5	31(+)	24.4	67.2	8.4
Hours Worked	6.6	4.7	+1.9	2.8	33(+)	20.0	66.6	13.4
Capital Expenditures	15.2	6.9	+8.3	6.9	35(+)	20.6	74.0	5.4

### General Business Conditions Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-0.9	-5.5	+4.6	7.3	3(-)	17.0	65.1	17.9
General Business Activity	-6.3	-12.1	+5.8	3.1	3(-)	12.3	69.1	18.6

Indicator	Jul Index	Jun Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	9.7	21.6	-11.9	8.7	14(+)	19.4	70.9	9.7

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

Indicator	Jul Index	Jun Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Production</b>	31.9	25.2	+6.7	39.0	125(+)	44.8	42.3	12.9
<b>Capacity Utilization</b>	32.3	25.9	+6.4	35.8	125(+)	42.7	46.8	10.4
<b>New Orders</b>	31.8	22.3	+9.5	36.7	125(+)	42.0	47.8	10.2
<b>Growth Rate of Orders</b>	30.7	17.2	+13.5	27.1	125(+)	38.9	52.9	8.2
<b>Unfilled Orders</b>	2.5	2.1	+0.4	4.1	46(+)	11.7	79.1	9.2
<b>Shipments</b>	39.9	28.4	+11.5	37.8	125(+)	46.0	47.9	6.1
<b>Delivery Time</b>	-0.5	8.7	-9.2	-2.0	1(-)	10.1	79.3	10.6
<b>Finished Goods Inventories</b>	2.0	4.8	-2.8	-0.4	2(+)	16.3	69.4	14.3
<b>Prices Paid for Raw Materials</b>	23.5	21.5	+2.0	34.3	124(+)	29.6	64.3	6.1
<b>Prices Received for Finished Goods</b>	14.7	15.0	-0.3	19.9	42(+)	24.2	66.3	9.5
<b>Wages and Benefits</b>	44.5	39.6	+4.9	38.4	182(+)	45.0	54.5	0.5
<b>Employment</b>	28.2	20.2	+8.0	22.3	80(+)	36.9	54.4	8.7
<b>Hours Worked</b>	15.1	8.2	+6.9	9.5	38(+)	19.7	75.7	4.6
<b>Capital Expenditures</b>	21.9	22.5	-0.6	20.2	116(+)	28.8	64.3	6.9

**General Business Conditions  
Future (six months ahead)**

Indicator	Jul Index	Jun Index	Change	Series Average	Trend**	% Reporting Increase	% Reporting No Change	% Reporting Worsened
<b>Company Outlook</b>	9.1	3.6	+5.5	21.3	42(+)	24.5	60.1	15.4
<b>General Business Activity</b>	6.0	-2.7	+8.7	14.9	1(+)	22.2	61.6	16.2

\*Shown is the number of consecutive months of expansion or contraction in the underlying indicator. Expansion is indicated by a positive index reading and denoted by a (+) in the table. Contraction is indicated by a negative index reading and denoted by a (-) in the table.

\*\*Shown is the number of consecutive months of improvement or worsening in the underlying indicator. Improvement is indicated by a positive index reading and denoted by a (+) in the table. Worsening is indicated by a negative index reading and denoted by a (-) in the table.

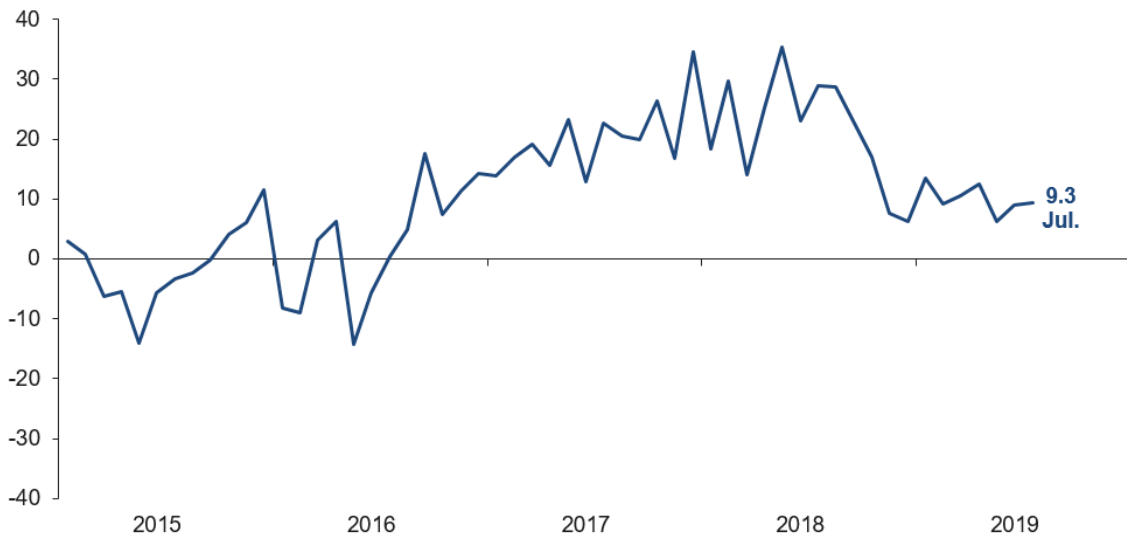
†Added to survey in January 2019.

