



Texas Manufacturing Outlook Survey

DALLAS **FED**

June 30, 2014

TEXAS MANUFACTURING ACTIVITY PICKS UP PACE

Texas factory activity increased again 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 11 to 15.5, indicating output grew at a faster pace than in May.

Other measures of current manufacturing activity also reflected growth in June. The new orders index rose from 3.8 to 6.5 but remained below the levels seen earlier in the year. The capacity utilization index held steady at 9.2. The shipments index came in at 10.3, similar to its May level, with nearly a third of manufacturers noting an increase in volumes.

Perceptions of broader business conditions were more optimistic this month. The general business activity index rose from 8 to 11.4. The majority of respondents noted no change from May levels, although some 20 percent noted an increase in activity. The company outlook index rose 4 points to 8.4 after falling sharply last month.

Labor market indicators reflected stronger employment growth and longer workweeks. The June employment index rebounded to 13.1 after dipping to 2.9 in May. Twenty-one percent of firms reported net hiring compared with 8 percent reporting net layoffs. The hours worked index edged up from 2.8 to 4.7, indicating a slightly stronger rise in hours worked than last month.

Upward pressure on prices and wages was seen in June. The raw materials price index posted a second strong positive reading this month and inched up to 27.3. The finished goods price index rose slightly as well but remained in single digits, at 7.4. Looking ahead, 39 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 edged down for the second month in a row, coming in at 18.8, but still suggested a rise in compensation costs.

Expectations regarding future business conditions were more optimistic in June. The index of future general business activity rose 7 points to 18.7, while the index of future company outlook rose 14 points to 33.8, reaching its highest level since 2011. Indexes for future manufacturing activity also pushed 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 17–25, and 112 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.

