



Texas Manufacturing Outlook Survey

DALLAS FED

July 27, 2015

TEXAS MANUFACTURING SLUMP MODERATES, OUTLOOKS IMPROVE

Texas factory activity declined slightly in July, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, remained negative but rose for a second month in a row to -1.9, suggesting further moderation in the decline in manufacturing output.

A similar pattern was seen among other measures of current manufacturing activity in July. The capacity utilization index edged up to -4.2, and the shipments index increased to -4.3. These negative index levels indicate contraction, but the upward movement again this month suggests the pace of decline continued to slow. The new orders index rebounded strongly in July and posted a reading of 0.7 after six months in negative territory. The growth rate of orders index jumped 11 points from -16.5 to -5.2.

Perceptions of broader business conditions were mixed. The general business activity index remained negative, but it rose for a second month in a row and reached -4.6 in July. Manufacturers expect improved conditions ahead. The company outlook index surged nearly nine points and posted its first positive reading in seven months, coming in at 1.2.

Labor market indicators reflected slight employment declines and shorter workweeks. The July employment index was negative for a third month in a row and edged down to -3.3. Eleven percent of firms reported net hiring, compared with 15 percent reporting net layoffs. The hours worked index rose from -10.7 to -6.3.

Price and wage pressures were mixed in July. The raw materials prices index has been rather volatile lately—moving from negative readings earlier this year to a positive 7.4 in June then falling to zero in July. The finished goods prices index remained negative for a seventh month in a row, coming in at -2.9. Meanwhile, the wages and benefits index remained positive and little changed at 14.4.

Expectations regarding future business conditions improved notably in July. The indexes of future general business activity and future company outlook both posted double-digit increases. Indexes for future manufacturing activity pushed further into solid positive territory.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected July 14–22, and 112 Texas manufacturers responded to the survey. 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.

