Texas Manufacturing Outlook Survey

DALLASFED

June 27, 2016

Texas Manufacturing Activity Declines Again

What's New This Month

For this month's survey, Texas business executives were asked supplemental questions on the impact of lower energy prices. Results for these questions from the Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS) have been released together.

Texas factory activity declined again in June, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, posted a second consecutive negative reading but rose from -13.1 to -7.0, suggesting the pace of contraction eased somewhat from May.

Other measures of current manufacturing activity also reflected continued declines this month. The new orders index held steady at -14.2, while the growth rate of orders index fell four points to -18.6. The capacity utilization and shipments indexes remained negative for a second month but edged up, coming in at -9.3 and -8.6, respectively.

Perceptions of broader business conditions stayed pessimistic in June. The general business activity index has been negative since January 2015 and came in at -18.3 this month, up slightly from its May reading. The company outlook index posted a seventh consecutive negative reading but rose 5 points to -11.0.

Labor market measures indicated a sixth month of contraction in a row in June. The employment index fell to -11.5, its lowest reading since November 2009. The decline in the index was largely due to a falloff in the share of firms adding to headcounts. Only six percent of firms noted net hiring in June, down from 16 percent last month and well below the 18 percent noting net layoffs. The hours worked index edged down one point to -12.8, signaling continued contraction in workweek length.

Price pressures were mixed, and wages continued to rise. Input costs rose for a third month in a row, as the raw materials prices index held steady at 12.6. Selling prices continued to decline, with the finished goods prices index edging down to -5.2 in June. Meanwhile, the wages and benefits index stayed positive and relatively unchanged at 21.6, suggesting a continued rise in compensation.

Expectations regarding future business conditions improved in June. The index of future general business activity bounced back to a positive reading of 2.6 after dipping below zero last month. The index of future company outlook also ticked up, coming in at 7.9. Most indexes for future manufacturing activity pushed further into positive territory in June.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected June 14–22, 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: July 25, 2016

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	-7.0	-13.1	+6.1	Decreasing	2	22.4	48.3	29.4
Capacity Utilization	-9.3	-11.0	+1.7	Decreasing	2	17.9	54.9	27.2
New Orders	-14.2	-14.9	+0.7	Decreasing	2	19.9	45.9	34.1
Growth Rate of Orders	-18.6	-14.7	-3.9	Decreasing	20	14.2	53.0	32.8
Unfilled Orders	-13.6	-9.3	-4.3	Decreasing	19	13.3	59.8	26.9
Shipments	-8.6	-11.5	+2.9	Decreasing	2	22.3	46.8	30.9
Delivery Time	-7.6	-4.6	-3.0	Decreasing	7	6.6	79.2	14.2
Materials Inventories	-6.0	-2.5	-3.5	Decreasing	11	16.4	61.2	22.4
Finished Goods Inventories	-4.4	-8.1	+3.7	Decreasing	2	14.0	67.5	18.4
Prices Paid for Raw Materials	12.6	12.4	+0.2	Increasing	3	21.4	69.8	8.8
Prices Received for Finished Goods	-5.2	-3.3	-1.9	Decreasing	18	8.0	78.8	13.2
Wages and Benefits	21.6	21.8	-0.2	Increasing	79	25.2	71.2	3.6
Employment	-11.5	-6.7	-4.8	Decreasing	6	6.4	75.7	17.9
Hours Worked	-12.8	-11.8	-1.0	Decreasing	6	11.4	64.4	24.2
Capital Expenditures	-2.1	-6.6	+4.5	Decreasing	2	14.2	69.5	16.3

General Business Conditions Current (versus previous month)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-11.0	-16.1	+5.1	Worsening	7	13.2	62.6	24.2
General Business Activity	-18.3	-20.8	+2.5	Worsening	18	12.1	57.5	30.4

