Texas Manufacturing Outlook Survey

DALLASFED

October 29, 2012

Texas Manufacturing Activity Expands but at a Slower Pace

What's New This Month

For this month's survey, manufacturers were asked supplemental questions on credit availability.

Texas factory activity increased in October, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, dipped from 10 to 7.9, indicating slightly slower growth.

Most other measures of current manufacturing activity also suggested growth in October, although new orders declined. The capacity utilization index edged up from 9.3 to 11.4, with more than one-quarter of manufacturers noting an increase. The shipments index held steady at 4.7, suggesting shipments rose at about the same pace as in September. The new orders index fell from 5.3 to –4.5, reaching its lowest level this year and indicating a decrease in demand.

Perceptions of general business conditions improved slightly in October. The general business activity index rose to 1.8, registering its first positive reading since June. The company outlook index was positive for the sixth month in a row and remained unchanged at 2.4.

Labor market indicators reflected slow but steady labor demand growth and shrinking workweeks. The employment index was 5.2 in October, largely unchanged from last month but well below the higher levels seen earlier in the year. About 15 percent of firms reported hiring new workers, while 10 percent reported layoffs. The hours worked index fell back into negative territory with a reading of –5.9, down from 2.8 in September.

Prices and wages increased in October. The raw materials price index reached its highest level since May 2011; it jumped 13 points to 35.6, indicating a sharp rise in input costs. After seven months of negative readings, the finished goods price index rose to 4.2, suggesting selling prices rose. The wages and benefits index decreased from 15.4 to 11, although the great majority of manufacturers continued to note no change in compensation costs. Looking ahead, 40 percent of respondents anticipate further increases in raw materials prices over the next six months, while 29 percent expect higher finished goods prices.

Expectations regarding future business conditions were more optimistic in October. The index of future general business activity jumped from 5.5 to 16.8. The index of future company outlook also rose sharply from 9.2 to 20.9. With the exception of new orders, indexes for future manufacturing activity were stronger than in September.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Oct. 16–24, and 101 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: November 26, 2012

Business Indicators Relating to Facilities and Products in Texas
Current (versus previous month)

Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	7.9	10.0	-2.1	Increasing	11	28.1	51.7	20.2
Capacity Utilization	11.4	9.3	+2.1	Increasing	11	26.8	57.8	15.4
New Orders	-4.5	5.3	-9.8	Decreasing	1	22.4	50.7	26.9
Growth Rate of Orders	-13.5	-0.4	-13.1	Decreasing	4	15.0	56.5	28.5
Unfilled Orders	-16.5	-6.9	-9.6	Decreasing	4	10.8	61.9	27.3
Shipments	4.7	4.5	+0.2	Increasing	2	28.3	48.2	23.6
Delivery Time	-11.9	-8.2	-3.7	Decreasing	3	7.9	72.3	19.8
Materials Inventories	-6.8	0.2	-7.0	Decreasing	1	20.6	52.0	27.4
Finished Goods Inventories	-8.9	-3.1	-5.8	Decreasing	2	11.9	67.3	20.8
Prices Paid for Raw Materials	35.6	22.5	+13.1	Increasing	39	42.2	51.2	6.6
Prices Received for Finished Goods	4.2	-1.3	+5.5	Increasing	1	17.5	69.2	13.3
Wages and Benefits	11.0	15.4	-4.4	Increasing	35	12.8	85.4	1.8
Employment	5.2	5.9	-0.7	Increasing	24	15.1	75.0	9.9
Hours Worked	-5.9	2.8	-8.7	Decreasing	1	13.1	67.9	19.0
Capital Expenditures	9.9	8.6	+1.3	Increasing	3	17.9	74.1	8.0

General Business Conditions
Current (versus previous month)

Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	2.4	2.4	0.0	Improving	6	19.1	64.2	16.7
General Business Activity	1.8	-0.9	+2.7	Improving	1	22.6	56.6	20.8

Business Indicators Relating to Facilities and Products in Texas
Future (six months ahead)

Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	30.3	26.4	+3.9	Increasing	44	41.4	47.5	11.1
Capacity Utilization	30.4	24.5	+5.9	Increasing	44	40.6	49.1	10.2
New Orders	24.8	25.3	-0.5	Increasing	44	37.1	50.6	12.3
Growth Rate of Orders	17.0	4.2	+12.8	Increasing	44	31.2	54.6	14.2
Unfilled Orders	0.0	-6.5	+6.5	Unchanged	1	10.3	79.4	10.3
Shipments	32.4	26.9	+5.5	Increasing	44	43.5	45.3	11.1
Delivery Time	-2.0	-5.4	+3.4	Decreasing	7	8.2	81.6	10.2
Materials Inventories	10.2	-1.1	+11.3	Increasing	1	26.5	57.1	16.3
Finished Goods Inventories	0.0	-6.5	+6.5	Unchanged	1	15.5	69.1	15.5
Prices Paid for Raw Materials	37.1	47.3	-10.2	Increasing	43	40.2	56.7	3.1
Prices Received for Finished Goods	18.4	21.7	-3.3	Increasing	4	28.6	61.2	10.2
Wages and Benefits	33.8	34.4	-0.6	Increasing	101	35.3	63.2	1.5
Employment	21.4	15.1	+6.3	Increasing	38	30.6	60.2	9.2
Hours Worked	9.7	0.2	+9.5	Increasing	43	16.7	76.3	7.0
Capital Expenditures	21.7	20.6	+1.1	Increasing	35	32.0	57.7	10.3

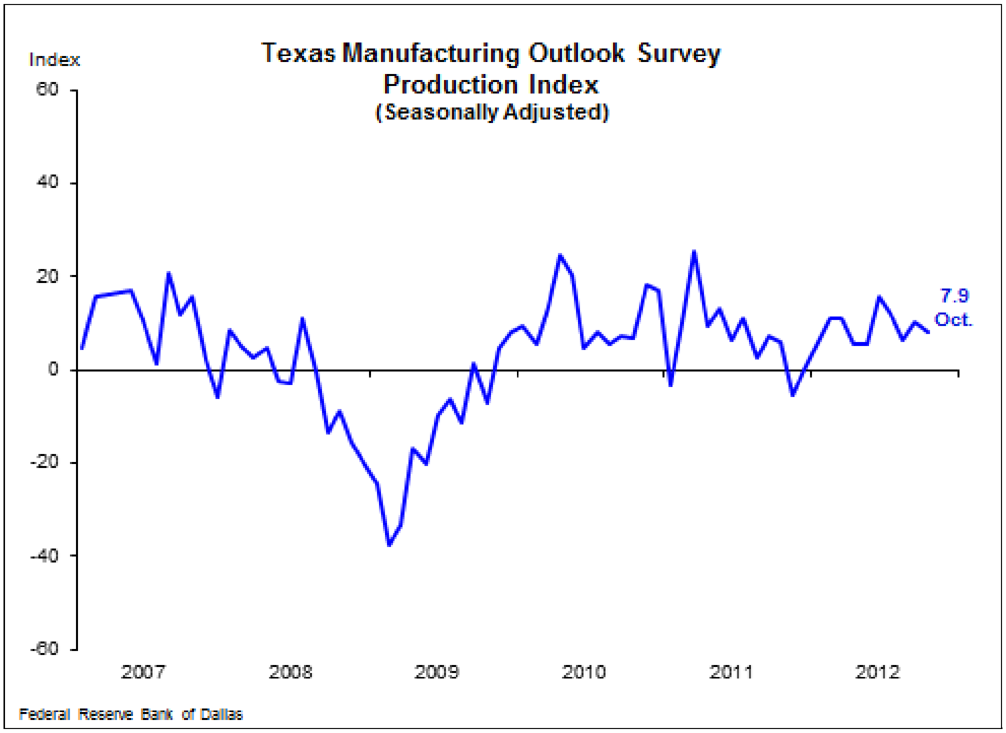
General Business Conditions
Future (six months ahead)

Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	20.9	9.2	+11.7	Improving	42	32.5	55.9	11.6
General Business Activity	16.8	5.5	+11.3	Improving	2	31.9	53.0	15.1

*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.