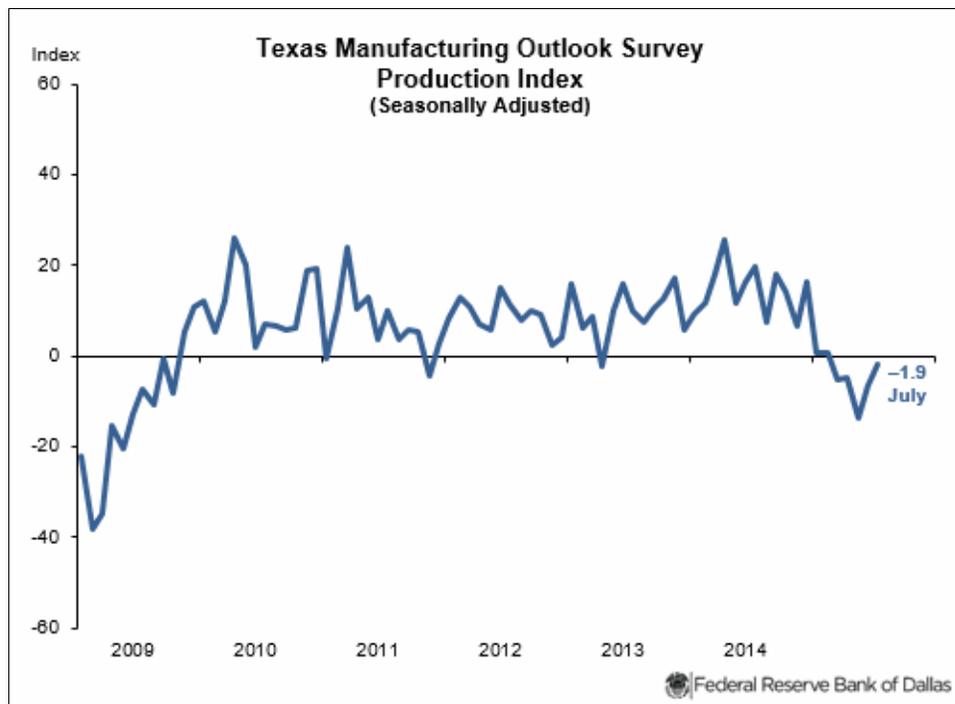
Next release: August 31, 2015

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	-1.9	-6.5	+4.6	Decreasing	5	21.5	55.1	23.4	
Capacity Utilization	-4.2	-6.1	+1.9	Decreasing	6	19.3	57.2	23.5	
New Orders	0.7	-10.3	+11.0	Increasing	1	27.4	46.0	26.7	
Growth Rate of Orders	-5.2	-16.5	+11.3	Decreasing	9	18.6	57.7	23.8	
Unfilled Orders	-6.5	-17.1	+10.6	Decreasing	8	13.0	67.5	19.5	
Shipments	-4.3	-8.8	+4.5	Decreasing	6	22.0	51.7	26.3	
Delivery Time	0.8	-3.1	+3.9	Increasing	1	13.6	73.6	12.8	
Materials Inventories	8.9	1.5	+7.4	Increasing	2	25.5	57.9	16.6	
Finished Goods Inventories	10.7	-3.6	+14.3	Increasing	1	20.5	69.6	9.8	
Prices Paid for Raw Materials	0.1	7.4	-7.3	Increasing	2	11.1	77.9	11.0	
Prices Received for Finished Goods	-2.9	-1.9	-1.0	Decreasing	7	8.4	80.3	11.3	
Wages and Benefits	14.4	16.4	-2.0	Increasing	68	18.5	77.4	4.1	
Employment	-3.3	-1.2	-2.1	Decreasing	3	11.4	73.9	14.7	
Hours Worked	-6.3	-10.7	+4.4	Decreasing	7	12.1	69.4	18.4	
Capital Expenditures	1.6	1.6	0.0	Increasing	4	11.8	78.0	10.2	
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	1.2	-7.4	+8.6	Improving	1	16.9	67.4	15.7	
General Business Activity	-4.6	-7.0	+2.4	Worsening	7	16.8	61.8	21.4	
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	37.4	35.2	+2.2	Increasing	77	48.5	40.4	11.1	
Capacity Utilization	36.8	31.7	+5.1	Increasing	77	46.7	43.5	9.9	
New Orders	39.0	33.9	+5.1	Increasing	77	46.4	46.2	7.4	
Growth Rate of Orders	29.7	21.1	+8.6	Increasing	77	38.6	52.5	8.9	
Unfilled Orders	8.8	-2.9	+11.7	Increasing	1	15.5	77.8	6.7	
Shipments	38.9	31.5	+7.4	Increasing	77	47.2	44.6	8.3	
Delivery Time	6.4	1.2	+5.2	Increasing	3	11.4	83.6	5.0	
Materials Inventories	1.9	-0.9	+2.8	Increasing	1	16.2	69.5	14.3	
Finished Goods Inventories	1.0	-2.8	+3.8	Increasing	1	14.2	72.6	13.2	
Prices Paid for Raw Materials	18.8	19.3	-0.5	Increasing	76	24.5	69.8	5.7	
Prices Received for Finished Goods	11.4	5.5	+5.9	Increasing	37	19.0	73.3	7.6	
Wages and Benefits	31.2	31.0	+0.2	Increasing	134	35.1	61.0	3.9	
Employment	17.4	16.9	+0.5	Increasing	32	27.3	62.8	9.9	
Hours Worked	14.6	6.1	+8.5	Increasing	5	19.7	75.2	5.1	
Capital Expenditures	13.5	13.0	+0.5	Increasing	68	23.1	67.3	9.6	
General Business Conditions									
Future (six months ahead)									
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	24.5	13.4	+11.1	Improving	76	32.0	60.5	7.5	
General Business Activity	18.8	8.1	+10.7	Improving	3	26.6	65.6	7.8	

*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.

Data have been seasonally adjusted as necessary.



COMMENTS FROM SURVEY RESPONDENTS

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

Fabricated Metal Manufacturing

- > We are currently in a push to complete multiple orders for the automotive industry that tie into the summer shutdown period and the release of a new vehicle.
- > These are highly turbulent times.
- > Six months from now we have a substantial amount of field repair work scheduled.
- > Our revenue stream was significantly impacted by the May and June rains in the regions we serve. We have seen some recovery in July but believe it to be a result of previously postponed projects finally coming to completion. Material costs have decreased in the past month due to oversupply and reduced consumption in the steel value chain. We anticipate those price reductions to be short lived as supply is adjusted to demand. The savings allow us the opportunity to recover some margin lost in the first half of the calendar year resulting from cost reduction initiatives by our customers. Our six-month outlook for oil and gas exploration and production industry activity remains stable, though at levels more than 50 percent below the prior year.

Machinery Manufacturing

- > Orders continue to be steady with new customers and a few current customers creating increased volume. Only a few customers are forecasting lower volume.

Computer and Electronic Product Manufacturing

- > The oil and gas industry has affected our business.

Electrical Equipment, Appliance, and Component Manufacturing

- > Export sales represent a growing, and at times, significant part of our business.

Transportation Equipment Manufacturing

- > The drilling equipment industry continues to be plagued by the imports coming from Asia with no tariffs attached to them.

Wood Product Manufacturing

- > We sell to single-family homebuilders, and May was so wet that not much progress was made on starts and foundations. This is the "flat spot" from that. We expect shipments to rebound in the next couple of weeks so that the average over a couple of months will return or exceed where it was before.

Paper Manufacturing

- > Wages are the same, but benefits costs are up 13 percent starting July 1, 2015. Sales in the first half of the year were off 15 percent (very slow first and second quarter). Seasonal demand has now picked up; at this point we just hope it will be the same as last year.

Printing and Related Support Activities

- > Wages remained the same, but benefits costs increased due to health insurance costs. July business has slowed down considerably. We hope August and September improve.
- > The summer doldrums are upon us. Business is very slow, much slower than this time last year.
- > It is very odd for us to be so slow this time of year. June had decent billing but really low incoming orders, and July is starting out even worse than June on incoming orders. Billing will be much lower as well. We are optimistic that last quarter of the year will be much busier as it traditionally is our best quarter of each calendar year.

Food Manufacturing

- > We are experiencing a regular seasonal decrease. Business demand, new opportunities and overall market conditions are good. We feel that low gas prices, good job growth and construction activity are helping our demand signals. The strong dollar continues to deflate export sales.

Miscellaneous Manufacturing

- > The retail economy has slowed, thus slowing our manufacturing. Oil and gas is hurting in this area. The world situation and D.C. do not help.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org.
The Texas Manufacturing Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tmos/.

