



# Texas Manufacturing Outlook Survey

September 30, 2019

## Texas Manufacturing Expansion Continues

Texas factory activity continued to expand in September, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell four points to 13.9, suggesting output growth continued but at a slightly slower pace than in August.

Other measures of manufacturing activity also suggested slightly slower expansion in September. The new orders index edged down two points to 7.1, while the shipments index fell three points to 14.7. Similarly, the capacity utilization index fell four points to 12.0. A bright spot this month was the growth rate of orders index, which edged up to 4.4, a five-month high.

Perceptions of broader business conditions remained positive in September. The general business activity index came in at 1.5, a second positive reading in a row after three months in negative territory. The company outlook index inched up to 7.4, its highest reading since February. The index measuring uncertainty regarding companies' outlooks remained elevated at 13.3.

Labor market measures suggested stronger growth in employment and work hours in September. The employment index jumped 13 points to 18.8, its highest reading in nearly a year. Twenty-seven percent of firms noted net hiring, while 8 percent noted net layoffs. The hours worked index edged up to 5.7.

Input costs and wages continued to rise in September, while selling prices remained fairly steady. The raw materials prices index shot up 11 points to 20.3, a reading slightly below average. The wages and benefits index remained positive but fell 10 points to 17.4, a reading closer to the series average. Meanwhile, the finished goods prices index continued to oscillate around zero for a fifth consecutive month, this time coming in at 1.0. These near-zero readings suggest little change in selling prices month to month.

Expectations regarding future business conditions were mixed in September. The index of future general business activity slipped into negative territory for the second time this year, falling eight points to -6.8. The index of future company outlook also fell eight points but remained barely positive, coming in at 2.4. Other indexes for future manufacturing activity showed mixed movements but stayed solidly in positive territory.

**Next release:** Monday, October 28

Data were collected Sept. 17–25, 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.

## Results Summary

### Business Indicators Relating to Facilities and Products in Texas

Current (versus previous month)

Indicator	Sep Index	Aug Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Production</b>	13.9	17.9	-4.0	10.6	39(+)	32.6	48.7	18.7
<b>Capacity Utilization</b>	12.0	15.7	-3.7	8.2	39(+)	31.3	49.4	19.3
<b>New Orders</b>	7.1	9.3	-2.2	6.5	35(+)	30.2	46.7	23.1
<b>Growth Rate of Orders</b>	4.4	1.8	+2.6	0.2	3(+)	25.1	54.2	20.7
<b>Unfilled Orders</b>	-2.0	-0.2	-1.8	-2.8	3(-)	13.7	70.6	15.7
<b>Shipments</b>	14.7	17.6	-2.9	9.3	34(+)	33.6	47.5	18.9
<b>Delivery Time</b>	2.3	1.3	+1.0	-0.4	2(+)	13.6	75.1	11.3
<b>Finished Goods Inventories</b>	-6.2	-9.5	+3.3	-3.0	6(-)	18.6	56.6	24.8
<b>Prices Paid for Raw Materials</b>	20.3	9.8	+10.5	24.8	42(+)	27.6	65.1	7.3
<b>Prices Received for Finished Goods</b>	1.0	-2.6	+3.6	6.5	1(+)	13.4	74.2	12.4
<b>Wages and Benefits</b>	17.4	27.3	-9.9	18.8	122(+)	19.4	78.6	2.0
<b>Employment</b>	18.8	5.5	+13.3	6.6	33(+)	26.6	65.6	7.8
<b>Hours Worked</b>	5.7	4.0	+1.7	2.8	35(+)	19.5	66.7	13.8
<b>Capital Expenditures</b>	11.1	7.4	+3.7	7.0	37(+)	21.5	68.1	10.4

### General Business Conditions

Current (versus previous month)

Indicator	Sep Index	Aug Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
<b>Company Outlook</b>	7.4	5.0	+2.4	7.3	2(+)	22.3	62.8	14.9
<b>General Business Activity</b>	1.5	2.7	-1.2	3.0	2(+)	18.2	65.1	16.7

Indicator	Sep Index	Aug Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Outlook Uncertainty†</b>	13.3	18.6	-5.3	9.4	16(+)	25.7	61.9	12.4

