

Texas **Manufacturing** Outlook Survey

July 31, 2017

Texas Manufacturing Activity Strengthens, Outlooks Improve

Texas factory activity increased again in July, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose 11 points to 22.8, indicating output grew at a faster pace than in June.

Other measures of current manufacturing activity also indicated a pickup in growth. The new orders and the growth rate of orders indexes rose several points each, coming in at 16.1 and 12.2, respectively. The capacity utilization index moved up to 18.1 and the shipments index increased three points to 11.6.

Perceptions of broader business conditions improved again in July, with a sharp pickup in outlooks. The general business activity index edged up to 16.8, marking a 10th consecutive positive reading. The company outlook index jumped 15 points to 25.9, reaching its highest level since 2010.

Labor market measures indicated slightly stronger employment gains and longer workweeks this month. The employment index has been positive all year and edged up to 11.2, its highest reading since the end of 2015. Twenty-one percent of firms noted net hiring, compared with 9 percent noting net layoffs. The hours worked index ticked up to 9.8.

Prices and wages continued to rise in July. The raw materials prices index held steady at 15.5, while the finished goods prices index moved up slightly to 5.6. The wages and benefits index remained somewhat elevated at 20.6.

Expectations regarding future business conditions continued to reflect optimism. The indexes of future general business activity and future company outlook held steady at 31.6 and 34.8, respectively. Other indexes of future manufacturing activity showed mixed movements but remained solidly in positive territory.

Next release: Monday, August 28

Data were collected July 18–26, and 113 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	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	22.8	12.3	+10.5	Increasing	13	37.3	48.3	14.5
Capacity Utilization	18.1	12.3	+5.8	Increasing	13	30.9	56.3	12.8
New Orders	16.1	9.6	+6.5	Increasing	9	32.5	51.1	16.4
Growth Rate of Orders	12.2	4.7	+7.5	Increasing	7	24.6	63.0	12.4
Unfilled Orders	1.0	1.3	-0.3	Increasing	7	14.2	72.6	13.2
Shipments	11.6	8.5	+3.1	Increasing	8	28.5	54.6	16.9
Delivery Time	4.3	0.0	+4.3	Increasing	1	14.1	76.1	9.8
Materials Inventories	3.6	-1.6	+5.2	Increasing	1	18.9	65.8	15.3
Finished Goods Inventories	-1.7	-7.1	+5.4	Decreasing	3	13.3	71.7	15.0
Prices Paid for Raw Materials	15.5	15.6	-0.1	Increasing	17	23.3	68.9	7.8
Prices Received for Finished Goods	5.6	3.6	+2.0	Increasing	12	13.0	79.6	7.4
Wages and Benefits	20.6	21.1	-0.5	Increasing	92	21.3	78.0	0.7
Employment	11.2	9.6	+1.6	Increasing	7	20.6	70.0	9.4
Hours Worked	9.8	8.9	+0.9	Increasing	9	20.8	68.2	11.0
Capital Expenditures	11.6	12.7	-1.1	Increasing	11	19.2	73.2	7.6

General Business Conditions

Current (versus previous month)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	25.9	10.8	+15.1	Improving	11	32.9	60.1	7.0
General Business Activity	16.8	15.0	+1.8	Improving	10	29.5	57.8	12.7

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Decrease
Production	48.8	47.5	+1.3	Increasing	101	56.4	36.0	7.6
Capacity Utilization	39.9	42.9	-3.0	Increasing	101	49.0	41.8	9.1
New Orders	43.6	52.6	-9.0	Increasing	101	51.0	41.6	7.4
Growth Rate of Orders	32.8	35.7	-2.9	Increasing	101	36.7	59.4	3.9
Unfilled Orders	11.2	10.4	+0.8	Increasing	22	16.3	78.6	5.1
Shipments	47.0	45.0	+2.0	Increasing	101	51.3	44.4	4.3
Delivery Time	3.9	0.9	+3.0	Increasing	8	11.9	80.1	8.0
Materials Inventories	4.6	14.9	-10.3	Increasing	8	20.0	64.6	15.4
Finished Goods Inventories	4.7	7.4	-2.7	Increasing	13	17.8	69.2	13.1
Prices Paid for Raw Materials	20.8	18.5	+2.3	Increasing	100	27.4	66.0	6.6
Prices Received for Finished Goods	21.2	15.9	+5.3	Increasing	18	23.1	75.0	1.9
Wages and Benefits	45.9	44.7	+1.2	Increasing	158	45.9	54.1	0.0
Employment	36.2	32.3	+3.9	Increasing	56	41.1	54.0	4.9
Hours Worked	10.2	8.3	+1.9	Increasing	14	20.2	69.8	10.0
Capital Expenditures	27.1	25.2	+1.9	Increasing	92	33.6	59.8	6.5

General Business Conditions
Future (six months ahead)

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (Months)	%	%	%
						Reporting Increase	Reporting No Change	Reporting Worsened
Company Outlook	34.8	35.6	-0.8	Improving	18	37.2	60.4	2.4
General Business Activity	31.6	31.9	-0.3	Improving	14	32.6	66.4	1.0

*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.

