Texas **Manufacturing** Outlook Survey

November 25, 2019

Texas Manufacturing Activity Weakens Slightly

What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on the labor market. Results for these questions from the Texas Manufacturing Outlook Survey, Texas Service Sector Outlook Survey and Texas Retail Outlook Survey have been released together.

Texas factory activity contracted slightly in November, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, dipped into negative territory for the first time since mid-2016, falling seven points to -2.4.

Other measures of manufacturing activity were also negative in November, suggesting declines. The new orders index remained negative for a second month in a row, coming in at -3.0. The growth rate of orders index pushed further into negative territory, falling from -5.9 to -9.3. The capacity utilization and shipments indexes turned negative after three years in positive territory, falling to -5.3 and -4.5, respectively.

Perceptions of broader business conditions worsened slightly in November. The general business activity index remained negative but moved up from -5.1 to -1.3. The company outlook index fell 11 points to -2.1. Both indexes have oscillated between positive (expansionary) and negative (contractionary) territory this year, with the latest barely-negative readings suggesting modest contraction. The index measuring uncertainty regarding companies' outlooks moved up to 17.1, a reading well above average.

Labor market measures suggested stable employment levels and shorter workweeks this month. The employment index retreated from 11.0 to 0.9, with the near-zero reading suggesting little to no job growth on balance. Eighteen percent of firms noted net hiring, while 17 percent noted net layo fs. The hours worked index dipped from 4.7 to -4.3.

Prices and wages continued to rise in November, although growth in selling prices was quite muted. Upward pressure on raw materials eased somewhat, with the index declining five points to 17.8. The finished goods prices index retreated to 1.9, with the vast majority of manufacturers noting no change in selling prices from October. The wages and benefits index held steady at 21.1.

Expectations regarding future business conditions remained optimistic in November. The index of future general business activity rose five points to 7.3, while the index of future company outlook edged up to 17.0. Other indexes for future manufacturing showed mixed movements but remained solidly in positive territory.

Next release: Monday, December 30

Data were collected Nov. 12–20, 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	Nov Index	Oct Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	–2.4	4.5	–6.9	10.5	1(–)	26.0	45.7	28.4
Capacity Utilization	–5.3	3.6	–8.9	8.1	1(–)	22.0	50.7	27.3
New Orders	–3.0	–4.2	+1.2	6.4	2(–)	25.5	46.0	28.5
Growth Rate of Orders	–9.3	–5.9	–3.4	0.1	2(–)	17.9	54.9	27.2
Unfilled Orders	–7.7	–9.4	+1.7	–2.9	5(–)	12.8	66.7	20.5
Shipments	–4.5	6.0	–10.5	9.2	1(–)	23.9	47.7	28.4
Delivery Time	–4.6	–4.2	–0.4	–0.5	2(–)	9.0	77.4	13.6
Finished Goods Inventories	–10.6	–4.5	–6.1	–3.0	8(–)	14.2	61.1	24.8
Prices Paid for Raw Materials	17.8	22.8	–5.0	24.8	44(+)	25.9	66.0	8.1
Prices Received for Finished Goods	1.9	4.8	–2.9	6.5	3(+)	10.6	80.7	8.7
Wages and Benefits	21.1	22.2	–1.1	18.9	124(+)	21.5	78.1	0.4
Employment	0.9	11.0	–10.1	6.6	35(+)	18.2	64.5	17.3
Hours Worked	–4.3	4.7	–9.0	2.8	1(–)	17.3	61.1	21.6
Capital Expenditures	4.5	13.6	–9.1	7.0	39(+)	17.8	68.9	13.3

General Business Conditions
Current (versus previous month)

Indicator	Nov Index	Oct Index	Change	Series Average	Trend**	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	–2.1	8.8	–10.9	7.3	1(–)	18.0	61.9	20.1
General Business Activity	–1.3	–5.1	+3.8	3.0	2(–)	16.5	65.7	17.8

Indicator	Nov Index	Oct Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Outlook Uncertainty†	17.1	12.1	+5.0	9.8	18(+)	27.0	63.1	9.9

