



Texas Manufacturing Outlook Survey

DALLAS FED

September 28, 2015

TEXAS MANUFACTURING ACTIVITY REMAINS STEADY

Texas factory activity was essentially flat in September, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, remained near zero (0.9), suggesting output held steady for a second month in a row after several months of declines.

Other indexes of current manufacturing activity increased in September, but some remained in negative territory. The new orders index posted a second negative reading but rose 8 points to -4.6, and the growth rate of orders index also remained below zero but rose to -4.3. The shipments index pushed to around zero from -3, and the capacity utilization index posted its first positive reading in eight months, coming in at 4.9.

Perceptions of broader business conditions remained weak in September. The general business activity index, which has been negative all year, rose 6 points to -9.5. The company outlook index plunged to -10.3 in August but recovered somewhat this month, climbing to -5.2.

Labor market indicators reflected employment declines and shorter workweeks. The September employment index posted a fifth consecutive negative reading, falling to -6.1. Twelve percent of firms reported net hiring, while 18 percent reported net layoffs. The hours worked index fell markedly from 0.6 to -11.1, suggesting a decline in workweek length from August.

Price and wage pressures were mixed in September. The raw materials prices index came in near zero—suggesting stable input prices—after a -8 reading last month. The finished goods prices index remained negative at -10.9, although it was up from a multiyear low of -15.7 in August. Meanwhile, the wages and benefits index remained positive but edged down to 15.6.

Expectations regarding future business conditions improved very slightly in September. The indexes of future general business activity and future company outlook edged one point further into positive territory. Indexes for future manufacturing activity moved down modestly but remained strongly positive.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Sept. 15–23, and 114 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: October 26, 2015

**Business Indicators Relating to Facilities and Products in Texas
Current (versus previous month)**

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	0.9	-0.8	+1.7	Increasing	1	25.1	50.7	24.2
Capacity Utilization	4.9	-0.2	+5.1	Increasing	1	24.5	55.9	19.6
New Orders	-4.6	-12.5	+7.9	Decreasing	2	24.6	46.3	29.2
Growth Rate of Orders	-4.3	-14.0	+9.7	Decreasing	11	22.4	50.9	26.7
Unfilled Orders	-7.9	-4.6	-3.3	Decreasing	10	10.7	70.7	18.6
Shipments	0.9	-3.0	+3.9	Increasing	1	24.6	51.7	23.7
Delivery Time	-5.8	1.3	-7.1	Decreasing	1	6.1	82.0	11.9
Materials Inventories	-1.0	-5.2	+4.2	Decreasing	2	18.3	62.4	19.3
Finished Goods Inventories	-2.6	-0.9	-1.7	Decreasing	2	15.8	65.8	18.4
Prices Paid for Raw Materials	-0.3	-8.0	+7.7	Decreasing	2	15.8	68.1	16.1
Prices Received for Finished Goods	-10.9	-15.7	+4.8	Decreasing	9	5.9	77.3	16.8
Wages and Benefits	15.6	18.2	-2.6	Increasing	70	20.4	74.8	4.8
Employment	-6.1	-1.4	-4.7	Decreasing	5	11.5	70.9	17.6
Hours Worked	-11.1	0.6	-11.7	Decreasing	1	7.6	73.7	18.7
Capital Expenditures	-8.0	4.0	-12.0	Decreasing	1	10.9	70.2	18.9

**General Business Conditions
Current (versus previous month)**

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-5.2	-10.3	+5.1	Worsening	2	13.4	68.0	18.6
General Business Activity	-9.5	-15.8	+6.3	Worsening	9	14.4	61.7	23.9

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

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	24.7	28.0	-3.3	Increasing	79	37.7	49.2	13.0
Capacity Utilization	21.4	22.8	-1.4	Increasing	79	31.2	59.0	9.8
New Orders	24.1	25.8	-1.7	Increasing	79	37.6	48.8	13.5
Growth Rate of Orders	15.2	18.6	-3.4	Increasing	79	29.7	55.8	14.5
Unfilled Orders	-0.6	0.4	-1.0	Decreasing	1	12.4	74.6	13.0
Shipments	21.2	28.4	-7.2	Increasing	79	36.0	49.3	14.8
Delivery Time	-5.7	-6.8	+1.1	Decreasing	2	5.1	84.1	10.8
Materials Inventories	-5.6	-0.9	-4.7	Decreasing	2	11.1	72.2	16.7
Finished Goods Inventories	-8.2	-2.8	-5.4	Decreasing	2	8.3	75.2	16.5
Prices Paid for Raw Materials	17.6	12.8	+4.8	Increasing	78	22.2	73.1	4.6
Prices Received for Finished Goods	7.3	2.7	+4.6	Increasing	39	18.3	70.6	11.0
Wages and Benefits	41.5	32.4	+9.1	Increasing	136	44.5	52.5	3.0
Employment	6.1	11.4	-5.3	Increasing	34	19.7	66.7	13.6
Hours Worked	6.0	4.4	+1.6	Increasing	7	13.4	79.2	7.4
Capital Expenditures	17.3	9.4	+7.9	Increasing	70	26.0	65.4	8.7

