



# Texas Manufacturing Outlook Survey

DALLAS **FED**

November 26, 2012

## TEXAS MANUFACTURING ACTIVITY: GROWTH STALLS AND COMPANY OUTLOOK WORSENS

Texas factory activity was little changed in November, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, came in at 1.7, indicating output barely increased from October.

Other survey measures suggested flat manufacturing activity in November. The new orders index came in at 0.4, suggesting that demand was unchanged from October. The capacity utilization index plunged more than ten points, coming in at -1.3, indicating utilization rates were little changed from last month. The shipments index edged down from 4.7 to 0.9, with more than half of the respondents noting no change from October.

Perceptions of broader business conditions worsened in November. The general business activity index fell to -2.8, returning to negative territory. The company outlook index moved down to -4.8, registering its first negative reading since April.

Labor market indicators were mixed. The employment index edged up to 6.7 in November, with more than 20 percent of firms reporting hiring compared with 15 percent reporting layoffs. The hours worked index dipped from -5.9 to -7.1.

Prices and wages increased in November. The raw materials price index declined from 35.6 to 30.2, indicating input costs continued to rise, but at a slower pace than in October. The finished goods price index increased from 4.2 to 9, suggesting stronger upward pressure on selling prices. The wages and benefits index increased from 11 to 15.1, although the great majority of manufacturers continued to note no change in compensation costs. Looking ahead, 43 percent of respondents anticipate further increases in raw materials prices over the next six months, while 35 percent expect higher finished goods prices.

Indexes reflecting future business conditions fell sharply in November. The index of future general business activity plunged from 16.8 to -5.3, its lowest reading in four months. The index of future company outlook dropped from 20.9 to 1.8. Indexes for future manufacturing activity also fell this month but remained positive.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Nov. 13–20, 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.

