



Texas Manufacturing Outlook Survey

DALLAS FED

August 27, 2012

TEXAS MANUFACTURING GROWTH SLOWS BUT SIX-MONTH EXPECTATIONS IMPROVE

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, fell from 12 to 6.4, suggesting softer output growth.

Other indexes of current manufacturing activity also declined in August. The new orders index edged down to a reading of zero, suggesting flat demand. The capacity utilization index fell from 8.7 to 1.7, reaching its lowest reading since April. Shipments declined slightly in August; the index dipped into negative territory, with more than a quarter of manufacturers noting a decrease in shipment volumes.

Indexes reflecting broader business conditions were mixed, but both increased from last month. The general business activity index remained negative but climbed nearly 12 points from -13.2 to -1.6. The company outlook index was positive for the fourth month in a row and edged up to 4.1 from a reading of 1.6 in July.

Labor market indicators reflected stronger labor demand but unchanged workweeks. Employment growth picked up in August, with the index rising to 14.2, its highest reading in five months. Twenty-four percent of firms reported hiring new workers, while 10 percent reported layoffs. The hours worked index was near zero, suggesting little change in workweek length.

Price pressures were mixed in August. After two months of minimal increases in input costs, the raw materials price index rebounded, rising 8 points to 10.9. Selling prices fell for the sixth consecutive month in August; the finished goods price index was -1.6, up from -5.5 last month. The wages and benefits index fell from 22.9 to 13.5, largely due to a marked decline in the share of firms noting increased compensation costs. Looking ahead, 44 percent of respondents anticipate further increases in raw materials prices over the next six months, while 32 percent expect higher finished goods prices.

Although the manufacturing activity indexes, such as production and new orders, fell from July levels, their corresponding future indexes rose this month. However, expectations regarding future business conditions remained mixed in August. The index of future general business activity remained negative but edged up from -7.3 to -5.1. The index of future company outlook inched up to 6.2.

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. 14-22, 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. Data have been seasonally adjusted as necessary.

