



# Texas Manufacturing Outlook Survey

DALLAS **FED**

December 31, 2012

## TEXAS MANUFACTURING ACTIVITY: SLOW GROWTH AND IMPROVED COMPANY OUTLOOK

Texas factory activity edged up in December, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 1.7 to 2.7, which is consistent with slow growth.

Most other survey measures also indicated manufacturing activity crept up in December. The capacity utilization index returned to positive territory with a reading of 1.8, implying utilization rates ticked up from last month. The shipments index jumped to 11.3 after a reading near zero last month. The new orders index, however, remained near zero, suggesting demand was flat in December.

Perceptions of broader business conditions improved markedly in December. The general business activity index emerged from negative territory, rising sharply to 6.8 as a result of a drop in the share of contacts reporting that conditions worsened. The company outlook index also turned positive, jumping 14 points to 9.2, its best reading since March.

Labor market indicators were flat in December. The employment index came in at -1, its lowest reading in over two years, with about 17 percent of employers reporting hiring and the same share noting layoffs. The hours worked index turned positive after two months in negative territory; however, at a reading of 1, it suggested hours worked barely changed.

Prices and wages were mixed in December. The raw materials price index declined from 30.2 to 23.7, indicating input costs continued to rise, but at a slower pace than in November. The finished goods price index fell from 9 to -0.2, suggesting selling prices were unchanged this month. The wages and benefits index stayed at 15.1, reflecting rising wages, although the great majority of manufacturers continued to note no change in compensation costs. Looking ahead, 42 percent of respondents anticipate further increases in raw materials prices over the next six months, while 25 percent expect higher finished goods prices.

Expectations regarding future business conditions improved sharply in December. The index of future general business activity surged to 7.9, up from -5.3, with the share of contacts reporting worsened future expectations falling from 25 to 14 percent. The index tracking the future company outlook rose from 1.8 to 14.7. Indexes for future manufacturing activity also generally rose this month.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Dec. 18–26, 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.