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

Indicator	Sep Index	Aug Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
<b>Production</b>	25.4	25.0	+0.4	38.8	127(+)	40.1	45.3	14.7
<b>Capacity Utilization</b>	20.7	22.1	-1.4	35.6	127(+)	35.9	49.0	15.2
<b>New Orders</b>	23.9	23.7	+0.2	36.6	127(+)	36.2	51.5	12.3
<b>Growth Rate of Orders</b>	18.8	14.8	+4.0	27.0	127(+)	31.3	56.2	12.5
<b>Unfilled Orders</b>	-6.2	0.0	-6.2	4.0	1(-)	9.6	74.6	15.8
<b>Shipments</b>	18.4	26.2	-7.8	37.6	127(+)	32.9	52.6	14.5
<b>Delivery Time</b>	-1.1	1.6	-2.7	-1.9	1(-)	8.5	81.9	9.6
<b>Finished Goods Inventories</b>	-8.6	-10.3	+1.7	-0.5	2(-)	11.4	68.6	20.0
<b>Prices Paid for Raw Materials</b>	20.0	11.8	+8.2	34.1	126(+)	28.6	62.9	8.6
<b>Prices Received for Finished Goods</b>	11.5	9.1	+2.4	19.8	44(+)	22.9	65.7	11.4
<b>Wages and Benefits</b>	35.6	35.2	+0.4	38.3	184(+)	36.1	63.4	0.5
<b>Employment</b>	15.9	22.9	-7.0	22.3	82(+)	26.7	62.5	10.8
<b>Hours Worked</b>	0.7	3.5	-2.8	9.4	40(+)	11.8	77.1	11.1
<b>Capital Expenditures</b>	23.3	17.3	+6.0	20.2	118(+)	33.2	56.9	9.9

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

Indicator	Sep Index	Aug Index	Change	Series Average	Trend**	% Reporting Increase	% Reporting No Change	% Reporting Worsened
<b>Company Outlook</b>	2.4	10.4	-8.0	21.2	44(+)	26.4	49.6	24.0
<b>General Business Activity</b>	-6.8	1.4	-8.2	14.7	1(-)	20.7	51.8	27.5

\*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.

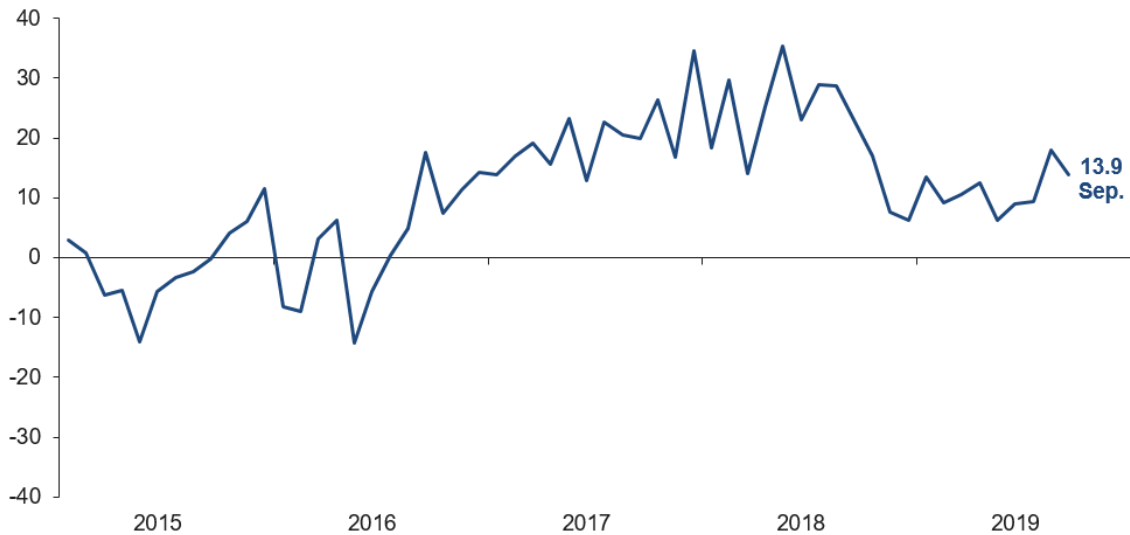
†Added to survey in January 2019.

