



Texas Manufacturing Outlook Survey

DALLAS FED

March 30, 2015

TEXAS MANUFACTURING ACTIVITY WEAKENS

What's New This Month

Starting this month, the Texas Manufacturing Outlook Survey report will include a reference to the growth rate of orders index, which according to regression analysis provides the most explanatory power for contemporaneous Texas quarterly gross domestic product growth. For more information see Dallas Fed Working Paper, "Texas Manufacturing Outlook Survey: Survey Methodology and Performance."

Texas factory activity declined in March, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell to -5.2, posting its first negative reading in nearly two years.

Other measures of current manufacturing activity also reflected contraction in March. The new orders index pushed further into negative territory, coming in at -16.1, and the growth rate of orders index remained negative for a fifth consecutive month but edged up to -15.3 in March. The shipments and capacity utilization indexes slipped to more negative readings, -8.7 and -6.4, respectively.

Perceptions of broader business conditions were rather pessimistic for a third month in a row. The general business activity index declined 6 points to -17.4 in March, while the company outlook index was largely unchanged at -4.

Labor market indicators reflected slight employment declines and shorter workweeks. The March employment index dipped to -1.8, its first negative reading since May 2013. Thirteen percent of firms reported net hiring, compared with 14 percent reporting net layoffs. The hours worked index has been gradually declining for six months and came in at -5.3 in March, down from -1.6 in February.

Prices declined in March, and upward pressure on wages continued to ease slightly. The raw materials prices index fell to -9.4, its lowest reading since May 2009. The finished goods prices index pushed further negative to -9.8, also reaching a low not seen since 2009. The wages and benefits index came in at 15.6, down from 16.8 in February.

Expectations regarding future business conditions remained fairly weak in March. The index of future general business activity edged down to 3, while the index of future company outlook inched up to 12.8. Both indexes remain well below the levels seen throughout 2014. Indexes for future manufacturing activity, however, improved markedly in March. The indexes of future production, capacity utilization and growth rate of orders posted double-digit gains from their February readings.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected March 17–25, and 112 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.

