



Texas Manufacturing Outlook Survey

DALLAS FED

July 25, 2016

TEXAS MANUFACTURING ACTIVITY STABILIZES

Texas factory activity held steady in July, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, came in near zero after two months of negative readings, suggesting output stopped falling this month.

Some other measures of current manufacturing activity also reflected stabilization, and demand declines abated somewhat. The capacity utilization and shipments indexes posted near-zero readings, up from negative territory in May and June. The new orders index rose six points to -8.0, while the growth rate of orders index rose nine points to -9.7.

Perceptions of broader business conditions were notably less pessimistic. While the general business activity index remained negative for a nineteenth month in a row, it jumped 17 points to -1.3 in July. The company outlook index also remained negative but rose, climbing from -11 to -2.3.

Labor market measures indicated slight employment declines and stable workweek length. The employment index came in at -2.6, up from a post-recession low of -11.5 last month. Fourteen percent of firms noted net hiring, while 17 percent noted net layoffs. The hours worked index pushed up to near zero in July—which suggests no change in workweek length—after a reading of -12.8 in June.

Price pressures were mixed, and wages continued to rise. Input costs rose for a fourth month in a row, with the raw materials prices index staying positive but moving down to 7.6. Selling prices continued to decline, as the finished goods prices index held steady at -5.7. Meanwhile, the wages and benefits index suggested a slower rise in compensation, posting a double-digit decline to a reading of 10.5 in July. More than 85 percent of manufacturers noted no change in compensation costs this month.

Expectations regarding future business conditions improved again in July. The index of future general business activity posted a second positive reading in a row and rose 16 points to 18.4. The index of future company outlook also rose markedly, coming in at 22.8. Other indexes for future manufacturing activity also made double-digit gains in July, pushing further into positive territory.

Next release: August 29, 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 July 12–20, 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.

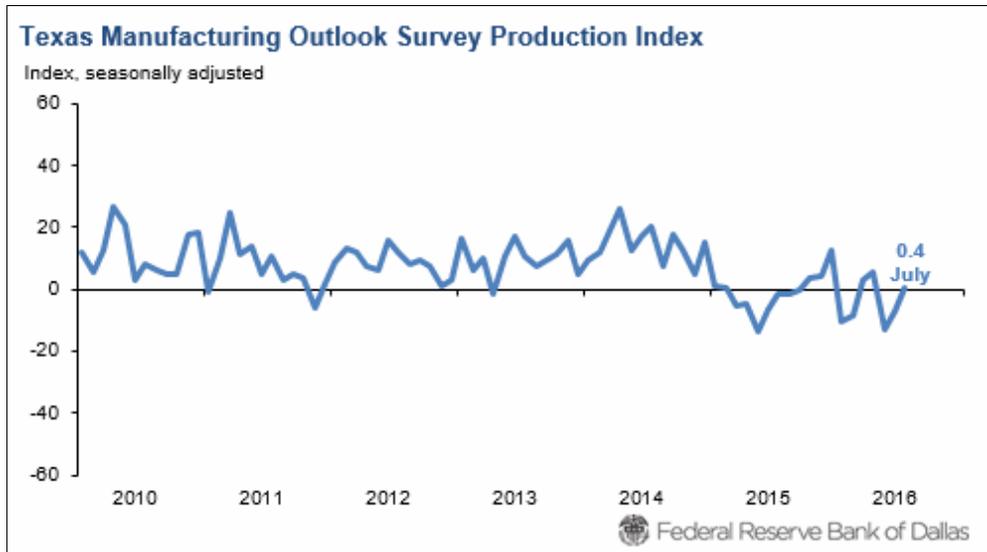
Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. When the share of firms reporting an increase exceeds the share reporting a decrease, the index will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

