



# Texas Manufacturing Outlook Survey

DALLASFED

August 29, 2016

## TEXAS MANUFACTURING ACTIVITY INCREASES

Texas factory activity increased in August, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, came in at 4.5 after a near-zero reading in July, suggesting output picked up this month.

Other measures of current manufacturing activity also reflected expansion. Demand bounced back, with the new orders index rising from -8.0 to 5.3 in August and the growth rate of orders index pushing up to 2.1, its first positive reading in nearly two years. The capacity utilization index remained only barely positive at 0.9, while the shipments index rose nearly 10 points to 9.9, with nearly a third of manufacturers reporting higher volumes of shipments this month.

Perceptions of broader business conditions remained fairly pessimistic. The general business activity index was negative for a 20th month in a row and moved down from -1.3 to -6.2. The company outlook index was largely unchanged at -2.8.

Labor market measures indicated slight employment declines and shorter workweek length. The employment index came in at -5.0, down from -2.6 last month. Seventeen percent of firms noted net hiring, while 22 percent noted net layoffs. The hours worked index edged down to -4.5 after coming in near zero in July.

Price pressures were mixed, and wages continued to rise. Upward pressure on input costs accelerated in August, with the raw materials prices index pushing up from 7.6 to 14.1. Selling prices continued to decline, albeit at a slower pace, as the finished goods prices index came in at -1.3. Meanwhile, wages and benefits continued to rise, with the index inching up to 13.7 this month.

Expectations regarding future business conditions improved again in August. The index of future general business activity posted a third positive reading in a row but retreated 11 points to 7.0 this month. The index of future company outlook also declined but remained positive, coming in at 17.1. Other indexes for future manufacturing activity fell but stayed in solid positive territory, suggesting continued optimism.

**Next release:** September 26, 2016

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Aug. 16–24, and 111 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.

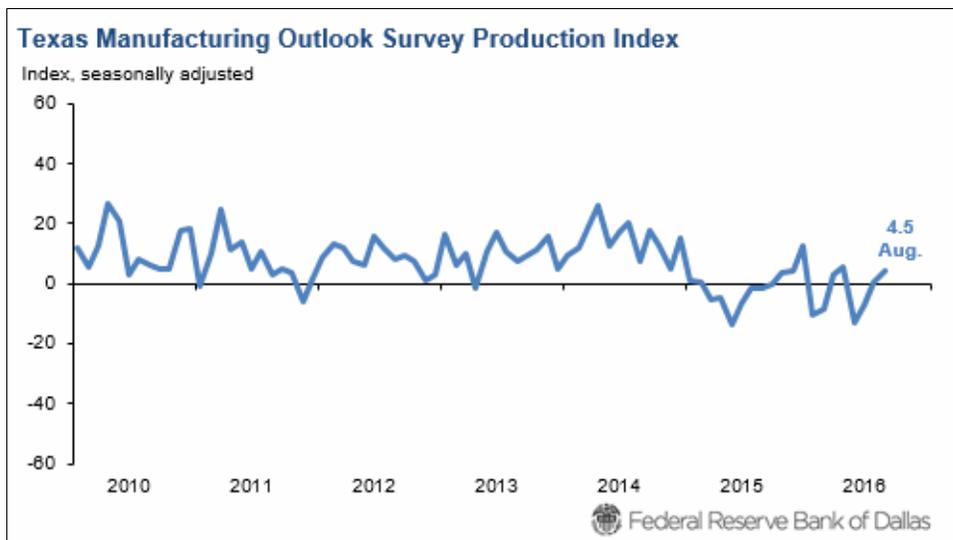
Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. When the share of firms reporting an increase exceeds the share reporting a decrease, the index will 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.

