

What is the Texas Manufacturing Outlook Survey and What Does It Tell Us?

The Dallas Fed publishes a monthly statewide manufacturing survey called the Texas Manufacturing Outlook Survey (TMOS). The survey respondents are local executives who report on a number of indicators, such as production, new orders, employment, prices and company outlooks. Respondents also provide their expectations on the broader economy and general state of business as well as how conditions have changed from the prior month and the prior six months. Survey responses are collected and analyzed by the Federal Reserve Bank of Dallas and published at the end of every month.

TMOS, also known as the Dallas Fed Manufacturing Survey, first started in 2004. Only about 100 Texas-based manufacturers regularly participate in TMOS, yet the **survey is considered an excellent representation of the broader economy as Texas accounts for almost 10% of the country's output.**

An index value greater than zero suggests the indicator has increased over the prior month while a value below zero indicates the majority of respondents reported a decline in economic activity during the period. Indices are seasonally adjusted as needed.

While certain TMOS indices have proven to be very useful measures of the national economy it is primarily a regional survey and its key indices are highly correlated with state-level employment and business activity. Production, new orders, employment and general business activity indices are also correlated with several independently reported measures of the U.S. economy, including the manufacturing component of industrial production and the Institute for Supply Management's Purchasing Managers Index. The **TMOS is most alluring to investors due to its relative timeliness.** Different from other indicators which are typically released on a lag, the October survey, for example, used data collected from October 18th through 26th and was published by October 31st. The TMOS data provides a foretelling glimpse to follow-up national economic indicators as the survey is **available up to three weeks earlier than industrial production and PMI.**

TMOS focuses on the manufacturing sector as Texas ranks second behind California in factory production and first as an exporter of manufactured goods. Texas also turns out a large share of the country's production of petroleum and coal products. Their high concentration in the energy industry has given the survey increased importance in recent years due to the impact low oil prices has had on the region. More recently the survey has been utilized in tracking and forecasting the 2016 turnaround in coal prices and I fully expect future data to be heavily analyzed in light of the bull market that has erupted in the S&P industrials since the election. Due to the high cyclical nature of the manufacturing sector, swings in business activity are often felt more quickly and intensely making the survey more useful for understanding changes in the general economy.

October's Results & What to Expect from November's Survey:

Last month (October) the production index came in at 6.7%. This followed up a very bullish 16.7% reading for September as well as 4.5% in August. Recent data continues to suggest that production is increasing as October represents the fourth consecutive positive production index reading.

The general business activity (GBA) index is the most important figure reported and measures the spread between businesses who report improving business activity vs. those who report worsening activity during the month. This indicator has been negative for 22 consecutive months now. But in line with the recent increases in the production index, the GBA index has been edging closer to positive territory. After inching back from a -6.2% reading in August, to -3.7% and -1.5% in September and October, respectively, the **consensus estimate for November's reading is +2%.**

With economists forecasting a positive reading for November we will see if the GBA index can finally break its streak of nearly two years of worsening month-over-month conditions. Texas business owners certainly seem optimistic about it. The survey also asks respondents for their expectations of general business activity for the upcoming 6-months; this indicator has been positive for five consecutive months now. The Texas Manufacturing Outlook Survey will be released at 10:30 EST today. You can access it from the link below.

<http://dallasfed.org/microsites/research/surveys/tmos/release.cfm>