

Texas Manufacturing Outlook Survey

August 28, 2017

Texas Manufacturing Activity Expands Again

Texas factory activity continued to increase in August, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, edged down to 20.3, indicating output grew but at a slightly slower pace than in July.

Other measures of current manufacturing activity also indicated continued growth. The new orders and the growth rate of orders indexes ticked down but stayed solidly positive, coming in at 14.3 and 11.7, respectively. The capacity utilization index fell six points to 12.2, while the shipments index increased seven points to 18.1.

Perceptions of broader business conditions remained positive in August. The general business activity index was largely unchanged at a robust 17.0. The company outlook index posted its 12th consecutive positive reading but slipped 10 points to 16.3 after surging to a multiyear high last month.

Labor market measures suggested continued employment gains and longer workweeks this month. The employment index came in at 9.9, slightly below the July reading, extending this year's string of positive readings. Eighteen percent of firms noted net hiring, compared with eight percent noting net layoffs. The hours worked index rose five points to 14.5.

Upward pressure on prices and wages increased in August. The raw materials prices index pushed up 11 points to 26.9, reaching its highest level in six months. The finished goods prices index climbed five points to 10.2. The wages and benefits index also rose, up six points to 26.9.

Expectations regarding future business conditions continued to improve. The indexes of future general business activity and future company outlook remained elevated at 29.2 and 34.5, respectively. Other indexes of future manufacturing activity showed mixed movements but remained solidly in positive territory.

Next release: Monday, September 25

Data were collected Aug. 15–23, and 106 Texas manufacturers responded to the survey. The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. 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.

Results Summary

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	20.3	22.8	-2.5	Increasing	14	36.3	47.7	16.0
Capacity Utilization	12.2	18.1	-5.9	Increasing	14	29.6	53.0	17.4
New Orders	14.3	16.1	-1.8	Increasing	10	33.6	47.1	19.3
Growth Rate of Orders	11.7	12.2	-0.5	Increasing	8	24.6	62.5	12.9
Unfilled Orders	0.2	1.0	-0.8	Increasing	8	13.9	72.4	13.7
Shipments	18.1	11.6	+6.5	Increasing	9	33.7	50.7	15.6
Delivery Time	0.5	4.3	-3.8	Increasing	2	9.5	81.5	9.0
Materials Inventories	2.5	3.6	-1.1	Increasing	2	20.2	62.1	17.7
Finished Goods Inventories	-3.8	-1.7	-2.1	Decreasing	4	13.3	69.5	17.1
Prices Paid for Raw Materials	26.9	15.5	+11.4	Increasing	18	29.0	68.9	2.1
Prices Received for Finished Goods	10.2	5.6	+4.6	Increasing	13	17.5	75.2	7.3
Wages and Benefits	26.9	20.6	+6.3	Increasing	93	27.3	72.3	0.4
Employment	9.9	11.2	-1.3	Increasing	8	18.1	73.7	8.2
Hours Worked	14.5	9.8	+4.7	Increasing	10	22.6	69.3	8.1
Capital Expenditures	14.5	11.6	+2.9	Increasing	12	20.5	73.5	6.0

General Business Conditions

Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	16.3	25.9	-9.6	Improving	12	26.9	62.5	10.6
General Business Activity	17.0	16.8	+0.2	Improving	11	26.4	64.2	9.4

Business Indicators Relating to Facilities and Products in Texas
Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	43.1	48.8	-5.7	Increasing	102	53.6	35.9	10.5
Capacity Utilization	38.6	39.9	-1.3	Increasing	102	48.5	41.6	9.9
New Orders	48.6	43.6	+5.0	Increasing	102	56.2	36.2	7.6
Growth Rate of Orders	37.1	32.8	+4.3	Increasing	102	43.7	49.7	6.6
Unfilled Orders	6.7	11.2	-4.5	Increasing	23	17.7	71.2	11.0
Shipments	41.8	47.0	-5.2	Increasing	102	50.4	41.0	8.6
Delivery Time	2.1	3.9	-1.8	Increasing	9	8.2	85.7	6.1
Materials Inventories	12.0	4.6	+7.4	Increasing	9	25.0	62.0	13.0
Finished Goods Inventories	-2.0	4.7	-6.7	Decreasing	1	15.0	68.0	17.0
Prices Paid for Raw Materials	26.0	20.8	+5.2	Increasing	101	33.0	60.0	7.0
Prices Received for Finished Goods	17.0	21.2	-4.2	Increasing	19	25.0	67.0	8.0
Wages and Benefits	44.3	45.9	-1.6	Increasing	159	44.4	55.5	0.1
Employment	30.8	36.2	-5.4	Increasing	57	37.7	55.4	6.9
Hours Worked	11.8	10.2	+1.6	Increasing	15	16.4	79.0	4.6
Capital Expenditures	19.6	27.1	-7.5	Increasing	93	28.9	61.9	9.3