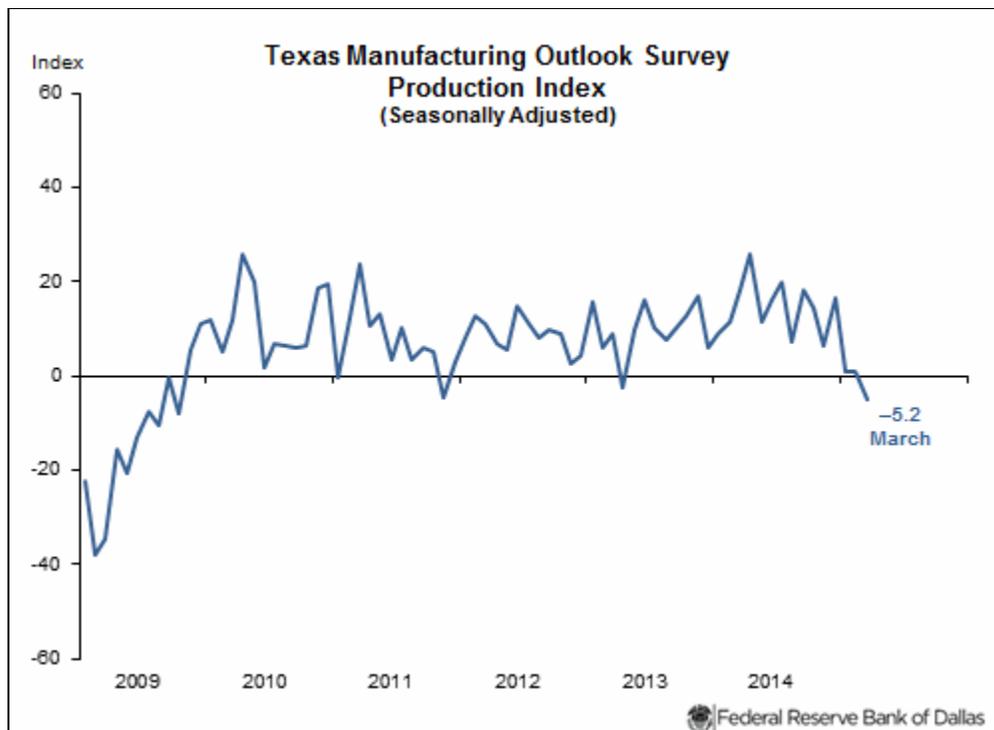
Next release: April 27, 2015

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	-5.2	0.7	-5.9	Decreasing	1	22.0	50.8	27.2
Capacity Utilization	-6.4	-4.9	-1.5	Decreasing	2	19.4	54.8	25.8
New Orders	-16.1	-12.2	-3.9	Decreasing	3	15.9	52.1	32.0
Growth Rate of Orders	-15.3	-16.3	+1.0	Decreasing	5	14.8	55.1	30.1
Unfilled Orders	-13.8	-17.3	+3.5	Decreasing	4	8.2	69.8	22.0
Shipments	-8.7	-3.3	-5.4	Decreasing	2	18.5	54.3	27.2
Delivery Time	-1.2	-3.8	+2.6	Decreasing	2	10.9	77.0	12.1
Materials Inventories	-4.2	-1.0	-3.2	Decreasing	2	16.4	63.0	20.6
Finished Goods Inventories	1.8	-3.8	+5.6	Increasing	1	18.8	64.3	17.0
Prices Paid for Raw Materials	-9.4	-1.7	-7.7	Decreasing	3	10.9	68.8	20.3
Prices Received for Finished Goods	-9.8	-4.4	-5.4	Decreasing	3	8.4	73.4	18.2
Wages and Benefits	15.6	16.8	-1.2	Increasing	64	20.5	74.6	4.9
Employment	-1.8	1.3	-3.1	Decreasing	1	12.5	73.3	14.3
Hours Worked	-5.3	-1.6	-3.7	Decreasing	3	15.4	63.9	20.7
Capital Expenditures	0.0	-4.8	+4.8	Unchanged	1	14.5	71.0	14.5
General Business Conditions Current (versus previous month)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-4.0	-4.4	+0.4	Worsening	3	16.8	62.5	20.8
General Business Activity	-17.4	-11.2	-6.2	Worsening	3	9.8	63.0	27.2
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	36.2	24.9	+11.3	Increasing	73	46.1	44.1	9.9
Capacity Utilization	32.9	17.4	+15.5	Increasing	73	43.2	46.4	10.3
New Orders	31.0	25.3	+5.7	Increasing	73	43.6	43.7	12.6
Growth Rate of Orders	28.3	12.8	+15.5	Increasing	73	39.6	49.1	11.3
Unfilled Orders	-1.3	-6.1	+4.8	Decreasing	4	13.4	72.0	14.7
Shipments	31.0	24.0	+7.0	Increasing	73	43.6	43.9	12.6
Delivery Time	0.4	-12.5	+12.9	Increasing	1	11.9	76.6	11.5
Materials Inventories	-1.8	-3.9	+2.1	Decreasing	2	16.7	64.8	18.5
Finished Goods Inventories	-8.3	-6.8	-1.5	Decreasing	3	11.1	69.4	19.4
Prices Paid for Raw Materials	14.0	5.9	+8.1	Increasing	72	24.3	65.4	10.3
Prices Received for Finished Goods	6.5	3.9	+2.6	Increasing	33	22.2	62.0	15.7
Wages and Benefits	34.2	37.2	-3.0	Increasing	130	39.3	55.6	5.1
Employment	18.3	9.2	+9.1	Increasing	28	29.0	60.3	10.7
Hours Worked	4.2	-0.8	+5.0	Increasing	1	14.8	74.6	10.6
Capital Expenditures	7.5	14.0	-6.5	Increasing	64	20.6	66.4	13.1
General Business Conditions Future (six months ahead)								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	12.8	11.8	+1.0	Improving	72	28.3	56.2	15.5
General Business Activity	3.0	5.5	-2.5	Improving	2	19.1	64.8	16.1

*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

- > After a strong finish to 2014, we are seeing some softening for the first and second quarters but expect to see a stronger third quarter. Some buying managers are worried about a predicted decrease in business volume, but we are not seeing it yet.

