



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

July 30, 2012

TEXAS MANUFACTURING ACTIVITY POSTS SLOWER GROWTH AMID WEAKER VIEW OF GENERAL BUSINESS ACTIVITY

Texas factory activity continued to increase 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 15.5 to 12, suggesting slightly slower output growth.

Other measures of current manufacturing activity also indicated slower growth in July. The new orders index was positive for the second month in a row, although it moved down from 7.9 to 1.4. Similarly, the shipments index posted its second consecutive positive reading but edged down from 9.6 to 7.4. The capacity utilization index came in at 8.7 after rising to 13.3 last month.

Perceptions of broader economic conditions were mixed in July. The general business activity index plummeted to -13.2 after climbing into positive territory in June. Nearly 30 percent of manufacturers noted a worsening in the level of business activity in July, pushing the index to its lowest reading in 10 months. The company outlook index remained positive for the third month in a row but fell from 5.5 to 1.6.

Labor market indicators reflected stronger labor demand. Employment growth continued in July, although the index edged down from 13.7 to 11.8. Twenty-one percent of firms reported hiring new workers, while 10 percent reported layoffs. The hours worked index was 4.1, up slightly from its June reading.

Price pressures were largely unchanged in July, although compensation costs rose at a faster pace. The raw materials price index held steady at 3, suggesting only slight increases in input costs this summer after strong upward pressure earlier in the year. Selling prices fell for the fifth consecutive month in July; the finished goods price index was -5.5, virtually unchanged from last month's reading. The wages and benefits index rose nearly 10 points to 22.9, largely due to a marked rise in the share of firms noting increased compensation costs. Looking ahead, 36 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 were less optimistic in July. The index of future general business activity slipped from 1.3 to -7.3, registering its first negative reading in 10 months. The index of future company outlook remained positive but fell from its June level, coming in at 5.3. Indexes for future manufacturing activity also decreased, although all remained in strong 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 July 17–25, and 89 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.