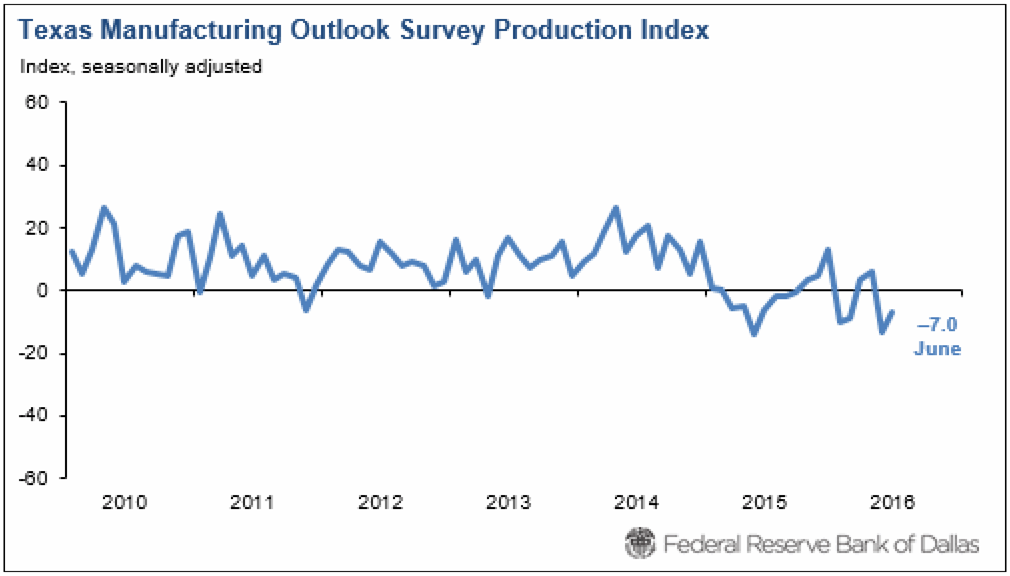
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	27.1	24.6	+2.5	Increasing	88	39.7	47.8	12.6
Capacity Utilization	21.9	25.7	-3.8	Increasing	88	34.5	52.9	12.6
New Orders	26.6	24.0	+2.6	Increasing	88	38.4	49.7	11.8
Growth Rate of Orders	20.3	10.2	+10.1	Increasing	88	28.3	63.7	8.0
Unfilled Orders	2.1	2.1	0.0	Increasing	9	15.9	70.3	13.8
Shipments	27.6	24.4	+3.2	Increasing	88	40.6	46.3	13.0
Delivery Time	0.5	-4.4	+4.9	Increasing	1	9.4	81.7	8.9
Materials Inventories	-10.2	-6.7	-3.5	Decreasing	2	14.8	60.2	25.0
Finished Goods Inventories	-10.2	-8.6	-1.6	Decreasing	4	12.0	65.7	22.2
Prices Paid for Raw Materials	14.8	20.0	-5.2	Increasing	87	18.5	77.8	3.7
Prices Received for Finished Goods	6.7	3.8	+2.9	Increasing	5	14.2	78.3	7.5
Wages and Benefits	31.6	31.4	+0.2	Increasing	145	34.6	62.4	3.0
Employment	12.2	2.7	+9.5	Increasing	43	25.4	61.4	13.2
Hours Worked	4.6	-4.4	+9.0	Increasing	1	18.5	67.6	13.9
Capital Expenditures	7.7	2.9	+4.8	Increasing	79	18.3	71.2	10.6

General Business Conditions Future (six months ahead)								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	7.9	4.4	+3.5	Improving	5	22.1	63.7	14.2
General Business Activity	2.6	-1.8	+4.4	Improving	1	19.3	64.0	16.7

*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.

Primary Metal Manufacturing

- I have a feeling that business has slowed down. New orders have decreased and phone activity has been slowing over the past two months.
- Projected sales improved slightly in June.

Fabricated Metal Product Manufacturing

- Summer is the slowest time of the year for our business. We will be going to a four-day workweek.
- Bookings have become less choppy and are gaining some momentum. Steel prices are rising, which necessitated passing price increases on to our customers. We view this positively. Our three publicly-available leading indicators for low-rise (less than five stories) nonresidential construction starts measured in square feet are single family residential starts, mixed practice Architecture Billings Index, and the Conference Board Leading Economic Index. Together and seasonally adjusted these three indicators have a 97 percent correlation with Dodge historically-reported actual low-rise nonresidential construction starts and point to 7-8 percent year-over-year growth for the remainder of the year.
- Some Midcontinent and Permian Basin oil and gas exploration and production companies have increased their activity and demand for our products. However, the consensus remains a wait-and-see approach. We have seen a slight increase in order activity but orders are relatively small and short-lived while continuity is questionable.
- Based on year-to-date customer orders compared with the same period in 2015: 25 percent of customers have increased purchases (including new customers), 55 percent of customers have decreased purchases, and 20 percent of customers have ordered nothing. Revenue has declined 28 percent over the same period. Customers remain very cautious with their inventory levels.

