Texas Manufacturing Outlook Survey

March 25, 2019

Texas Manufacturing Activity Continues to Grow

Texas factory activity continued to expand in March, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, held fairly steady at 11.5, indicating output growth continued at about the same pace as last month.

Other measures of manufacturing activity also suggested continued expansion in March, although demand growth slowed. The new orders index fell from 6.9 to 2.4, and the growth rate of orders index slipped into negative territory for the first time since December 2016. The shipments index declined five points to 5.8, while the capacity utilization index moved up four points to 10.9.

Perceptions of broader business conditions continued to improve in March, although outlooks were less optimistic than in February. The general business activity index remained positive but fell five points to 8.3. Similarly, the company outlook index stayed in positive territory but fell from 14.2 to 6.0. The index measuring uncertainty regarding companies' outlooks was largely unchanged at a 10-month low of 3.4.

Labor market measures suggested continued employment growth and longer workweeks in March. The employment index held steady at 13.1, a reading well above average. Twenty-two percent of firms noted net hiring, compared with 9 percent noting net layoffs. The hours worked index came in at 4.6, up slightly from February.

Upward pressure on prices and wages continued in March. The raw materials and finished goods prices indexes held fairly steady at 20.4 and 6.9, respectively. Twenty-seven percent of firms noted higher input costs this month—about twice the share noting higher selling prices. The wages and benefits index remained elevated at 30.1.

Expectations regarding future business conditions remained positive in March, although the indexes showed mixed movements. The index of future general business activity inched up two points to 19.7, while the index of future company outlook fell nine points to 17.5. Most other indexes for future manufacturing activity pushed further into positive territory this month.

Next release: Monday, April 29

Data were collected March 12–20, and 121 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	11.5	10.1	+1.4	Increasing	33	28.8	53.8	17.3
Capacity Utilization	10.9	7.1	+3.8	Increasing	33	26.9	57.1	16.0
New Orders	2.4	6.9	–4.5	Increasing	29	20.7	61.0	18.3
Growth Rate of Orders	–1.9	3.4	–5.3	Decreasing	1	17.3	63.5	19.2
Unfilled Orders	0.5	0.7	–0.2	Increasing	3	14.7	71.1	14.2
Shipments	5.8	10.7	–4.9	Increasing	28	24.5	56.8	18.7
Delivery Time	4.1	–1.3	+5.4	Increasing	1	14.3	75.5	10.2
Finished Goods Inventories	1.7	–2.5	+4.2	Increasing	1	17.5	66.7	15.8
Prices Paid for Raw Materials	20.4	21.8	–1.4	Increasing	37	27.1	66.2	6.7
Prices Received for Finished Goods	6.9	5.2	+1.7	Increasing	32	13.6	79.7	6.7
Wages and Benefits	30.1	28.9	+1.2	Increasing	116	32.2	65.7	2.1
Employment	13.1	12.6	+0.5	Increasing	27	22.2	68.7	9.1
Hours Worked	4.6	1.8	+2.8	Increasing	29	18.8	67.0	14.2
Capital Expenditures	12.1	18.7	–6.6	Increasing	31	16.6	78.9	4.5

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	6.0	14.2	–8.2	Improving	3	19.6	66.8	13.6
General Business Activity	8.3	13.1	–4.8	Improving	3	21.5	65.3	13.2

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	3.4	4.1	–0.7	Increasing	10	21.0	61.3	17.6

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	51.3	44.3	+7.0	Increasing	121	57.6	36.1	6.3
Capacity Utilization	48.2	40.1	+8.1	Increasing	121	53.4	41.4	5.2
New Orders	43.5	44.9	–1.4	Increasing	121	50.2	43.1	6.7
Growth Rate of Orders	32.6	30.8	+1.8	Increasing	121	41.0	50.6	8.4
Unfilled Orders	10.7	10.8	–0.1	Increasing	42	19.2	72.3	8.5
Shipments	45.4	44.7	+0.7	Increasing	121	53.0	39.4	7.6
Delivery Time	9.6	8.7	+0.9	Increasing	28	19.0	71.6	9.4
Finished Goods Inventories	9.1	5.4	+3.7	Increasing	17	19.1	70.9	10.0
Prices Paid for Raw Materials	28.2	23.7	+4.5	Increasing	120	35.5	57.3	7.3
Prices Received for Finished Goods	20.0	25.9	–5.9	Increasing	38	31.8	56.4	11.8
Wages and Benefits	54.4	47.0	+7.4	Increasing	178	54.9	44.6	0.5
Employment	37.9	33.2	+4.7	Increasing	76	43.9	50.1	6.0
Hours Worked	14.4	11.4	+3.0	Increasing	34	24.4	65.6	10.0
Capital Expenditures	36.2	24.0	+12.2	Increasing	112	39.8	56.6	3.6

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	17.5	26.7	–9.2	Improving	38	30.8	55.9	13.3
General Business Activity	19.7	17.7	+2.0	Improving	34	32.8	54.1	13.1