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

Indicator	Nov Index	Oct Index	Change	Series Average	Trend*	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	31.3	29.6	+1.7	38.7	129(+)	41.8	47.8	10.5
Capacity Utilization	35.8	26.8	+9.0	35.5	129(+)	42.0	51.8	6.2
New Orders	28.7	34.3	–5.6	36.5	129(+)	39.6	49.5	10.9
Growth Rate of Orders	19.3	26.1	–6.8	26.9	129(+)	29.5	60.3	10.2
Unfilled Orders	5.7	2.6	+3.1	4.0	2(+)	12.2	81.3	6.5
Shipments	26.2	29.2	–3.0	37.5	129(+)	37.0	52.2	10.8
Delivery Time	2.7	2.5	+0.2	–1.9	2(+)	6.8	89.1	4.1
Finished Goods Inventories	–0.9	1.9	–2.8	–0.5	1(–)	14.2	70.8	15.1
Prices Paid for Raw Materials	25.9	18.8	+7.1	34.0	128(+)	31.5	63.0	5.6
Prices Received for Finished Goods	7.5	7.8	–0.3	19.7	46(+)	19.6	68.2	12.1
Wages and Benefits	36.5	39.0	–2.5	38.3	186(+)	37.5	61.5	1.0
Employment	20.6	23.6	–3.0	22.3	84(+)	31.6	57.4	11.0
Hours Worked	11.1	1.9	+9.2	9.4	42(+)	18.4	74.3	7.3
Capital Expenditures	9.8	22.9	–13.1	20.1	120(+)	22.0	65.8	12.2

General Business Conditions
Future (six months ahead)

Indicator	Nov Index	Oct Index	Change	Series Average	Trend**	% Reporting Increase	% Reporting No Change	% Reporting Worsened
Company Outlook	17.0	15.3	+1.7	21.1	46(+)	28.9	59.2	11.9
General Business Activity	7.3	2.4	+4.9	14.6	2(+)	22.6	62.1	15.3

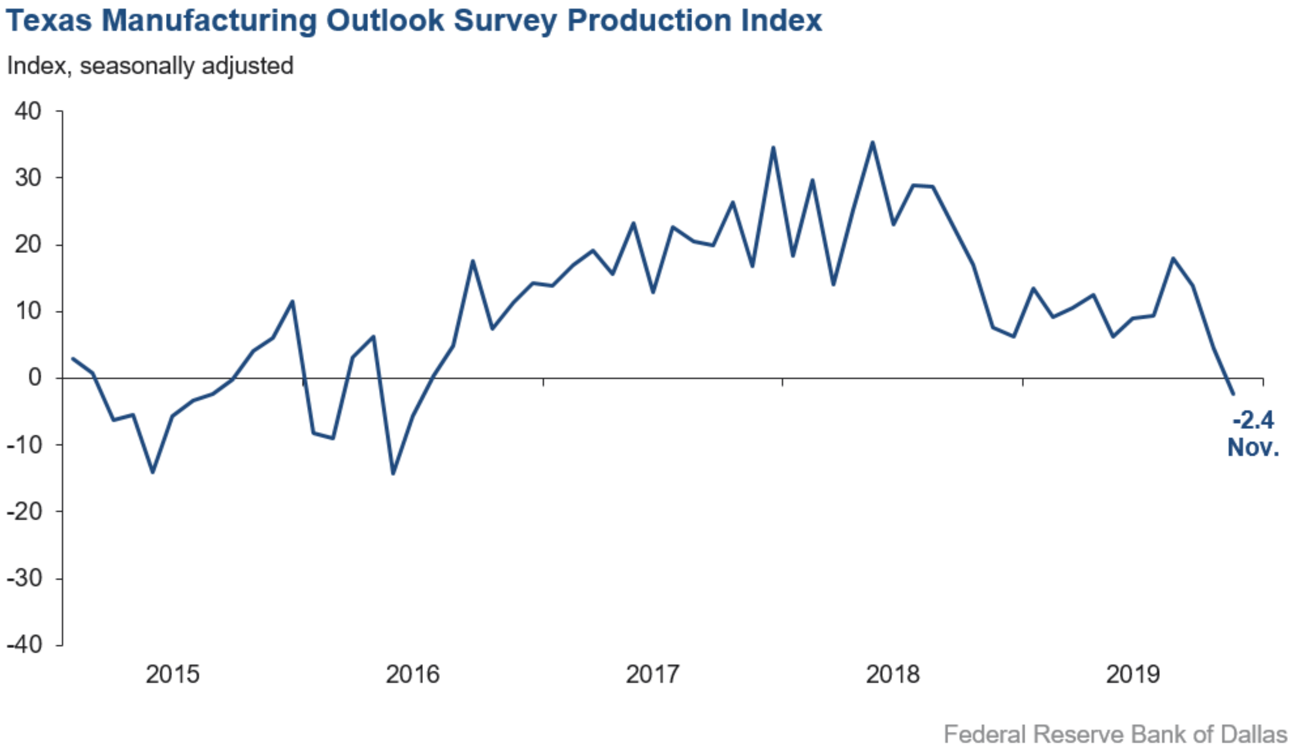
*Shown is the number of consecutive months of expansion or contraction in the underlying indicator. Expansion is indicated by a positive index reading and denoted by a (+) in the table. Contraction is indicated by a negative index reading and denoted by a (–) in the table.

