



Texas Manufacturing Outlook Survey

DALLAS FED

May 27, 2014

TEXAS MANUFACTURING GROWS BUT AT A SLOWER PACE

What's New This Month

For this month's survey, manufacturers were asked supplemental questions on employment expectations and the labor market.

Texas factory activity increased again in May, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell from 24.7 to 11, indicating output grew but not strongly as in April.

Other measures of current manufacturing activity also reflected slower growth. The new orders index fell sharply to 3.8, hitting its lowest level this year. The capacity utilization index fell 9 points to 9.4 but remained slightly above its average level over the history of the survey. The shipments index edged down to 11, a reading also slightly above its overall average.

Perceptions of broader business conditions were less optimistic in May. The general business activity index remained elevated but moved down from 11.7 to 8. The company outlook index plummeted to 4.1 after rising sharply in April. Although both these indexes fell from last month, both were up strongly from their negative readings a year ago.

Labor market indicators reflected a tapering of growth in employment levels and workweek length. The May employment index dropped to 2.9, its lowest reading in nearly a year. Thirteen percent of firms reported net hiring compared with more than 10 percent reporting net layoffs. The hours worked index fell from 13.9 to 2.8, indicating only a slight increase in workweek length from April.

Strong upward pressure was seen for input prices and wages in May, while price pressures eased for selling prices. The raw materials price index jumped 16 points to 26.3 after falling sharply to an 8-month low last month. Meanwhile, the finished goods price index declined from 8 to 5.6, reaching its lowest level in six months. Looking ahead, 41 percent of respondents anticipate further increases in raw materials prices over the next six months, while 30 percent expect higher finished goods prices. The wages and benefits index held fairly steady at 20.1. This index has been consistently elevated since December, suggesting six months of strong upward pressure on compensation costs.

Expectations regarding future business conditions were a little less optimistic in May. The index of future general business activity fell nearly 13 points to 11.8, while the index of future company outlook fell from 26.9 to 20. Indexes for future manufacturing moved down but remained in solid 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 May 13–21, and 100 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.