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



Federal Reserve Bank of Dallas

## Comments from Survey Respondents

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

### Fabricated Metal Product Manufacturing

- Our backlog and response to open requests-for-quotation have decreased substantially.
- Lowering the interest rate really does not make sense for my business or other small businesses. Wage inflation at small businesses is still moving higher, while skills in the available labor force are decreasing dramatically. Inflation from the trade talk is constantly pushing material increases across the spectrum. Capital expenditures show signs of increasing equipment costs (2019 vs. 2018). The housing sector is robust in multifamily, where new construction and replacement markets appear to be stagnant. But in my honest opinion, anything that creates a tighter labor market is going to increase troubles for small businesses.

### Nonmetallic Mineral Product Manufacturing

- The main issue affecting our business is the increased costs associated with the new Dallas sick leave ordinance. This will raise our manufacturing costs by about 5 percent.

### Machinery Manufacturing

- We're either dead in the water or overloaded—such is oilfield work.
- The general business environment has generally slowed from prior months. We hope that this is just the summer doldrums, but I fear it may be much worse. Managers and engineers are all busy but are not willing to sign purchase orders and are not providing much visibility as to what the future looks like.
- Just when we think it might slow down, it gets busy again. Our order backlog is building and activity with customers is increasing. We think this increased activity will last the rest of the year.

### Computer and Electronic Product Manufacturing

- We feel like some of the tariffs on finished goods from China will not be put in place.
- We expect to see a sub-seasonal third quarter as we work through the third consecutive quarter of a weak industry cycle. We would expect revenues to inflect starting in the fourth quarter or the first quarter of next year. Uncertainty around trade tensions and slowing automotive demand make recovery less predictable.

- We had a very good growth year in 2018, so this year doesn't look as good relative to 2018. We have had a good year so far, but we foresee slowing down in the last six months of the year compared to 2018. The international pressures we are facing at the moment have an impact, but I am thinking the election year will be more uncertain and risky. Some politicians would benefit greatly if the economy becomes distressed, so I worry it will be self-fulfilling.

### **Transportation Equipment Manufacturing**

- We are a defense contractor. The U.S. Department of Defense procurement awards have dropped precipitously in the past 60 days. We speculate that this is a result of diverting Department of Defense budget lines to fund the border wall.
- The biggest risk is the Trump administration's tariffs on European Union imports. If implemented, and depending on scope and values, the tariffs could have from a manageable to a dramatic impact.

### **Food Manufacturing**

- Order volumes continue to increase due to new capital expenditures (new machinery and plant expansion). Employee turnover has stabilized, and the rate of new employee applications has increased to meet our needs for expansion.

### **Textile Product Mills**

- We are building inventory for holiday orders, so we have increased expenses to include raw goods that have new tariffs. Business remains steady and healthy—no great increases, decreases or changes.

### **Paper Manufacturing**

- The slowdown has now gone on long enough to affect our outlook, and we are starting to make plans for reductions. We are holding out hope for the next two to four weeks to avoid reductions (which would be small at first).

### **Printing and Related Support Activities**

- The sustainability of the same or increased level of business activity is in jeopardy due to lack of available semiskilled labor.
- It is very tough and stupid slow. We had the worst incoming-order month in June that we have had in over 15 years, and June billing was very anemic. We don't know what is going on, but it has been very slow. We are probably looking to rightsize in both the plant floor and office to better fit activity levels. Then our city council passed a paid-sick-leave ordinance that hopefully will be ruled unconstitutional. It would be a cost we couldn't absorb and would require additional layoffs and cuts.

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