**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



Comments from Survey Respondents

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

Chemical Manufacturing

- Tariff rates continue to be hard to pass on to customers.
- One of our customers announced a permanent plant shutdown. They stated that production would go to other facilities (all are overseas).

Fabricated Metal Product Manufacturing

- Since policymakers, talking heads and the media have stopped talking about a recession on the horizon and shifted their focus to other topics, it's become clear that businesses are not experiencing the predicted turmoil. Many small business owners are continuing to create jobs, raise wages and grow their businesses thanks to tax cuts and deregulation. The big thing that continues to hold us back is finding qualified workers.
- The most significant risk is political risk that could manifest through consumer sentiment.
- The market activity is slowish and has not changed. We are gaining a little bit of share.
- Quote requests have remained steady to strong. However, owners seem to be delaying the award and start of projects.

Machinery Manufacturing

- Business is steady, and if the China trade agreement gets settled soon, we think business will increase rapidly.
- Presidential politics are playing a bigger role in how our customers are seeing the future. They are holding back on expenditures and capital projects. Once we see how this is resolved, I believe spending will either increase significantly or get far worse very fast.
- We have received a significant increase in employee costs with respect to medical insurance premiums. This cost is unsustainable, and we therefore have to cut back on benefits and share more of the cost with our employees—very disappointing.

Computer and Electronic Product Manufacturing

- We have seen broad-based weakness, with customers telling us they are being more cautious due to trade tensions.

Electrical Equipment, Appliance and Component Manufacturing

- We are seeing election and political volatility along with a longer current business cycle.

Transportation Equipment Manufacturing

- Clarity on tariffs on European imports improved visibility and removed certain risks.
- Political uncertainty and foreign influences (tariffs) have created an environment in which intermediate and long-range planning are much more difficult than two to three years ago.

Food Manufacturing

- Labor and raw material [cost] increases will cause prices to increase next year. Lack of available labor is the most significant impediment to growth. Continued confusion and uncertainty with export business to Mexico and Latin America are costing us significant sales.
- The issue of tariffs and the unstable political environment—namely the shift from conservative to more liberal, Democratic elected officials, and socialistic national debate—are unsettling.
- We see no significant change. We continue to work 13 of 14 days every two weeks. This will continue through next year.

Printing and Related Support Activities

- The struggle continues to find qualified personnel for even entry-level positions.

Miscellaneous Manufacturing

- Automotive customers are pushing for N90 [net 90-day] payment terms. This is just the latest tactic to gain footing in terms of profits for the automotive sector. My company continues to refuse N90 terms, and we plan to continue refusing as we are unable to push longer terms down the supply chain.
- Tariffs and Washington unrest are not good for large growth.

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

Texas **Business** Outlook Surveys

Special Questions

November 25, 2019

Results below include responses from participants of all three surveys: Texas Manufacturing Outlook Survey, Texas Service Sector Outlook Survey and Texas Retail Outlook Survey.

