



Texas Manufacturing Outlook Survey

DALLAS**FED**

August 26, 2013

TEXAS MANUFACTURING POSTS SLOWER GROWTH

Texas factory activity increased but at a slower pace in August, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, remained positive but fell from 11.4 to 7.3.

Other measures of current manufacturing activity also indicated slower growth in August. The new orders index was positive for the fourth month in a row, although it moved down from 10.8 to 5.4. The shipments index also posted a fourth consecutive positive reading but slipped 6 points to 11.4. The capacity utilization index fell from 12.2 to 4.6.

Perceptions of broader business conditions improved again in August, with the general business activity and company outlook indexes posting their third consecutive positive readings. The general business activity index edged up from 4.4 to 5.0, and the company outlook index rose from 4.5 to 7.3.

Labor market indicators reflected an increase in hiring but sharply reduced workweeks. The employment index rose 2 points to 11.2, its highest reading in a year. Twenty percent of firms reported hiring new workers compared with 8 percent reporting layoffs. The hours worked index fell 11 points to -9.9, its lowest reading in nearly four years.

Prices and wages rose in August. The raw materials price index came in at 10, down from its previous reading of 15.9 but still indicative of higher input costs than in July. The finished goods price index was positive for the first time since March, rising 5 points to a reading of 4, suggesting selling prices were up from July as well. The wages and benefits index was positive but edged down to 14.5, although the great majority of manufacturers continued to note no change in compensation costs. Looking ahead, 34 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 remained optimistic in August. The indexes of future general business activity and future company outlook showed mixed movements 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 Aug. 13–21, and 82 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: September 30, 2013

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	7.3	11.4	-4.1	Increasing	4	23.6	60.1	16.3
Capacity Utilization	4.6	12.2	-7.6	Increasing	9	20.3	64.0	15.7
New Orders	5.4	10.8	-5.4	Increasing	4	26.5	52.4	21.1
Growth Rate of Orders	2.2	2.7	-0.5	Increasing	3	22.5	57.2	20.3
Unfilled Orders	0.5	-2.7	+3.2	Increasing	1	14.1	72.3	13.6
Shipments	11.4	17.7	-6.3	Increasing	4	28.3	54.8	16.9
Delivery Time	-9.8	-1.2	-8.6	Decreasing	2	7.3	75.6	17.1
Materials Inventories	-11.6	-2.4	-9.2	Decreasing	2	10.9	66.6	22.5
Finished Goods Inventories	-11.0	-1.2	-9.8	Decreasing	3	11.0	67.1	22.0
Prices Paid for Raw Materials	10.0	15.9	-5.9	Increasing	49	17.3	75.4	7.3
Prices Received for Finished Goods	4.0	-1.0	+5.0	Increasing	1	12.9	78.2	8.9
Wages and Benefits	14.5	16.4	-1.9	Increasing	45	17.3	79.9	2.8
Employment	11.2	9.3	+1.9	Increasing	3	19.5	72.2	8.3
Hours Worked	-9.9	1.3	-11.2	Decreasing	1	10.6	68.9	20.5
Capital Expenditures	10.4	3.5	+6.9	Increasing	13	17.5	75.4	7.1

General Business Conditions
Current (versus previous month)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	7.3	4.5	+2.8	Improving	3	21.2	64.9	13.9
General Business Activity	5.0	4.4	+0.6	Improving	3	20.2	64.6	15.2

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

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	36.0	42.0	-6.0	Increasing	54	41.7	52.6	5.7
Capacity Utilization	32.4	41.4	-9.0	Increasing	54	37.9	56.6	5.5
New Orders	35.8	30.8	+5.0	Increasing	54	38.5	58.8	2.7
Growth Rate of Orders	31.0	23.1	+7.9	Increasing	54	35.3	60.4	4.3
Unfilled Orders	1.3	-4.9	+6.2	Increasing	1	12.8	75.6	11.5
Shipments	41.2	36.2	+5.0	Increasing	54	47.0	47.3	5.8
Delivery Time	-3.7	0.7	-4.4	Decreasing	1	10.0	76.3	13.7
Materials Inventories	2.6	0.0	+2.6	Increasing	1	16.5	69.6	13.9
Finished Goods Inventories	-1.3	1.2	-2.5	Decreasing	1	11.4	75.9	12.7
Prices Paid for Raw Materials	24.1	32.5	-8.4	Increasing	53	34.2	55.7	10.1
Prices Received for Finished Goods	16.4	14.5	+1.9	Increasing	14	25.3	65.8	8.9
Wages and Benefits	40.7	31.5	+9.2	Increasing	111	46.7	47.3	6.0
Employment	11.5	25.3	-13.8	Increasing	48	25.6	60.3	14.1
Hours Worked	5.9	9.3	-3.4	Increasing	3	16.4	73.1	10.5
Capital Expenditures	20.5	14.5	+6.0	Increasing	45	29.5	61.5	9.0

