



# Texas Manufacturing Outlook Survey

DALLAS **FED**

July 29, 2013

## TEXAS MANUFACTURING ACTIVITY INCREASES BUT AT A SLOWER PACE

Texas factory activity continued to expand in July, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell from 17.1 to 11.4, suggesting output growth continued but at a slower pace than in June.

Some other measures of current manufacturing activity also indicated slower growth in July. The new orders index was positive for the third month in a row, although it edged down from 13 to 10.8. The capacity utilization index also slipped slightly, falling three points to 12.2. However, the shipments index inched up to 17.7, reaching its highest reading in six months.

Perceptions of broader business conditions improved again in July. The general business activity index posted a second consecutive positive reading, although it edged down from 6.5 to 4.4. The company outlook index also remained positive but fell, coming in at 4.5.

Labor market indicators reflected a pickup in labor demand. The employment index rose to 9.3, its highest reading in nearly a year. Eighteen percent of firms reported hiring new workers compared with 9 percent reporting layoffs. The hours worked index remained in positive territory.

Input prices and wages rose in July while selling prices were little changed. The raw materials price index came in at 15.9, slightly above its June reading of 14.3. The wages and benefits index was positive but edged down from 20 to 16.4, although the great majority of manufacturers continued to note no change in compensation costs. The finished goods price index was -1, suggesting fairly steady selling prices. Looking ahead, 37 percent of respondents anticipate further increases in raw materials prices over the next six months, while 24 percent expect higher finished goods prices.

Expectations regarding future business conditions remained optimistic in July. The indexes of future general business activity and future company outlook fell five points but remained in strongly positive territory. Indexes for future manufacturing activity also remained solidly 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 July 16–24, and 85 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:** August 26, 2013

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	11.4	17.1	-5.7	Increasing	3	23.5	64.4	12.1
Capacity Utilization	12.2	15.3	-3.1	Increasing	8	22.6	67.0	10.4
New Orders	10.8	13.0	-2.2	Increasing	3	28.7	53.4	17.9
Growth Rate of Orders	2.7	7.1	-4.4	Increasing	2	19.5	63.7	16.8
Unfilled Orders	-2.7	-0.4	-2.3	Decreasing	13	12.5	72.3	15.2
Shipments	17.7	15.4	+2.3	Increasing	3	29.2	59.3	11.5
Delivery Time	-1.2	3.2	-4.4	Decreasing	1	9.4	80.0	10.6
Materials Inventories	-2.4	0.3	-2.7	Decreasing	1	15.7	66.2	18.1
Finished Goods Inventories	-1.2	-2.1	+0.9	Decreasing	2	14.1	70.6	15.3
Prices Paid for Raw Materials	15.9	14.3	+1.6	Increasing	48	21.3	73.3	5.4
Prices Received for Finished Goods	-1.0	-2.1	+1.1	Decreasing	4	7.2	84.6	8.2
Wages and Benefits	16.4	20.0	-3.6	Increasing	44	17.0	82.4	0.6
Employment	9.3	0.2	+9.1	Increasing	2	17.9	73.5	8.6
Hours Worked	1.3	4.8	-3.5	Increasing	2	15.6	70.1	14.3
Capital Expenditures	3.5	9.9	-6.4	Increasing	12	13.9	75.7	10.4

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	4.5	13.3	-8.8	Improving	2	18.7	67.1	14.2
General Business Activity	4.4	6.5	-2.1	Improving	2	18.3	67.8	13.9

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

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	42.0	40.6	+1.4	Increasing	53	49.5	42.9	7.5
Capacity Utilization	41.4	37.2	+4.2	Increasing	53	47.7	46.0	6.3
New Orders	30.8	33.2	-2.4	Increasing	53	40.6	49.6	9.8
Growth Rate of Orders	23.1	26.3	-3.2	Increasing	53	32.2	58.7	9.1
Unfilled Orders	-4.9	6.6	-11.5	Decreasing	1	9.6	75.9	14.5
Shipments	36.2	36.9	-0.7	Increasing	53	46.4	43.5	10.2
Delivery Time	0.7	-3.2	+3.9	Increasing	1	13.1	74.5	12.4
Materials Inventories	0.0	-2.2	+2.2	Unchanged	1	18.1	63.9	18.1
Finished Goods Inventories	1.2	0.0	+1.2	Increasing	1	14.6	72.0	13.4
Prices Paid for Raw Materials	32.5	29.2	+3.3	Increasing	52	37.3	57.8	4.8
Prices Received for Finished Goods	14.5	20.9	-6.4	Increasing	13	24.1	66.3	9.6
Wages and Benefits	31.5	36.7	-5.2	Increasing	110	33.6	64.3	2.1
Employment	25.3	23.1	+2.2	Increasing	47	34.9	55.4	9.6
Hours Worked	9.3	8.0	+1.3	Increasing	2	17.4	74.5	8.1
Capital Expenditures	14.5	18.9	-4.4	Increasing	44	21.7	71.1	7.2