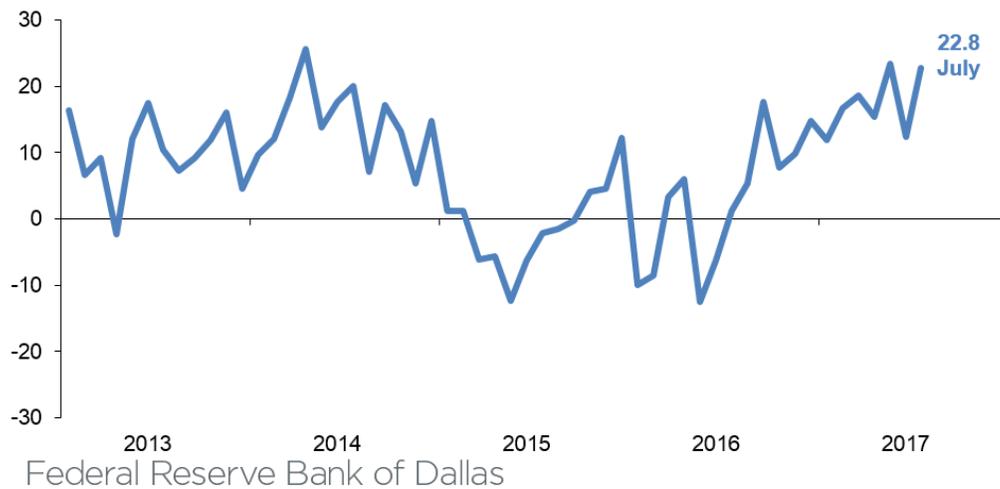
**Number of months moving in current direction.

Data have been seasonally adjusted as necessary.

Production Index

Texas Manufacturing Outlook Survey Production Index

Index, seasonally adjusted



Comments from Survey Respondents

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

Chemical Manufacturing

- Life sciences have experienced strong growth over the past several quarters. However, we hear from our clients that they have corporate requirements to reduce their inventories by the end of the year, which will have an impact on our production levels.

Primary Metal Manufacturing

- Business is good, not great. We are busy.

Fabricated Metal Product Manufacturing

- The foreign competition for new equipment is extremely competitive and our company is not able to match their selling prices.
- Things are going poorly in the economy. We have no projects, and business is slow.
- We are experiencing the summertime blues. Business is very dull July to date.
- We are feeling more confident about the economy improving. More buyers seem to be more confident and placing orders with increased volumes and deliveries further into the future.
- One huge order has spurred our manufacturing. However, nothing similar is expected in the near future.
- There has been a notable decline in orders from energy industry customers over the past 30 days given the drop in oil prices. There is very little visibility on customer demand in the second half of the year.

Machinery Manufacturing

- The drop in oil prices in 2015 forced us out of our comfort zone and into new industries and locations. We have found that manufacturing technology from the oil industry applies equally well to defense, aerospace, heavy vehicle manufacturing and power generation. As oil recovers, we will also benefit from working in these new markets.
- Grocery store deli and fast-food chain activity remains fairly slow. We are seeing increased activity, with convenience store remodels driven by increased food offerings.

Electrical Equipment, Appliance, and Component Manufacturing

- Volumes are good, not great. They have been good for about the last three to four years. Our biggest complaint is new management at most of our major competitors who don't manage pricing and subsequent margins well at all. We are low cost and high service and try to lead the parade up on pricing. That is the key to survival. The other issue on the aluminum-wire side is dumping by the Chinese, which we have alerted federal officials about.
- Foreign competition continues to pressure our industry, specifically in the value associated with Chinese aluminum and electronics versus similarly sourced materials from other locations.

Transportation Equipment Manufacturing

- Washington, D.C., is still a significant contingent factor for a better or worse outlook. Prospects for better are dimming.
- The improved outlook for our business over the next six months is contingent on what we expect to be an increase in municipal tax revenues as the state continues to rebound from the pullback in the energy sector. It's possible that for us, it takes a little longer than six months, but we see initial signs of improvement.

Paper Manufacturing

- The increases in business are small but measurable. We have been trying to add employees over the last six months, with no qualified candidates available.

Printing and Related Support Activities

- I cannot explain it, but we are slower than we have ever been at this time and it seems like we are not the only ones. This is crazy how summer-vacation mindset seems to have set in and companies are just not committing to projects. Most everyone I have spoken to in the graphic arts community is complaining of the same thing. If this doesn't turn around quickly, there will be some significant cutbacks around here—something that will be very painful, as we are down to only talented workers with no fat to trim.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org.