



Texas Manufacturing Outlook Survey

DALLAS FED

April 27, 2015

TEXAS MANUFACTURING ACTIVITY WEAKENS AGAIN

Texas factory activity declined in April, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, posted a second negative reading in a row, coming in at -4.7.

Other measures of current manufacturing activity also reflected continued contraction in April. The new orders index edged up but remained negative at -14. The growth rate of orders index held steady at -15.5, posting its sixth consecutive negative reading. The capacity utilization index pushed further negative to -10.4, its lowest level since August 2009, and the shipments index edged up but stayed below zero at -5.6.

Perceptions of broader business conditions remained quite pessimistic for a fourth month in a row. The general business activity index stayed negative but ticked up to -16 in April, while the company outlook index moved down to -7.8, reaching its lowest reading in nearly two and a half years.

Labor market indicators reflected slight employment gains but shorter workweeks. The April employment index rebounded to 1.8 after dipping below zero last month. Nineteen percent of firms reported net hiring, compared with 17 percent reporting net layoffs. The hours worked index stayed at -5 in April, suggesting a fourth month in a row of slightly shorter workweeks.

Downward pressure on prices remained in April, while wages continued to rise. The raw materials prices index edged down to -11.2, and the finished goods prices index edged up to -7.7. The negative April readings for these indexes mark a fourth consecutive month of lower input costs and selling prices. Meanwhile, the wages and benefits index remained positive and held fairly steady at 16.5.

Measures of future business conditions weakened in April. The index of future general business activity fell 9 points to -5.9, while the index of future company outlook declined from 12.8 to 5.3. Indexes for future manufacturing activity also moved down but remained in solid 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 Apr. 14–22, 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.

Next release: May 26, 2015

**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	-4.7	-5.2	+0.5	Decreasing	2	25.3	44.6	30.0
Capacity Utilization	-10.4	-6.4	-4.0	Decreasing	3	18.4	52.8	28.8
New Orders	-14.0	-16.1	+2.1	Decreasing	4	21.6	42.7	35.6
Growth Rate of Orders	-15.5	-15.3	-0.2	Decreasing	6	14.4	55.7	29.9
Unfilled Orders	-15.1	-13.8	-1.3	Decreasing	5	11.1	62.7	26.2
Shipments	-5.6	-8.7	+3.1	Decreasing	3	21.2	52.0	26.8
Delivery Time	-5.3	-1.2	-4.1	Decreasing	3	12.0	70.7	17.3
Materials Inventories	-6.0	-4.2	-1.8	Decreasing	3	17.7	58.6	23.7
Finished Goods Inventories	-7.5	1.8	-9.3	Decreasing	1	14.0	64.5	21.5
Prices Paid for Raw Materials	-11.2	-9.4	-1.8	Decreasing	4	12.5	63.8	23.7
Prices Received for Finished Goods	-7.7	-9.8	+2.1	Decreasing	4	12.3	67.7	20.0
Wages and Benefits	16.5	15.6	+0.9	Increasing	65	19.4	77.7	2.9
Employment	1.8	-1.8	+3.6	Increasing	1	19.1	63.6	17.3
Hours Worked	-5.0	-5.3	+0.3	Decreasing	4	14.8	65.4	19.8
Capital Expenditures	3.3	0.0	+3.3	Increasing	1	18.5	66.3	15.2

**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	-7.8	-4.0	-3.8	Worsening	4	16.4	59.4	24.2
General Business Activity	-16.0	-17.4	+1.4	Worsening	4	11.7	60.6	27.7

**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	28.2	36.2	-8.0	Increasing	74	41.2	45.9	13.0
Capacity Utilization	22.7	32.9	-10.2	Increasing	74	34.9	52.9	12.2
New Orders	30.6	31.0	-0.4	Increasing	74	44.6	41.4	14.0
Growth Rate of Orders	19.6	28.3	-8.7	Increasing	74	32.3	55.0	12.7
Unfilled Orders	-4.1	-1.3	-2.8	Decreasing	5	11.5	72.9	15.6
Shipments	30.8	31.0	-0.2	Increasing	74	43.5	43.9	12.7
Delivery Time	-8.7	0.4	-9.1	Decreasing	1	4.5	82.3	13.2
Materials Inventories	-9.9	-1.8	-8.1	Decreasing	3	14.9	60.4	24.8
Finished Goods Inventories	-7.7	-8.3	+0.6	Decreasing	4	11.7	68.9	19.4
Prices Paid for Raw Materials	20.4	14.0	+6.4	Increasing	73	27.2	66.0	6.8
Prices Received for Finished Goods	9.8	6.5	+3.3	Increasing	34	23.5	62.7	13.7
Wages and Benefits	34.2	34.2	0.0	Increasing	131	34.8	64.6	0.6
Employment	12.4	18.3	-5.9	Increasing	29	26.1	60.2	13.7
Hours Worked	4.2	4.2	0.0	Increasing	2	15.1	74.0	10.9
Capital Expenditures	8.9	7.5	+1.4	Increasing	65	21.6	65.7	12.7