Machinery Manufacturing

- Low oil prices continue to have a negative effect on general industry and business in South Texas.
- The oil industry is suffering due to the crude price plunge worse now than in the 1980s. For the ninth month U.S. industrial production declined year over year. This is a recession. There is a continued significant negative impact due to the downturn in the energy industry as a result of weak commodity prices. Recent slight improvement in commodity prices is having no positive impact on business conditions, although it may be slowing the pace of deceleration in business activity.
- Orders continue to be steady. Wages and benefits are rising at an increased rate that will require price increases to be implemented or a deterioration in margins.
- Tariffs applied to steel imports are adversely affecting small to medium business and consumers to a greater extent than the help provided to the large U.S. steel producers. With tariff protection, steel companies are reducing capacity and simultaneously raising pricing beyond just the basics of supply and demand. This is not good for the majority over the long run.
- There are some prospects for improvements in land drilling, but our business—deepwater drilling—looks to be in deep trouble. The number of rigs that are being stacked and the long lead time to bring those rigs back into service makes the outlook very pessimistic. We'll have to find an alternative or face a shell of a company.

Computer and Electronic Product Manufacturing

- Industrial production and machinery exports are hurting big time. The global economy, dollar and EuroAsia financial problems are not helping American manufacturers.
- Macroeconomic concerns are causing softening in demand.

Electrical Equipment, Appliance, and Component Manufacturing

- We are at a pretty steady state. It is hard to completely judge June until it is over. The last week of the month can be pretty big due to our industry's accounts receivables dating, which lures people to take shipments after the 25th of any month. In general we have been telling people for a couple years that things are "ok" or "good," but not great. Pricing for our products is dependent on competitors to a large degree and that is also very unpredictable.

Transportation Equipment Manufacturing

- Our business is seasonal, so we generally see a downturn in fall/winter. This is not an indication of economic conditions.
- The economy is nervous, shaky and uncertain. Fed policy has us locked into a lethargic and tenuous position. It appears the Fed doesn't know how to get off the horse it created. The Fed talks interest rate increases but looks for every reason not to do it. Until the Fed backs out of trying to manage the economy, we will be stuck on the cusp of slow growth and a recession. Add the difficulty in getting commercial and retail financing and rising employee costs (health care, minimum wage threats and the ridiculous overtime executive order), and hiring for many of us will be minimal. We cannot have millions of people out of the workforce and be healthy economically—they are a burden not a benefit.

Food Manufacturing

- We are bringing on another facility in March 2017, which will increase our capacity significantly.
- Business remains fairly flat other than some new product successes.

Textile Product Mills

- Labor availability in Juarez and other areas of Mexico has tightened considerably.

Wood Product Manufacturing

- We are nearly halfway through the year, and results exceed expectations by slightly more than 5 percent. Customer demand remains elevated. We expect the second half to equal or exceed the first, with monthly results within a tight range +/-. Our market is exclusively single-family new home builders in Dallas–Fort Worth.

Paper Manufacturing

- We saw a slight increase from May, although it was an easy comparison as May was a very slow month.

Printing and Related Support Activities

- June has become stupid slow for us, and we are not sure why. We have a decent backlog of work but nothing is here for us to work on now. We are very worried about this goofy decision by the Department of Labor to adjust salary levels for overtime; that makes zero sense to us and will have a negative impact on how we go about compensating office people.

