



# Texas Manufacturing Outlook Survey

DALLAS **FED**

June 24, 2013

## TEXAS MANUFACTURING ACTIVITY SURGES AND OUTLOOK IMPROVES

Texas factory activity increased sharply in June, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose six points to 17.1, posting its highest reading in more than two years.

Notably stronger manufacturing activity was reflected in other survey measures as well. The new orders index climbed to 13 in June, a level not seen since July 2011. The capacity utilization index rose to a two-year high, jumping from 6.4 to 15.3. The shipments index advanced 12 points to 15.4.

Perceptions of broader business conditions rebounded strongly in June. The general business activity index rose to 6.5 after posting negative readings in April and May. The company outlook index soared 20 points to 13.3, reaching its highest level in 16 months.

Labor market indicators reflected steady labor demand and longer workweeks. The employment index was zero in June, suggesting no change in employment levels. The hours worked index moved up to 4.8 after four months in negative territory.

Price movements were mixed in June; input prices and wages rose while selling prices declined. The raw materials price index increased again this month, rising from 6.4 to 14.3. The wages and benefits index also strengthened, from 14 to 20, although the great majority of manufacturers continued to note no change in compensation costs. The finished goods price index remained negative for the third month in a row but moved up from -8.3 to -2.1. Looking ahead, 33 percent of respondents anticipate further increases in raw materials prices over the next six months, while 25 percent expect higher finished goods prices.

Expectations regarding future business conditions improved significantly in June. The index of future general business activity surged to 14.7 after negative readings in April and May. The index of future company outlook rose sharply as well, coming in at 21.8. Indexes for future manufacturing activity also moved up.

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 11–19, and 95 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.

