



Texas Manufacturing Outlook Survey

DALLAS**FED**

June 29, 2015

SPECIAL QUESTIONS

Data were collected June 1–4, and 97 Texas manufacturers responded to the surveys.

Oil prices today are near \$60 per barrel, down from over \$100 a year ago. Natural gas prices are near \$2.90 per million British thermal units, down from over \$4.40 a year ago.

1. What impact have lower energy prices had on your business over the past six months? (Please select all that apply)

| | |
|-----------------------------------------------------------------------------------|-------|
| Decreased our firm's costs (input/raw materials prices, wages and benefits, etc.) | 47.9% |
| Decreased demand from our customers | 34.0% |
| No effect | 23.4% |
| Increased demand from our customers | 12.8% |
| Increased our firm's costs (input/raw materials prices, wages and benefits, etc.) | 3.2% |

2. Overall, what has been the net impact of lower energy prices on your business over the past six months?

| | |
|-----------------------------|-------|
| Slight positive impact | 41.9% |
| Significant negative impact | 25.8% |
| No impact | 11.8% |
| Significant positive impact | 10.8% |
| Slight negative impact | 9.7% |

3. What are the top three concerns affecting your company's outlook? (Please select up to 3 choices)

| | |
|-----------------------|-------|
| Government regulation | 72.2% |
| U.S. economy | 63.9% |
| Energy prices | 40.2% |
| Labor shortages | 38.1% |
| Strong dollar | 27.8% |
| Interest rates | 18.6% |
| Real estate values | 0.0% |
| Other | 15.5% |

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Chemical Manufacturing

- > In the petrochemical business, any time petroleum and natural gas liquids prices are lower, margins are better. It's always true.

Primary Metal Manufacturing

- > Weather in Texas has negatively impacted our business significantly, especially with regards to construction activities. Imports of steel (notably from Turkey and Japan) continue to create downward pressure on price.
- > We are competing with cheap foreign imports.

Fabricated Metal Manufacturing

- > We believe that unprecedented global central bank actions have created the perception of a "juiced" economy among some business executives, who are concerned about making significant business commitments based on illusory business strength that could rapidly reverse.
- > Since the first of the year, our backlog has continued to decrease with no new large jobs added. We have been quoting a large number of jobs for existing and new customers but have not added a significant, substantial purchase order in over 60 days. We have lost several jobs that the steel fabrication award went to another fabricator for amounts significantly below our production costs, indicating there is excess capacity in the region. These shops are "buying" the jobs to keep personnel and cover some overhead. Our benefit costs have gone up dramatically, which continues to cause our lower-end production personnel (especially younger ones) to opt out of coverage and say they cannot afford it. Our actual percentage of claims versus premiums is low.
- > We have shifted focus away from oil and gas to other industries. We are still receiving occasional queries for projects, but they will not be acting on them until their position improves. We have resulted in setting these interests aside for the time being.
- > My concern is that if the energy businesses had not slowed, labor would be very difficult to find and at a minimum, labor costs would have escalated more. Labor costs are still escalating due to rising health care costs.
- > Low-rise (less than five stories) volumes measured in square feet are in the fifth year of recovery from the 2010 bottom but remain 40 percent below 50-year trough levels. Low-rise volumes historically represent 85–90 percent of all nonresidential construction, as reported by McGraw-Hill. Therefore, we can in part conclude that this economic recovery is weak.
- > Low energy prices have significantly affected us in a negative way. In the U.S., our costs to explore and produce oil and gas are very expensive. The heavy regulations we have increase the costs to drill and produce, therefore making us uncompetitive in a global market. We believe that for us to compete as an energy producer globally we need an even playing field with our foreign competitors that have little to no costs associated with local regulations.
- > The price of oil has a significant impact on our business not only in terms of fuel but also the cost of vinyl, which is predominantly made of oil. On the negative side, since we are selling products that promote energy efficiency—windows and doors—demand has gone down due to lower energy bills.
- > Uncertainty regarding energy prices is a major issue for capital spending. The question of exporting crude oil is delaying some refinery expansion decisions. Overall, a little clarity in crude oil pricing would go a long ways to getting our business back to normal.

Machinery Manufacturing

- > While lower energy prices reduce the inbound freight we pay and the outbound freight our customers pay, that impact is relatively minor. The biggest impact is on our equipment sales—being the most gas energy efficient lessens the incentive of certain customers to purchase our equipment.
- > We believe that Congress needs to draft legislation to allow the exporting of crude oil and that the Energy Policy and Conservation Act of 1975 should be repealed. Our company builds robotic equipment for the oil industry. The recent decline in West Texas Intermediate (WTI) oil prices has caused a downturn in the U.S. oil industry. Last week we were forced to lay off 12 percent of our work force.

Computer and Electronic Product Manufacturing

- > The strong dollar puts our U.S. original equipment manufacturers customers at a disadvantage. U.S.-made products are too expensive in comparison with Germany and Japan; therefore, our customers are losing competitive edge and the U.S. is losing on exports.

Transportation Equipment Manufacturing

- > Labor shortage is the third major concern that we have insofar as quality skilled maintenance techs are hard to find. But the primary concerns are for energy prices to stay low and the economy strong, in that order.
- > Rising health care costs have become a significant problem.
- > This energy-driven manufacturing facility has been negatively affected by the lower energy prices by reducing manufacturing hours by 35 percent.

Printing and Related Support Activities

- > In general, even our raw materials that involve petroleum feedstocks haven't come down. The suppliers have only reduced the fuel surcharges but not eliminated them. People are acting like this is a temporary drop. Prices at the pump have definitely edged up. The talk we hear is regarding whether we're at the end of the bull business cycle and shouldn't we be getting ready for the next recession. The stronger dollar has helped us buy some really high-end euro capital equipment at reasonable prices.
- > Printing is driven by customer demands, and our production levels for the last two years have basically been the same. Kilowatt hours used in production averages the same month to month, so there is no significant change. The bulk of our business is shipping printed items, and the delivery companies charge a fuel surcharge. We have seen a slight change when fuel prices went down, but when they go up so do our shipping costs.
- > In the manufacturing sector we are seeing difficulty in finding skilled, experienced labor to work in a 24/7 operation.

Furniture and Related Product Manufacturing

- > Continued labor shortages are restraining construction, especially in Texas, and causing a slower than expected order flow. Orders are still strong, however, and the impact may result in a longer, but slower pace recovery that may actually be healthier for us in the long term.

Food Manufacturing

- > There is a lack of good technical skills in our Texas workforce.