Texas Business Outlook Surveys

Data were collected Nov. 12–20, and 370 Texas business executives responded to the surveys.
See data files with a full history of results.

Are you currently trying to hire?

	May '19 (percent)	Aug. '19 (percent)	Nov. '19 (percent)
Yes	71.4	69.8	60.0
No	28.6	30.2	40.0

NOTE: 370 responses.

Are you having problems finding qualified workers when hiring?

	May '19 (percent)	Aug. '19 (percent)	Nov. '19 (percent)
Yes	83.0	75.6	80.5
No	17.0	24.4	19.5

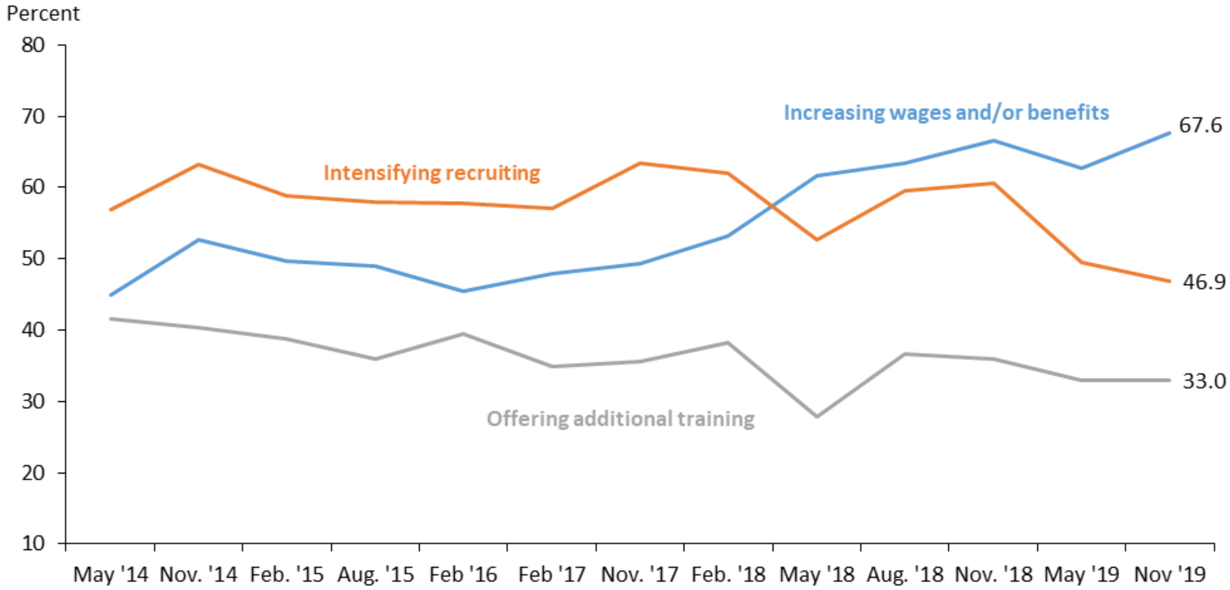
NOTES: 220 responses. This question was posed only to respondents that answered "Yes" to the preceding question.

If you are having problems finding qualified workers, what are the main reasons? Please check all that apply.

	Nov '17 (percent)	Nov '18 (percent)	Nov. '19 (percent)
Lack of available applicants/no applicants	58.6	70.6	66.9
Lack of technical competencies (hard skills)	49.8	43.3	48.0
Lack of experience	32.5	40.7	46.3
Looking for more pay than is offered	39.0	45.0	44.6
Lack of workplace competencies (soft skills)	37.3	39.0	41.7
Inability to pass drug test and/or background check	32.1	32.5	31.4

NOTES: 175 responses. This question was posed only to respondents that answered "Yes" to the preceding question.

What, if anything, are you doing to recruit and retain employees? Please check all that apply.