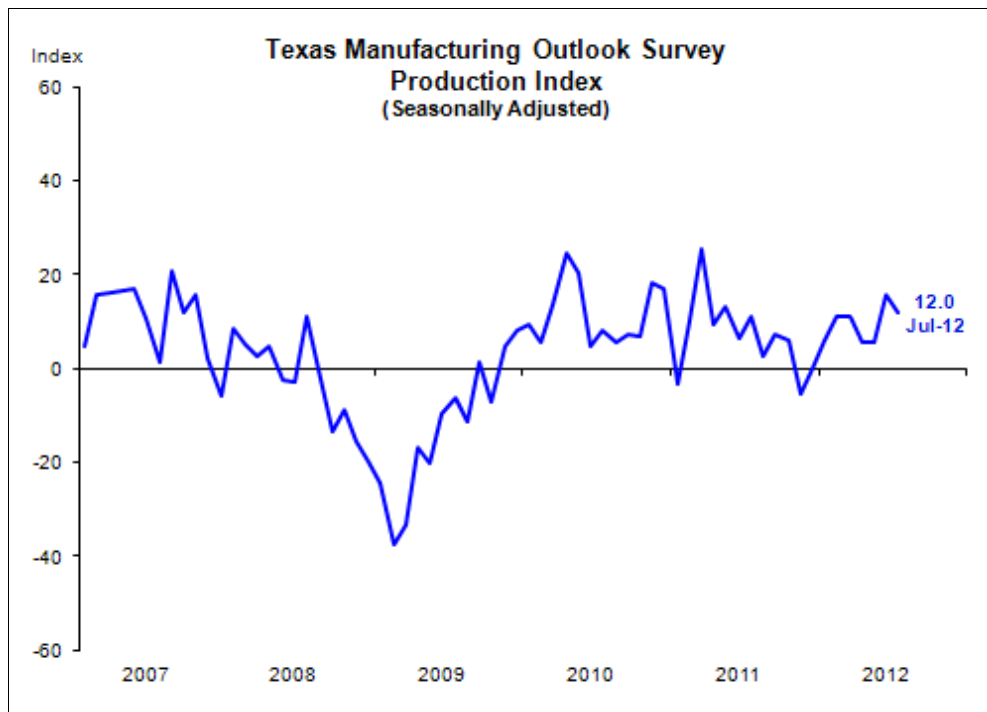
Next release: August 27, 2012

Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	12.0	15.5	-3.5	Increasing	8	27.0	58.0	15.0
Capacity Utilization	8.7	13.3	-4.6	Increasing	8	24.1	60.5	15.4
New Orders	1.4	7.9	-6.5	Increasing	2	26.1	49.1	24.7
Growth Rate of Orders	-3.1	1.6	-4.7	Decreasing	1	20.2	56.5	23.3
Unfilled Orders	-1.6	7.8	-9.4	Decreasing	1	16.3	65.8	17.9
Shipments	7.4	9.6	-2.2	Increasing	2	26.1	55.2	18.7
Delivery Time	1.1	5.5	-4.4	Increasing	3	10.1	80.9	9.0
Materials Inventories	-3.0	1.1	-4.1	Decreasing	1	15.2	66.6	18.2
Finished Goods Inventories	-8.0	-7.7	-0.3	Decreasing	6	12.5	67.0	20.5
Prices Paid for Raw Materials	3.0	2.7	+0.3	Increasing	36	21.3	60.4	18.3
Prices Received for Finished Goods	-5.5	-5.8	+0.3	Decreasing	5	9.6	75.3	15.1
Wages and Benefits	22.9	13.2	+9.7	Increasing	32	24.0	74.9	1.1
Employment	11.8	13.7	-1.9	Increasing	21	21.3	69.2	9.5
Hours Worked	4.1	1.0	+3.1	Increasing	2	13.1	77.9	9.0
Capital Expenditures	-0.8	8.1	-8.9	Decreasing	1	7.0	85.2	7.8
General Business Conditions								
Current								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	1.6	5.5	-3.9	Improving	3	24.4	52.8	22.8
General Business Activity	-13.2	5.8	-19.0	Worsening	1	16.3	54.2	29.5
Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	27.1	33.0	-5.9	Increasing	41	39.2	48.7	12.1
Capacity Utilization	21.8	30.1	-8.3	Increasing	41	34.7	52.4	12.9
New Orders	20.1	27.8	-7.7	Increasing	41	35.4	49.4	15.3
Growth Rate of Orders	10.7	14.6	-3.9	Increasing	41	28.3	54.1	17.6
Unfilled Orders	-11.5	-5.6	-5.9	Decreasing	2	9.2	70.1	20.7
Shipments	24.3	33.6	-9.3	Increasing	41	38.6	47.2	14.3
Delivery Time	-6.9	-9.1	+2.2	Decreasing	4	5.7	81.6	12.6
Materials Inventories	-11.5	6.8	-18.3	Decreasing	1	9.2	70.1	20.7
Finished Goods Inventories	-8.3	-1.1	-7.2	Decreasing	4	14.1	63.5	22.4
Prices Paid for Raw Materials	32.2	15.9	+16.3	Increasing	40	35.6	60.9	3.4
Prices Received for Finished Goods	13.8	-4.5	+18.3	Increasing	1	25.3	63.2	11.5
Wages and Benefits	35.0	27.3	+7.7	Increasing	98	37.0	61.0	2.0
Employment	9.2	14.6	-5.4	Increasing	35	24.1	60.9	14.9
Hours Worked	2.8	1.0	+1.8	Increasing	40	12.0	78.8	9.2
Capital Expenditures	10.5	13.6	-3.1	Increasing	32	22.1	66.3	11.6
General Business Conditions								
Six Months Ahead								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	5.3	8.4	-3.1	Improving	39	20.7	63.9	15.4
General Business Activity	-7.3	1.3	-8.6	Worsening	1	13.8	65.1	21.1

*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.

Fabricated Metal Manufacturing

- Businesses have put major projects on hold until after the election.
- While we expect somewhat lower seasonal pickup, overall activity has slowed. The first half of our fiscal year ended in April and reflected much better year-over-year comparisons. July comparisons have worsened considerably.
- We have the second largest backlog in the history of the company, mainly due to our drive into export markets.
- Although there seems to be a number of projects in planning and design, our level of new orders, primarily for maintenance projects, has decreased dramatically.
- Many of our commercial, hospital, municipality and public/private school customers do not have the confidence in the direction we are going politically and economically to make large capital investments at this time. We hope that confidence in the direction America is going will return after we have our November elections, so the American business community is comfortable expanding. Money is not the problem; a total lack of confidence is the problem.

Machinery Manufacturing

- Additional federal regulations from health care laws and other agencies and the very negative tax situation have caused us to change our hiring policy. Only if overtime is not able to meet production needs, then temporary employees will be utilized.
- Cf outlook is pretty much unchanged, but the level of uncertainty is increasing as any potential government actions to address our major debt, deficit, tax and regulatory issues are further delayed.

Computer and Electronic Product Manufacturing

- We saw weakness in orders develop mid- to late June, continuing into July. Our backlog of orders remains normal for July/August, with a low level of coverage in September relative to what is normal for us. This is driving a higher level of uncertainty. We are not sure if this is a signal of weaker demand, or just customers not wanting to put orders out in time until things become clearer. What is clear is that things are more uncertain.

Chemical Manufacturing

- July has been another slow month. Bookings are down, and we are waiting to see what happens during the remainder of the month. Our largest customer is struggling. We have some very positive things in the works with other customers, but no impact in bookings as of yet.
- Even though the backlog has been reduced from June to July, it is almost 30 percent higher than a year ago. Our customers are issuing orders with more lead time. It would seem to imply the market for goods is tighter than last year.
- Our business growth is expected to remain solid over the next few years. The only issue we are having is the lack of cooperation from the banks.

Plastics and Rubber Products Manufacturing

- We had a slow month in June, but July picked back up.

Transportation Equipment Manufacturing

- Low economic growth and relatively high fuel prices are hurting the profitability of our end customers, driving reduced capital expenditures and delayed growth plans. Production forecasts for 2013 are flat to slightly down from 2012.

Paper Manufacturing

- July is the slow time of year, cyclically. Business picks up in the fall, and growth is expected then.

Wood Product Manufacturing

- We sell to new home builders. We think their customers, the home buyers, will be distracted by national politics and thus be postponing making a purchase during the fourth quarter of this year and the first quarter of next year.

Food Manufacturing

- We believe that increasing governmental regulations will drive manufacturing out of this country. We spend more time keeping abreast of regulations than we do generating business.

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/.