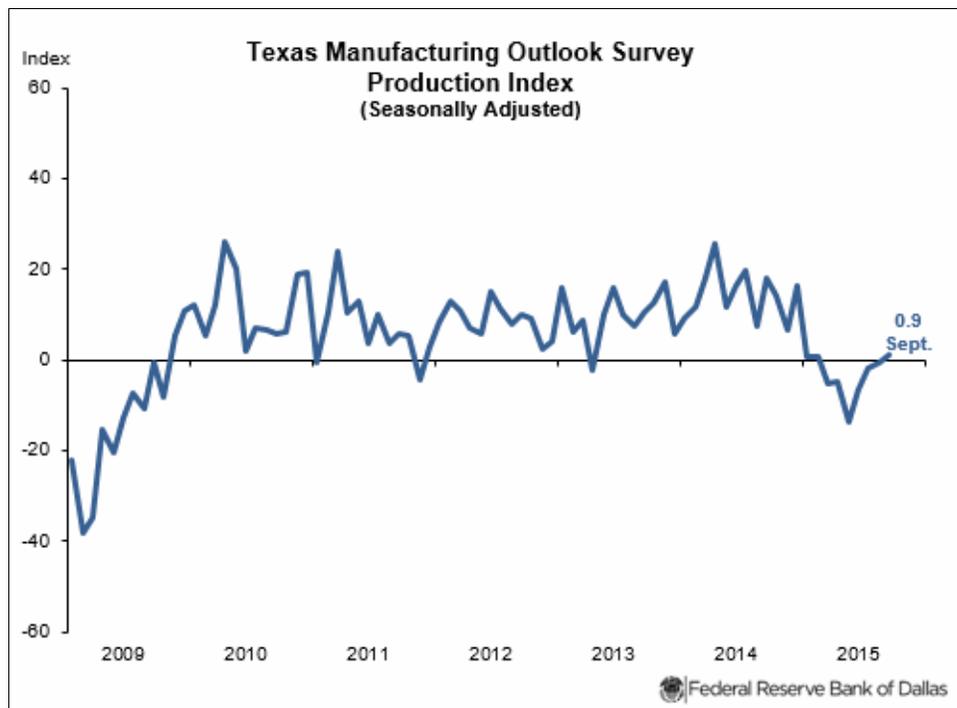
**General Business Conditions
Future (six months ahead)**

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	7.5	6.4	+1.1	Improving	78	20.1	67.3	12.6
General Business Activity	4.8	3.4	+1.4	Improving	5	20.0	64.8	15.2

*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.

Fabricated Metal Manufacturing

- > There is uncertainty in the economy due to China and the European Union issues. Regulatory concerns in the telecom industry, along with the price of oil, have caused reductions.
- > We are doing layoffs for the first time in decades. The market is very ugly, and the U.S. dollar has made us very uncompetitive with foreign suppliers.
- > We expect to see a modest slowdown in low-rise nonresidential new construction starts (measured in volumes) during the next six months.
- > The new swoon of oil prices hurts us. Some recovery, plus our own efforts to diversify, should help us.
- > The instability in the crude oil market continues to have a negative impact on our industry.
- > Machined component orders have risen sharply. Automation work still experiences high levels of interest and quote activity, but orders are very slow in release.

Machinery Manufacturing

- > Until we can get some clarity or stability in the price of oil, there is no way to determine how our company will be affected.
- > Customer orders remain strong. We are starting to see significant upward wage pressure for skilled labor due to fewer available candidates.

Printing and Related Support Activities

- > Continued slowing in the oilfield is impacting us, and we are worried that an increase in interest rates will add to fears in next six months.
- > We have a new initiative here in Texas and have piloted it in another plant in a different state that will improve throughput, and longer term, will probably drive employment downward through attrition. We do not have any layoffs planned. Price pressures from large customers continue unabated. Although historically successful at driving out cost from our processes, we have to accelerate our results in that regard. The objective is to double the throughput of assets in place.

Food Manufacturing

- > The strong dollar continues to slow our export sales activity. Political instability in Latin America has also caused a decline in sales and sales activity. Domestic labeling laws, especially concerning genetically modified organisms, could cost the industry billions without any real benefit to consumers in our opinion.

Miscellaneous Manufacturing

- > Until the market stops its downtrend and begins rising, we will remain in slow times. There are too many layoffs in the oil and gas industry. This is not good for retail.
- > Improvements and growth are the result of internal improvement initiatives. Our market and macro factors are not very good currently. Growth is still less than desired and below what it was a few years ago. A stifling regulatory environment, overtaxation and a low-quality labor market are the main causes that prevent greater business expansion.

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/.

