



Texas Manufacturing Outlook Survey

DALLAS FED

January 26, 2015

TEXAS MANUFACTURING ACTIVITY STALLS AND OUTLOOK WORSENS

What's New This Month

This month's survey data include annual seasonal factor revisions. In January of each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Manufacturing Outlook Survey after calculating new seasonal adjustment factors. Annual seasonal revisions result in slight changes in the seasonally adjusted series. Read more information on seasonal adjustment at www.dallasfed.org/microsites/research/surveys/tmos/seasonal.cfm.

Texas factory activity was flat in January, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, came in at 0.7, indicating output was essentially unchanged from December.

Other survey measures also reflected sluggish activity during the month. The capacity utilization index fell to 5.1, its lowest reading in five months. The shipments index plunged from 20.8 to 6, due to a much higher share of respondents noting a decline in shipments in January than in December. The new orders index moved down from 2.7 to -7.7, registering its first negative reading since April 2013.

Perceptions of broader business conditions worsened this month, with both the general business activity index and the company outlook index dropping below zero for the first time in 20 months. The general business activity index dropped to -4.4, and the company outlook index fell 13 points, coming in at -3.8.

Labor market indicators reflected unchanged workweeks but continued employment increases. The employment index was 9.0 in January, slightly below last month's level but close to its average reading over the past two years. Twenty percent of firms reported net hiring compared with 11 percent reporting net layoffs. The hours worked index edged down from 0.7 to -0.1, indicating no change in hours worked in January.

Wage pressures eased, while input and selling prices declined in January. The raw materials price index came in at -1.7, its first negative reading in more than five years. The finished goods price index fell 11 points to -6.7, after posting positive readings during the past 17 months. Looking ahead, 29 percent of respondents anticipate increases in raw materials prices over the next six months, while 19 percent expect declines. The wages and benefits index receded from 25.2 to 19.1, suggesting some moderation in upward pressure on compensation costs.

Indexes reflecting future business conditions fell notably in January. The index of future general business activity plummeted from 13 to -6.4. The index of future company outlook plunged from 21.8 to 2.5, its lowest reading in more than two years. Indexes for future manufacturing activity also declined this month but remained in positive territory.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Jan.13–21, and 105 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.