Miscellaneous Manufacturing

- We are experiencing major demand instability in the U.S. Continued management focus on upcoming regulatory changes is keeping us from pursuing new markets (especially internationally) and delaying making long-term investments. Major human resources policy updates and changes have resulted in eliminating positions (in the future as people are promoted or leave the company they will not be replaced) and considering moving all salary people who do not travel to hourly. Although we need more people, we are increasing the requirements for the open positions to reflect higher cost thresholds and most likely will delay hiring decisions for most positions until the impacts of the changes are fully understood.
- The Affordable Care Act (ACA) continues a downward push on productivity as it limits our hiring because we can't afford the estimated 60 percent increase in health care premiums that an ACA-compliant policy would cost. Steel raw material costs are rising, but the steel scrap is falling, therefore increasing our costs. Customers are not accepting price increases. It is slow, and the general business climate seems tepid at best.

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/.

Texas Business Outlook Surveys

DALLASFED

June 27, 2016

Special Questions

Results below include responses from participants of all three surveys: Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

Data were collected June 14–22, and 347 Texas business executives responded to the surveys.

Oil prices today are near $50 per barrel, up from $30 lows earlier this year but still down from $60 a year ago and down from over $100 in mid-2014. Natural gas prices are near $1.90 per million British thermal units, down from $3 a year ago.

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

	Jun. '16 (percent)	Jun. '15 (percent)
Decreased demand from our customers	41.2	30.4
No effect	31.3	32.9
Decreased our firm’s costs (input/raw materials prices, wages and benefits, etc.)	31.0	40.0
Increased demand from our customers	7.8	12.1
Increased our firm’s costs (input/raw materials prices, wages and benefits, etc.)	3.0	1.8

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

	Jun. '16 (percent)	Jun. '15 (percent)
Slight positive impact	29.2	37.5
Slight negative impact	27.4	22.5
No impact	20.8	18.2
Significant negative impact	18.8	14.3
Significant positive impact	3.9	7.5

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

	Jun. '16 (percent)	Jun. '15 (percent)
Government regulation	75.1	68.4
U.S. economy	62.9	60.4
Energy prices	36.5	30.2
Labor shortages	31.6	37.8
Interest rates	22.6	33.3
Strong dollar	13.0	17.4
Real estate values	10.4	9.4
Other	15.9	14.9

NOTE: Survey respondents were given the opportunity to provide comments. These comments can be found on the individual survey Special Questions results pages, accessible by the tabs above.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org, and questions regarding the Texas Service Sector Outlook Survey or the Texas Retail Outlook Survey can be addressed to Amy Jordan at amy.jordan@dal.frb.org.

The Texas Business Outlook Surveys can be found online at www.dallasfed.org/research/surveys/.

Texas Manufacturing Outlook Survey

June 27, 2016

SPECIAL QUESTIONS

Data were collected June 14–22, and 96 Texas manufacturers responded to the surveys.

Oil prices today are near $50 per barrel, up from $30 lows earlier this year but still down from $60 a year ago and down from over $100 in mid-2014. Natural gas prices are near $1.90 per million British thermal units, down from $3 a year ago.

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

	Jun. '16 (percent)	Jun. '15 (percent)
Decreased demand from our customers	41.8	34.0
Decreased our firm's costs (input/raw materials prices, wages and benefits, etc.)	39.6	47.9
No effect	24.2	23.4
Increased demand from our customers	6.6	12.8
Increased our firm's costs (input/raw materials prices, wages and benefits, etc.)	2.2	3.2

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

	Jun. '16 (percent)	Jun. '15 (percent)
Slight positive impact	28.6	41.9
Significant negative impact	23.1	25.8
No impact	20.9	11.8
Slight negative impact	18.7	9.7
Significant positive impact	8.8	10.8

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

	Jun. '16 (percent)	Jun. '15 (percent)
Government regulation	81.1	72.2
U.S. economy	69.5	63.9
Energy prices	37.9	40.2
Labor shortages	27.4	38.1
Strong dollar	26.3	27.8
Interest rates	12.6	18.6
Real estate values	1.1	0.0
Other	22.1	15.5

Special Questions Comments

These comments have been edited for publication.

