



# Texas Manufacturing Outlook Survey

DALLAS FED

September 26, 2016

## TEXAS MANUFACTURING STRENGTHENS FURTHER

Texas factory activity increased markedly in September, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose 12 points to 16.7, suggesting output picked up at a notably faster pace this month.

Some other measures of current manufacturing activity also reflected faster expansion, while the survey's demand indicators dipped back into negative territory. The capacity utilization and shipments indexes posted double-digit gain to reach 13.5 and 20.1, respectively. These readings represent the highest readings for these indexes in roughly two years. The new orders index fell from 5.3 to -2.9 in September, and the growth rate of orders index fell to -5.8 after pushing into positive territory last month.

Perceptions of broader business conditions were mixed. The general business activity index remained negative for a 21st consecutive month, although it edged up to -3.7. The company outlook index reflected optimism as it pushed into positive territory for the first time since November 2015, coming in at 6.7.

Labor market measures indicated slight employment gains and longer workweek length. The employment index came in at 2.3, its first positive reading in nine months. Nineteen percent of firms noted net hiring while 16 percent noted net layoffs. The hours worked index also moved up to positive territory, coming in at 3.7 in September.

Price pressures were mixed, and wages continued to rise. Upward pressure on input costs continued this month, with the raw materials prices index holding fairly steady at 13.3. Selling prices were little changed in September, as indicated by a near-zero reading of the finished goods prices index. Meanwhile, wages and benefits continued to rise, with the index climbing to 21.0.

Expectations regarding future business conditions improved again in September. The index of future general business activity posted a fourth positive reading in a row, edging up to 9.3. The index of future company outlook also edged up, coming in at 17.8. Other indexes for future manufacturing activity fell but stayed in solid positive territory.

**Next release:** October 31, 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 Sep. 13–21, and 108 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.

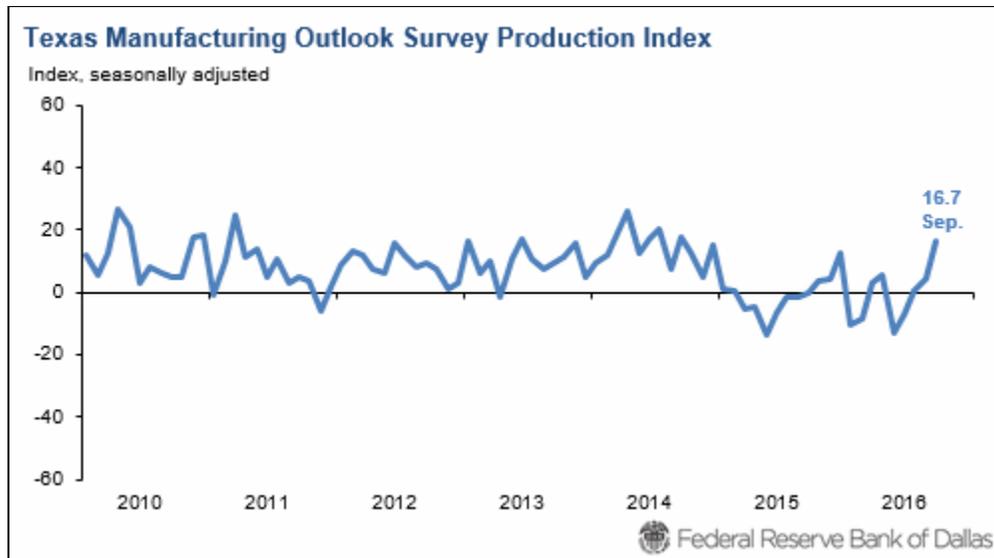
Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. When the share of firms reporting an increase exceeds the share reporting a decrease, the index will 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 Current (versus previous month)</b>								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	16.7	4.5	+12.2	Increasing	3	35.6	45.5	18.9
Capacity Utilization	13.5	0.9	+12.6	Increasing	3	28.0	57.5	14.5
New Orders	-2.9	5.3	-8.2	Decreasing	1	24.1	48.9	27.0
Growth Rate of Orders	-5.8	2.1	-7.9	Decreasing	1	18.5	57.2	24.3
Unfilled Orders	-1.1	-4.5	+3.4	Decreasing	22	15.6	67.7	16.7
Shipments	20.1	9.9	+10.2	Increasing	3	35.7	48.6	15.6
Delivery Time	3.2	5.8	-2.6	Increasing	2	11.0	81.2	7.8
Materials Inventories	-7.7	-3.8	-3.9	Decreasing	14	9.4	73.6	17.1
Finished Goods Inventories	-0.9	-6.3	+5.4	Decreasing	5	13.9	71.3	14.8
Prices Paid for Raw Materials	13.3	14.1	-0.8	Increasing	6	20.4	72.5	7.1
Prices Received for Finished Goods	-0.9	-1.3	+0.4	Decreasing	21	10.2	78.7	11.1
Wages and Benefits	21.0	13.7	+7.3	Increasing	82	23.2	74.6	2.2
Employment	2.3	-5.0	+7.3	Increasing	1	18.7	64.9	16.4
Hours Worked	3.7	-4.5	+8.2	Increasing	1	22.1	59.6	18.4
Capital Expenditures	3.1	-5.7	+8.8	Increasing	1	14.0	75.1	10.9
<b>General Business Conditions Current (versus previous month)</b>								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	6.7	-2.8	+9.5	Improving	1	20.4	65.9	13.7
General Business Activity	-3.7	-6.2	+2.5	Worsening	21	14.9	66.5	18.6
<b>Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)</b>								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	30.5	32.8	-2.3	Increasing	91	42.6	45.3	12.1
Capacity Utilization	29.3	30.6	-1.3	Increasing	91	40.9	47.6	11.6
New Orders	29.1	38.6	-9.5	Increasing	91	39.2	50.7	10.1
Growth Rate of Orders	19.1	27.2	-8.1	Increasing	91	31.6	55.9	12.5
Unfilled Orders	2.5	3.4	-0.9	Increasing	12	10.8	80.9	8.3
Shipments	26.1	30.0	-3.9	Increasing	91	39.0	48.0	12.9
Delivery Time	-1.5	-1.3	-0.2	Decreasing	2	6.0	86.5	7.5
Materials Inventories	1.9	-1.9	+3.8	Increasing	1	15.5	70.9	13.6
Finished Goods Inventories	5.8	4.7	+1.1	Increasing	3	17.6	70.6	11.8
Prices Paid for Raw Materials	25.2	18.0	+7.2	Increasing	90	29.1	67.0	3.9
Prices Received for Finished Goods	8.7	7.6	+1.1	Increasing	8	18.4	71.8	9.7
Wages and Benefits	31.2	38.1	-6.9	Increasing	148	32.9	65.4	1.7
Employment	14.5	21.7	-7.2	Increasing	46	30.9	52.7	16.4
Hours Worked	6.1	9.2	-3.1	Increasing	4	18.8	68.5	12.7
Capital Expenditures	13.5	14.7	-1.2	Increasing	82	25.2	63.1	11.7
<b>General Business Conditions Future (six months ahead)</b>								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	17.8	17.1	+0.7	Improving	8	28.2	61.4	10.4
General Business Activity	9.3	7.0	+2.3	Improving	4	21.6	66.1	12.3