NOTE: Data plotted for top three responses in November 2019. Data are shown for months when special questions were asked.
SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

	Nov '17 (percent)	Nov '18 (percent)	Nov. '19 (percent)
Increasing wages and/or benefits	49.4	66.6	67.6
Increasing wages		61.9	59.5
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	63.5	60.7	46.9
Offering additional training	35.7	35.9	33.0
Improving working conditions	23.4	27.6	31.1
Increasing variable pay, including bonuses	29.2	29.1	30.7
Increasing benefits		20.1	24.6
Reducing education and other requirements for new hires	8.8	12.1	9.1

NOTES: 309 responses. Starting in November 2018, "increasing wages" appears as a separate answer choice from "increasing benefits." We will continue to include the share of firms reporting increasing wages and/or benefits but as a calculation based on responses to "increasing wages" and "increasing benefits."

NOTE: Survey respondents were given the opportunity to provide comments. These comments can be found on the individual survey Special Questions results pages, accessible by the tabs above.

Texas Manufacturing Outlook Survey

Data were collected Nov. 12–20, and 111 Texas manufacturers responded to the surveys.

See data files with a full history of results.

Are you currently trying to hire?

	May '19 (percent)	Aug. '19 (percent)	Nov. '19 (percent)
Yes	72.7	64.0	59.5
No	27.3	36.0	40.5

NOTE: 111 responses.

Are you having problems finding qualified workers when hiring?

	May '19 (percent)	Aug. '19 (percent)	Nov. '19 (percent)
Yes	79.5	83.6	86.2
No	20.5	16.4	13.8

NOTES: 65 responses. This question was posed only to respondents that answered "Yes" to the preceding question.

If you are having problems finding qualified workers, what are the main reasons? Please check all that apply.

	Nov '17 (percent)	Nov '18 (percent)	Nov. '19 (percent)
Lack of available applicants/no applicants	51.4	69.9	70.9
Lack of technical competencies (hard skills)	61.1	57.5	54.5
Lack of workplace competencies (soft skills)	37.5	45.2	52.7
Looking for more pay than is offered	36.1	43.8	47.3
Inability to pass drug test and/or background check	45.8	42.5	43.6
Lack of experience	31.9	38.4	38.2

NOTES: 55 responses. This question was posed only to respondents that answered "Yes" to the preceding question.

What, if anything, are you doing to recruit and retain employees? Please check all that apply.

NOTE: Data plotted for top three responses in November 2019. Data are shown for months when special questions were asked.
SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey.

	Nov '17 (percent)	Nov '18 (percent)	Nov. '19 (percent)
Increasing wages and/or benefits	51.7	68.4	67.0
Increasing wages		63.3	62.6
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	67.4	61.2	49.5
Offering additional training	40.4	32.7	34.1
Improving working conditions	24.7	30.6	29.7
Increasing variable pay, including bonuses	28.1	24.5	24.2
Increasing benefits		16.3	24.2
Reducing education and other requirements for new hires	11.2	16.3	12.1

NOTES: 91 responses. Starting in November 2018, "increasing wages" appears as a separate answer choice from "increasing benefits." We will continue to include the share of firms reporting increasing wages and/or benefits but as a calculation based on responses to "increasing wages" and "increasing benefits."

Special Questions Comments

These comments have been edited for publication.

Chemical Manufacturing

- We always attempt to stay competitive with wages and benefits.

Machinery Manufacturing

- New hires with knowledge and experience are very difficult to find. However, the oil field is softening quickly, and we expect more people to be available over the next year with good resumes.

Food Manufacturing

- We already offer several services and training upon entering.

Wood Product Manufacturing

- People are begging to leave California if they can find a good job.

Paper Manufacturing

- Other industries are doing well and pulling at our reliable employees.

Texas Service Sector Outlook Survey

Data were collected Nov. 12–20, and 259 Texas business executives responded to the surveys.

See data files with a full history of results.

Are you currently trying to hire?

	May '19 (percent)	Aug. '19 (percent)	Nov. '19 (percent)
Yes	70.8	72.3	60.2
No	29.2	27.7	39.8

NOTE: 259 responses.

Are you having problems finding qualified workers when hiring?