<b>Business Indicators Relating to Facilities and Products in Texas</b>									
<b>Current (versus previous month)</b>									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	4.5	0.4	+4.1	Increasing	2	27.8	48.9	23.3	
Capacity Utilization	0.9	0.3	+0.6	Increasing	2	23.6	53.7	22.7	
New Orders	5.3	-8.0	+13.3	Increasing	1	28.9	47.6	23.6	
Growth Rate of Orders	2.1	-9.7	+11.8	Increasing	1	19.9	62.3	17.8	
Unfilled Orders	-4.5	-4.6	+0.1	Decreasing	21	15.5	64.5	20.0	
Shipments	9.9	0.1	+9.8	Increasing	2	32.8	44.2	22.9	
Delivery Time	5.8	-2.8	+8.6	Increasing	1	15.9	74.0	10.1	
Materials Inventories	-3.8	-10.4	+6.6	Decreasing	13	16.5	63.2	20.3	
Finished Goods Inventories	-6.3	-9.9	+3.6	Decreasing	4	12.6	68.5	18.9	
Prices Paid for Raw Materials	14.1	7.6	+6.5	Increasing	5	20.4	73.3	6.3	
Prices Received for Finished Goods	-1.3	-5.7	+4.4	Decreasing	20	10.3	78.1	11.6	
Wages and Benefits	13.7	10.5	+3.2	Increasing	81	15.0	83.7	1.3	
Employment	-5.0	-2.6	-2.4	Decreasing	8	16.5	62.0	21.5	
Hours Worked	-4.5	-0.2	-4.3	Decreasing	8	17.7	60.1	22.2	
Capital Expenditures	-5.7	4.8	-10.5	Decreasing	1	9.9	74.5	15.6	
<b>General Business Conditions</b>									
<b>Current (versus previous month)</b>									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	-2.8	-2.3	-0.5	Worsening	9	16.7	63.8	19.5	
General Business Activity	-6.2	-1.3	-4.9	Worsening	20	12.9	68.0	19.1	
<b>Business Indicators Relating to Facilities and Products in Texas</b>									
<b>Future (six months ahead)</b>									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	32.8	45.2	-12.4	Increasing	90	44.8	43.2	12.0	
Capacity Utilization	30.6	40.9	-10.3	Increasing	90	42.6	45.5	12.0	
New Orders	38.6	42.8	-4.2	Increasing	90	46.8	45.0	8.2	
Growth Rate of Orders	27.2	34.7	-7.5	Increasing	90	36.0	55.2	8.8	
Unfilled Orders	3.4	4.3	-0.9	Increasing	11	17.1	69.2	13.7	
Shipments	30.0	38.0	-8.0	Increasing	90	40.3	49.3	10.3	
Delivery Time	-1.3	0.8	-2.1	Decreasing	1	9.2	80.3	10.5	
Materials Inventories	-1.9	5.9	-7.8	Decreasing	1	18.1	61.9	20.0	
Finished Goods Inventories	4.7	5.9	-1.2	Increasing	2	19.8	65.1	15.1	
Prices Paid for Raw Materials	18.0	14.7	+3.3	Increasing	89	27.4	63.2	9.4	
Prices Received for Finished Goods	7.6	5.9	+1.7	Increasing	7	17.0	73.6	9.4	
Wages and Benefits	38.1	30.0	+8.1	Increasing	147	40.0	58.1	1.9	
Employment	21.7	18.8	+2.9	Increasing	45	34.8	52.1	13.1	
Hours Worked	9.2	10.0	-0.8	Increasing	3	19.4	70.4	10.2	
Capital Expenditures	14.7	18.8	-4.1	Increasing	81	24.5	65.7	9.8	
<b>General Business Conditions</b>									
<b>Future (six months ahead)</b>									
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	17.1	22.8	-5.7	Improving	7	31.4	54.3	14.3	
General Business Activity	7.0	18.4	-11.4	Improving	3	21.9	63.2	14.9	

\*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

- > A good indication of business outlook is how many calls we get from truckers looking for freight business. On one day we received four calls. It was probably more calls than orders we received for the day.

### Fabricated Metal Product Manufacturing

- > Optimism continues for the Permian Basin and MidContinent oil and gas regions to continue their recovery. Expectations are for the West Texas Intermediate oil price to move upward slightly and cause renewed interest in other plays as well. The recovery will be hampered by a shortage of skilled workers driving wages up. Hot rolled coil import tariffs have caused domestic material prices to soar as expected. Ultimately, labor costs increase, material costs increase, but the customer base is still looking for the same or lower costs as in the depth of the downturn. The next six months will be challenging for manufacturers in our segment.
- > Housing materials such as glass and vinyl continue to increase in price due to the lack of manufacturing capacity that was lost during housing bubble. As an example, flat glass manufacturing capacity has been reduced by roughly 20–25 percent, which in turn is leading to shortages and increase in prices.
- > Refinery margins continue under pressure and the level of spending on equipment is being reduced significantly. I believe that the continued low level of spending will result in several providers going out of business. The market is getting very tough.
- > The global economies and the U.S. economy are very weak and uncertain.
- > Pricing has deteriorated to win bids, and many projects seem to be on hold. Owners are reevaluating capital expenditures priorities or deferring them all together.
- > Business levels have rebounded modestly from the trough in the second quarter. Metal input costs have increased 1-5 percent (likely due to the recent tariffs on Chinese steel).

### Machinery Manufacturing

- > Sometime after the election, historical data will show that in 2016 the U.S. was in recession.

### Computer and Electronic Product Manufacturing

- > U.S. manufacturing is suffering because of the high dollar value.

### Electrical Equipment, Appliance, and Component Manufacturing

- > Despite some "hoopla" about construction metrics being strong, we seem to be on a plateau. Business is up and down some month to month, but no real growth year to year.

### Transportation Equipment Manufacturing

- > Our increases are new product orders and not from existing products. Demand for existing products ranges from no change to worse.

### Printing and Related Support Activities

- > The volume of activity in the packaging business remains strong, and the outlook is positive. This primarily reflects strong consumer demand, as packaging is for consumer package goods.
- > We are very busy right now, which is normal for this time of year. We are not sure how the next six months will pan out. We are very worried about persistent slowness of our customers, which does not bode well for us down the road unless things pick up

soon for them.

### Miscellaneous Manufacturing

- > Department of Labor rules and regulations are slowing growth and reducing hiring due to increased management time spent on compliance and higher costs of labor. Current efforts to bring foreign production to the U.S. are significantly reduced due to labor costs and because worker productivity remains low, especially for entry-level or unskilled workers. Taxes, costs and inefficiencies of exporting are reducing competitiveness in overseas markets. The lack of local support for foreign trade zones is causing our company to consider alternatives, including relocating and growing elsewhere that offers them. Growth and improvement for our company is primarily by product innovation overcoming a worsening business climate.

---

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

---