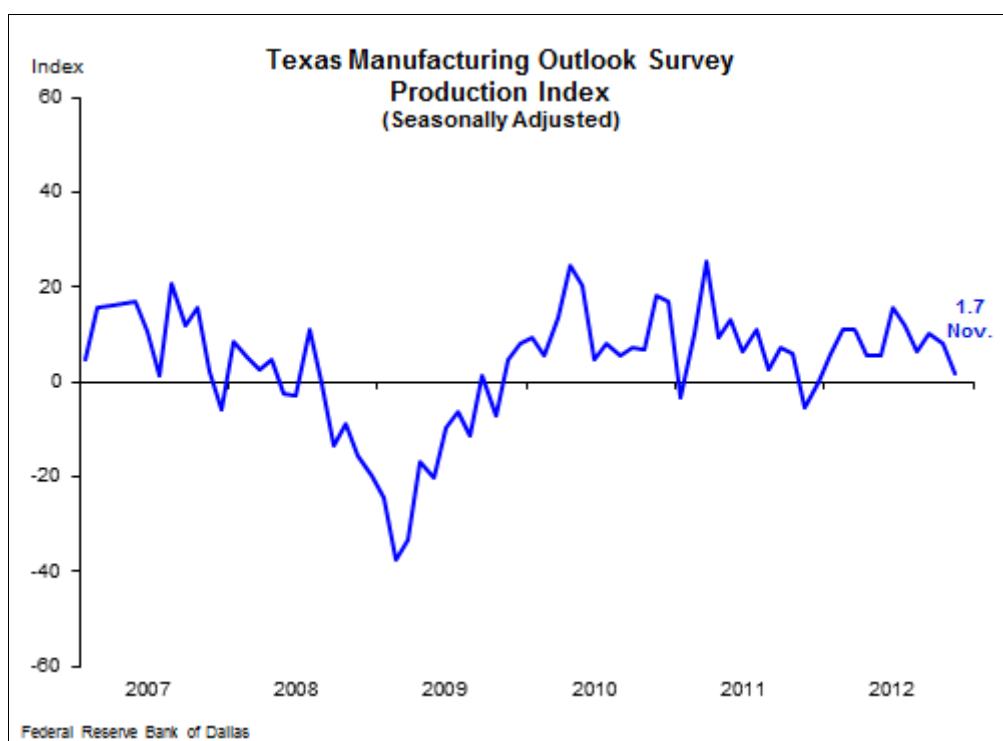
**Next release:** December 31, 2012

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	1.7	7.9	-6.2	Increasing	12	24.8	52.1	23.1
Capacity Utilization	-1.3	11.4	-12.7	Decreasing	1	21.3	56.1	22.6
New Orders	0.4	-4.5	+4.9	Increasing	1	27.6	45.3	27.2
Growth Rate of Orders	2.3	-13.5	+15.8	Increasing	1	26.0	50.3	23.7
Unfilled Orders	-5.3	-16.5	+11.2	Decreasing	5	14.5	65.7	19.8
Shipments	0.9	4.7	-3.8	Increasing	3	23.1	54.7	22.2
Delivery Time	-3.9	-11.9	+8.0	Decreasing	4	11.9	72.3	15.8
Materials Inventories	4.1	-6.8	+10.9	Increasing	1	20.1	63.9	16.0
Finished Goods Inventories	-11.9	-8.9	-3.0	Decreasing	3	12.9	62.4	24.8
Prices Paid for Raw Materials	30.2	35.6	-5.4	Increasing	40	35.6	59.0	5.4
Prices Received for Finished Goods	9.0	4.2	+4.8	Increasing	2	17.4	74.2	8.4
Wages and Benefits	15.1	11.0	+4.1	Increasing	36	17.5	80.1	2.4
Employment	6.7	5.2	+1.5	Increasing	25	21.2	64.3	14.5
Hours Worked	-7.1	-5.9	-1.2	Decreasing	2	14.3	64.3	21.4
Capital Expenditures	6.1	9.9	-3.8	Increasing	4	16.2	73.7	10.1
General Business Conditions Current (versus previous month)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-4.8	2.4	-7.2	Worsening	1	17.8	59.6	22.6
General Business Activity	-2.8	1.8	-4.6	Worsening	1	18.2	60.8	21.0
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	22.5	30.3	-7.8	Increasing	45	36.9	48.7	14.4
Capacity Utilization	23.6	30.4	-6.8	Increasing	45	37.6	48.3	14.0
New Orders	21.8	24.8	-3.0	Increasing	45	36.0	49.8	14.2
Growth Rate of Orders	10.0	17.0	-7.0	Increasing	45	27.7	54.6	17.7
Unfilled Orders	-5.1	0.0	-5.1	Decreasing	1	13.1	68.7	18.2
Shipments	18.1	32.4	-14.3	Increasing	45	36.7	44.6	18.6
Delivery Time	-9.0	-2.0	-7.0	Decreasing	8	10.0	71.0	19.0
Materials Inventories	-4.0	10.2	-14.2	Decreasing	1	18.2	59.6	22.2
Finished Goods Inventories	-6.1	0.0	-6.1	Decreasing	1	13.1	67.7	19.2
Prices Paid for Raw Materials	38.0	37.1	+0.9	Increasing	44	43.0	52.0	5.0
Prices Received for Finished Goods	28.0	18.4	+9.6	Increasing	5	35.0	58.0	7.0
Wages and Benefits	30.7	33.8	-3.1	Increasing	102	34.4	61.9	3.7
Employment	2.0	21.4	-19.4	Increasing	39	21.0	60.0	19.0
Hours Worked	7.1	9.7	-2.6	Increasing	44	16.9	73.3	9.8
Capital Expenditures	23.2	21.7	+1.5	Increasing	36	38.4	46.5	15.2
General Business Conditions Future (six months ahead)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	1.8	20.9	-19.1	Improving	43	25.7	50.4	23.9
General Business Activity	-5.3	16.8	-22.1	Worsening	1	20.1	54.5	25.4

\*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.

### Wood Product Manufacturing

- > Even in normal economic times, November and December are challenging months. Thus, our slowdown in demand is not unexpected.

### Paper Manufacturing

- > November was expected to have more sales, but sales remained the same. We are still holding out for sales growth in first quarter 2013.