Food Manufacturing

- Expansion plans have been on hold for three years. Hopefully after the election these plans can be implemented.
- Commodity price increases have hurt us. It's difficult to plan when there is so much uncertainty.
- The price of raw goods will lower the volume of output and the need for employees in the future. We are expecting large increases in the price of raw milk. As the price of corn goes up, everything else follows.

Paper Manufacturing

- Business has improved, partly due to the cyclicality of our business. Our continued push in the sales department is expected to pay off in six months. The environment we live in has not improved.

Chemical Manufacturing

- Business is pretty flat. We are not seeing anyone doing anything to increase production.
- We are starting to see a falloff in new orders. It is hard to tell at this time whether it is a temporary situation, but we will be monitoring it over the next month. The backlog is still higher than it was in the spring.

Plastics and Rubber Products Manufacturing

- We think there are two factors affecting our volume of sales. First, we have a seasonal reduction with several of our large customers from August to November. Second, we strongly feel the uncertainty of the election outcome has small businesses and their customers holding their breath.

Primary Metal Manufacturing

- Our order rate has drastically reduced. Most of our customers have a very uncertain outlook on the economy. It seems that during the past eight weeks our orders have consistently decreased at least 20 percent.

Fabricated Metal Product Manufacturing

- We are desperate for skilled machinists who will show up for work and have the technical skills to complete the necessary tasks. We continue to be optimistic about the overall economy and the manufacturing segment specifically. We could increase our sales if we had additional qualified employees.
- The refinery market is doing well both domestically and internationally.
- The level of uncertainty is largely driven by the concerns of our customers, who are predominantly Subchapter S corporations and limited liability companies, regarding tax increases and the current administration’s actions through the Environmental Protection Agency, National Labor Relations Board, Department of Justice, etc.

Machinery Manufacturing

- We are seeing some tightening in our labor markets (mechanical maintenance/construction). We expect that to continue. Generally, demand in our business segments remains steady.
- Current activity is slightly stronger than our normal seasonal increase. Our outlook for next year is negative, primarily due to the crippling effect that the implementation of health care reform will have on our customer base. Increased costs from health care reform will severely restrict our customers from expanding or replacing capital equipment for 12–24 months until costs and pricing can be brought into balance.

Computer and Electronic Product Manufacturing

- Our new orders slowed significantly in September to the lowest level in the past year, and October so far is on track to be even lower. Third quarter revenues came in significantly below normal seasonal levels, with broad weakness across all major product lines and geographies. Fourth quarter revenue estimates point to another quarter significantly below normal seasonal levels, down 8 percent versus flat sequentially. In response, factory starts and utilization have been brought down again to keep inventories aligned with demand. In addition, capital expenditure has been lowered for the year, and normal expense controls continue to be tightened. On the positive side, we believe customers' and distributors' inventories continue to remain lean. We believe the weakness in our revenue is a reflection of slowing end demand, not inventory adjustments by our customers or distributors. As an indication, our revenue in the third quarter came in slightly above our expectation. Although weak at an absolute level, this demonstrates that customers continue to pull product for their manufacturing lines; therefore, indicating inventory of our product continues to remain lean. We believe this will continue to result in any changes in end demand being reflected in our orders and shipments quickly.

Transportation Equipment Manufacturing

- It is hard to predict future business due to election uncertainty.

Furniture and Related Product Manufacturing

- Our outlook depends upon the small steady growth of housing starts, along with oil prices remaining somewhat constant.

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/.

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SPECIAL QUESTIONS

1. How do borrowing conditions facing your firm compare to those six months ago?

	Oct '10 (percent)	Oct '11 (percent)	Oct '12 (percent)
Eased substantially	2.7	1.4	0.0
Eased somewhat	13.5	11.0	3.9
No change	43.2	39.7	53.2
Tightened somewhat	5.4	13.7	9.1
Tightened substantially	5.4	6.8	2.6
Not applicable–haven't sought credit	29.7	27.4	31.2

2. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?