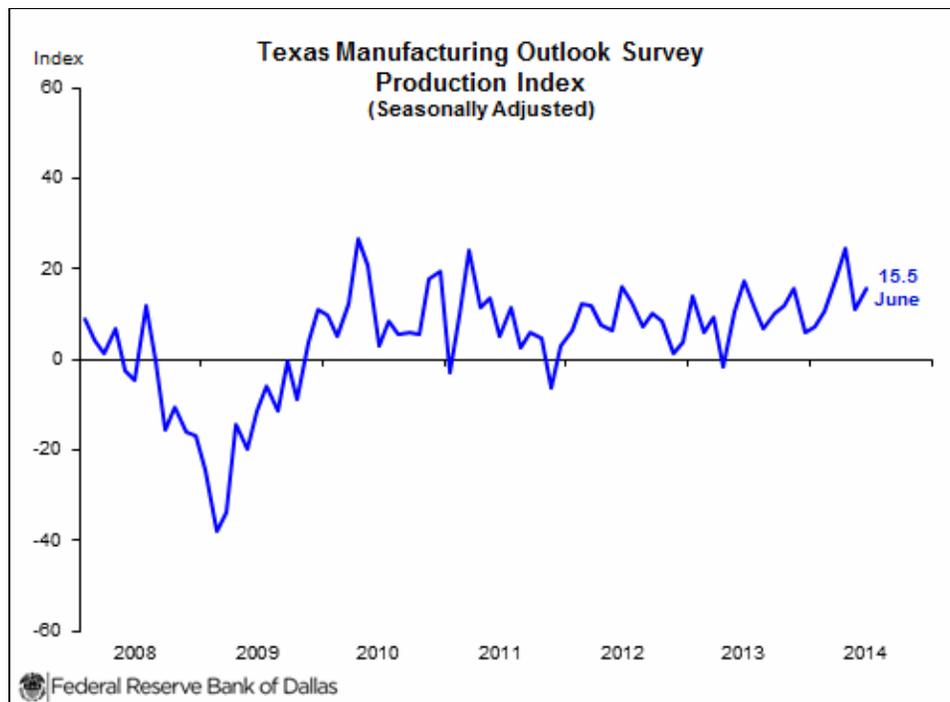
Next release: July 28, 2014

Business Indicators Relating to Facilities and Products in Texas									
Current (versus previous month)									
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	15.5	11.0	+4.5	Increasing	14	33.2	49.1	17.7	
Capacity Utilization	9.2	9.4	-0.2	Increasing	19	28.4	52.4	19.2	
New Orders	6.5	3.8	+2.7	Increasing	14	32.0	42.6	25.5	
Growth Rate of Orders	1.5	2.8	-1.3	Increasing	6	22.1	57.3	20.6	
Unfilled Orders	3.0	-8.1	+11.1	Increasing	1	17.8	67.3	14.8	
Shipments	10.3	11.0	-0.7	Increasing	14	32.4	45.6	22.1	
Delivery Time	1.1	-7.7	+8.8	Increasing	1	12.8	75.5	11.7	
Materials Inventories	11.2	5.7	+5.5	Increasing	8	25.7	59.8	14.5	
Finished Goods Inventories	2.6	-1.0	+3.6	Increasing	1	20.5	61.6	17.9	
Prices Paid for Raw Materials	27.3	26.3	+1.0	Increasing	59	31.3	64.7	4.0	
Prices Received for Finished Goods	7.4	5.6	+1.8	Increasing	11	14.7	78.0	7.3	
Wages and Benefits	18.8	20.1	-1.3	Increasing	59	20.4	78.0	1.6	
Employment	13.1	2.9	+10.2	Increasing	13	20.6	71.9	7.5	
Hours Worked	4.7	2.8	+1.9	Increasing	6	19.1	66.5	14.4	
Capital Expenditures	12.7	14.9	-2.2	Increasing	33	17.9	76.9	5.2	
General Business Conditions									
Current (versus previous month)									
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	8.4	4.1	+4.3	Improving	13	20.3	67.8	11.9	
General Business Activity	11.4	8.0	+3.4	Improving	13	20.9	69.6	9.5	
Business Indicators Relating to Facilities and Products in Texas									
Future (six months ahead)									
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	44.3	36.9	+7.4	Increasing	64	48.5	47.3	4.2	
Capacity Utilization	39.7	37.2	+2.5	Increasing	64	44.5	50.7	4.8	
New Orders	41.2	37.3	+3.9	Increasing	64	46.8	47.6	5.6	
Growth Rate of Orders	31.2	30.4	+0.8	Increasing	64	36.3	58.6	5.1	
Unfilled Orders	6.3	5.1	+1.2	Increasing	11	13.6	79.1	7.3	
Shipments	42.1	37.4	+4.7	Increasing	64	47.1	47.9	5.0	
Delivery Time	-1.5	-4.8	+3.3	Decreasing	4	8.5	81.5	10.0	
Materials Inventories	3.9	1.1	+2.8	Increasing	11	21.0	61.9	17.1	
Finished Goods Inventories	-3.9	-9.7	+5.8	Decreasing	2	11.5	73.1	15.4	
Prices Paid for Raw Materials	37.5	37.7	-0.2	Increasing	63	39.4	58.7	1.9	
Prices Received for Finished Goods	24.7	27.9	-3.2	Increasing	24	29.5	65.7	4.8	
Wages and Benefits	45.8	43.5	+2.3	Increasing	121	45.9	54.0	0.1	
Employment	26.9	29.0	-2.1	Increasing	58	32.7	61.5	5.8	
Hours Worked	14.0	7.5	+6.5	Increasing	13	19.0	76.0	5.0	
Capital Expenditures	17.3	23.9	-6.6	Increasing	55	26.0	65.4	8.7	
General Business Conditions									
Future (six months ahead)									
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	33.8	20.0	+13.8	Improving	63	36.7	60.4	2.9	
General Business Activity	18.7	11.8	+6.9	Improving	13	25.5	67.7	6.8	

*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

- > A modest mid-single-digit recovery appears to be occurring in the volume of new nonresidential construction starts.
- > We are experiencing labor wage pressure due to the increase in capital projects.
- > Our industry association has recently updated revenue forecasts for late 2014 through 2015, mainly because of the commercial aerospace and oil and gas sectors.

Machinery Manufacturing

- > We see positive activity trends for our industrial service and maintenance business. New Gulf Coast construction will be an additional tailwind.
- > Our six-month projection is based on the economy improving.
- > Our company is building manufacturing equipment, primarily for the oil industry. All segments we service, from exploration to transmission, are buying capital equipment. Foreign sales are growing at around the same rate as domestic. Equipment and technology used to manufacture equipment for corrosive environments is in high demand.
- > Raw material costs are starting to creep up on a regular basis, and price increases to cover these increases are very difficult to obtain.

Chemical Manufacturing

- > Our expected increase in employees, capital expenditures and hours worked six months from now is driven by a European acquisition.

Computer and Electronic Product Manufacturing

- > There is a slowdown in the manufacturing sector of the different industry segments we sell to.
- > Our business is seeing broad-based growth. There are rumors in our industry of spot shortages of competitors, but we have solid inventory and continued low lead times to support growth. We are hopeful demand will carry into the second half, unlike the last few years.

Food Manufacturing

- > Our sales are up, but we are being hurt by record prices for dairy products. A strong dollar helps us.
- > Rising commodity prices (raw material inputs) continue to drive our wholesale and retail pricing higher as we try to keep pace with the input price increases. We see widespread retail price increases in our grocery store customers across many food groups. Protein prices are experiencing some of the sharpest increases as historically-low herd sizes, disease and drought limit supply.

Printing and Related Support Activities

- > Our order entry is strong and has been all year. The second quarter was significantly up versus the prior year and the first quarter. Flexible packaging, primarily for consumer goods, is a good barometer to economic activity, and business has been and continues to be strong.

Miscellaneous Manufacturing

- > We are in a business segment that is facing secular decline (class rings and yearbooks), which may not reflect the general views of manufacturing.

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/.