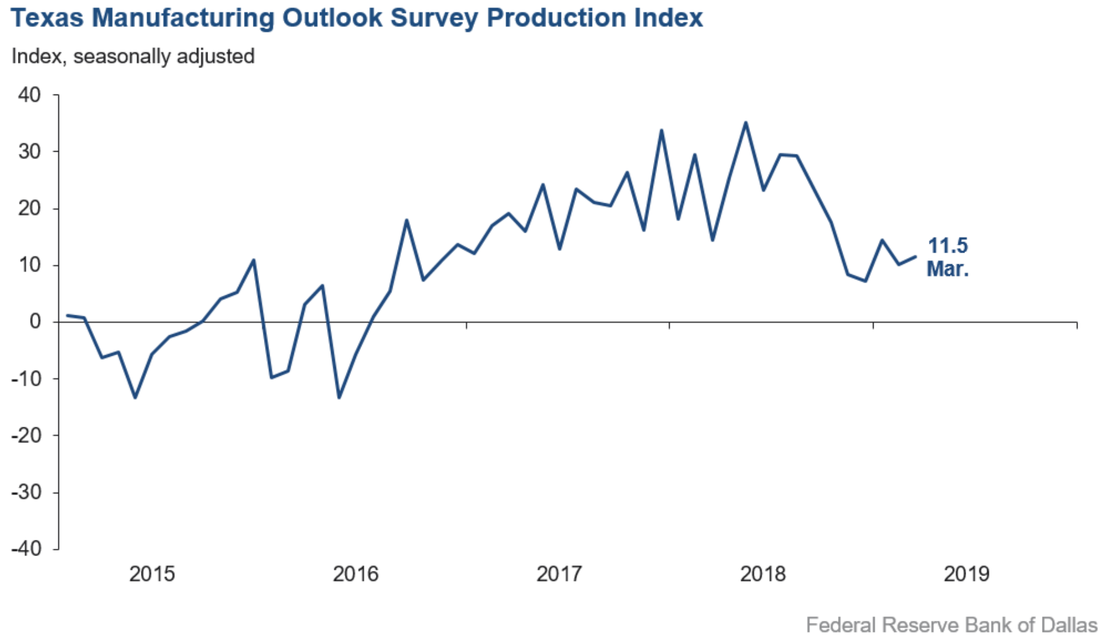
*Indicator direction refers to this month's index. If index is positive (negative), indicator is increasing (decreasing) or improving (worsening). If zero, indicator is unchanged.

**Number of months moving in current direction.

†Added to survey in January 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



Comments from Survey Respondents

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

Primary Metal Manufacturing

- The transportation sector is slowing, for both cars and tractor trucks and trailers. The nation has enough of each. Quotation volume for high-rise construction has slowed. The nation has enough tall buildings. Other areas of our business are still strong. China has taken a little of our business—not much yet—but we fear it. This makes our business reluctant to invest in long-term growth projects. We are still investing in quick payback projects but not long-term payback projects.

Fabricated Metal Product Manufacturing

- We are a machine shop and are seeing a tremendous amount of requests for quotations for fixturing and tooling.
- There is too much capacity chasing too few orders.
- Our inability to hire, train and bring on new people has become increasingly problematic. We are starting to see customers pushing back on extended production times.

Chemical Manufacturing

- International sales have decreased.

Nonmetallic Mineral Product Manufacturing

- We continue to struggle to find qualified labor at our plants.
- The Federal Reserve's recent change toward a more dovish policy stance is appropriate and will support housing and our business.

Machinery Manufacturing

- This is a hard market to read, up one month and then down the next. We are starting to see increased competitive pressure that usually indicates efforts to try to take market share in a softer market.
- We are seeing stronger business activity because we are investing heavily in our business to meet our customers' needs. This investment is due to the tax reductions in the federal law on my company that allowed us to afford the purchase of new equipment.

- We need skilled workers, or even good unskilled and we will train.
- We have seen a slight increase in orders finally. We'll have to see what the longer-term pattern may be. It is hard to find any skilled labor.

Computer and Electronic Product Manufacturing

- Cyclical weakness continues about as expected and is impacted by trade tensions and related uncertainties.
- Active projects internally are underway to positively impact cash flow by reducing inventory levels and decreasing the cost of finished goods.
- We certainly feel more certainty regarding business and industry conditions. We believe tax reform, global economic conditions and trade deals have impacted our business in a very positive way. The dollar is also stable across many different currencies.

Electrical Equipment, Appliance and Component Manufacturing

- Business is very good.

Transportation Equipment Manufacturing

- Spring is our busiest time. However, this year seems exceptionally strong and we are hiring to keep up with demand.

Printing and Related Support Activities

- Turnover has increased as job opportunities for skilled labor continue to be very strong. There's lots of recruiting activity.
- It's Dr. Jekyll and Mr. Hyde time as we go from being slow in February to slightly busier in March, so things are looking up. Activity is starting to pick up, and we are talking to customers about some nice larger jobs, which are all encouraging. It's still a grind, with costs rising all around us, yet we find it difficult to raise prices without catching a bunch of grief from customers.

Food Manufacturing

- We continue to see strong demand and expect to increase production a minimum of 25 percent over the next six months.
- We increased capital expenditures as a result of our C-corporation election following the reduction of corporate income tax rates, freeing up more capital from earnings to invest in equipment to increase capacity and efficiency in our manufacturing plants.

Textile Product Mills

- We continue to grow and thrive.

Paper Manufacturing

- The overall positive outlook is on the verge of disappearing. A few more weeks of current slowness will turn our outlook negative.

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