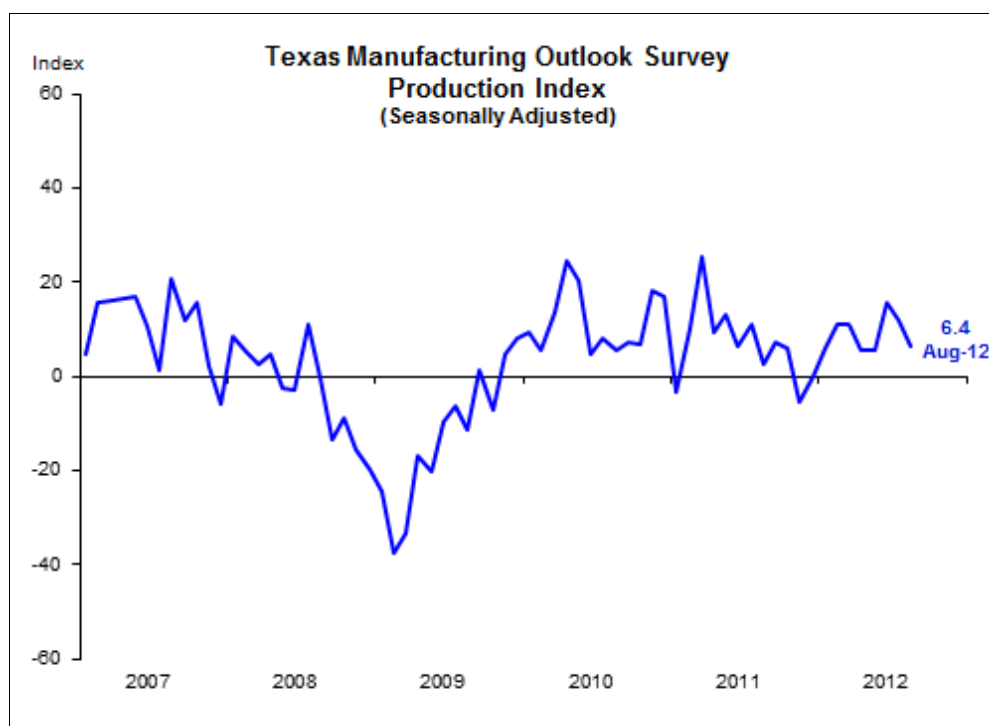
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Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	6.4	12.0	-5.6	Increasing	9	27.4	51.6	21.0
Capacity Utilization	1.7	8.7	-7.0	Increasing	9	23.8	54.1	22.1
New Orders	0.2	1.4	-1.2	Increasing	3	24.9	50.4	24.7
Growth Rate of Orders	-8.7	-3.1	-5.6	Decreasing	2	14.6	62.2	23.3
Unfilled Orders	-9.2	-1.6	-7.6	Decreasing	2	12.6	65.6	21.8
Shipments	-2.3	7.4	-9.7	Decreasing	1	23.2	51.3	25.5
Delivery Time	-9.9	1.1	-11.0	Decreasing	1	11.0	68.1	20.9
Materials Inventories	8.9	-3.0	+11.9	Increasing	1	22.3	64.3	13.4
Finished Goods Inventories	6.7	-8.0	+14.7	Increasing	1	21.1	64.4	14.4
Prices Paid for Raw Materials	10.9	3.0	+7.9	Increasing	37	25.7	59.5	14.8
Prices Received for Finished Goods	-1.6	-5.5	+3.9	Decreasing	6	12.9	72.6	14.5
Wages and Benefits	13.5	22.9	-9.4	Increasing	33	14.3	84.9	0.8
Employment	14.2	11.8	+2.4	Increasing	22	24.0	66.2	9.8
Hours Worked	-0.9	4.1	-5.0	Decreasing	1	16.9	65.3	17.8
Capital Expenditures	3.2	-0.8	+4.0	Increasing	1	15.0	73.2	11.8
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	4.1	1.6	+2.5	Improving	4	21.5	61.1	17.4
General Business Activity	-1.6	-13.2	+11.6	Worsening	2	20.5	57.4	22.1
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	28.6	27.1	+1.5	Increasing	42	38.6	51.4	10.0
Capacity Utilization	27.5	21.8	+5.7	Increasing	42	35.6	56.3	8.1
New Orders	27.1	20.1	+7.0	Increasing	42	35.2	56.7	8.1
Growth Rate of Orders	15.3	10.7	+4.6	Increasing	42	26.7	61.9	11.4
Unfilled Orders	-7.9	-11.5	+3.6	Decreasing	3	5.7	80.7	13.6
Shipments	33.8	24.3	+9.5	Increasing	42	40.3	53.2	6.5
Delivery Time	-11.3	-6.9	-4.4	Decreasing	5	5.7	77.3	17.0
Materials Inventories	-2.3	-11.5	+9.2	Decreasing	2	17.2	63.2	19.5
Finished Goods Inventories	-3.5	-8.3	+4.8	Decreasing	5	14.9	66.7	18.4
Prices Paid for Raw Materials	35.7	32.2	+3.5	Increasing	41	43.7	48.3	8.0
Prices Received for Finished Goods	21.6	13.8	+7.8	Increasing	2	31.8	58.0	10.2
Wages and Benefits	35.8	35.0	+0.8	Increasing	99	38.0	59.8	2.2
Employment	13.8	9.2	+4.6	Increasing	36	29.9	54.0	16.1
Hours Worked	0.7	2.8	-2.1	Increasing	41	14.6	71.5	13.9
Capital Expenditures	17.3	10.5	+6.8	Increasing	33	27.6	62.1	10.3
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	6.2	5.3	+0.9	Improving	40	22.4	61.4	16.2
General Business Activity	-5.1	-7.3	+2.2	Worsening	2	14.6	65.7	19.7

*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 oil and gas industry in Texas seems to be leading economic growth in the state.

Chemical Manufacturing

- > Not only do we have new customers ordering, we now have a major existing customer ordering as well.

Plastics and Rubber Products Manufacturing

- > Overall, our business has slowed down a bit. We have a seasonal downturn in July and August. We think the pending election has many small companies like ours uncertain as to what is ahead.

Nonmetallic Mineral Product Manufacturing

- > We are seeing an increase in demand, driven by improved housing conditions. While costs have not varied significantly, we are concerned about the potential inflationary impact on future costs as economic conditions improve. Although housing has shown improvement, the market is still significantly below normal trends prior to the bubble. We estimate that it will take approximately three more years for housing to fully recover.

Primary Metal Manufacturing

- > We are experiencing pretty stable business at this time. Any increases are minor.

Fabricated Metal Manufacturing

- > All the problems with the refineries have translated into a large amount of unplanned work.
- > Uncertainty regarding political, regulatory and budgetary changes forced a decrease in spending that continues to drive concerns, limiting forecasting and planning.
- > Most of our customers are projecting a flat year for the balance of this calendar year and into next.
- > Our six-month projections could be affected by the November elections if they reduce further the confidence that the business community has in our economy.

Machinery Manufacturing

- > We are seeing our normal seasonal bump being stronger than the last three years.

Electrical Equipment, Appliance, and Component Manufacturing

- > Slow military spending has had a dramatically negative impact on our business in 2012.

Furniture and Related Product Manufacturing

- > The seasonal cycle for housing will lessen the outlook in the fourth quarter.

Wood Product Manufacturing

- > We are seeing a general uptick in multifamily residential construction in South Texas and single-family construction has risen modestly. Commercial construction remains slow.

Food Manufacturing

- > Dairy and other commodity prices have been going higher. This impacts us negatively.

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/.