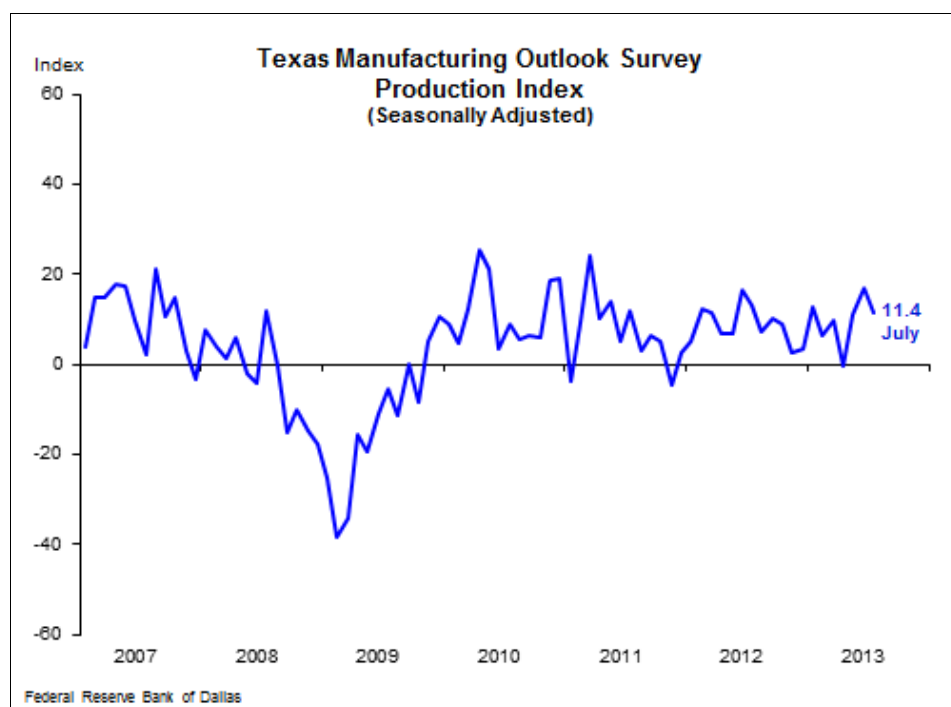
**General Business Conditions**  
**Future (six months ahead)**

Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	16.7	21.8	-5.1	Improving	51	30.6	55.5	13.9
General Business Activity	9.6	14.7	-5.1	Improving	2	24.0	61.6	14.4

\*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

- > We are investing in new equipment at two of our facilities and a new building at another. Prices on equipment are still below levels from 2007, and so are construction costs.

### Chemical Manufacturing

- > Business for July and August has increased, but it is still too early to know if this is a step increase in business or just a blip. Many of our raw material prices are commodities that are tied to the world market. Commodities seem to be at a low at this point, and it is difficult to expect prices to go lower, unless the economies outside the U.S. slow down more.

### Fabricated Metal Manufacturing

- > Skilled labor is becoming extremely short in supply. Our hourly headcount has dropped by 10 percent, and we are unable to find replacements. Wage pressure is high.
- > The much anticipated increase in the volume of nonresidential construction starts has not materialized. Forward indicators remain positive, but improvement is elusive.
- > New orders have dropped by 20 percent just in the last two months. This was surprising, as we shifted from a state of not enough capacity to too much capacity in very little time.
- > Uncertainty in federal spending and health care reform causes a number of our customers to put off expansion.

### Machinery Manufacturing

- > The delay in the Affordable Care Act employer mandate until 2015 has improved the outlook for the start of 2014.
- > Health care uncertainty is real, and health care costs are going to rise in 2014. Health care's increasing costs are of real concern as we have utilized Health Savings Accounts (HSAs) to help our associates manage their own health care spending. HSAs are being phased out or limited under the Affordable Care Act.

### Food Manufacturing

- > Increasing governmental regulations in all areas are choking us. Manufacturing is being encouraged to leave the U.S.
- > We are hurt by high diesel prices. A good corn crop in the Midwest would help a lot of us that are agricultural businesses.

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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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