Nonmetallic Mineral Product Manufacturing

- > We remain cautiously optimistic about the future and feel that housing will continue to experience a slow rate of growth. We have plans for increasing capacity later this year and anticipate another selling price increase in April.

Fabricated Metal Manufacturing

- > Quoting activity has picked up markedly. The corresponding backlog is rising. There are still lingering doubts that the economic recovery has adequate momentum to overcome the negative effects of the National Labor Relations Board, Environmental Protection Agency, Occupational Safety and Health Administration, redistribution of wealth, etc.
- > Between the refinery strike and the price of crude oil, the uncertainty is driving decision-making to a standstill.
- > Our oil and gas customers have just stopped producing. This is not an unusual event for our oil and gas customers, but what feels different about this time is no one knows when production will restart. Typically, we have to ride out 60–90 days, and this one looks like six months or more.
- > Much of our business is tied to oil. We are now entering what will probably (hopefully?) be the low point of the market. Our expected improvement for business six months from now reflects not a return to 2014, but a slow recovery from March–May 2015.
- > Delivery times have been impacted by weather-related delays.
- > We believe that the general business environment regarding oil and gas in Texas is having a negative effect on housing expenditures. Also, as the price of energy decreases, investments in energy-efficiency products decrease.
- > Customers seem to be very hesitant on releasing capital equipment orders. We have had multiple projects cancelled because of the slowdown. The drop in oil prices has definitely played a part in this downturn.
- > The strike has slowed down work in some of the plants.

Machinery Manufacturing

- > Our business is largely oil related. We expect a further drop in oil prices down below \$40 per barrel. This will cause reduced sales of our capital equipment in the oil field. Increased focus on sales outside of the oil field has helped to maintain sales. We are seeing good overseas sales in spite of the strong dollar. Brazil appears to be on the path to recovery as sales have improved.

- > Operator confidence appears to be growing, as we have seen more replacement orders for deferred improvements from the recession.

Computer and Electronic Product Manufacturing

- > The dollar appreciation has affected the entire capital equipment industry. U.S. manufacturers are losing big opportunities worldwide due to the high prices of U.S.-made capital equipment industries.
- > We have seen recent weakness in PC and communications infrastructure demand, the latter driven partially by shipments into China. The automotive market continues to be strong, and industrial demand remains as expected. We believe these are more specific to market dynamics than an indication of overall economic activity.

Electrical Equipment, Appliance and Component Manufacturing

- > There is some unevenness in new orders that is distorted by individual order size. In terms of new-order volume, we perceive softness, which is at odds with what we sense is a growing economy nationally. Large-order backlogs being worked off from international orders can distort our inventory and shipping levels. It remains to be seen if the strength of the dollar has an impact on our ability to close international orders, which represent an important part of our business.
- > The drop in oil prices has severely hurt our business since we sell a sizable amount of capital goods to that industry.

Transportation Equipment Manufacturing

- > We lost 1,500 direct labor hours in February due to ice and snow. Our plant is now working 12-hour days to catch up.
- > A new-product launch in five months will affect certain aspects of production in a negative way as we deal with new components and lower production in the short run. But once the product is launched and our systems adapt to the new parts and the kinks are worked out, it will be a net benefit.

Wood Product Manufacturing

- > We sell to single-family homebuilders, and the weather from the end of February to now has been an issue.

Paper Manufacturing

- > Orders have been soft for 10 weeks now. We are still hanging on to the thought that activity will still be good for 2015, but it is getting harder to stay optimistic.

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/.