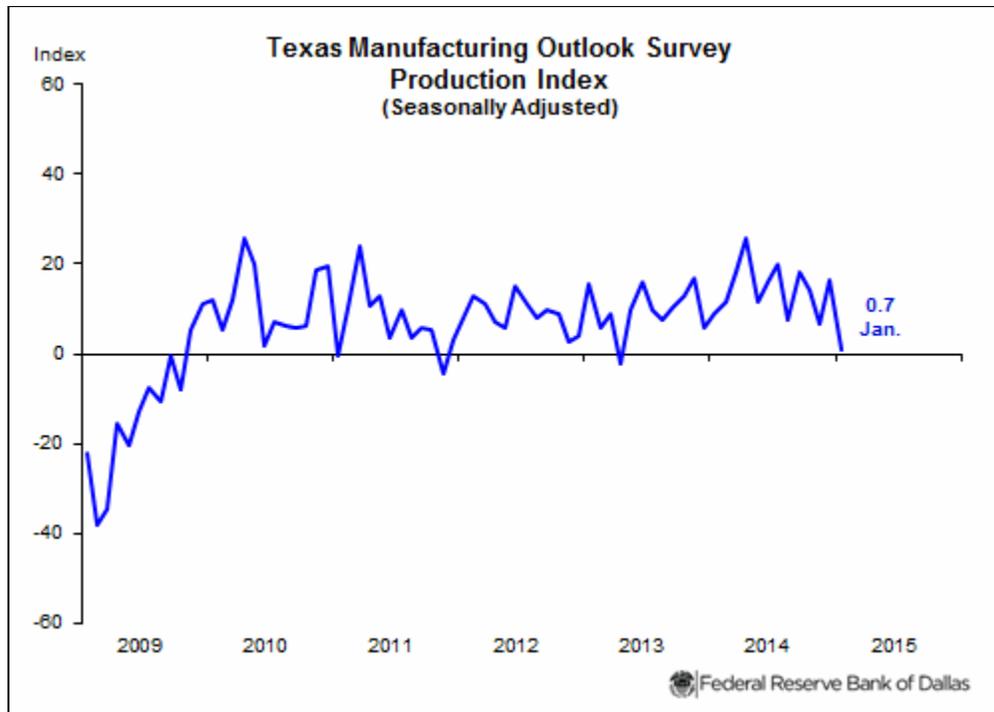
Next release: February 23, 2015

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	0.7	16.4	-15.7	Increasing	21	25.9	48.9	25.2
Capacity Utilization	5.1	12.9	-7.8	Increasing	26	23.9	57.3	18.8
New Orders	-7.7	2.7	-10.4	Decreasing	1	25.8	40.7	33.5
Growth Rate of Orders	-18.0	-4.0	-14.0	Decreasing	3	18.5	45.0	36.5
Unfilled Orders	-9.3	-7.7	-1.6	Decreasing	2	10.8	69.2	20.1
Shipments	6.0	20.8	-14.8	Increasing	13	31.6	42.8	25.6
Delivery Time	1.0	2.8	-1.8	Increasing	2	13.2	74.6	12.2
Materials Inventories	15.6	-2.3	+17.9	Increasing	1	28.2	59.2	12.6
Finished Goods Inventories	7.6	-7.4	+15.0	Increasing	1	21.9	63.8	14.3
Prices Paid for Raw Materials	-1.7	6.9	-8.6	Decreasing	1	17.5	63.2	19.2
Prices Received for Finished Goods	-6.7	4.2	-10.9	Decreasing	1	8.3	76.7	15.0
Wages and Benefits	19.1	25.2	-6.1	Increasing	62	23.0	73.1	3.9
Employment	9.0	10.0	-1.0	Increasing	20	19.6	69.8	10.6
Hours Worked	-0.1	0.7	-0.8	Decreasing	1	16.6	66.7	16.7
Capital Expenditures	0.0	3.7	-3.7	Unchanged	1	12.1	75.8	12.1
General Business Conditions								
Current (versus previous month)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-3.8	9.2	-13.0	Worsening	1	18.1	59.9	21.9
General Business Activity	-4.4	3.5	-7.9	Worsening	1	16.6	62.4	21.0
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	22.1	33.1	-11.0	Increasing	71	39.3	43.5	17.2
Capacity Utilization	20.4	31.1	-10.7	Increasing	71	35.4	49.5	15.0
New Orders	25.9	31.8	-5.9	Increasing	71	41.4	43.0	15.5
Growth Rate of Orders	12.9	26.2	-13.3	Increasing	71	32.3	48.3	19.4
Unfilled Orders	-2.0	-1.9	-0.1	Decreasing	2	16.2	65.6	18.2
Shipments	19.8	29.4	-9.6	Increasing	71	38.0	43.8	18.2
Delivery Time	-5.5	-4.3	-1.2	Decreasing	3	12.0	70.5	17.5
Materials Inventories	2.0	10.1	-8.1	Increasing	5	24.0	54.0	22.0
Finished Goods Inventories	-5.0	3.0	-8.0	Decreasing	1	15.0	65.0	20.0
Prices Paid for Raw Materials	10.1	12.2	-2.1	Increasing	70	29.3	51.5	19.2
Prices Received for Finished Goods	5.0	12.0	-7.0	Increasing	31	22.2	60.6	17.2
Wages and Benefits	28.2	38.0	-9.8	Increasing	128	32.7	62.8	4.5
Employment	15.3	20.2	-4.9	Increasing	26	28.0	59.3	12.7
Hours Worked	0.7	-0.5	+1.2	Increasing	1	16.2	68.3	15.5
Capital Expenditures	3.0	19.4	-16.4	Increasing	62	20.2	62.6	17.2
General Business Conditions								
Future (six months ahead)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	2.5	21.8	-19.3	Improving	70	23.1	56.3	20.6
General Business Activity	-6.4	13.0	-19.4	Worsening	1	17.5	58.6	23.9

*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.

Fabricated Metal Manufacturing

- > With the crash in crude prices, multiple oil-related customers have sent out letters to all suppliers saying they expect 25 percent price reductions.
- > The price of oil has the company concerned. We have seen an incremental slowdown with our oil and gas customers. The timing of the slowdown is actually good, allowing the company to reset and refocus on efficiencies lost while trying to keep up with oil and gas production in the third and fourth quarter of 2014. The slowdown will put us back to normalized production rates with oil and gas customers. New equipment and technology are being installed to improve our labor costs and overall efficiencies for 2015. We are leaning on more robotics and automation to deliver those gains.
- > We seem to be experiencing a rather broad but relatively slight slowdown in activity. Having said that, it is within the context of significant year-over-year improvement.
- > The tremendous drop in oil price is just starting to trickle its way through our customer base. We deal with the majors, and they have not signaled significant reductions in maintenance spending yet. If low oil prices continue, we would expect a significant drop-off in our business.

Machinery Manufacturing

- > Oil below \$50 is tough. We'll have to see how long it takes to stabilize.
- > We have yet to see any effect of lower oil prices in our sales or backlog. Activity and interest remain strong in spite of headlines to the contrary.

Chemical Manufacturing

- > It's hard to predict what lower oil prices will do. We aren't connected to the exploration and production (E&P) side of the business so we will benefit from low feed prices. It seems that many in the E&P and support services sectors will suffer, such as pipe manufacturers, service companies, etc. So far the petrochemicals sector is benefiting.

Computer and Electronic Product Manufacturing

- > There is need to renew and provide small businesses with a tax incentive.
- > Fourth quarter came in as expected, and we generally feel that the environment is OK. Demand is steady, with no drivers making it better or worse.

Transportation Equipment Manufacturing

- > The decreases expected six months from now are primarily due to a line modification associated with a model change at the plant. By the end of the year, things will be back to where they are now or better.

Food Manufacturing

- > Our premiums for health care are up 6.7 percent from last year. This greatly outpaces wage increases. We were expecting better results from the Affordable Care Act, even considering our expectations were low. Our current and expected increases in facilities/products are mostly to do with non-macroeconomic factors (i.e., in our industry, gaining grocery shelf space is difficult, but 2015 looks to be a boon). The pullback in oil prices will positively impact our input costs in many ways (freight costs being the most obvious, but there are others). The strong dollar also has a positive impact for our company.

Wood Product Manufacturing

- > Like everyone, we are concerned about oil prices and are uncertain about the effect on construction in Texas. Will a good recovery slow or, worse yet, end? We don't know.

Printing and Related Support Activities

- > We are making some significant but long-delayed capital expenditures for our Dallas plant, which won't come online until midyear. After a great 2014, it will be hard to surpass it in 2015. There seems to be more uncertainty this year than last year.
- > Oil price declines stimulate plastic film price declines.

Miscellaneous Manufacturing

- > Most of the improvements are based on internal factors of our company rather than the industry or economy.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Laila Assanie at laila.assanie@dal.frb.org. The Texas Manufacturing Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tmos/.