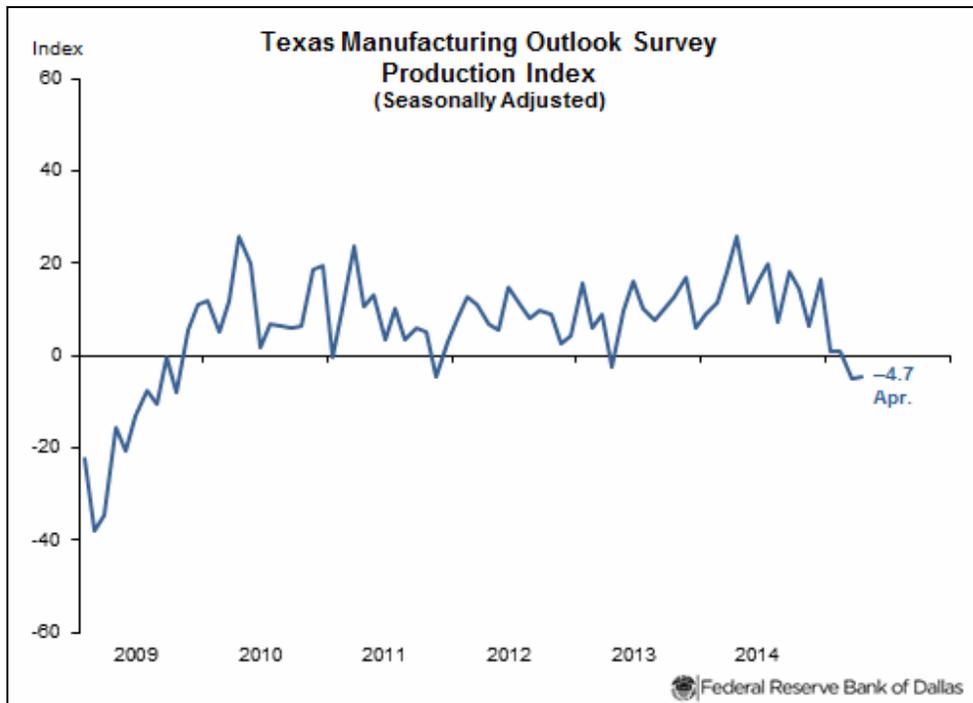
**General Business Conditions
Future (six months ahead)**

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	5.3	12.8	-7.5	Improving	73	22.1	61.1	16.8
General Business Activity	-5.9	3.0	-8.9	Worsening	1	17.1	59.9	23.0

*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

- > Our customers supplying the building and construction industries say the weather this winter slowed their work more than usual.
- > 2015 started slower than expected. Lower energy prices have adversely impacted our business in the energy sector; other businesses are steady but aren't showing the growth we would have expected. The environment is tepid at best.

Nonmetallic Mineral Product Manufacturing

- > We are cautiously optimistic about future demand and the economy as a whole. With this being said, we are embarking on a campaign to increase capacity, which will be completed during the third quarter of 2015.

Primary Metal Manufacturing

- > Steel imports continue to be a big problem, especially into Houston. Steel rebar is the most problematic, with high levels of imports and very low prices.
- > We continue to see a drastic slowdown in incoming orders from all sectors (energy, mining, agriculture, waterworks, general industrial). At a recent meeting with several foundries across the state, the trend continues to indicate a depressed state of business for industrial manufacturing.

Fabricated Metal Manufacturing

- > There seems to be activity, but it is very slow and steady.
- > Our oil and gas customers have come to a complete stop. It looks like everyone in the industry is digging in for a long-term trough. It looks like the graph will not be a "V" with a short flat bottom, but a graph that looks like a bathtub with a large drain at one end that will take some suppliers down.
- > All the metal distributors that have relied so heavily on the oil and gas market are out beating the streets for new business. We have seen more salespeople in the last 30 days than we have seen in the last 30 years.
- > Weather-related issues have delayed delivery of sales. Sales activity is improving, but we are unable to ship and invoice.
- > Our business is directly associated with the completion of oil and gas wells. Our outlook is directly correlated to such.
- > Orders have fallen rather significantly, and the refinery turnaround business is being slid out to late fall or early next year. It is going to be a tough summer.
- > We can really see the effects of the low oil price. Our company has moved more resources out of the oil and gas side and moved them to other industry focuses.
- > Things are getting ugly in all of our locations in Texas and Oklahoma. Total business is down 20 percent year to date, and we do not believe we have seen bottom. As of now, we do not expect a meaningful recovery until mid-next year.
- > Booking activity has improved from choppy to less choppy, which should lead to low double-digit growth in backlog and subsequent year-over-year revenue growth.

Machinery Manufacturing

- > Our business is closely tied to oil prices, which we expect to fall as storage capacity limits are reached and shale production peaks, probably in July.
- > Key customers continue to predict expansion for the second half of the year; however, the growth in the first half of the year is not materializing.

Paper Manufacturing

- > The strength of the U.S. dollar is starting to have an effect on our orders and outlook.

Printing and Related Support Activities

- > Even though the increased production was good this past month, it does not mean commercial printing is turning around. Most printers are investing in other services to increase sales and keep up with market changes and demands.
- > It's a strange year. Business is solid but not growing. We're handling a higher level of business much better than last year—we have flow! Employee turnover has shot up to its highest in a decade; we are losing people to other opportunities and having to counteroffer to keep the high-potential employees.

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/.