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	0.4	-7.0	+7.4	Increasing	1	25.9	48.6	25.5
Capacity Utilization	0.3	-9.3	+9.6	Increasing	1	22.5	55.3	22.2
New Orders	-8.0	-14.2	+6.2	Decreasing	3	22.4	47.2	30.4
Growth Rate of Orders	-9.7	-18.6	+8.9	Decreasing	21	18.2	53.9	27.9
Unfilled Orders	-4.6	-13.6	+9.0	Decreasing	20	11.2	73.0	15.8
Shipments	0.1	-8.6	+8.7	Increasing	1	24.9	50.3	24.8
Delivery Time	-2.8	-7.6	+4.8	Decreasing	8	10.0	77.2	12.8
Materials Inventories	-10.4	-6.0	-4.4	Decreasing	12	13.1	63.4	23.5
Finished Goods Inventories	-9.9	-4.4	-5.5	Decreasing	3	11.7	66.7	21.6
Prices Paid for Raw Materials	7.6	12.6	-5.0	Increasing	4	16.9	73.8	9.3
Prices Received for Finished Goods	-5.7	-5.2	-0.5	Decreasing	19	6.4	81.5	12.1
Wages and Benefits	10.5	21.6	-11.1	Increasing	80	12.1	86.3	1.6
Employment	-2.6	-11.5	+8.9	Decreasing	7	14.2	69.0	16.8
Hours Worked	-0.2	-12.8	+12.6	Decreasing	7	17.2	65.4	17.4
Capital Expenditures	4.8	-2.1	+6.9	Increasing	1	12.5	79.8	7.7
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	-2.3	-11.0	+8.7	Worsening	8	16.2	65.3	18.5
General Business Activity	-1.3	-18.3	+17.0	Worsening	19	18.1	62.5	19.4
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	45.2	27.1	+18.1	Increasing	89	54.4	36.4	9.2
Capacity Utilization	40.9	21.9	+19.0	Increasing	89	49.5	41.9	8.6
New Orders	42.8	26.6	+16.2	Increasing	89	50.7	41.4	7.9
Growth Rate of Orders	34.7	20.3	+14.4	Increasing	89	38.8	57.1	4.1
Unfilled Orders	4.3	2.1	+2.2	Increasing	10	14.6	75.1	10.3
Shipments	38.0	27.6	+10.4	Increasing	89	45.6	46.7	7.6
Delivery Time	0.8	0.5	+0.3	Increasing	2	8.9	83.0	8.1
Materials Inventories	5.9	-10.2	+16.1	Increasing	1	19.8	66.3	13.9
Finished Goods Inventories	5.9	-10.2	+16.1	Increasing	1	18.8	68.3	12.9
Prices Paid for Raw Materials	14.7	14.8	-0.1	Increasing	88	22.5	69.6	7.8
Prices Received for Finished Goods	5.9	6.7	-0.8	Increasing	6	15.7	74.5	9.8
Wages and Benefits	30.0	31.6	-1.6	Increasing	146	33.4	63.2	3.4
Employment	18.8	12.2	+6.6	Increasing	44	30.8	57.2	12.0
Hours Worked	10.0	4.6	+5.4	Increasing	2	19.4	71.2	9.4
Capital Expenditures	18.8	7.7	+11.1	Increasing	80	27.1	64.6	8.3
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	22.8	7.9	+14.9	Improving	6	29.4	64.0	6.6
General Business Activity	18.4	2.6	+15.8	Improving	2	24.1	70.2	5.7

*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.

Chemical Manufacturing

- > Entry-level candidates cannot read or follow instructions. Most cannot do simple math problems. What is wrong with the educational system?

Nonmetallic Mineral Product Manufacturing

- > Labor costs are up more than 10 percent.
- > This was our best month in the last 12 months.

Primary Metal Manufacturing

- > Phone activity, custom jobs to quote and custom jobs received seem to have slowed.
- > Our new order intake continues to decline for all the markets we participate in except building and construction, which remains steady.

Fabricated Metal Product Manufacturing

- > There is a shortage of both skilled and unskilled labor. With labor costs increasing, we may be forced to drop health care, which is increasing in cost also.
- > Large customers are dragging out their payments, causing cash flow problems.
- > The ability to find qualified employees is our largest problem at this time.
- > The global economies and the U.S. economy are very weak and uncertain.
- > Continued fluctuation in oil pricing and refining margins has caused a great deal of caution on the part of our customers. Pricing is extremely competitive with no real end in sight.
- > We have a little concern tied to the presidential election. I'm not sure, but I expect that the economy may decline a little regardless of who is elected.

Machinery Manufacturing

- > The six-month survey is hopeful, not a forecast. Low oil prices are still having a negative impact on overall business growth.
- > The longest and worst oil price plunge in recent history continues to have a strong negative effect on Texas business activity. We also see a weak market for capital equipment for manufacturing across the country. We expect the Federal Reserve will soon acknowledge the fact we are in recession and drop interest rates.
- > The future is murky, but things appear to have bottomed out. Customers have asked to validate old quotes, so there are signs of life. The banks appear to have panicked. We had our first bad quarter, and they come in with their workout people. Maybe they are just slow to react, but we're profitable again and now we're dealing with extra banking scrutiny. One would think they would have a better grasp of their customers' businesses.

Computer and Electronic Product Manufacturing

- > We are seeing very slow, but steady growth. We have no expectation of that changing for the foreseeable future.
- > We have to do something about the dollar—the high dollar is killing our capital equipment manufacturing; our products are not competitive out in the world.

Electrical Equipment, Appliance, and Component Manufacturing

- > The oil and gas segment of our business appears to have stabilized, if not improved slightly.
- > July is not done, and we (like many companies) get a lot of orders in the last week. We had a good June, so right now we are hoping to match it in July, but it is not guaranteed. Who knows about six months from now ... election, Brexit, due for a recession?
- > International business—American specifications for our lighting fixtures for overseas projects shipped this month, and U.K. specifications for orders received for our fixtures for a project in Los Angeles—represent an important part of our sales growth this month. That is, there is a duality here, which is interesting to us.

Transportation Equipment Manufacturing

- > We are feeling the impact of loss of revenue providing services to the oil/energy helicopter operators.

Food Manufacturing

- > We expect to see an increase in sales due to marketing activity that we are doing with our brand.

Textile Product Mills

- > It is very difficult to get qualified employees.

Wood Product Manufacturing

- > By every positive measure we set records in June. July has been 10–15 percent less than June in every one of those measures. This is an unexpected drop, and we cannot tell if it is only two or three weeks of poor shipping or something larger. I feel it is just a short swoon before resuming the previous path.

Paper Manufacturing

- > We saw a slight but noticeable increase in July. Wages are up due to cost-of-living adjustments, but benefit costs are up double digit.

Printing and Related Support Activities

- > Concerns about the upcoming election and its impact on our business levels are affecting our six-month outlook. We have seen a nice uptick in incoming orders from a few months ago.

Miscellaneous Manufacturing

- > Europe, hot weather, riots, shootings and the political situation are not conducive to a healthy economy.

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/.