	Oct '10 (percent)	Oct '11 (percent)	Oct '12 (percent)
No difficulty	35.6	34.2	41.6
Some difficulty	12.3	17.8	9.1
Substantial difficulty	8.2	8.2	9.1
Extreme difficulty	1.4	2.7	3.9
Not applicable–haven't sought credit	42.5	37.0	36.4

3. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?

	Oct '10 (percent)	Oct '11 (percent)	Oct '12 (percent)
No difficulty	36.1	35.6	42.7
Some difficulty	11.1	9.6	8.0
Substantial difficulty	5.6	5.5	5.3
Extreme difficulty	1.4	4.1	2.7
Not applicable–haven't sought credit	45.8	45.2	41.3

4. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?	Oct '10 (percent)	Oct '11 (percent)	Oct '12 (percent)
Yes–significantly	2.7	5.5	3.9
Yes–somewhat	9.5	13.7	9.1
No	29.7	31.5	27.3
Not applicable–haven't had problems obtaining credit	18.9	15.1	19.5
Not applicable–haven't sought credit	39.2	34.2	40.3

5. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?	Oct '10 (percent)	Oct '11 (percent)	Oct '12 (percent)
Yes–significantly	1.4	2.7	3.9
Yes–somewhat	5.4	13.7	6.5
No	40.5	32.9	32.5
Not applicable–haven't had problems obtaining credit	14.9	16.4	20.8
Not applicable–haven't sought credit	37.8	34.2	36.4

Survey collection period: 10/9/2012 to 10/12/2012

Special Questions Comments

These comments have been edited for publication.

Food Manufacturing

- Credit is not our problem. Our problem is big increases in commodity prices.

Wood Product Manufacturing

- Having failed at the large lending institutions, we are pursuing a relationship with a community bank. Things look more optimistic.

Paper Manufacturing

- We are very fortunate to be cash strong and have not needed to seek financing.

Chemical Manufacturing

- While we have not sought credit, my expectations are that it would be somewhat easier to obtain now rather than six months ago. We are postponing capital expenditures until after the election and any fallout from that.
- The company has a fairly good balance sheet and profit and loss statement, and as a result we receive very competitive quotes. We are in a very stable market and are not suffering like so many companies around the country. The best help would be to lower corporate tax rates. With lower corporate tax rates our group would probably invest more in plant and equipment in this country. The high tax rate keeps companies from investing and subsequently hiring.

Plastics and Rubber Products Manufacturing

- We are blessed to be in a very capital intensive manufacturing business, but have been careful through the last 35 years to minimize our credit needs and have primarily been paying cash for new equipment.
- Our business is driven by customer demand and the ability to acquire new customers. We have the cash and credit if needed to meet growth if and when it occurs.

Nonmetallic Mineral Product Manufacturing

- The terms for bank credit have tightened; the banks are lending lower multiples of cash flow for term loans and requiring faster amortizations of the loans. They are still lending, but it makes it more difficult to commit to long-term capital investments. Working capital loans are less difficult because they only last one year typically.

Primary Metal Manufacturing

- We are very strong financially speaking, with no long-term debt.
- We have difficulty obtaining forward cover against the value of the U.S. dollar. This impairs our ability to purchase upgrades to some major pieces of our manufacturing equipment.

Fabricated Metal Product Manufacturing

- Credit for capital expenditures of less than $250,000 with the same institutions we have a history with is easy and just requires signatures, but with personal guarantees. We have not heard of anyone having difficulty with finding financing on capital equipment. Lines of credit are difficult for us to acquire.
- We think the missing issue is the cost. For non-investment-grade credit, the cost is Libor floor of 200 basis points plus 650. Additionally, our 4,000 distributors and general contractors are struggling to fund their businesses from a working capital perspective. This could further hamper the nonresidential construction recovery.

Machinery Manufacturing

- Our long-term relationship with local bank credit availability improved dramatically approximately two-and-a-half years ago.

Computer and Electronic Product Manufacturing

- We have an excellent relationship with a local bank. We feel that the big banks are not personal or small business friendly. We would never do business with a large bank again.
- Lenders are admittedly waiting on the elections and hoping for Congressional actions to effectively deal with the 2013 fiscal cliff.