



Texas Manufacturing Outlook Survey

DALLASFED

January 25, 2016

TEXAS MANUFACTURING ACTIVITY FALLS SHARPLY

What's New This Month

This month's survey data include annual seasonal factor revisions. In January of each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Manufacturing Outlook Survey after calculating new seasonal adjustment factors. Annual seasonal revisions result in slight changes in the seasonally adjusted series. Read more information on seasonal adjustment at www.dallasfed.org/microsites/research/surveys/tmos/seasonal.cfm.

Texas factory activity fell sharply in January, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index—a key measure of state manufacturing conditions—dropped 23 points, from 12.7 to -10.2, suggesting output declined this month after growing throughout fourth quarter 2015.

Other indexes of current manufacturing activity also indicated contraction in January. The survey's demand measures—the new orders index and the growth rate of orders index—led the falloff in production with negative readings last month, and these indexes pushed further negative in January. The new orders index edged down to -9.2, and the growth rate of orders index fell to -17.5, its lowest level in a year. The capacity utilization index fell 15 points from 8.1 to -7, and the shipments index also posted a double-digit decline into negative territory, coming in at -11.

Perceptions of broader business conditions weakened markedly in January. The general business activity and company outlook indexes fell to their lowest readings since April 2009, when Texas was in recession. The general business activity index fell 13 points to -34.6, and the company outlook index slipped to -19.5.

Labor market indicators reflected a decline in January after exhibiting strength in November and December 2015. The employment index dropped from 10.9 to -4.2, with 17 percent of firms noting net hiring and 21 percent noting net layoffs. The hours worked index plummeted 23 points to -9.2, suggesting a sharp pullback in employee hours.

The survey's price measures remained negative in January, but wages continued to rise. The raw materials prices index has been negative for seven months and held fairly steady at -8.6. The finished goods prices index has been below zero for more than a year and moved up from -15.5 to -9.6 this month. Meanwhile, the wages and benefits index stayed strongly positive but dipped from 20.2 to 16.5, suggesting a smaller rise in compensation.

Expectations regarding future business conditions weakened notably in January. The index of future general business activity fell 22 points to -24, and the index of future company outlook fell to -1.3, its first negative reading in nearly seven years. Indexes for future manufacturing activity generally declined but remained solidly positive.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Jan. 12–20, and 118 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.

