



Federal Reserve
Bank of Dallas

Regional Manufacturing Outlook

Financial Executives International—Dallas
Manufacturing/Distribution CFO Series

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1

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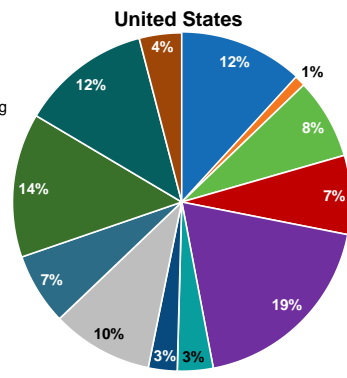
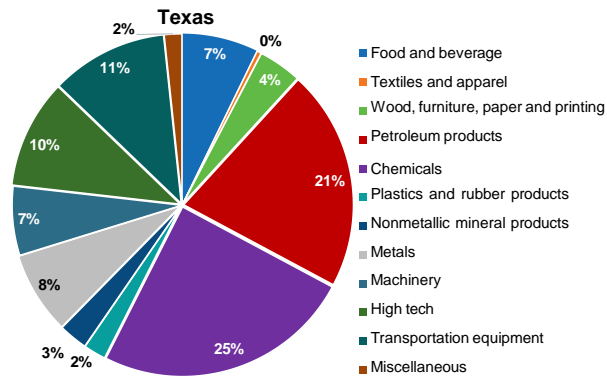
Texas produces 10% of U.S. goods; #2 manufacturing state

Manufacturing sector highly correlated with business cycle

Dallas Fed's Manufacturing Survey offers early look at trends

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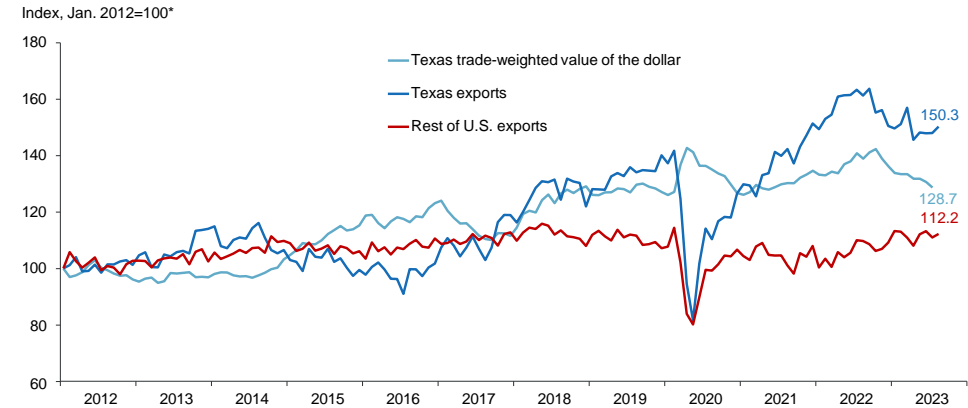
Texas manufacturing is diversified, but gasoline/chemicals heavy



NOTES: Shown are shares of Texas and U.S. manufacturing GDP by industry. GDP data are from 2022. Shares may not sum to 100 due to rounding.
 SOURCES: U.S. Census Bureau; Bureau of Labor Statistics.

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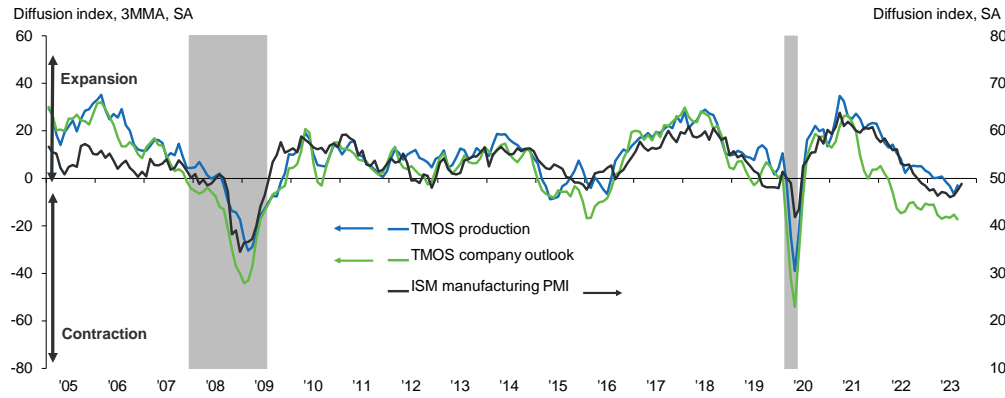
Texas is #2 in manufacturing and #1 in exports!



