



# Texas Manufacturing Outlook Survey

F E D E R A L R E S E R V E B A N K O F D A L L A S

June 25, 2012

## TEXAS MANUFACTURING ACTIVITY SURGES BUT OUTLOOK LARGELY UNCHANGED

Texas factory activity surged in June, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 5.5 to 15.5, posting its strongest reading in 15 months.

Other measures of current manufacturing conditions also indicated strengthening activity in June. The new orders index rose to 7.9, following three readings around zero, suggesting demand finally grew after staying flat since February. Similarly, the shipments index rebounded to 9.6 after two months of near-zero readings. The capacity utilization index rose from 5 to 13.3, reaching its highest level since early 2011.

Perceptions of broader economic conditions improved in June. The general business activity index had been negative in April and May but increased to 5.8 this month. Twenty-four percent of firms noted improvement in the level of business activity in June, up from 15 percent last month. The company outlook index edged up from 4.7 to 5.5.

Labor market indicators reflected stronger labor demand growth and steady workweeks. Employment grew at a faster pace in June, with the index rising from 8.5 to 13.7. Twenty-one percent of firms reported hiring new workers, while 8 percent reported layoffs. The hours worked index was 1, suggesting little change in workweek length.

Input price pressures dissipated abruptly in June, while selling prices declined and wages rose at a slower pace. The raw materials price index plummeted from 20.2 to 2.7, registering its lowest reading since mid-2009. Selling prices fell for the fourth consecutive month in June; the finished goods price index was -5.8. The share of respondents who anticipate further increases in raw materials prices over the next six months fell 12 points to 28 percent in June. The share of respondents expecting higher finished goods prices moved down 9 points to 14 percent, while the share expecting falling finished goods prices tripled. Meanwhile, the wages and benefits index moved down from 20 to 13.2, largely due to a reduction in the share of firms noting increased compensation costs.

Expectations regarding future business conditions slipped in June. The index of future general business activity edged down from 4.3 to 1.3. The index of future company outlook also fell three points from its May level, coming in at 8.4. Indexes for future manufacturing activity moved up slightly in June, pushing further into 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 June 12–20, and 91 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.