	May '19 (percent)	Aug. '19 (percent)	Nov. '19 (percent)
Yes	84.5	72.5	78.1
No	15.5	27.5	21.9

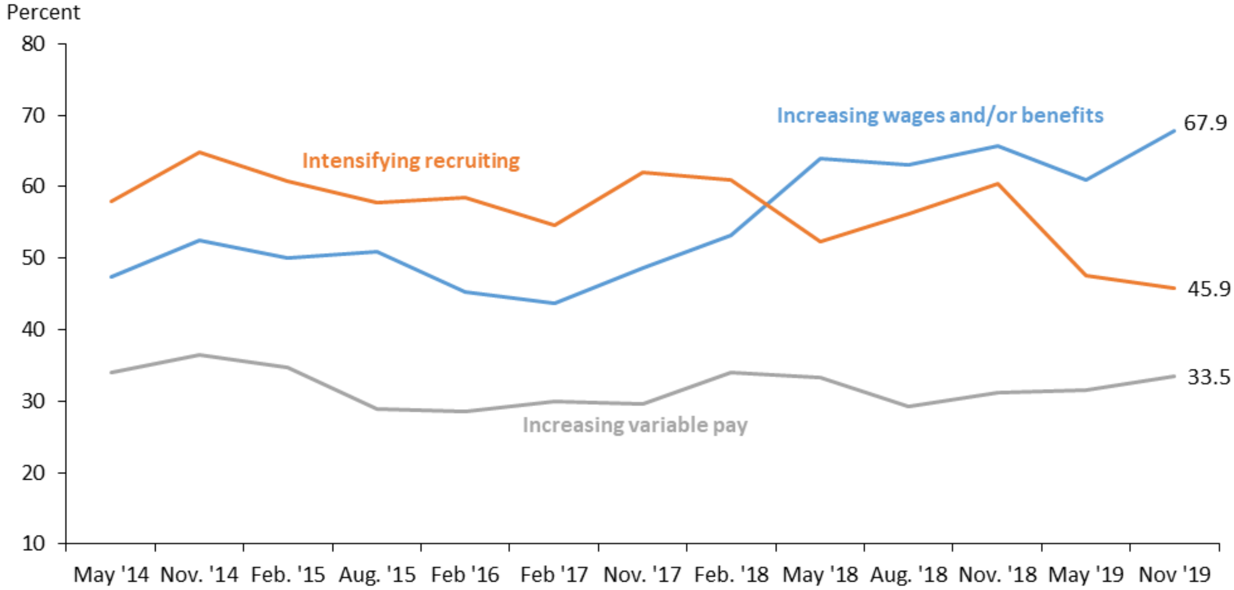
NOTES: 155 responses. This question was posed only to respondents that answered "Yes" to the preceding question.

If you are having problems finding qualified workers, what are the main reasons? Please check all that apply.

	Nov '17 (percent)	Nov '18 (percent)	Nov. '19 (percent)
Lack of available applicants/no applicants	61.6	70.9	65.0
Lack of experience	32.8	41.8	50.0
Lack of technical competencies (hard skills)	45.2	36.7	45.0
Looking for more pay than is offered	40.1	45.6	43.3
Lack of workplace competencies (soft skills)	37.3	36.1	36.7
Inability to pass drug test and/or background check	26.6	27.8	25.8

NOTES: 120 responses. This question was posed only to respondents that answered "Yes" to the preceding question.

What, if anything, are you doing to recruit and retain employees? Please check all that apply.



NOTE: Data plotted for top three responses in November 2019. Data are shown for months when special questions were asked.
SOURCE: Federal Reserve Bank of Dallas Texas Service Sector Outlook Survey.

	Nov '17 (percent)	Nov '18 (percent)	Nov. '19 (percent)
Increasing wages and/or benefits	48.6	65.8	67.9
Increasing wages		61.3	58.3
Intensifying recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	62.1	60.4	45.9
Increasing variable pay, including bonuses	29.6	31.1	33.5
Offering additional training	34.0	37.3	32.6
Improving working conditions	22.9	26.2	31.7
Increasing benefits		21.8	24.8
Reducing education and other requirements for new hires	7.9	10.2	7.8

NOTES: 218 responses. Starting in November 2018, "increasing wages" appears as a separate answer choice from "increasing benefits." We will continue to include the share of firms reporting increasing wages and/or benefits but as a calculation based on responses to "increasing wages" and "increasing benefits."