NOTES: Seasonally adjusted, real dollars. Export data through August 2023; trade-weighted value of the dollar through July 2023.
 SOURCES: U.S. Census Bureau; Bureau of Labor Statistics; seasonal and other adjustments by FRB Dallas.

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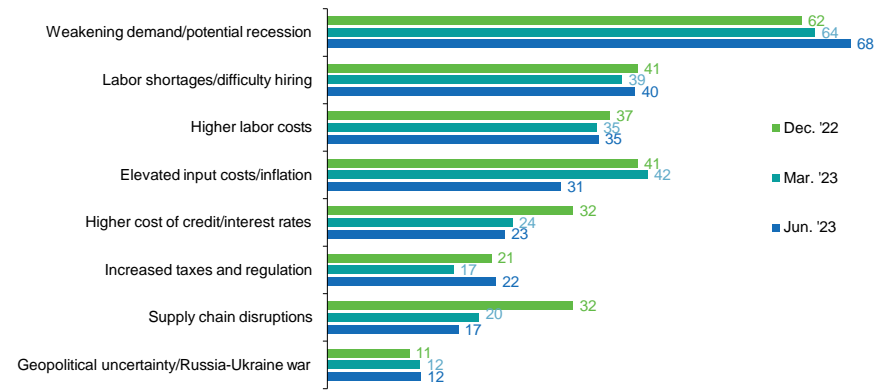
Manufacturing production fell with rate increases but improving now; still, outlook is pessimistic



NOTES: Data through September 2023. Shaded bars indicate recessions.
 SOURCES: Federal Reserve Bank of Dallas, Texas Manufacturing Outlook Survey, Institute for Supply Management.

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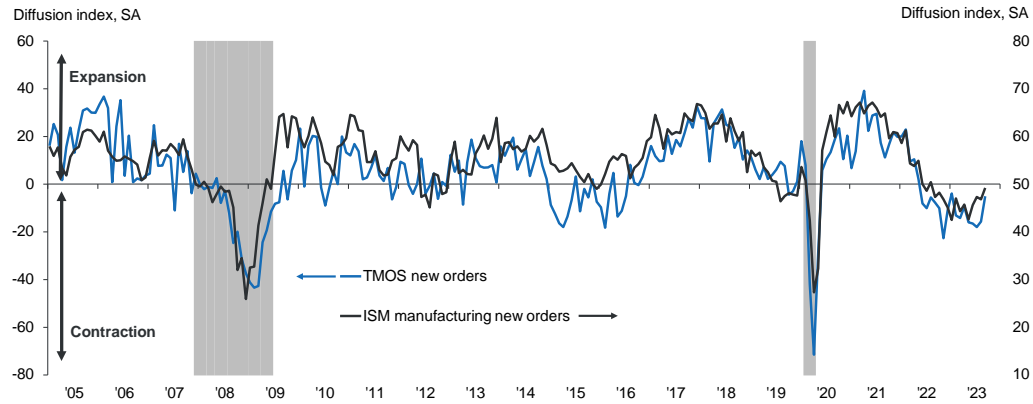
Manufacturing firms fear potential recession above other factors



NOTES: Participants were asked, "What are the primary concerns around your firm's outlook over the next six months, if any? Please select up to three." 82 responses.
 SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey.

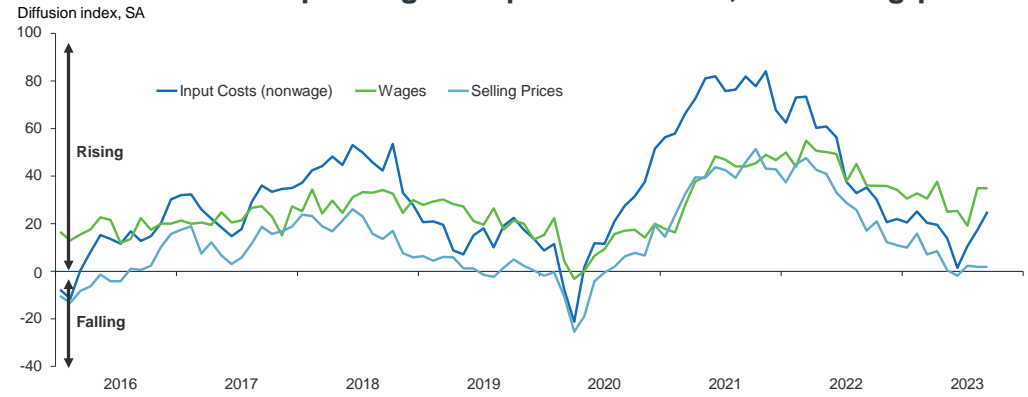
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Among Texas manufacturers, new orders stabilizing?