General Business Conditions
Future (six months ahead)

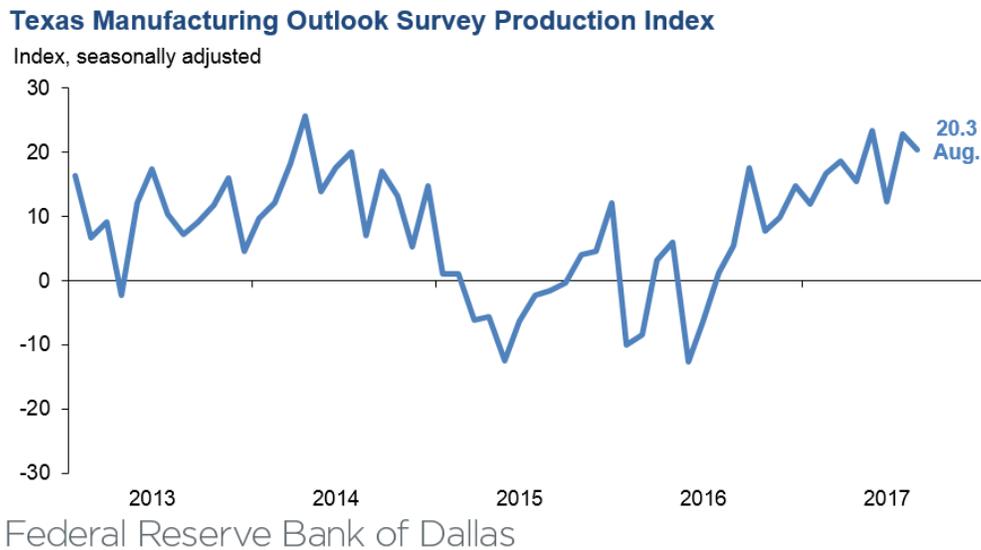
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Worsened
Company Outlook	34.5	34.8	-0.3	Improving	19	39.5	55.5	5.0
General Business Activity	29.2	31.6	-2.4	Improving	15	33.8	61.6	4.6

*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.

Production Index



Comments from Survey Respondents

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

Fabricated Metal Product Manufacturing

- We are swamped. There are no employees worth hiring for entry-level manufacturing jobs.
- Summer is very slow for our business, but we are expecting a strong turnaround season for the first quarter of 2018 and as a result a pickup in business. The market is extremely price competitive at the moment.
- The global economies and U.S. economy are very weak and uncertain.

Nonmetallic Mineral Product Manufacturing

- The U.S. Congress must pass business tax reform and lower corporate tax rates.
- Our most critical issue is finding skilled workers to fill open positions within a tight labor market.

Computer and Electronic Product Manufacturing

- We are seeing strong year-over-year growth across almost all markets. Though we continue to keep lead times stable and product available, many of our peers are not. I believe there will be some inventory build as customers worry about product availability, which will roll over at some point.
- We believe something needs to be done to address and contain the dollar manipulation by other countries. This is hurting our manufacturing sector.
- We are experiencing labor shortages and increased turnover due to higher demand in the labor market.

Paper Manufacturing

- Orders are good at this time. We are trying to add employees but can't find qualified personnel at this time.

Printing and Related Support Activities

- I am becoming much more bearish on the economy and am worried that all the chaos and inconsistent messages out of Washington are putting a big damper on our industry. So many customers and other suppliers I talk to are experiencing unusually slow activity, and nobody has a logical reason for it. We are considerably behind last year's incoming orders and our activity levels remain very low. For the first time in a long time, I'm concerned what the future will have to offer; it seems to be getting worse more so than getting better.

Miscellaneous Manufacturing

- Back to school is going well, and fall will soon be here. Spending should increase with the dollar getting cheaper. We need more oil and gas strength.
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