Special Questions Comments

These comments have been edited for publication.

Support Activities for Transportation

- We are increasing employee participation in industry organizations and charities. This is effectively increasing each individual's awareness of the value they bring both to the company internally and to the industry. Employee engagement was already strong; however, this activity is solidifying that level of engagement. We are also working with individual employees to structure professional growth plans.

Warehousing and Storage

- The labor force is extremely tight currently. We are improving our pay and benefits package in an effort to recruit and retain.

Data Processing, Hosting and Related Services

- Highly skilled technology hires are very difficult to find in the area—particularly those with leading-edge coding skills. We have started outsourcing the lower-level technology tasks to train our current workforce to take on more higher-skilled functions until we can find more qualified recruits.

Credit Intermediation and Related Activities

- It is becoming increasingly difficult to attract qualified applicants to rural markets and to compete with metropolitan markets. Succession planning is very challenging.

Securities, Commodity Contracts, and Other Financial Investments and Related Activities

- On average, every 1,000 applicants we have generates around five to seven candidates who are qualified or can pass a background check/drug screening. This is a significant problem, with no signs of the situation improving. More people seem to have a college education, but sadly, that doesn't produce more applicants who can properly write a paragraph.

Rental and Leasing Services

- The only hires we are doing are to trade up and get better people. Overall, I have told my people to cut our workforce by 10 percent before 2020; we employ 708 people, so that is a significant amount.

Professional, Scientific and Technical Services

- We see no problem hiring lawyers. Some areas of staff are tighter—notably IT. We see tech firms being pretty aggressive in Austin as they ramp up.

Administrative and Support Services

- We have hired recently for a management position, as well as some entry-level employees. It is amazing at the management level how many people sent responses but did not show up for interviews. I see this all the time at the entry level but did not expect this in the more-experienced management levels.

Ambulatory Health Care Services

- It is a tough hiring market but not terrible. We can fill most positions and have many loyal employees. It is hardest at the lower end of the skills and pay scales, but we are not sure if it is any different from past times with low unemployment.

Amusement, Gambling and Recreation Industries

- The lack of employees is a real drain on productivity. It is also taking more and more time for the management staff to recruit and hire and train. It really affects the morale of the entire operation. It also makes the salaried employees work more hours to continue to do the basic job they were hired for. In other words, it is exhausting!

Personal and Laundry Services

- After 12 years in the business, my labor expense as a percentage of revenue is at an all-time high. The market is very competitive, and there are not enough applicants despite increased advertising and the offer of a $500 signing bonus.

Texas Retail Outlook Survey

Data were collected Nov. 12–20, and 47 Texas retailers responded to the surveys.

See data files with a full history of results.

Are you currently trying to hire?

	May '19 (percent)	Aug. '19 (percent)	Nov. '19 (percent)
Yes	70.0	75.5	57.4
No	30.0	24.5	42.6

NOTE: 47 responses.

Are you having problems finding qualified workers when hiring?

	May '19 (percent)	Aug. '19 (percent)	Nov. '19 (percent)
Yes	88.6	78.4	88.9
No	11.4	21.6	11.1

NOTES: 27 responses. This question was posed only to respondents that answered "Yes" to the preceding question.

If you are having problems finding qualified workers, what are the main reasons? Please check all that apply.

	Nov '17 (percent)	Nov '18 (percent)	Nov. '19 (percent)
Lack of available applicants/no applicants	59.5	66.7	70.8
Lack of technical competencies (hard skills)	54.8	45.5	66.7
Lack of experience	35.7	33.3	54.2
Lack of workplace competencies (soft skills)	33.3	39.4	50.0
Inability to pass drug test and/or background check	47.6	45.5	37.5
Looking for more pay than is offered	38.1	36.4	33.3

NOTES: 24 responses. This question was posed only to respondents that answered "Yes" to the preceding question.