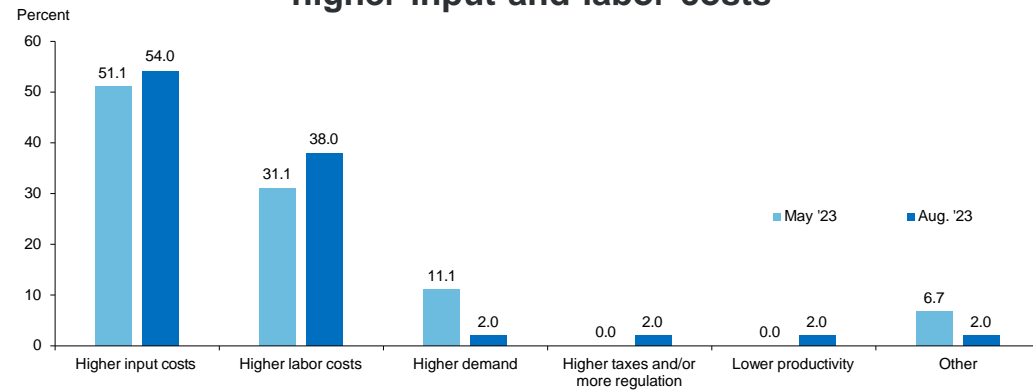
NOTES: Data through September 2023. Shaded bars indicate recessions.
 SOURCES: Federal Reserve Bank of Dallas, Texas Manufacturing Outlook Survey, Institute for Supply Management.

Profit squeeze? Manufacturers report higher input/labor costs, flat selling prices



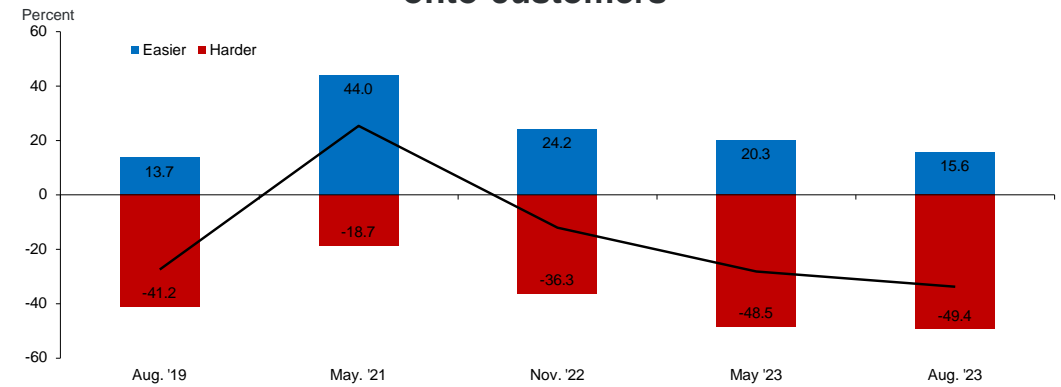
NOTES: Data through September 2023.
 SOURCE: Federal Reserve Bank of Dallas, Texas Manufacturing Outlook Survey.