### Printing and Related Support Activities

- > Though our company is seeing great business growth, we will begin to look at cutting our work force to accommodate the provisions of the Patient Protection and Affordable Care Act. We will definitely reduce our number of employees to fewer than 50. We had planned to add up to 20 or more jobs in 2013, but instead we will look at cutting seven to eight positions. We will look at increasing our capacity with new, faster equipment to help us with our growth.

### Chemical Manufacturing

- > Demand for our product has really flattened out in the last half of this year. We have seen no growth in the last six months.
- > One of our suppliers is still working through an inventory issue, which is causing us problems. We have several new customers with new projects, but these projects are not yet reflected in our revenue numbers. We expect to see revenue improvements in first quarter 2013.
- > We feel that in the next six months our business will at least double and possibly go higher than that.

### Plastics and Rubber Products Manufacturing

- > We are still uncertain about future costs of employee health insurance and taxes.
- > This has been an interesting week with all kinds of emotions expressed by some of our customers. I think generally they have resolved that worrying about the many unknowns will not change anything, and they are moving on with their plans to purchase parts needed to operate their various businesses. We even have a few customers who plan to launch new projects and/or products.
- > We deal with retailers. Our retail clients, like the rest of us, are unsure about the future. Tax incentives in new legislation could help retail and economic activity directly and my business indirectly.

### Nonmetallic Mineral Product Manufacturing

- > We anticipate the housing market to continue a slow recovery.

## Primary Metal Manufacturing

- > For the past 8–10 weeks, orders have steadily declined, not only for our company but for our segment of the industry. There is not a lot of confidence within our customer base that we will see much economic improvement in the months ahead.
- > Concerns over the fiscal cliff are causing our customers to hold off on purchases; they are waiting to see what the resolution will be.

## Fabricated Metal Manufacturing

- > I believe the refining industry will continue to struggle with regulation and increased taxes. In October, our company had a significant increase in unplanned repair work from several of the refineries. I do not expect this to continue.
- > Order increases and decreases have been industry specific, depending on how tied to the fiscal cliff operations are. Uncertainty still remains a major influencer followed by rising costs created by health care insurance and possible tax increases.
- > We had heard that a construction company that supports oil and gas exploration companies is cutting and/or stopping projects based on the uncertainty of future business conditions, i.e., taxes and regulations. We are concerned with the future of tax policy.
- > Fiscal cliff and global economic uncertainties abound. Corporations' actions indicate they expect a poorer outlook for 2013. So we project an uphill struggle to maintain growth at levels necessary to materially improve outlook or results.
- > Quoting and booking activity has slowed. The looming tax increases on LLCs and Subchapter S companies who distribute our products are having an alarmingly negative impact on their willingness to make future commitments.
- > We are not sure how the economy will grow. The fiscal cliff must be addressed.
- > Although we have increased production from October, there is a high level of uncertainty related to the energy sector. We are still substantially below capacity. This has caused major projects to not be released for construction. We have been forwarded an all-employee notice from a major international engineering firm that warns of possible staff reductions because of potential new legislation. The memo provided specifics for personal and corporate financial impacts.

## Machinery Manufacturing

- > Without a bipartisan resolution to the tax and fiscal cliff, 2013 could be a very difficult economic environment—more like 2009 or 2010 than 2012.

## Furniture and Related Product Manufacturing

- > There is too much uncertainty about the fiscal cliff.

## Computer and Electronic Product Manufacturing

- > We are simply guessing about demand in 2013. All eyes are on the sequestration decision.

## Miscellaneous Manufacturing

- > The economic business environment we operate in is deteriorating for others in the same space. We are especially concerned regarding the effects of reduced cash flow on employment and return on investments of capital investments based on proposed increases to the tax code and increased regulatory and government mandated reporting. If the worst case scenario regarding taxes, regulation and defense cuts become a reality, it would drastically reverse our past growth, and we would be focusing on cost-cutting and reducing overhead, not expansion.

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Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at [emily.kerr@dal.frb.org](mailto:emily.kerr@dal.frb.org). The Texas Manufacturing Outlook Survey can be found online at [www.dallasfed.org/microsites/research/surveys/tmos/](http://www.dallasfed.org/microsites/research/surveys/tmos/).

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