



Texas Manufacturing Outlook Survey

DALLAS FED

May 26, 2015

TEXAS MANUFACTURING ACTIVITY CONTRACTS FURTHER

Texas factory activity declined again in May, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell to -13.5, its lowest reading in six years.

Other measures of current manufacturing activity reflected continued contraction in May. The new orders index held steady at -14.1, and the growth rate of orders index held steady at -15.2, marking the fifth and seventh negative reading in a row for these indexes. The capacity utilization index edged down to -11.6. The shipments index fell nearly 8 points to -13.2, with more than 30 percent of firms noting lower shipment volumes in May than in April.

Perceptions of broader business conditions worsened further this month. The general business activity index fell to -20.8 in May, its lowest reading since June 2009. The company outlook index moved down to -10.5, also hitting a low not seen since summer 2009.

Labor market indicators reflected employment declines and shorter workweeks. The May employment index declined 10 points to -8.2, after rebounding slightly above zero last month. Twelve percent of firms reported net hiring, compared with 21 percent reporting net layoffs. The hours worked index fell from -5 to -11.6.

Changes in prices and wages were mixed in May. Downward pressure on input costs abated, as the raw materials prices index pushed up toward zero, coming in at -1.7. The finished goods prices index edged down to -8.7, its fifth negative reading in a row and suggestive of falling selling prices. Meanwhile, the wages and benefits index remained positive and little changed at 14.7.

Expectations regarding future business conditions improved in May. The index of future general business activity surged 11 points to 4.9, and the index of future company outlook jumped 10 points to 15.1. Indexes for future manufacturing activity also moved up markedly, pushing further into 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 May 12–20, 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.