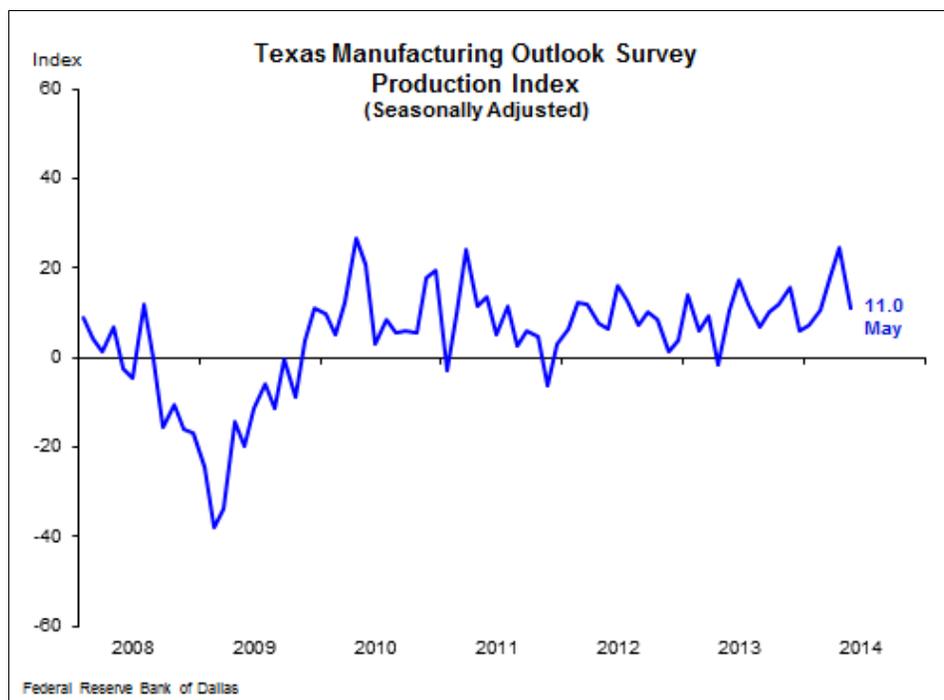
Next release: June 30, 2014

Business Indicators Relating to Facilities and Products in Texas									
Current (versus previous month)									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	11.0	24.7	-13.7	Increasing	13	24.9	61.2	13.9	
Capacity Utilization	9.4	18.7	-9.3	Increasing	18	22.1	65.2	12.7	
New Orders	3.8	21.3	-17.5	Increasing	13	21.8	60.2	18.0	
Growth Rate of Orders	2.8	13.4	-10.6	Increasing	5	18.7	65.4	15.9	
Unfilled Orders	-8.1	3.1	-11.2	Decreasing	1	7.9	76.1	16.0	
Shipments	11.0	12.4	-1.4	Increasing	13	28.4	54.2	17.4	
Delivery Time	-7.7	3.2	-10.9	Decreasing	1	3.3	85.7	11.0	
Materials Inventories	5.7	10.2	-4.5	Increasing	7	19.2	67.3	13.5	
Finished Goods Inventories	-1.0	5.6	-6.6	Decreasing	1	16.0	67.0	17.0	
Prices Paid for Raw Materials	26.3	10.2	+16.1	Increasing	58	28.2	69.9	1.9	
Prices Received for Finished Goods	5.6	8.0	-2.4	Increasing	10	12.0	81.6	6.4	
Wages and Benefits	20.1	21.3	-1.2	Increasing	58	21.3	77.5	1.2	
Employment	2.9	19.7	-16.8	Increasing	12	13.4	76.1	10.5	
Hours Worked	2.8	13.9	-11.1	Increasing	5	13.7	75.4	10.9	
Capital Expenditures	14.9	14.3	+0.6	Increasing	32	19.0	76.9	4.1	
General Business Conditions									
Current (versus previous month)									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	4.1	23.4	-19.3	Improving	12	16.0	72.1	11.9	
General Business Activity	8.0	11.7	-3.7	Improving	12	18.7	70.6	10.7	
Business Indicators Relating to Facilities and Products in Texas									
Future (six months ahead)									
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	36.9	47.1	-10.2	Increasing	63	47.3	42.3	10.4	
Capacity Utilization	37.2	39.1	-1.9	Increasing	63	45.8	45.6	8.6	
New Orders	37.3	43.9	-6.6	Increasing	63	45.0	47.3	7.7	
Growth Rate of Orders	30.4	37.0	-6.6	Increasing	63	37.8	54.8	7.4	
Unfilled Orders	5.1	5.9	-0.8	Increasing	10	15.5	74.1	10.4	
Shipments	37.4	43.3	-5.9	Increasing	63	45.7	46.0	8.3	
Delivery Time	-4.8	-2.6	-2.2	Decreasing	3	8.5	78.2	13.3	
Materials Inventories	1.1	2.9	-1.8	Increasing	10	16.3	68.5	15.2	
Finished Goods Inventories	-9.7	1.0	-10.7	Decreasing	1	8.6	73.1	18.3	
Prices Paid for Raw Materials	37.7	31.4	+6.3	Increasing	62	40.9	55.9	3.2	
Prices Received for Finished Goods	27.9	21.2	+6.7	Increasing	23	30.1	67.7	2.2	
Wages and Benefits	43.5	39.8	+3.7	Increasing	120	46.2	51.1	2.7	
Employment	29.0	30.8	-1.8	Increasing	57	33.3	62.4	4.3	
Hours Worked	7.5	10.3	-2.8	Increasing	12	15.5	76.5	8.0	
Capital Expenditures	23.9	17.7	+6.2	Increasing	54	30.4	63.0	6.5	
General Business Conditions									
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Company Outlook	20.0	26.9	-6.9	Improving	62	28.3	63.4	8.3	
General Business Activity	11.8	24.5	-12.7	Improving	12	21.3	69.2	9.5	

*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

- > The big thaw has occurred from the bitter winter of 2013–14. Customers are beginning to place more orders and filling up our open capacities. We are increasing prices to our low-margin customers as a result of our confidence in this market.
- > We are hearing a lot of threatened raw material price increases due to nickel prices increasing, but we haven't seen it just yet.
- > We are still awaiting the much anticipated 2014 increase in business activity.

Machinery Manufacturing

- > Business is steady, but we are still looking for a spark from new Gulf Coast energy facilities.
- > Our orders are stronger than normal at this time of the year due to both current customers and new customers.

Chemical Manufacturing

- > It is hard to get excited about the economy when housing starts are still below recession levels.

Nonmetallic Mineral Product Manufacturing

- > We are experiencing a labor shortage.

Food Manufacturing

- > Continued drought in West Texas continues to reduce throughput of our mill.
- > Record high dairy prices are significantly decreasing our margins.
- > We believe that recent increases in agriculture and protein products are going to drive food cost inflation in the next six months.

Paper Manufacturing

- > Business continues to grow, and we are almost at the point of turning some marginal business away.

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/.



