



Texas Manufacturing Outlook Survey

DALLAS **FED**

September 29, 2014

TEXAS MANUFACTURING STRENGTHENS

Texas factory activity increased again in September, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose markedly from 6.8 to 17.6, indicating output grew at a faster pace than in August.

Other measures of current manufacturing activity also reflected significantly stronger growth in September. The new orders index climbed 5 points to 7.5. The capacity utilization index surged to 20.2 after dipping to 3.6 in August, with nearly a third of manufacturers noting an increase. The shipments index rebounded to 15.9 after falling to 6.4 last month.

Perceptions of broader business conditions were more optimistic this month. The general business activity index moved up to a reading of 10.8, nearly four points above its nonrecession average of 7. The company outlook index rose from 1.5 to 5.8, due to a larger share of firms noting an improved outlook in September than in August.

Labor market indicators reflected continued employment growth and longer workweeks. The September employment index posted a fourth robust reading, holding fairly steady at 10.6. Twenty-four percent of firms reported net hiring compared with 14 percent reporting net layoffs. The hours worked index rose to a five-month high of 9.5, indicating a stronger rise in hours worked than in recent months.

Upward pressure on prices eased slightly in September, while wage pressure increased. The raw materials price index fell seven points to a reading of 19.5. The finished goods price index also fell but to a lesser degree, edging down from 9.1 to 7. The wages and benefits index, however, ticked up for the second month in a row and came in at 26.2, its highest reading since before the Texas recession began in mid-2008.

Expectations regarding future business conditions remained optimistic in September. The index of future general business activity fell from 18.7 to 12.1, while the index of future company outlook rose from 30.1 to 32.3. Indexes for future manufacturing activity generally moved down in September but remained in solidly positive territory.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Sep. 16–24, and 105 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.