Fabricated Metal Product Manufacturing

- We are a small machining business in the aerospace, satellite and power business. Too-low energy prices mean less drilling, which means less parts and more competition from machining companies that are not familiar with these other industries. These companies quote work too cheaply, which drives down already slim margins. We need prices in the $65 to $75 range to pick that industry up, especially here in Texas.
- Business owners are cautious in the face of pending normalization of unprecedented global debt levels. Artificially low interest rates supporting central bank objectives designed to maintain the status quo are preventing creative destruction and price discovery in the marketplace.
- Customers have changed buying habits to buy everything with sufficient lead time and/or over $100,000 in China or Korea.
- Taxes (federal, state and local), governmental intrusion and health care costs continue to be major concerns of our business. These issues are greater impediments than a stronger dollar to our business.
- We have a deep need for secure borders, a balanced hydrocarbon-based national energy policy and pro-business executive and legislative branches.

Machinery Manufacturing

- The strong dollar is a double whammy—it reduces the price of oil, thereby reducing demand, while simultaneously makes it harder for us to export our product.
- My immediate concern is crude oil pricing. My long-term concern is debasement of the U.S. dollar.
- The Affordable Care Act is stifling our business. This has to be one of the worst things beside all of the other federal regulations that are destroying our business.
- Government regulations announced for implementation prior to year-end are all cost increases that will result in a combination of higher prices and/or lower profitability. Health care costs for smaller companies are out of control.

Computer and Electronic Product Manufacturing

- Macroeconomic conditions of the global economy appear to be causing a softening in demand.
- Interest rates have been too low for too long.

Transportation Equipment Manufacturing

- Right now, the energy pricing impact has been slight. We are worried that the impact will accelerate in the second half of the year given that tax receipts will be likely down significantly.
- All choices for Question 3 have an extreme negative effect—barely holding on.
- Unlike many industries, the auto industry truly benefits from lower prices at the pump, especially the trucks that we build in San Antonio. As long as gas prices stay low and the economy continues to grow, people buy more trucks and that helps our business.

Food Manufacturing

- There is no doubt that government regulation continues to grow as a major concern for our business and probably all businesses. Regardless of someone's view on politics or the merits of each new regulation passed, everyone should agree that the basic costs to education and compliance are staggering. Ultimately, those costs are passed on to Americans one way or another. A cost-benefit analysis is probably not considered by the regulators, but if it is, the rule of thumb must be to strive for an uncertain benefit at any cost.

Furniture and Related Product Manufacturing

- Excessive government regulation continues to cause increased costs and wasted time. It is impacting health care costs, environmental costs and overhead operating costs. Labor shortages, especially skilled trades, are constraining the construction industry and limiting growth.

Paper Manufacturing

- Runaway costs on health care due to our older workforce. In manufacturing it has been hard to find younger workers to replace those retiring.

Printing and Related Support Activities

- Low energy benefits us quite a bit, with the exception that in Texas so much of the general economic activity revolves around oil and gas, which are severely reduced from previous levels. This is a little bit of a catch 22, and we are not sure if this is having any impact on the amount of and volume of reduced orders we are seeing.

Texas Service Sector Outlook Survey

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June 27, 2016

SPECIAL QUESTIONS

Data were collected June 14–22, and 251 Texas business executives responded to the surveys.

Oil prices today are near $50 per barrel, up from $30 lows earlier this year but still down from $60 a year ago and down from over $100 in mid-2014. Natural gas prices are near $1.90 per million British thermal units, down from $3 a year ago.

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

	Jun. '16 (percent)	Jun. '15 (percent)
Decreased demand from our customers	41.0	28.5
No effect	34.0	37.6
Decreased our firm's costs (input/raw materials prices, wages and benefits, etc.)	27.9	36.0
Increased demand from our customers	8.2	11.8
Increased our firm's costs (input/raw materials prices, wages and benefits, etc.)	3.3	1.1

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

	Jun. '16 (percent)	Jun. '15 (percent)
Slight negative impact	30.6	28.9
Slight positive impact	29.4	35.3
No impact	20.8	21.4
Significant negative impact	17.1	8.6
Significant positive impact	2.0	5.9

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

	Jun. '16 (percent)	Jun. '15 (percent)
Government regulation	72.8	66.5
U.S. economy	60.4	58.6
Energy prices	36.0	25.1
Labor shortages	33.2	37.7
Interest rates	26.4	40.8
Real estate values	14.0	14.1
Strong dollar	8.0	12.0
Other	13.6	14.7