



Texas Manufacturing Outlook Survey

DALLAS**FED**

January 28, 2013

TEXAS MANUFACTURING ACTIVITY STRENGTHENS IN JANUARY

What's New This Month

This month's survey data include annual seasonal factor revisions. In January of each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Manufacturing Outlook Survey after calculating new seasonal adjustment factors. Annual seasonal revisions result in slight changes in the seasonally adjusted series. Read more information on seasonal adjustment at www.dallasfed.org/microsites/research/surveys/tmos/seasonal.cfm.

Texas factory activity rose sharply in January, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 3.5 to 12.9, which is consistent with faster growth.

Other measures of current manufacturing activity also indicated stronger growth in January. The new orders index jumped 13 points to 12.2, its highest reading since March 2011. The capacity utilization index shot up from 2.1 to 14.0, implying utilization rates increased faster than last month. The shipments index rose 9 points to 21.9, indicating shipments quickened in January.

Perceptions of broader business conditions were more positive in January. The general business activity index increased from 2.5 to 5.5, its best reading since March. The company outlook index also rose sharply to 12.6, largely due to a drop in the share of firms reporting a worsened outlook from 10 percent in December to 6 percent in January.

Labor market indicators reflected a sharp increase in hiring but flat workweeks. The employment index jumped out of negative territory to 8.7, with about 20 percent of employers reporting hiring and 11 percent noting layoffs. The average workweek index edged down to a reading of 0.8, which is consistent with unchanged hours worked.

Price and wage pressures increased in January. The raw materials price index moved up from 21.9 to 27.8, indicating input costs rose faster this month. The finished goods price index rose sharply from about zero to 10.2, its highest reading since February 2012. The wages and benefits index rose four points to 19.2, reflecting rising wage pressure, although the great majority of manufacturers continued to note no change in compensation costs. Looking ahead, 44 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 slightly in January. The index of future general business activity ticked up from 7.1 to 9.2. The index of future company outlook rose from 15.4 to 20.8. Indexes for future manufacturing activity moved up strongly 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 Jan. 15–23, and 88 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.