Selling price increases are currently driven by higher input and labor costs



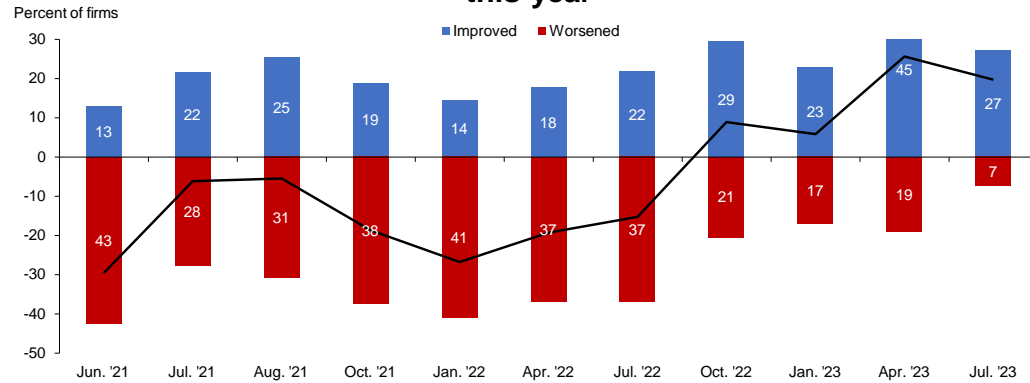
NOTES: Participants were asked, "What is the primary driver of the increase in selling prices?" This question was only posed to those expecting an increase in selling prices this year. 50 responses.
 SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey.

But firms are now finding it harder to pass higher costs onto customers



NOTES: Participants were asked, "If costs (including wages) are increasing, how has your firm's ability to pass those increases on to customers changed over the past three months? Black line represents the net difference between respondents who answered "easier" and respondents who answered "harder" in a given date. 64 responses.
 SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey.

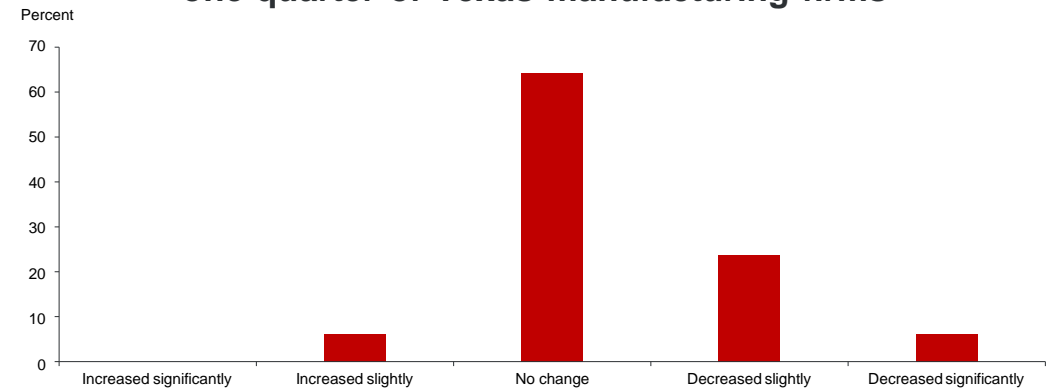
Availability of manufacturing applicants has improved this year



NOTES: Respondents were asked, "How has the availability of applicants changed over the past month?" Share reporting "no change" not shown. Black line shows net improved in each period. 81 responses.
SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey.

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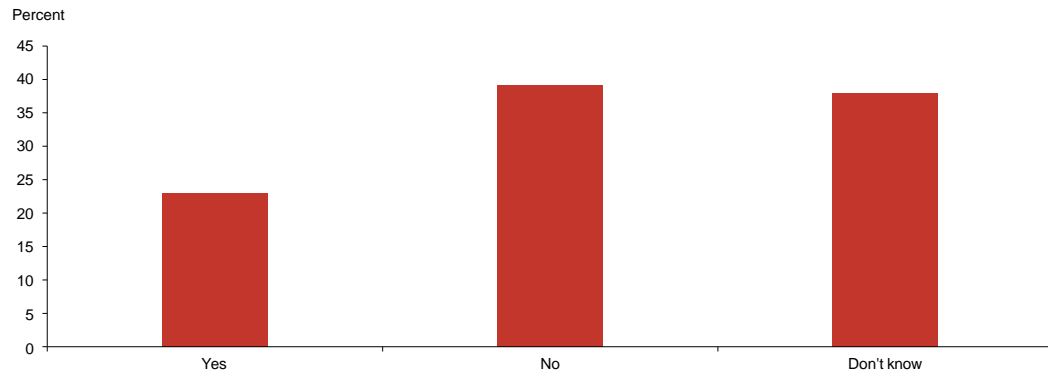
Other challenges: Summer heat adversely impacted about one-quarter of Texas manufacturing firms



NOTES: Participants were asked, "How has your firm's revenue and production been impacted by the recent heat wave?" 84 responses.
SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey.

