



Texas Manufacturing Outlook Survey

DALLAS FED

April 25, 2016

TEXAS MANUFACTURING ACTIVITY EXPANDS AGAIN

Texas factory activity increased for a second month in a row in April, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 3.3 to 5.8, suggesting a slight pickup in output growth.

Most other indexes of current manufacturing activity also reflected growth this month. The new orders index rebounded into positive territory after four months of negative readings, coming in at 6.2. The growth rate of orders index jumped 11 points to -0.7. The capacity utilization and shipments indexes posted their second positive reading in a row and climbed to 8.2 and 7.1, respectively.

Perceptions of broader business conditions remained pessimistic. The general business activity index held steady at -13.9, its 16th straight negative reading. The company outlook index posted a negative reading for the fifth consecutive month but rose from -11.0 to -5.9, showing signs of additional stabilization in April.

Labor market indicators reflected persistent weakness in April. The employment and hours worked indexes remained negative for the fourth straight month but rose to -3.7 and -1.0, respectively. Fourteen percent of firms noted net hiring, and 18 percent noted net layoffs in April.

Price pressures were mixed, and wages continued to rise. Abatement in downward pressure on input costs was seen in April, as the raw materials prices index bounced back into positive territory after nine months of decline, coming in at 5.5. The finished goods prices index has been negative since January 2015 and edged up to -6.6 this month. Meanwhile, the wages and benefits index stayed positive and rose from 14.7 to 16.7, suggesting a slightly accelerated rise in compensation.

Expectations regarding future business conditions were mixed in April. The index of future general business activity fell 6 points to 0.4, while the index measuring future company outlook posted its third positive reading at 8.9. Indexes for future manufacturing activity rose and 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 April 12–20, and 103 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.

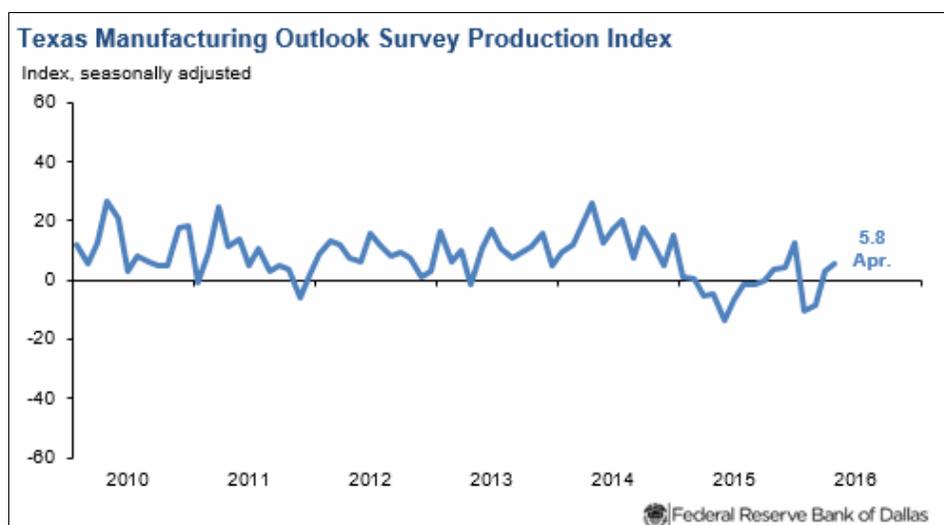
Next release: May 31, 2016

Business Indicators Relating to Facilities and Products in Texas									
Current (versus previous month)									
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	5.8	3.3	+2.5	Increasing	2	29.5	46.8	23.7	
Capacity Utilization	8.2	3.3	+4.9	Increasing	2	28.3	51.6	20.1	
New Orders	6.2	-4.8	+11.0	Increasing	1	30.1	46.0	23.9	
Growth Rate of Orders	-0.7	-11.7	+11.0	Decreasing	18	23.4	52.5	24.1	
Unfilled Orders	-8.8	-9.0	+0.2	Decreasing	17	12.3	66.6	21.1	
Shipments	7.1	0.3	+6.8	Increasing	2	30.3	46.4	23.2	
Delivery Time	-6.9	-7.7	+0.8	Decreasing	5	8.9	75.3	15.8	
Materials Inventories	-2.9	-7.2	+4.3	Decreasing	9	17.6	61.9	20.5	
Finished Goods Inventories	0.0	-4.5	+4.5	Unchanged	1	15.5	68.9	15.5	
Prices Paid for Raw Materials	5.5	-0.2	+5.7	Increasing	1	13.5	78.5	8.0	
Prices Received for Finished Goods	-6.6	-8.2	+1.6	Decreasing	16	7.6	78.2	14.2	
Wages and Benefits	16.7	14.7	+2.0	Increasing	77	20.7	75.3	4.0	
Employment	-3.7	-10.3	+6.6	Decreasing	4	14.4	67.5	18.1	
Hours Worked	-1.0	-5.6	+4.6	Decreasing	4	16.9	65.2	17.9	
Capital Expenditures	1.6	-0.9	+2.5	Increasing	1	13.8	74.0	12.2	
General Business Conditions									
Current (versus previous month)									
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	-5.9	-11.0	+5.1	Worsening	5	15.6	62.9	21.5	
General Business Activity	-13.9	-13.6	-0.3	Worsening	16	13.3	59.5	27.2	
Business Indicators Relating to Facilities and Products in Texas									
Future (six months ahead)									
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	33.9	31.8	+2.1	Increasing	86	49.0	35.9	15.1	
Capacity Utilization	35.3	26.3	+9.0	Increasing	86	47.9	39.5	12.6	
New Orders	32.6	29.7	+2.9	Increasing	86	45.4	41.7	12.8	
Growth Rate of Orders	22.4	17.4	+5.0	Increasing	86	36.2	50.0	13.8	
Unfilled Orders	1.8	7.3	-5.5	Increasing	7	15.8	70.2	14.0	
Shipments	33.7	25.6	+8.1	Increasing	86	48.0	37.7	14.3	
Delivery Time	-2.5	-0.6	-1.9	Decreasing	9	8.7	80.1	11.2	
Materials Inventories	0.0	2.8	-2.8	Unchanged	1	18.2	63.6	18.2	
Finished Goods Inventories	-2.1	-7.5	+5.4	Decreasing	2	13.4	71.1	15.5	
Prices Paid for Raw Materials	20.2	18.9	+1.3	Increasing	85	26.3	67.7	6.1	
Prices Received for Finished Goods	2.1	13.9	-11.8	Increasing	3	16.2	69.7	14.1	
Wages and Benefits	33.8	34.7	-0.9	Increasing	143	36.2	61.4	2.4	
Employment	9.4	13.0	-3.6	Increasing	41	24.9	59.6	15.5	
Hours Worked	14.6	-0.9	+15.5	Increasing	1	25.6	63.4	11.0	
Capital Expenditures	8.5	13.3	-4.8	Increasing	77	20.2	68.1	11.7	
General Business Conditions									
Future (six months ahead)									
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	8.9	11.6	-2.7	Improving	3	27.4	54.1	18.5	
General Business Activity	0.4	6.1	-5.7	Improving	2	18.1	64.2	17.7	