\*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 labor pool we draw from is the same as construction home building. Since that segment is going strong, we have had to hand out more money to our senior employees in order to keep them.

### Fabricated Metal Product Manufacturing

- > Finding qualified skilled and unskilled workers continues to be a problem. Customers want price reductions and employees want higher wages; neither will be satisfied.
- > It appears our customers are basically on hold waiting for the election and for the Saudis to determine the direction of oil prices. The market continues to be very soft, and competitors are pricing extremely aggressively to simply stay in business. I am expecting that several of our suppliers will go out of business after the first of the year unless business picks up significantly.
- > We have seen a somewhat muted seasonal pickup in new orders.

### Machinery Manufacturing

- > Sales of food service equipment are projected to slow down slightly over the next 12 months. Spending by fast food chains, convenience stores and big box retail are all slowing. Most chain growth is outside of North America, led by India.
- > We are very pessimistic about the deep-water drilling industry. We've tried to hold on to a critical mass, but the slowdown has now reached a point where we have to cut so much of our staff that we'll be only a fraction of a company going forward. My order book is abysmal. I've had a couple of vendors go into bankruptcy and a few more that are precariously sitting on the edge of bankruptcy.
- > We have had a nice quarterly increase in one of our service sectors, but the price of oil continuing its sideways movement has not allowed much of an improvement in our overall outlook of business conditions.

### Computer and Electronic Product Manufacturing

- > We continue to bump along in a low-growth environment. We don't see that changing at any point in the future. Things are not bad, but are not good.

### Transportation Equipment Manufacturing

- > A portion of our business remains impacted by low oil prices, impacting our offshore helicopter operations.
- > We are adding new products. Our same products remain unchanged. The economy is still a big concern.

### Printing and Related Support Activities

- > We are busy now. We are worried mightily about what the winter and early spring 2017 will hold, especially after the election in November.

### Food Manufacturing

- > Our export activity has remained challenged due to Latin American economic issues and the strong dollar. We are also

challenged by a shortage of skilled and unskilled labor in the DFW market. Our domestic business remains robust and growing, driven by innovation not market demand.

### Paper Manufacturing

- > There has been a major price increase announced for our main raw material, effective in October.

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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/).

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