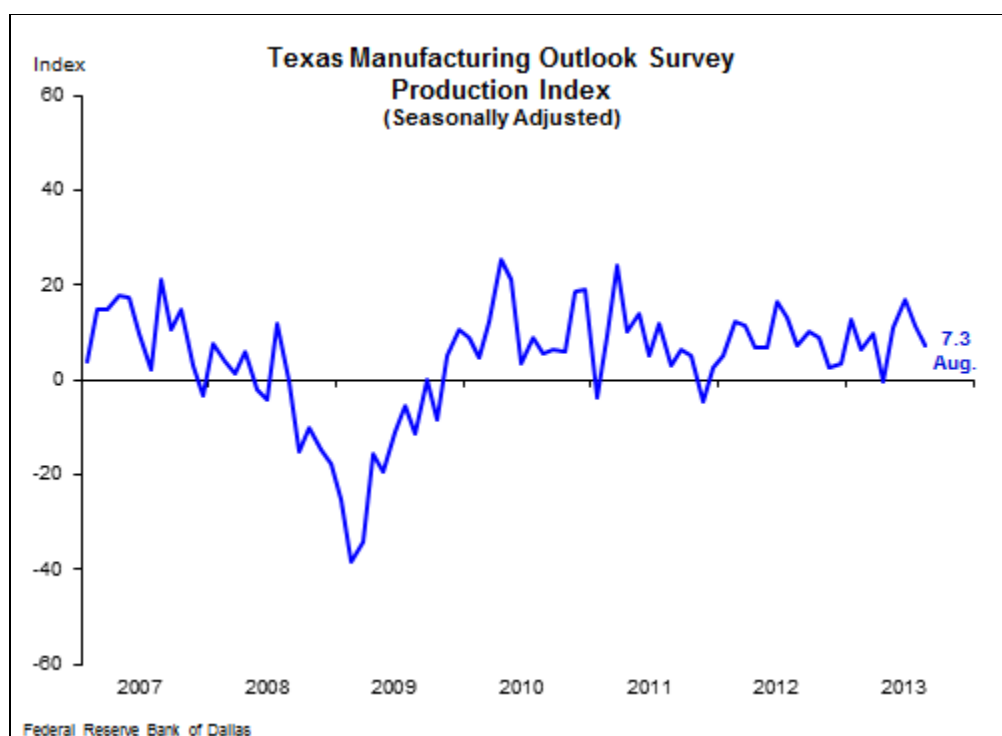
General Business Conditions
Future (six months ahead)

Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	14.5	16.7	-2.2	Improving	52	26.6	61.3	12.1
General Business Activity	14.2	9.6	+4.6	Improving	3	24.4	65.4	10.2

*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 experiencing a real growth spurt at this time, but our seasonally slow period is six months from now and we expect business to level out then.

Chemical Manufacturing

- > With health care reform coming around, we are focused on reducing manpower wherever possible, particularly in the temporary and part-time areas. We will try not to change anything with our regular employees, but they will ultimately pay more for their insurance.

Fabricated Metal Manufacturing

- > Summer is the lull before the storm of the refinery turnaround season, which we expect to be very strong in late 2013 and early 2014.
- > The recovery of nonresidential construction has not occurred. Forward-looking indicators remain quite positive, but concern is beginning to overshadow a recovery. On a volumetric basis, demand for nonresidential new construction is still at a 46-year low of approximately 750 million square feet, or 42 percent below the 1.3 billion square feet 46-year trend.
- > We have a larger backlog, which is positive. There are companies chasing replacement skilled welders and fitters, which has disrupted production. As our backlog has increased, our ability to meet schedules has become more difficult. There is still extreme pricing pressure for our type of fabrication.
- > Business is currently good in some markets (oil/gas and schools), while other markets (government, commercial, medical) have not come back at all.

Machinery Manufacturing

- > Capital replacement purchases and an increase in purchases for new locations versus the last three to four years do not appear to be strong enough to overcome a return of interest rates to historical levels.
- > The overall environment for our markets (maintenance for the mid-stream and down-stream energy facilities) remains stable and steady. We anticipate increased activity levels and labor wage pressures soon with the expected start of several large new petrochemicals facilities projects along the Gulf Coast late this year or early next year. We project several years of increased labor market pressure from these projects.

Computer and Electronic Product Manufacturing

- > Our industry and company have not had more than two sequential quarters of growth since 2009. We remain hopeful that the fourth quarter will break that trend, as early evidence shows that it might happen. There are still signs that things can weaken, so we are remaining cautious but hopeful.

Electrical Equipment, Appliance, and Component Manufacturing

- > Our business spiked in August with a large overseas hotel order. We gave notice of a 4 percent price increase on July 15 to be effective Aug. 1, 2013. We had not had a price increase since Sept. 1, 2011, and felt the increase was necessary to offset higher wages and some improved design costs for the products we market.

Food Manufacturing

- > The continuing increase in governmental regulations on all fronts leaves no time for the normal functions of operating an efficient business. If our business was not perishable items, manufacturing in this sector would probably have already moved predominantly overseas.
- > If the corn crop comes in good, as expected, it will help lower our ingredient costs.
- > The overall uncertainty of everything from health insurance to federal regulations and aggressive government agencies has left the future with a lot of uncertainty for all levels of the economy. There is no real stability in our business outlook due to lack of certainty for the future, primarily created by inability to plan long term.

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/.