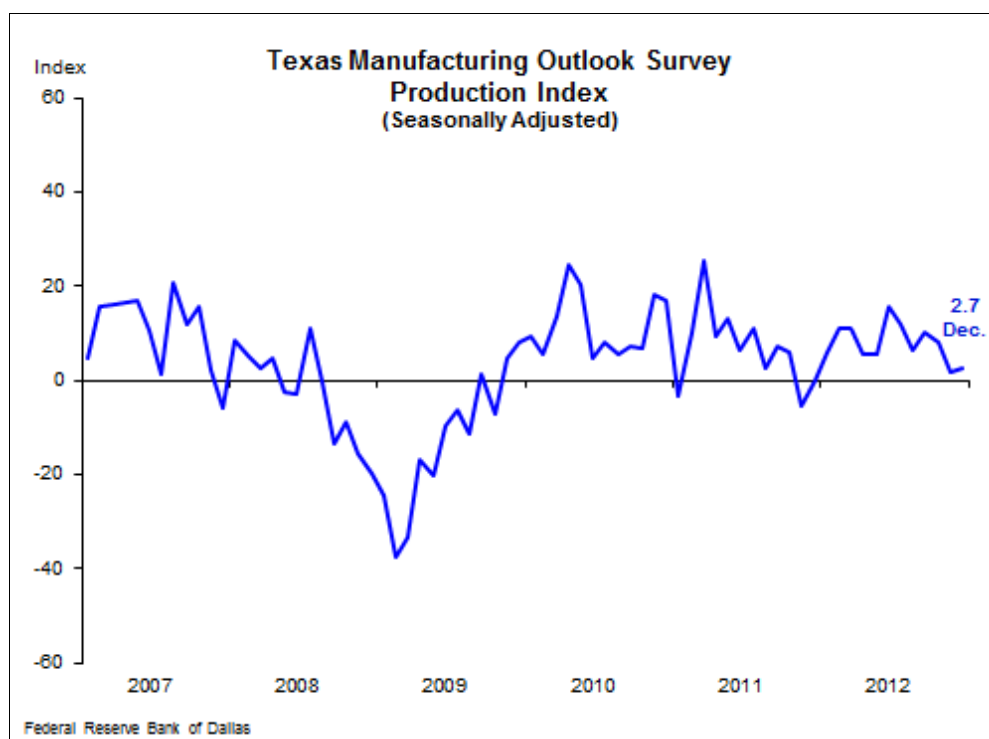
**Next release:** January 28, 2013

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	2.7	1.7	+1.0	Increasing	13	22.6	57.5	19.9
Capacity Utilization	1.8	-1.3	+3.1	Increasing	1	21.0	59.8	19.2
New Orders	-0.9	0.4	-1.3	Decreasing	1	25.6	48.0	26.5
Growth Rate of Orders	-3.7	2.3	-6.0	Decreasing	1	19.3	57.7	23.0
Unfilled Orders	-6.8	-5.3	-1.5	Decreasing	6	12.8	67.6	19.6
Shipments	11.3	0.9	+10.4	Increasing	4	29.3	52.7	18.0
Delivery Time	-6.6	-3.9	-2.7	Decreasing	5	7.8	77.8	14.4
Materials Inventories	-1.2	4.1	-5.3	Decreasing	1	21.1	56.6	22.3
Finished Goods Inventories	-5.5	-11.9	+6.4	Decreasing	4	16.7	61.1	22.2
Prices Paid for Raw Materials	23.7	30.2	-6.5	Increasing	41	30.1	63.5	6.4
Prices Received for Finished Goods	-0.2	9.0	-9.2	Decreasing	1	10.1	79.6	10.3
Wages and Benefits	15.1	15.1	0.0	Increasing	37	18.4	78.3	3.3
Employment	-1.0	6.7	-7.7	Decreasing	1	16.6	65.8	17.6
Hours Worked	1.0	-7.1	+8.1	Increasing	1	18.3	64.4	17.3
Capital Expenditures	12.6	6.1	+6.5	Increasing	5	23.3	66.0	10.7
General Business Conditions Current (versus previous month)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	9.2	-4.8	+14.0	Improving	1	18.5	72.2	9.3
General Business Activity	6.8	-2.8	+9.6	Improving	1	17.4	72.0	10.6
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	23.8	22.5	+1.3	Increasing	46	35.7	52.4	11.9
Capacity Utilization	21.1	23.6	-2.5	Increasing	46	34.1	52.9	13.0
New Orders	29.8	21.8	+8.0	Increasing	46	39.9	50.0	10.1
Growth Rate of Orders	13.3	10.0	+3.3	Increasing	46	27.2	58.9	13.9
Unfilled Orders	4.6	-5.1	+9.7	Increasing	1	11.4	81.8	6.8
Shipments	24.8	18.1	+6.7	Increasing	46	36.6	51.6	11.8
Delivery Time	0.0	-9.0	+9.0	Unchanged	1	8.0	84.1	8.0
Materials Inventories	5.7	-4.0	+9.7	Increasing	1	19.3	67.0	13.6
Finished Goods Inventories	0.0	-6.1	+6.1	Unchanged	1	9.1	81.8	9.1
Prices Paid for Raw Materials	38.6	38.0	+0.6	Increasing	45	42.0	54.5	3.4
Prices Received for Finished Goods	17.3	28.0	-10.7	Increasing	6	25.3	66.7	8.0
Wages and Benefits	32.9	30.7	+2.2	Increasing	103	34.2	64.5	1.3
Employment	22.7	2.0	+20.7	Increasing	40	34.1	54.5	11.4
Hours Worked	5.0	7.1	-2.1	Increasing	45	12.6	79.8	7.6
Capital Expenditures	20.5	23.2	-2.7	Increasing	37	30.7	59.1	10.2
General Business Conditions Future (six months ahead)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	14.7	1.8	+12.9	Improving	44	27.6	59.5	12.9
General Business Activity	7.9	-5.3	+13.2	Improving	1	21.8	64.3	13.9

\*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

- > We sell products for new home construction. We have had no drop-off in shipments, and we have had a less than 5 percent decrease in orders. This is unusual strength for this time of year, and so for the first time since 2007 we expect a good first quarter.
- > Our better-than-normal outlook is related to the pickup in residential building in Texas. We remain optimistic but maybe a bit less optimistic than most within this segment.