Texas Manufacturing Outlook Survey

DALLAS **FED**

May 27, 2014

SPECIAL QUESTIONS

1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to twelve months?			
	May '14 (percent)	Mar. '12 (percent)	Jan. '11 (percent)
Increase	48.6	56.3	47.7
Leave Unchanged	44.4	37.5	41.9
Decrease	6.9	6.3	10.5
2. Are you having problems finding qualified workers when hiring?			
	May '14 (percent)		
Yes	68.1		
No	31.9		
3. If you are having problems finding qualified workers, what are the main reasons why? Please check all that apply.			
	May '14 (percent)		
Lack of technical competencies (hard skills)	70.6		
Lack of workplace competencies (soft skills)	51.0		
Lack of experience	39.2		
Inability to pass drug test and/or background check	39.2		
Lack of available applicants/no applicants	37.3		
Looking for more pay than is offered	35.3		
4. What, if anything, are you doing to recruit and retain employees? Please check all that apply.			
	May '14 (percent)		
Intensify recruiting, including advertising, paying recruiting bonuses, utilizing employment agencies, etc.	54.5		
Offer additional training	47.0		
Increase wages and/or benefits	39.4		
Increase variable pay, including bonuses	28.8		
Improve working conditions	12.1		
Reduce education and other requirements for new hires	9.1		
Other	12.1		
5. If labor costs are increasing, are you passing the cost on to customers in the way of price increases?			
	May '14 (percent)		
Yes	31.9		
No	48.6		
Not Applicable	19.4		

NOTE: Data were collected May 5–8, and 72 Texas manufacturers responded to the survey.

Special Questions Comments

These comments have been edited for publication.

Fabricated Metal Manufacturing

- > As unemployment decreases there are still good applicants, just at a lower percentage of total applicants.
- > Our problem is not tied to the salaries we offer; it is tied to there being few candidates for our jobs.
- > We have raised our manufacturing employment standards because the employees we are seeking must have the aptitude to work effectively without traditional levels of supervision while possessing strong technical skills.
- > In our manufacturing environment, many of the skilled positions are staffed by older employees who are approaching typical retirement age. It has been difficult to hire trained replacements for these roles due to the limited pool of candidates and strong demand. Perhaps more frustrating is the difficulty attracting young workers to traditional apprenticeship jobs for these roles, despite the strong long-term wage potential (and demand) for these jobs.
- > Competition for our sector of business has not allowed an increase in margins or profit margins.
- > The problem is only going to get worse, and already we are unable to compete with folks outside of the Gulf Coast. In addition, foreign competition is making it extremely difficult to compete for project work.

Nonmetallic Mineral Product Manufacturing

- > The cost of putting workers on the payroll continues to increase—additional health care costs (Affordable Care Act), minimum wage discussions, National Labor Relations Board rulings, etc. Plus many jobs that we have are for semi-skilled workers who are willing to do manual work. Workers are unwilling to physically work hard and frequently quit after trying it out.
- > There isn't enough legal labor available. The government needs to act fast on immigration reform and allow foreign labor to work here legally (especially from Mexico).
- > We are unable to pass labor costs on to our customers due to competitive pressures. All our prices are fixed cost bids, which have long contractual times.

Machinery Manufacturing

- > We are only able to partially pass on cost increases, such as labor, to our customers. Our biggest problems with adding factory employees are passing the drug test and then understanding that they need to come to work every day. It often takes two or three hires to find an employee that will be here for the future.

Computer and Electronic Product Manufacturing

- > The marketplace of blue collar professionals has shrunk considerably. Much of the aerospace manufacturing process consists of "tribal knowledge" that is going away as the older generation retires. Specialized intense training is required, and when people receive the training, they are highly sought after by the large multinational companies. This leaves mid-size manufacturing companies at high risk for training grounds only.
- > Increased labor costs are very difficult to pass through to customers due to competition. As a result, we are heavily focused on productivity improvements, including further investment in automated equipment.

Electrical Equipment, Appliance, and Component Manufacturing

- > There seems to be a decreased talent pool of executive talent available.

Chemical Manufacturing

- > The labor market for qualified welders and fitters seems to be very tight. We believe that more high schools should have classes to teach these necessary skills.

Printing and Related Support Activities

- > We are a medium-sized company serving giants, and they are grinding their supply chain hard. We keep reducing prices, absorbing cost increases such as labor, health care, and materials, and then relying on internal continuous improvement efforts to try to offset the squeeze. Our hope is ratcheting up sales volume to cover fixed costs better at this point and diversifying into new markets.

Transportation Equipment Manufacturing

- > We are not planning to increase our workforce at this time, but it may become necessary. Production workers are currently working a 56-hour week.
- > Our business competes heavily with foreign manufacturers and is not able to offer price increases with its product line.

Food Manufacturing

- > The cost of raw milk is very high now, so volume is declining in our industry.
- > Wages are increasing to get employees while commodity prices for our end products have declined most recently.