*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

- > Most of our clients are reporting slower sales heading into second quarter and expect further slowing into fourth quarter. As a result, they are stocking less and asking for faster shipments. Asian markets—especially China and Russia—are frequently discussed, but domestic production of biological products seems to have peaked in 2015 and is slowing.

Primary Metal Manufacturing

- > Business is slow and steady.
- > We are experiencing a slight downturn in business activity.

Fabricated Metal Product Manufacturing

- > Our operating cost reductions have proven effective to date, but recently announced increased raw materials prices—primarily hot-rolled coil steel—will likely compress our margins as downward pricing pressure continues to dominate suppliers to the energy exploration and production market.
- > Customers are really dragging their feet on payments. Terms are 15 to 30 days beyond agreed terms per the purchase order.
- > We experienced another surge of orders at the beginning of second quarter. Two large orders came from a customer in Europe and South America.
- > Our backlog is being consumed, and we are experiencing extremely aggressive pricing as our competitors are all trying to maintain enough work to keep their workforces on 40 hours. The summer season is the slow season, and we are already planning to go to a 32-hour work week. The large capital projects are propping up the local market wages, but we see these starting to fall off in the next 12 months.
- > April is historically a strong month and the last month of our fiscal second quarter. Our activity will benefit from Easter being in March, so April will have five uninterrupted shipping weeks. Nevertheless, we are seeing levels of bookings that appear to be in the upper range of our expectations for nonresidential low-rise volumetric growth of 4 to 7 percent.

Machinery Manufacturing

- > It is a bad time for manufacturing, agriculture and mining—the only sectors that actually create wealth.
- > We are a capital equipment manufacturer, primarily supporting domestic oil and gas pipeline infrastructure projects. In this segment, the slowdown from low oil prices has not been as severe as the decline in upstream drilling activity, but now we're starting to see our business levels decline.
- > There is persistent downward pressure on the oilfield services industry due to continued weak oil and gas commodity prices and depressed activity levels both onshore and offshore. Already weak, and weakening, global economic outlooks foreshadow an even longer down cycle for the energy industry. It is expected that even though crude oil commodity prices may be achieving high points for 2016, exploration and development and the associated oilfield service activities that accompany them will continue to be depressed through 2017 as supply will continue to outstrip demand.
- > Orders have picked up again after slowing more than normal during the first quarter of the year.
- > Oil prices have had a negative impact in 10 of our markets.
- > I'm not normally a pessimist, but deep sea drilling looks to be pretty darn ugly moving forward.

Computer and Electronic Product Manufacturing

- > Broad demand in first quarter was slightly stronger than expected.

Transportation Equipment Manufacturing

- > The energy segment continues to weaken.
- > We remain cautiously optimistic that the improved business activity seen in late March and early April will continue within the oilfield service sector. Aerospace continues at a steady pace that is slightly slower than in years past.
- > First quarter incoming orders were up 19 percent. Billing YTD is up 17 percent. Our backlog is growing. The plant is on overtime for the first time this year.

Wood Product Manufacturing

- > The next six months will be very similar to the first three for us.

Printing and Related Support Activities

- > First quarter was pretty strong, continuing into second quarter. New account activity is the best it's been in many years for us, largely due to changes in the sales force with reps landing business in markets adjacent to our core. The other dimension is that we've been investing in upgraded production capabilities over the past four years and those new capabilities are creating opportunities for those sales reps. We continue to do more with less, and our head count at this plant is now below the 2006 level, although our sales are up 80 percent over 2006. Manufacturing is going the way of agriculture, it seems, with an increasingly small workforce producing an ever greater bounty.
- > We have gotten busy on oddball type work, not necessarily our standard run of the mill things we make or build for others. We are seeing some increase in chatter about large jobs that take a while to plan, so that is a good sign for the future if they materialize.

Miscellaneous Manufacturing

- > Politics. Gas. Oil. ISIS. This is not a good time to be in business.
- > Over-taxation, complicated export/import regulations and increasingly burdensome labor regulations are slowing down growth, hiring and expansion.

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/.