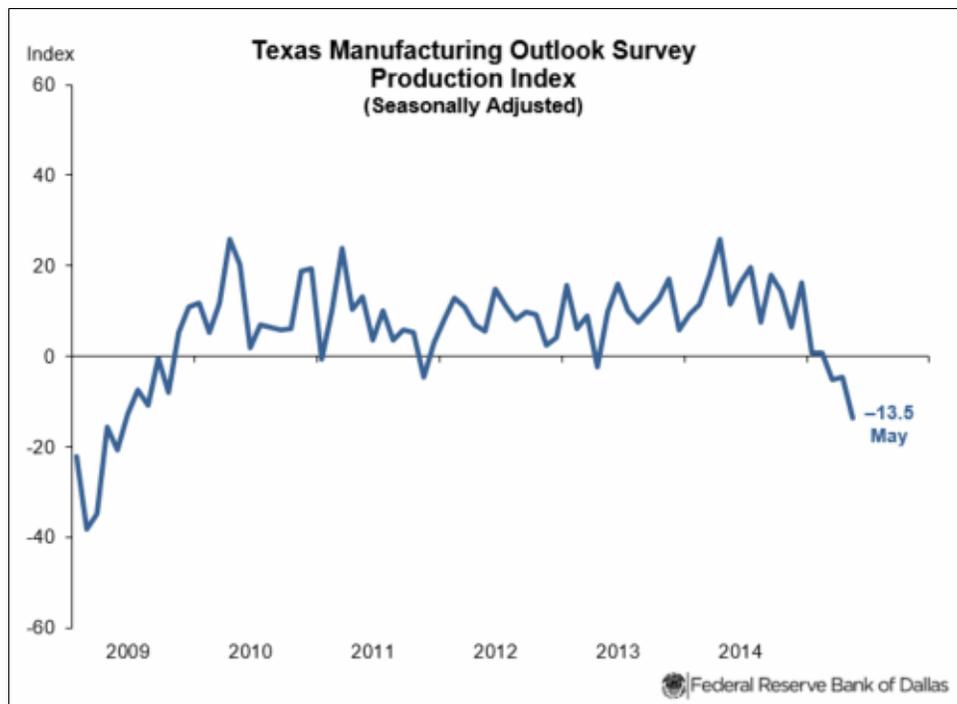
Next release: June 29, 2015

Business Indicators Relating to Facilities and Products in Texas									
Current (versus previous month)									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	-13.5	-4.7	-8.8	Decreasing	3	14.8	56.9	28.3	
Capacity Utilization	-11.6	-10.4	-1.2	Decreasing	4	14.7	59.0	26.3	
New Orders	-14.1	-14.0	-0.1	Decreasing	5	16.9	52.1	31.0	
Growth Rate of Orders	-15.2	-15.5	+0.3	Decreasing	7	13.4	58.0	28.6	
Unfilled Orders	-10.6	-15.1	+4.5	Decreasing	6	8.9	71.6	19.5	
Shipments	-13.2	-5.6	-7.6	Decreasing	4	17.5	51.8	30.7	
Delivery Time	-10.2	-5.3	-4.9	Decreasing	4	8.3	73.2	18.5	
Materials Inventories	-1.7	-6.0	+4.3	Decreasing	4	21.1	56.1	22.8	
Finished Goods Inventories	-4.5	-7.5	+3.0	Decreasing	2	14.3	67.0	18.8	
Prices Paid for Raw Materials	-1.7	-11.2	+9.5	Decreasing	5	12.3	73.7	14.0	
Prices Received for Finished Goods	-8.7	-7.7	-1.0	Decreasing	5	5.6	80.1	14.3	
Wages and Benefits	14.7	16.5	-1.8	Increasing	66	19.3	76.1	4.6	
Employment	-8.2	1.8	-10.0	Decreasing	1	12.3	67.3	20.5	
Hours Worked	-11.6	-5.0	-6.6	Decreasing	5	9.3	69.8	20.9	
Capital Expenditures	3.4	3.3	+0.1	Increasing	2	15.5	72.4	12.1	
General Business Conditions									
Current (versus previous month)									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	-10.5	-7.8	-2.7	Worsening	5	13.0	63.5	23.5	
General Business Activity	-20.8	-16.0	-4.8	Worsening	5	7.7	63.8	28.5	
Business Indicators Relating to Facilities and Products in Texas									
Future (six months ahead)									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	38.6	28.2	+10.4	Increasing	75	49.8	39.1	11.2	
Capacity Utilization	35.5	22.7	+12.8	Increasing	75	47.1	41.4	11.6	
New Orders	35.3	30.6	+4.7	Increasing	75	47.0	41.4	11.7	
Growth Rate of Orders	27.3	19.6	+7.7	Increasing	75	37.6	52.1	10.3	
Unfilled Orders	4.0	-4.1	+8.1	Increasing	1	12.6	78.8	8.6	
Shipments	33.3	30.8	+2.5	Increasing	75	46.6	40.2	13.3	
Delivery Time	1.3	-8.7	+10.0	Increasing	1	12.6	76.1	11.3	
Materials Inventories	-6.4	-9.9	+3.5	Decreasing	4	16.5	60.6	22.9	
Finished Goods Inventories	-13.8	-7.7	-6.1	Decreasing	5	11.0	64.2	24.8	
Prices Paid for Raw Materials	21.1	20.4	+0.7	Increasing	74	28.4	64.2	7.3	
Prices Received for Finished Goods	10.1	9.8	+0.3	Increasing	35	22.9	64.2	12.8	
Wages and Benefits	30.6	34.2	-3.6	Increasing	132	33.2	64.2	2.6	
Employment	14.1	12.4	+1.7	Increasing	30	28.6	56.9	14.5	
Hours Worked	11.1	4.2	+6.9	Increasing	3	19.1	72.9	8.0	
Capital Expenditures	10.5	8.9	+1.6	Increasing	66	21.0	68.6	10.5	
General Business Conditions									
Future (six months ahead)									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	15.1	5.3	+9.8	Improving	74	28.7	57.7	13.6	
General Business Activity	4.9	-5.9	+10.8	Improving	1	20.4	64.1	15.5	

*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.

Nonmetallic Mineral Product Manufacturing

- > We are cautiously optimistic about future demand and the economy as a whole. We have recently raised selling prices and are in the process of expanding production capacity, which will be completed in the third quarter of 2015.
- > We believe that state and federal investment in new highway infrastructure is long overdue in Texas.

Primary Metal Manufacturing

- > Imported steel continues to be a big problem in Houston, but it is also negatively affecting volume and pricing in the entire country.

Fabricated Metal Manufacturing

- > Our business has been good this spring, and we expect it to stay that way through the third quarter.
- > We don't feel confidence anywhere, but we are feeling cost pressures.
- > Refinery spending continues to be very tight, and we see significant price competition for the few orders actually being let. We are hoping the final settling of the strikes allows folks to return to "normal"—whatever that turns out to be.
- > Our current delivery times are extended due to weather.
- > The oil and gas exploration and production industry continues to worsen since last year's peak. While the degradation is leveling, the related business impact remains. With some recovery of the price per barrel of oil, the general feeling is that our business impact has leveled.
- > We are seeing all industries hold cash.

Machinery Manufacturing

- > We've maintained the position that we need to give the oil market time to settle, so our goal has been to survive until the third quarter. At that point, production and inventories will have stabilized and maybe our customers will be more comfortable entering the market. We have numerous customers who have delayed purchasing product, and we are optimistic that they will begin ordering again in the third quarter.
- > We are making capital equipment investments as the primary vehicle to grow the business.

Computer and Electronic Product Manufacturing

- > Our company, which ships internationally, is facing increased stiff competition from South Korea, China, and India. We are losing sales primarily to these three countries.

Wood Product Manufacturing

- > We sell to new single-family home builders. Wet weather has slowed down the development of raw land into ready lots and the home construction process as well. It has affected our shipments for the last two months and will continue to moderate the construction pace for several more.

Paper Manufacturing

- > We experienced a slow start that we hope doesn't catch on.

Printing and Related Support Activities

- > We are in a heavy recapitalization cycle for our plant. This will be complete within the next six months, hence the peak now and fall off in our capital spending as the year progresses. Our headcount is down as we've lost employees to competitors and other opportunities. We actually need to hire several employees in the next couple of months to hit staffing goals, hopefully tapering off by the end of the year. The labor market has become very competitive in Dallas–Fort Worth. We're battling to keep our best young talent.

Textile Product Mills

- > Government and banking regulations are creating non-value-added costs. Cross-border delays on our southern border are very difficult.

Miscellaneous Manufacturing

- > The California shipping strike hurt our inventories and shipping. It is still backed up. The oil drilling slowdown has made a number of good people available for work until the next drilling pickup. Recent rain and floods may hurt May retail.

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/.