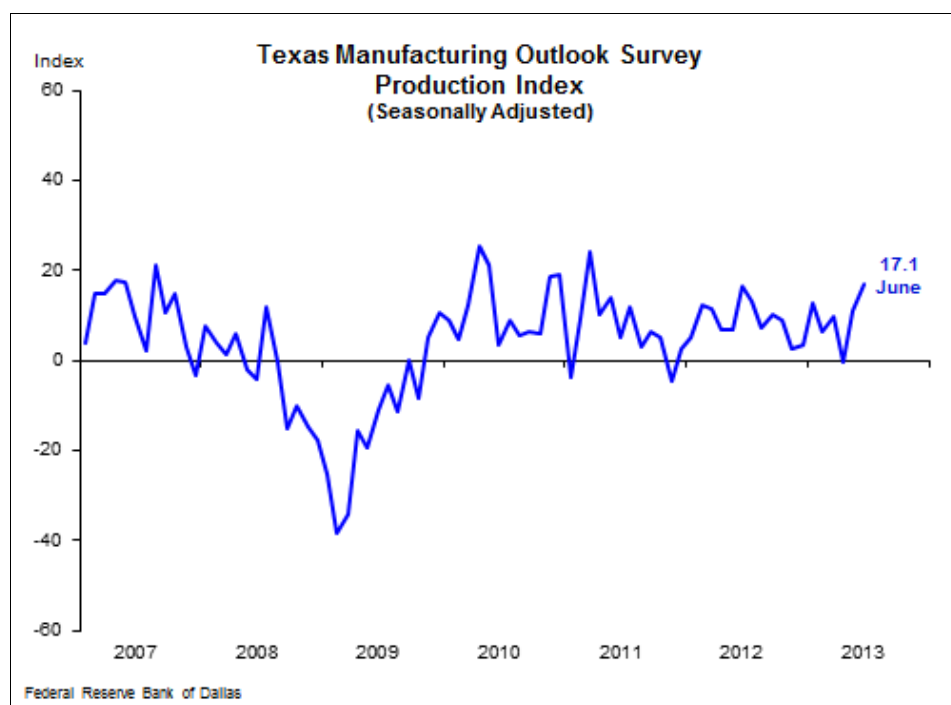
**Next release:** July 29, 2013

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	17.1	11.2	+5.9	Increasing	2	34.5	48.1	17.4
Capacity Utilization	15.3	6.4	+8.9	Increasing	7	31.9	51.5	16.6
New Orders	13.0	6.2	+6.8	Increasing	2	36.0	41.1	23.0
Growth Rate of Orders	7.1	-4.3	+11.4	Increasing	1	27.3	52.5	20.2
Unfilled Orders	-0.4	-8.3	+7.9	Decreasing	12	18.9	61.8	19.3
Shipments	15.4	3.1	+12.3	Increasing	2	32.4	50.6	17.0
Delivery Time	3.2	3.3	-0.1	Increasing	2	11.6	80.0	8.4
Materials Inventories	0.3	-7.3	+7.6	Increasing	1	16.5	67.3	16.2
Finished Goods Inventories	-2.1	0.0	-2.1	Decreasing	1	11.6	74.7	13.7
Prices Paid for Raw Materials	14.3	6.4	+7.9	Increasing	47	21.0	72.3	6.7
Prices Received for Finished Goods	-2.1	-8.3	+6.2	Decreasing	3	8.4	81.1	10.5
Wages and Benefits	20.0	14.0	+6.0	Increasing	43	20.0	80.0	0.0
Employment	0.2	-6.3	+6.5	Increasing	1	13.0	74.2	12.8
Hours Worked	4.8	-2.3	+7.1	Increasing	1	18.9	67.0	14.1
Capital Expenditures	9.9	2.2	+7.7	Increasing	11	21.6	66.7	11.7
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	13.3	-6.8	+20.1	Improving	1	25.8	61.7	12.5
General Business Activity	6.5	-10.5	+17.0	Improving	1	20.5	65.5	14.0
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	40.6	34.6	+6.0	Increasing	52	49.2	42.1	8.6
Capacity Utilization	37.2	27.9	+9.3	Increasing	52	44.1	49.0	6.9
New Orders	33.2	26.9	+6.3	Increasing	52	42.2	48.8	9.0
Growth Rate of Orders	26.3	18.6	+7.7	Increasing	52	35.2	55.9	8.9
Unfilled Orders	6.6	0.0	+6.6	Increasing	1	16.5	73.6	9.9
Shipments	36.9	30.1	+6.8	Increasing	52	44.0	49.0	7.1
Delivery Time	-3.2	-5.4	+2.2	Decreasing	17	7.5	81.8	10.7
Materials Inventories	-2.2	2.2	-4.4	Decreasing	1	15.6	66.7	17.8
Finished Goods Inventories	0.0	2.2	-2.2	Unchanged	1	12.2	75.6	12.2
Prices Paid for Raw Materials	29.2	27.8	+1.4	Increasing	51	32.6	64.0	3.4
Prices Received for Finished Goods	20.9	11.1	+9.8	Increasing	12	25.3	70.3	4.4
Wages and Benefits	36.7	31.9	+4.8	Increasing	109	36.9	62.9	0.2
Employment	23.1	14.5	+8.6	Increasing	46	28.6	65.9	5.5
Hours Worked	8.0	-3.3	+11.3	Increasing	1	14.8	78.4	6.8
Capital Expenditures	18.9	14.8	+4.1	Increasing	43	31.1	56.7	12.2
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	21.8	5.3	+16.5	Improving	50	31.9	58.0	10.1
General Business Activity	14.7	-2.6	+17.3	Improving	1	26.3	62.1	11.6

\*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.

### Paper Manufacturing

- > Summer is our slow season. The outlook for sales is positive, but an increase in health care costs is a concern.

### Chemical Manufacturing

- > Our order volume has increased, and we may start quoting longer lead times for some items.

### Fabricated Metal Manufacturing

- > Refineries are trying to deal with the crude slate and being able to export product. Utilization is dropping as a sense of urgency on repairs is diminished.
- > We have seen some softness in the recent oil and gas boom. We have a robust pipeline of new accounts, and the softness in oil and gas will allow us to onboard these new accounts effectively. Profitability remains a challenge, so we've been selectively increasing prices to customers.
- > Just when we see an increase in our manufacturing business for the last 12 months, we now must deal with considerable increases in medical premiums. All these mounting costs placed on us by our government through OSHA, EPA, TCEQ, IRS, Affordable Care Act, etc., are making it harder and harder to make a worthwhile return for our investment in capital and people.

### Machinery Manufacturing

- > Orders continue to be strong, especially for replacement equipment that was severely depressed during 2009 through 2011.

### Computer and Electronic Product Manufacturing

- > We have seen general broad-based improvements as we had hoped for. There are still some mixed signals coming through, but most are biased positively. We continue to remain hopeful for follow-through in the second half of the year, which has been elusive the past few years.
- > The aerospace industry is momentarily on an upswing in the U.S. However, it is highly probable that much of this work will end up in China or India within the next year, lowering the economic drivers for manufacturing airframe parts and assemblies in the U.S.
- > Uncertainty still seems to be the order of the day. Customers are unwilling to commit to long-term orders.

### Furniture and Related Product Manufacturing

- > Housing starts and residential construction continue to improve. Consumers seem to be confident to take on long-term obligations. Credit and lending appears to have loosened, and buyers are qualifying. Short of a political or economic event, this confidence should continue through year-end.

### Food Manufacturing

- > Our margins are under some pressure, and there is considerable resistance to a price increase at this time.
- > We are making substantial investment in upgrading equipment to increase labor savings.

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Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at [emily.kerr@dal.frb.org](mailto:emily.kerr@dal.frb.org).  
The Texas Manufacturing Outlook Survey can be found online at [www.dallasfed.org/microsites/research/surveys/tmos/](http://www.dallasfed.org/microsites/research/surveys/tmos/).

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