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.

### Chemical Manufacturing

- We see a weakening in demand in the fourth quarter.
- Turnaround work has slowed production.

### Primary Metal Manufacturing

- We are at maximum production and have been for a year or so. We have forecasted a sales slowdown, but it is not occurring yet.

### Fabricated Metal Product Manufacturing

- We believe that the political climate will now start affecting business negatively due to the uncertainty.
- Business is good for us this year. Each year has been higher than the previous year.
- We have seen a small decrease in deliveries due to weather conditions in the Houston area.

### Nonmetallic Mineral Product Manufacturing

- Uncertainty due to tariffs is a big problem for costing—selling prices—planning. Do we find vendors in alternate countries from China (which may not be possible in the 12–24-month short term)? Do we redesign products, and expand our factory to make some products here? It is very difficult to plan.

### Machinery Manufacturing

- We had a dramatic surge of work over the spring and summer, and now it is looking as though it is settling back down. We went through eight people in six months in the attempt to fill employment needs. There is no skilled labor to be found, much less kids who really want to work and learn. It is a really pitiful pool out there.
- Business has increased substantially, but we know that after the New Year, business will slow considerably. All of our major jobs will be completed, and the pipeline is slowing. I believe that the political environment has more to do with the 2020 business cycle than anything else. Even the tariffs aren't that big of a concern if there's less business. But it's great to see the interest rates decreasing, which will help reduce our costs.

- We've seen a definite uptick in orders for the third quarter.
- The petroleum industry, military equipment manufacturers and foundries are all concerned that these industries will suffer in the event that Congress or the White House goes Democrat. In response, capital expenditures have dried up.

## **Computer and Electronic Product Manufacturing**

- As we work through inventories, the tariffs will begin to kick in at the beginning of 2020. We expect to raise prices for our customers. Since we do all of our business in the U.S., we believe our competitors will also raise prices.
- The primary change in increased costs for raw material is gold.

## **Electrical Equipment, Appliance and Component Manufacturing**

- The trade war is causing significant pain to my business. The Trump administration policies have not produced economic growth for my business at all. We have been seeing decreasing revenues each year since his taking office and are seeing a decrease in business each year since his taking office. I cannot sustain the losses. President Trump's threats against energy efficiency, the tariff war, our inability to leverage tariff waivers like some other large companies can, and economic policies that have not favored our business will put me out of business by year-end.
- Things are going well and have been for the last few years. Uncertainty in the global economy and political scene enter the conversations with customers, but the construction backlog appears strong along with demand for our products.

## **Transportation Equipment Manufacturing**

- Last month, there was more uncertainty about order volumes coming in the fourth quarter, and we were also experiencing delays receiving key components (truck chassis) which had caused us to slow production. Over the past month, our chassis supply has increased and our fourth-quarter order forecast has solidified. As a result, we have increased our production output and revenue forecasts accordingly. We are anticipating an economic slowdown over the next six to nine months but do not anticipate a recession. Therefore, we are adding sales team members for the long-term strategy and hope to earn new business by taking market share.
- Our primary customer is the U.S. Department of Defense. The administration's moves to reassign funds for construction of a border wall concern us from the perspective of uncertainty about availability of funding for the items which make up our basic product lines.

## **Furniture and Related Product Manufacturing**

- We are trying to keep our head above the water.

## **Food Manufacturing**

- In 2020, we plan to invest in capital projects, mainly equipment, to drive efficiencies and lower our dependence on labor to fuel our growth.

## **Textile Product Mills**

- Current order demands are very low in home furnishings. New clients are expected to launch in the next three months, but we remain very worried about the slowing order demand.

## **Paper Manufacturing**

- Business is steady at a lower level, with no expected change in the near future.

## **Printing and Related Support Activities**

- We are experiencing strong demand for manufactured goods, slightly influenced by Chinese tariffs. The labor market is very difficult—it's difficult to find semi-skilled and skilled talent.
- We have caught a flurry of work, with a significant increase in need for overtime work in many areas. This is somewhat typical for this time of year for us, although it may be short lived as incoming orders seem to be slowing down. We are very concerned about what the future six months hold; some promising news on the trade front and less tariff talk would be helpful.

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