### Printing and Related Support Activities

- > We have terminated seven employees this month to get our small business below the 49 employee threshold level for the Affordable Care Act. We see this happening across other small businesses we are in contact with. We believe unemployment will further stall the economy.

### Chemical Manufacturing

- > We expect 2013 to be a very good year for us. We expect to triple our sales, with about 80 percent of the increase from foreign buyers.

### Plastics and Rubber Products Manufacturing

- > We are attempting to reduce our workforce to less than 50 employees to more readily comply with the Affordable Care Act.
- > Our demand slowed down in October, and we thought it would pick up following the election. However, that did not happen. Now, we think maybe demand is slow because of fear of the fiscal cliff. However, we think the new year will be much improved. We have not lost any customers, and we hope and believe they will get going again like the first nine months of 2012.

### Nonmetallic Mineral Product Manufacturing

- > We are seeing an increase in activity compared with last year. The typical seasonal decline has not developed, and business levels are strong compared with a typical year. It appears that a greater level of demand for our products has developed due to improved demand for housing. We expect demand to continue to improve as long as economic conditions and interest rates remain favorable. We are concerned about pending inflationary conditions, which would cause a rise in interest rates and place downward pressure on the housing sector.

### Primary Metal Manufacturing

- > Many of our customers have had holiday shutdowns, which resulted in lower sales and higher finished goods inventory for us.

- > We have noticed a general overall slowdown in manufacturing activity in the markets we sell to.

### **Fabricated Metal Manufacturing**

- > We believe manufacturing demand will be improving through the first quarter of 2013.
- > Our average employee workweek is longer, but only to compensate for a short production month due to our annual maintenance shutdown between Christmas and New Year's Day. Our bookings for January and February are higher than we have had for the past few months. We believe that we were going through about a six-month recessionary period, beginning in August 2012, that was being driven by inventory adjustments, particularly in the horizontal drilling equipment market. Our current outlook seems to support this.
- > Our favorable outlook report for the upcoming six-month period is based on there being some reasonable solution to the fiscal cliff.
- > We have noticed that nonresidential construction is slowing and believe it is due to an unwillingness to move forward on projects. This hesitation appears to be connected to uncertainty regarding the fiscal cliff and tax concerns.
- > Refinery business has been very good in spite of the current obstacles they face. The low cost of natural gas is really helping them with exporting refined products. We are unsure of what will happen in the next six months, but our backlog of work is near record highs, and we are investing in more automated equipment because we cannot find qualified workers.

### **Machinery Manufacturing**

- > We are reducing our capital expenditure plans for 2013 because of anticipated tax increases on pass-through income and impact of the Affordable Care Act.
- > We are running at plant capacity and have been for more than a year. Nothing can change until we either increase the plant capacity or business declines.

### **Furniture and Related Product Manufacturing**

- > We are experiencing a seasonal slowdown in construction, but uncertainty from the fiscal cliff does not help.

### **Computer and Electronic Product Manufacturing**

- > We have had a significant delay of scheduled orders from December into next calendar year. Our customers are conserving cash and asking us to delay shipments and hold the inventory. There is much uncertainty over the fiscal cliff.

### **Miscellaneous Manufacturing**

- > We had a downturn in demand in December due to the holidays.
- > We are waiting until the new year to begin capital expenditures.

### **Food Manufacturing**

- > We are still concerned about the high prices we pay for raw materials, especially dairy ingredients.
- > We believe raw milk will remain a volatile situation far into the future. Cattle feed prices, lack of congressional farm bill clarity and drought conditions are a few of the hurdles to clear in coming months.

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Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Pia Orrenius at [pia.orrinius@dal.frb.org](mailto:pia.orrinius@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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