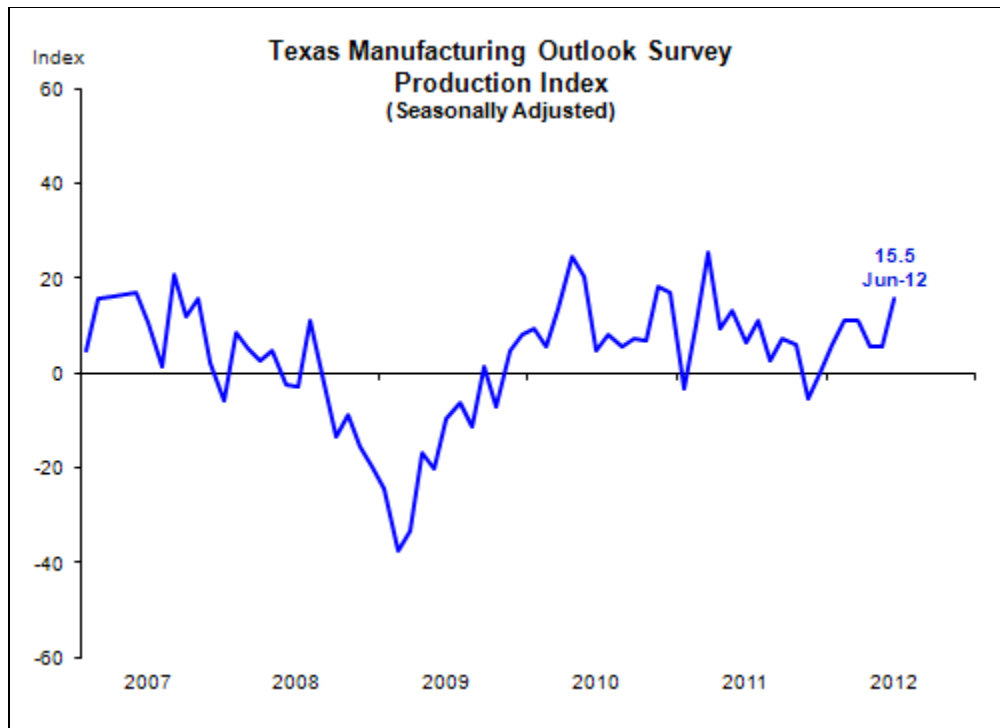
**Next release:** July 30, 2012

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Current</b>								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	15.5	5.5	+10.0	Increasing	7	29.0	57.5	13.5
Capacity Utilization	13.3	5.0	+8.3	Increasing	7	26.3	60.7	13.0
New Orders	7.9	-0.6	+8.5	Increasing	1	27.2	53.5	19.3
Growth Rate of Orders	1.6	-3.7	+5.3	Increasing	1	21.5	58.6	19.9
Unfilled Orders	7.8	-4.0	+11.8	Increasing	1	18.6	70.6	10.8
Shipments	9.6	-0.2	+9.8	Increasing	1	25.4	58.8	15.8
Delivery Time	5.5	4.7	+0.8	Increasing	2	12.1	81.3	6.6
Materials Inventories	1.1	7.2	-6.1	Increasing	3	19.8	61.5	18.7
Finished Goods Inventories	-7.7	-2.4	-5.3	Decreasing	5	14.3	63.7	22.0
Prices Paid for Raw Materials	2.7	20.2	-17.5	Increasing	35	18.5	65.7	15.8
Prices Received for Finished Goods	-5.8	-0.5	-5.3	Decreasing	4	8.0	78.2	13.8
Wages and Benefits	13.2	20.0	-6.8	Increasing	31	14.7	83.8	1.5
Employment	13.7	8.5	+5.2	Increasing	20	21.2	71.3	7.5
Hours Worked	1.0	-2.2	+3.2	Increasing	1	17.1	66.8	16.1
Capital Expenditures	8.1	6.9	+1.2	Increasing	9	17.1	73.9	9.0
<b>General Business Conditions</b>								
<b>Current</b>								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	5.5	4.7	+0.8	Improving	2	20.7	64.1	15.2
General Business Activity	5.8	-5.1	+10.9	Improving	1	24.2	57.4	18.4
<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Six Months Ahead</b>								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	33.0	31.6	+1.4	Increasing	40	42.2	48.6	9.2
Capacity Utilization	30.1	29.1	+1.0	Increasing	40	39.4	51.3	9.3
New Orders	27.8	22.8	+5.0	Increasing	40	40.4	47.0	12.6
Growth Rate of Orders	14.6	13.7	+0.9	Increasing	40	30.6	53.4	16.0
Unfilled Orders	-5.6	4.8	-10.4	Decreasing	1	10.1	74.2	15.7
Shipments	33.6	27.2	+6.4	Increasing	40	42.3	49.1	8.7
Delivery Time	-9.1	-3.6	-5.5	Decreasing	3	4.5	81.8	13.6
Materials Inventories	6.8	-5.9	+12.7	Increasing	1	22.5	61.8	15.7
Finished Goods Inventories	-1.1	-7.2	+6.1	Decreasing	3	14.6	69.7	15.7
Prices Paid for Raw Materials	15.9	35.7	-19.8	Increasing	39	28.4	59.1	12.5
Prices Received for Finished Goods	-4.5	16.6	-21.1	Decreasing	1	13.5	68.5	18.0
Wages and Benefits	27.3	34.4	-7.1	Increasing	97	28.4	70.5	1.1
Employment	14.6	15.4	-0.8	Increasing	34	25.8	62.9	11.2
Hours Worked	1.0	2.6	-1.6	Increasing	39	15.1	70.8	14.1
Capital Expenditures	13.6	18.1	-4.5	Increasing	31	25.0	63.6	11.4
<b>General Business Conditions</b>								
<b>Six Months Ahead</b>								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	8.4	11.4	-3.0	Improving	38	23.7	61.0	15.3
General Business Activity	1.3	4.3	-3.0	Improving	9	19.4	62.5	18.1

\*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.

### Petroleum and Coal Products Manufacturing

- The availability of low-cost natural gas is a huge advantage to a U.S.-based manufacturer competing overseas.

### Primary Metal Manufacturing

- We have seen a decrease in production due to a limited supply of raw materials this month.

### Fabricated Metal Manufacturing

- There is rising hesitation to move forward on commitments to new projects.

### Machinery Manufacturing

- While our business remains fairly strong and stable, one can see softening in the general economy. That softening is now beginning to impact exploration and production activities, and we are somewhat concerned that it could reach our customers in downstream energy services later this year.
- Orders continue to be received with shorter than normal lead times. This appears to be due to the lack of certainty on long-term projects.

### Computer and Electronic Product Manufacturing

- Our six-month assumptions are that Congress will address the sequestration mechanism. We realize that assumption may be a long shot.

## Chemical Manufacturing

- We are so busy that we have just purchased land to build a new facility; this facility will be about three times larger than we have now.
- Our largest customer has stumbled; they have too much inventory and have canceled orders and pushed out other orders. We have new business with other customers that is coming online, but we will not see the full impact until next quarter.

## Plastics and Rubber Products Manufacturing

- We are experiencing a very slight slowdown.
- The November elections cannot come too soon.

## Nonmetallic Mineral Product Manufacturing

- Management continues to be guardedly optimistic as to the current economic conditions and anticipated economic recovery. Concern continues relative to the political environment, both domestic and abroad, and its impact on both consumer and business confidence. Confidence must continue to improve in order for a sustained growth in housing to emerge.
- Our outlook for six months from now is totally dependent upon the results of the general election in November.

## Transportation Equipment Manufacturing

- High fuel prices are negatively impacting customer margins, causing them to reduce their capital spending plans. This subsequently causes them to reduce growth rates for next year to single digits versus high double digit growth this year.

## Paper Manufacturing

- Six months from now is our traditionally slow period. We do expect an increase in orders and production between now and September, which is traditionally our busiest period. Also, there is less talk of an increase on containerboard prices for this year.
- General business conditions seem to be improving, although slightly at best. Our long-term concern about the economy is employment. We do not see employers wanting to hire new workers based on the high cost of doing so.

## Food Manufacturing

- The recent decrease in the prices of dairy ingredients and diesel was very welcome, but our margins are still below historical levels.

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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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