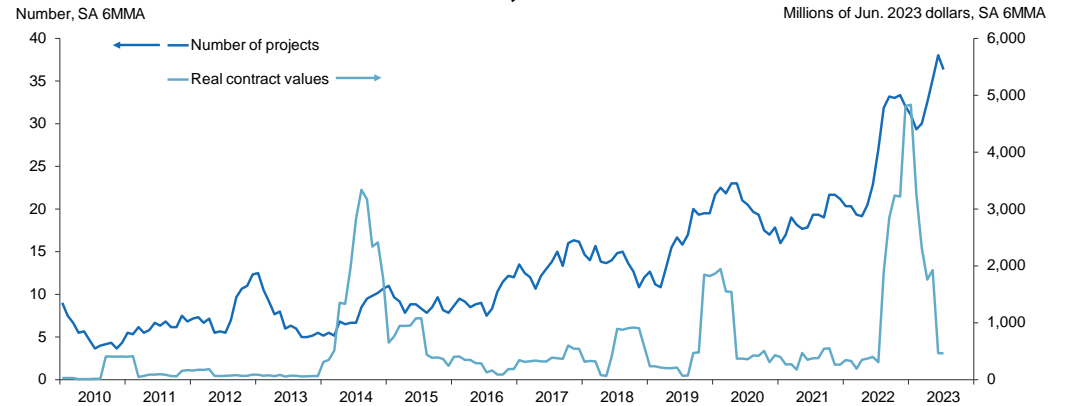
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What about fiscal stimulus? Most firms see little impact yet from recent federal government legislation



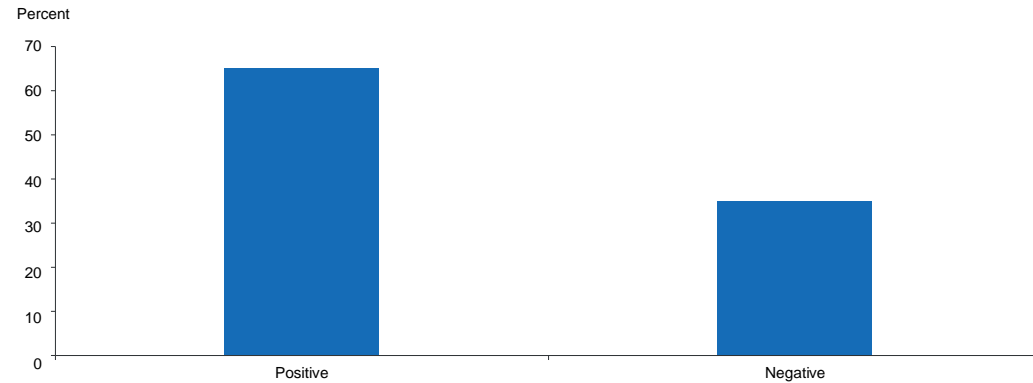
NOTES: 87 responses. Participants were asked, "Has your firm been impacted, or do you expect to be impacted, by recent federal government legislation, including the IRA (Inflation Reduction Act), CHIPS Act (Creating Helpful Incentives to Produce Semiconductors and Science), or the IJIA (Infrastructure Investment and Jobs Act)?"
 SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey.

Record-high manufacturing construction in Texas points to fiscal stimulus, LNG boom



NOTE: Data are Internal-FR.
 SOURCES: F.W. Dodge, seasonal and other adjustments by Federal Reserve Bank of Dallas.

Surprisingly, 35 percent of manufacturing firms said the IRA/IIJA/CHIPS impact was negative



NOTES: 20 responses. Participants were asked, "On net, is the impact on your firm (from recent government legislation) positive or negative?" This question was only posed to those who answered "Yes" to the previous question.
SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey.

Conclusions

- Growth in manufacturing has been slowing since early 2022
 - Manufacturing is interest rate sensitive because it's tied to capital expenditures
 - Recent data is slightly better, but the outlook remains pessimistic
- Rest of the economy has been resilient, strong
 - Texas employment growth has been slowing, but will still finish the year well above its trend and the nation
 - Texas growth is boosted by a good business climate, as well as high oil prices, and migration
- Risks to the outlook are to the downside
 - Inflation, higher interest rates, and slower global growth all weigh on the near-term outlook

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