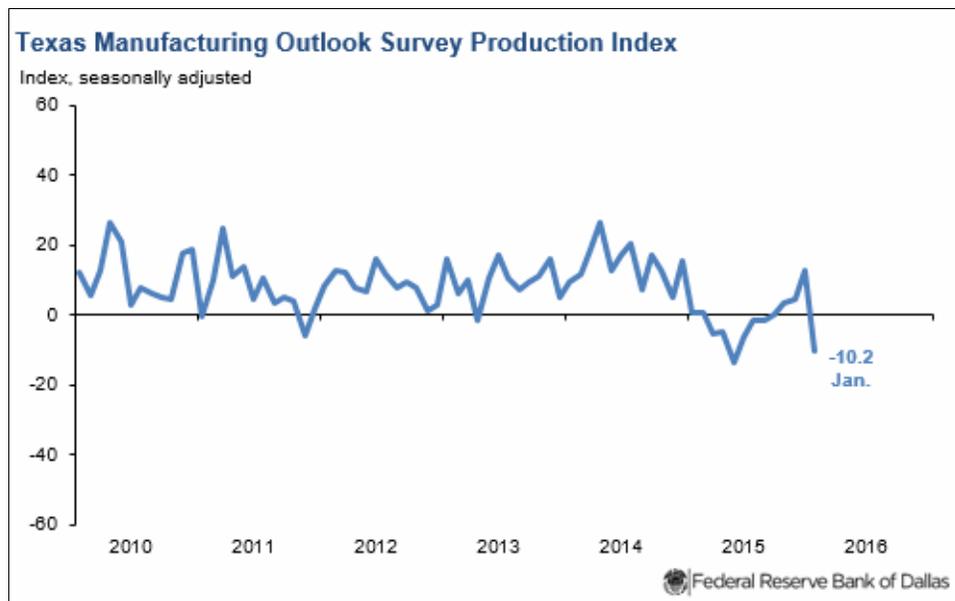
Next release: February 29, 2016

Business Indicators Relating to Facilities and Products in Texas									
Current (versus previous month)									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	-10.2	12.7	-22.9	Decreasing	1	18.3	53.2	28.5	
Capacity Utilization	-7.0	8.1	-15.1	Decreasing	1	18.4	56.1	25.4	
New Orders	-9.2	-7.0	-2.2	Decreasing	2	21.7	47.3	30.9	
Growth Rate of Orders	-17.5	-13.5	-4.0	Decreasing	15	11.1	60.3	28.6	
Unfilled Orders	-17.2	-15.2	-2.0	Decreasing	14	8.9	65.1	26.1	
Shipments	-11.0	7.0	-18.0	Decreasing	1	17.5	54.0	28.5	
Delivery Time	-9.3	-5.3	-4.0	Decreasing	2	6.7	77.3	16.0	
Materials Inventories	-9.9	-9.3	-0.6	Decreasing	6	14.2	61.8	24.1	
Finished Goods Inventories	1.8	-6.0	+7.8	Increasing	1	19.7	62.4	17.9	
Prices Paid for Raw Materials	-8.6	-9.1	+0.5	Decreasing	7	14.3	62.8	22.9	
Prices Received for Finished Goods	-9.6	-15.5	+5.9	Decreasing	13	9.1	72.2	18.7	
Wages and Benefits	16.5	20.2	-3.7	Increasing	74	20.6	75.4	4.1	
Employment	-4.2	10.9	-15.1	Decreasing	1	16.6	62.6	20.8	
Hours Worked	-9.2	13.9	-23.1	Decreasing	1	13.1	64.6	22.3	
Capital Expenditures	3.4	1.9	+1.5	Increasing	3	16.2	71.1	12.8	
General Business Conditions									
Current (versus previous month)									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	-19.5	-10.5	-9.0	Worsening	2	8.2	64.1	27.7	
General Business Activity	-34.6	-21.6	-13.0	Worsening	13	3.8	57.9	38.4	
Business Indicators Relating to Facilities and Products in Texas									
Future (six months ahead)									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	26.5	29.6	-3.1	Increasing	83	43.4	39.7	16.9	
Capacity Utilization	22.2	27.3	-5.1	Increasing	83	35.4	51.4	13.2	
New Orders	25.4	29.2	-3.8	Increasing	83	40.0	45.4	14.6	
Growth Rate of Orders	16.8	16.7	+0.1	Increasing	83	33.2	50.4	16.4	
Unfilled Orders	1.4	2.4	-1.0	Increasing	4	16.6	68.2	15.2	
Shipments	22.7	25.2	-2.5	Increasing	83	38.8	45.1	16.1	
Delivery Time	-1.5	-6.2	+4.7	Decreasing	6	8.2	82.1	9.7	
Materials Inventories	2.6	9.1	-6.5	Increasing	4	20.5	61.6	17.9	
Finished Goods Inventories	-6.2	2.8	-9.0	Decreasing	1	15.0	63.7	21.2	
Prices Paid for Raw Materials	11.5	15.6	-4.1	Increasing	82	26.5	58.4	15.0	
Prices Received for Finished Goods	-5.3	8.3	-13.6	Decreasing	1	15.9	62.8	21.2	
Wages and Benefits	28.5	29.7	-1.2	Increasing	140	32.0	64.5	3.5	
Employment	7.7	17.1	-9.4	Increasing	38	23.3	61.0	15.6	
Hours Worked	-0.5	1.4	-1.9	Decreasing	1	13.1	73.3	13.6	
Capital Expenditures	8.9	18.4	-9.5	Increasing	74	24.1	60.7	15.2	
General Business Conditions									
Future (six months ahead)									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	-1.3	6.3	-7.6	Worsening	1	23.5	51.7	24.8	
General Business Activity	-24.0	-2.2	-21.8	Worsening	2	10.8	54.5	34.8	

*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.

Primary Metal Manufacturing

- > The impact of the continued decline in the energy sector, compounded with several new regulations from both the Environmental Protection Agency and Occupational Safety and Health Administration, is depressing economic conditions even further from 2015. Our top 10 customers continue to indicate declines in manufacturing and new capital expenditures for 2016. Outlooks continue to be adjusted down from six months ago, and we are seeing several foundry closings in our industry due to the state of our industry and strong offshoring projects.
- > Our projected increase in business is related to market-share gains at the expense of our main competitor (foreign owned) who is having service problems.

Fabricated Metal Product Manufacturing

- > We expect the continued depression in the oil and gas industry to negatively impact our customer base and result in significant demand reduction.
- > I believe that if the stock market continues to deteriorate, spending on housing replacement products will decrease. Large purchases on housing seem to parallel consumers' 401k performance.
- > It is getting pretty ugly, and the strength of the dollar is really making us noncompetitive.

Machinery Manufacturing

- > The continued downturn in the energy sector and its impact on oilfield services companies is brutal and financially punishing, leading to significant reductions in our labor force and facility closures.
- > Seasonally, it is a slower time of the year currently. There aren't any indicators of any big change in the next six months.
- > Our increases in volume do not stem as much from ideal economic conditions as much as from breadth of development in multiple states. Brand expansion and awareness are more of the catalyst than the typical industry indicators. Our customers in Texas are experiencing significant decreases in business volume. As a whole, I would rate the economic conditions in Texas and many other parts of the country as poor.
- > Oil and gas prices and their impact on capital spending by our customers continue to be our biggest concern.
- > I expect the Fed to recognize the weakness in the economy and the fact that we are in recession and drop interest rates again.

Computer and Electronic Product Manufacturing

- > Demand slowed more quickly than is typical in December. Early demand is weaker in January, leading to the belief that growth in 2016 may be elusive.
- > It is time for Congress and the president to work on tax reform. Small businesses, especially in manufacturing, are suffering due to the high dollar, high taxes, and regulations.

Transportation Equipment Manufacturing

- > The drop in offshore oil production globally affects helicopter flight activity, reducing equipment turnover from large fleet operators.
- > Our outlook is contingent on the energy sector not completely ruining budgeting activity for most Texas municipalities. If that happens, the six-month outlook may turn negative.
- > Our business is cyclical, with our main selling season happening in March through June. Our production will increase during the winter months in anticipation of the spring selling season.

Food Manufacturing

- > Domestic sales have softened across our channels and category. The strong dollar remains a challenge to our export business. Agricultural raw material costs have decreased, helping with other cost challenges.

Apparel Manufacturing

- > July will be when we start getting busy for our Christmas shipments.

Paper Manufacturing

- > We see a slight downward bias at this point.

Printing and Related Support Activities

- > We are part of a company with four separate, very different businesses. They are all business to business, and they have all struggled with sales growth the past year. We've been able to improve profitability on a 1 percent sales increase, but sales have just stalled. Our old customers have shrunk, and we've managed that meager 1 percent only by on-boarding a lot of new business.

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/.