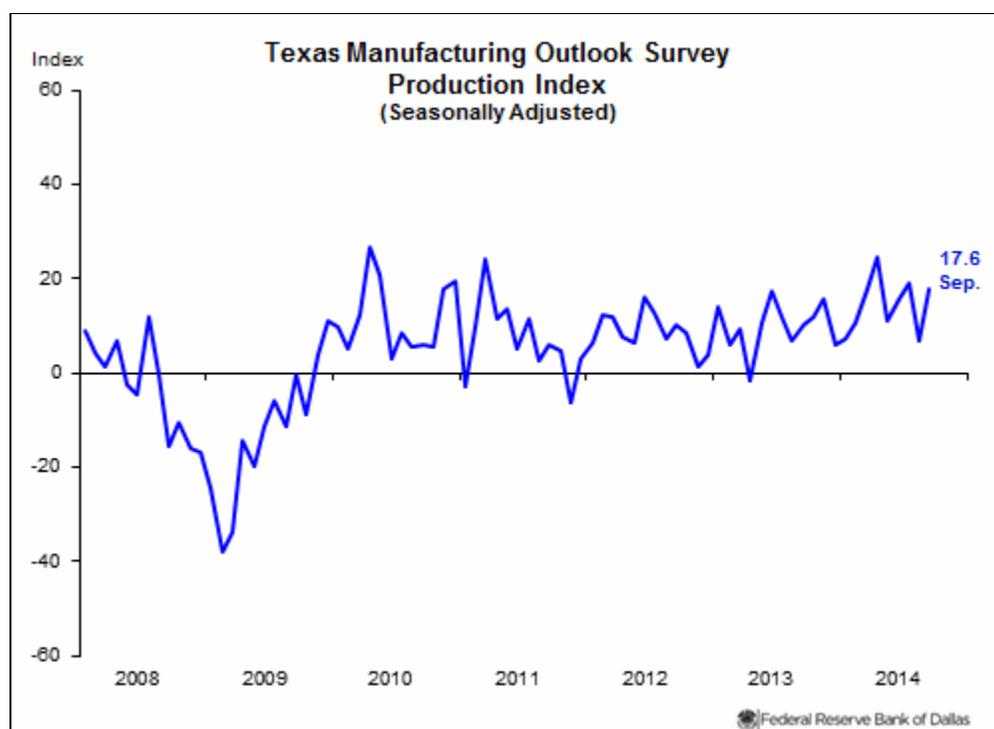
Next release: October 27, 2014

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	17.6	6.8	+10.8	Increasing	17	30.8	56.0	13.2
Capacity Utilization	20.2	3.6	+16.6	Increasing	22	31.4	57.4	11.2
New Orders	7.5	2.2	+5.3	Increasing	17	25.9	55.7	18.4
Growth Rate of Orders	-3.2	-9.6	+6.4	Decreasing	2	15.6	65.6	18.8
Unfilled Orders	-0.9	3.8	-4.7	Decreasing	1	12.5	74.1	13.4
Shipments	15.9	6.4	+9.5	Increasing	17	28.7	58.5	12.8
Delivery Time	1.5	4.8	-3.3	Increasing	4	12.3	76.9	10.8
Materials Inventories	-0.7	0.0	-0.7	Decreasing	1	16.7	65.9	17.4
Finished Goods Inventories	-6.8	-6.2	-0.6	Decreasing	3	8.7	75.7	15.5
Prices Paid for Raw Materials	19.5	26.4	-6.9	Increasing	62	27.6	64.3	8.1
Prices Received for Finished Goods	7.0	9.1	-2.1	Increasing	14	14.7	77.6	7.7
Wages and Benefits	26.2	23.7	+2.5	Increasing	62	26.5	73.2	0.3
Employment	10.6	11.1	-0.5	Increasing	16	24.3	62.0	13.7
Hours Worked	9.5	2.9	+6.6	Increasing	9	19.5	70.5	10.0
Capital Expenditures	4.4	6.6	-2.2	Increasing	36	16.6	71.2	12.2
General Business Conditions								
Current (versus previous month)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	5.8	1.5	+4.3	Improving	16	17.7	70.4	11.9
General Business Activity	10.8	7.1	+3.7	Improving	16	22.0	66.8	11.2
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	40.0	44.5	-4.5	Increasing	67	47.5	45.0	7.5
Capacity Utilization	34.7	39.8	-5.1	Increasing	67	43.3	48.2	8.6
New Orders	34.6	45.3	-10.7	Increasing	67	44.0	46.7	9.4
Growth Rate of Orders	30.8	30.0	+0.8	Increasing	67	37.3	56.2	6.5
Unfilled Orders	3.4	4.5	-1.1	Increasing	14	14.1	75.2	10.7
Shipments	38.6	44.6	-6.0	Increasing	67	44.6	49.5	6.0
Delivery Time	0.5	-1.6	+2.1	Increasing	1	11.6	77.3	11.1
Materials Inventories	5.3	0.0	+5.3	Increasing	1	18.8	67.7	13.5
Finished Goods Inventories	-1.0	-1.8	+0.8	Decreasing	5	14.6	69.8	15.6
Prices Paid for Raw Materials	36.4	43.5	-7.1	Increasing	66	45.5	45.5	9.1
Prices Received for Finished Goods	29.3	22.2	+7.1	Increasing	27	36.4	56.6	7.1
Wages and Benefits	40.7	43.8	-3.1	Increasing	124	40.7	59.3	0.0
Employment	18.4	24.1	-5.7	Increasing	61	29.6	59.2	11.2
Hours Worked	11.6	11.7	-0.1	Increasing	16	22.1	67.4	10.5
Capital Expenditures	23.5	16.3	+7.2	Increasing	58	35.7	52.0	12.2
General Business Conditions								
Future (six months ahead)								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	32.3	30.1	+2.2	Improving	66	37.2	57.9	4.9
General Business Activity	12.1	18.7	-6.6	Improving	16	23.1	65.9	11.0

*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.

Fabricated Metal Manufacturing

- > Wages are escalating rapidly, and welders are impossible to find.
- > We have begun to see customers cut orders in hopes that projects are complete by year's end.

Machinery Manufacturing

- > We believe interest rates will increase in the next six months.
- > We have a positive view of demand from our major customer sectors—midstream and downstream energy companies. The new construction activities along the Gulf Coast will tighten labor markets, which we expect will lead to both higher labor rates and higher pricing.
- > International business is up for Eastern Europe, the Middle East and Far East. Business is down for Brazil and the future is uncertain. Manufacturing equipment for oilfield exploration is up, leading with rock bits and drill pipe, which indicates we are on the upward side of the cycle. Manufacturing equipment for petroleum production is strong. The general industry is flat. We are hopeful that crude export restrictions are lifted, which should benefit the industry. Trade restrictions with Russia have curtailed business in that country. Unrest in Ukraine has reduced trade with Kiev.
- > Orders continue to be strong across about half of our customer base, and the customer base continues to expand. Raw material costs have started to increase across the board at a 3 percent plus average. Difficult pricing market may lead to lower margins.

Chemical Manufacturing

- > Our increased business activity is based on orders placed this time last year. We see some softening, especially in demand from Europe and China, while the U.S. remains strong.

Plastics and Rubber Products Manufacturing

- > Our business is between contracts with key customers; therefore, our current lull in sales is not indicative of the economy in general. Our new orders will pick up in six months.

Transportation Equipment Manufacturing

- > Lower gas prices at the pump have improved our end customer sales, which has increased our production. As long as gas prices stay in the current range of the last two months, sales and production should remain strong.

Food Manufacturing

- > We waited too long to raise our prices, thinking that our raw material costs would come down to more normal levels. They

remain at record highs, and we will be raising our prices significantly.

- > We remain concerned that our consumers remain under serious financial pressure. Our products are primarily purchased by blue collar and lower-income consumers. We are forecasting low single-digit growth for 2015, primarily due to lack of wage and employment growth in most regions of the country.

Paper Manufacturing

- > After a slight slowdown at the end of July and beginning of August, orders are picking up again and we are optimistic for the rest of the year.

Printing and Related Support Activities

- > Customers have become increasingly price buyers; they've commoditized our product offering, and some have had serious trouble with the low price bidder. We've had to double down on our efforts to drive out costs and increase the rate of reduction.
- > Our order entry volume remains very strong and is anticipated to remain seasonally stronger than in prior years.

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/.