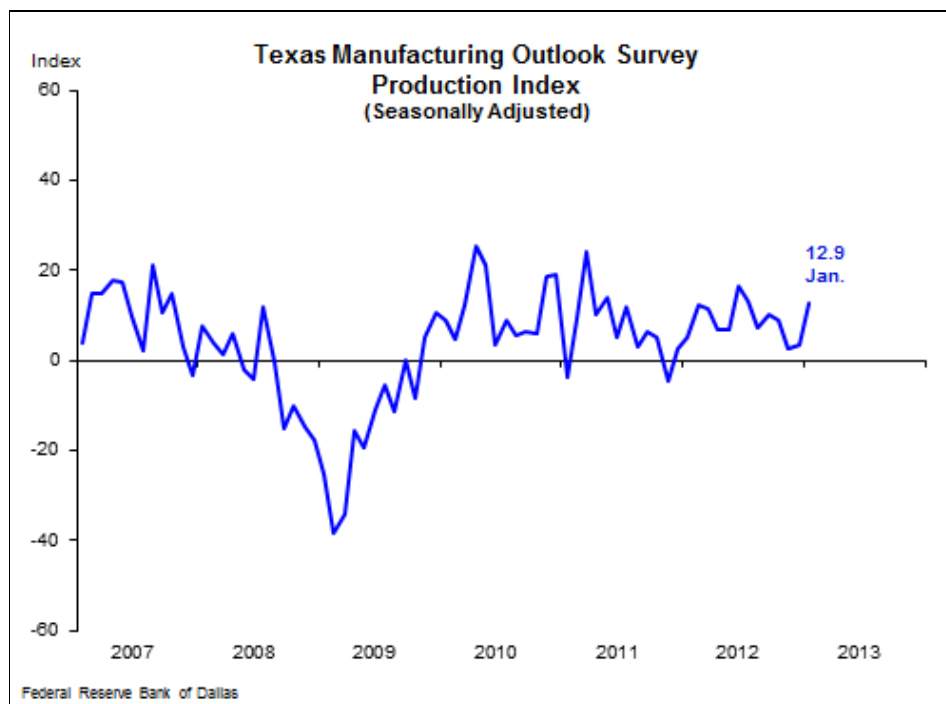
Next release: February 25, 2013

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	12.9	3.5	+9.4	Increasing	14	29.5	53.9	16.6
Capacity Utilization	14.0	2.1	+11.9	Increasing	2	30.4	53.2	16.4
New Orders	12.2	-1.0	+13.2	Increasing	1	28.7	54.9	16.5
Growth Rate of Orders	-3.8	-5.5	+1.7	Decreasing	2	13.2	69.8	17.0
Unfilled Orders	-7.9	-8.0	+0.1	Decreasing	7	12.1	67.8	20.0
Shipments	21.9	13.1	+8.8	Increasing	5	33.3	55.3	11.4
Delivery Time	4.6	-6.6	+11.2	Increasing	1	9.2	86.2	4.6
Materials Inventories	-7.4	-2.0	-5.4	Decreasing	2	11.4	69.8	18.8
Finished Goods Inventories	-5.6	-5.5	-0.1	Decreasing	5	8.0	78.4	13.6
Prices Paid for Raw Materials	27.8	21.9	+5.9	Increasing	42	28.2	71.5	0.4
Prices Received for Finished Goods	10.2	-0.9	+11.1	Increasing	1	18.4	73.4	8.2
Wages and Benefits	19.2	15.0	+4.2	Increasing	38	20.2	78.8	1.0
Employment	8.7	-1.3	+10.0	Increasing	1	19.6	69.5	10.9
Hours Worked	0.8	2.7	-1.9	Increasing	2	16.5	67.8	15.7
Capital Expenditures	21.6	13.5	+8.1	Increasing	6	24.9	71.8	3.3
General Business Conditions Current (versus previous month)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	12.6	7.6	+5.0	Improving	2	18.5	75.7	5.9
General Business Activity	5.5	2.5	+3.0	Improving	2	18.1	69.3	12.6
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	35.7	24.1	+11.6	Increasing	47	42.7	50.3	7.0
Capacity Utilization	32.0	20.3	+11.7	Increasing	47	38.5	55.1	6.5
New Orders	35.9	30.0	+5.9	Increasing	47	40.7	54.4	4.8
Growth Rate of Orders	25.9	15.6	+10.3	Increasing	47	35.0	55.9	9.1
Unfilled Orders	9.4	4.6	+4.8	Increasing	2	14.1	81.2	4.7
Shipments	36.2	24.2	+12.0	Increasing	47	42.8	50.6	6.6
Delivery Time	-0.9	-2.4	+1.5	Decreasing	12	8.8	81.5	9.7
Materials Inventories	20.3	5.7	+14.6	Increasing	2	27.4	65.5	7.1
Finished Goods Inventories	1.2	0.0	+1.2	Increasing	1	13.1	75.0	11.9
Prices Paid for Raw Materials	41.1	38.6	+2.5	Increasing	46	43.5	54.1	2.4
Prices Received for Finished Goods	21.4	17.3	+4.1	Increasing	7	25.0	71.4	3.6
Wages and Benefits	42.4	32.2	+10.2	Increasing	104	43.9	54.6	1.5
Employment	28.6	22.7	+5.9	Increasing	41	35.7	57.1	7.1
Hours Worked	11.2	5.3	+5.9	Increasing	4	18.3	74.6	7.1
Capital Expenditures	29.8	20.5	+9.3	Increasing	38	39.3	51.2	9.5
General Business Conditions Future (six months ahead)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	20.8	15.4	+5.4	Improving	45	27.7	65.3	6.9
General Business Activity	9.2	7.1	+2.1	Improving	2	22.5	64.2	13.3

*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.

Paper Manufacturing

- Traditionally, this is a slow period for corrugated boxes, but we have stayed surprisingly busy so far this year. December was also a strong month for us. The increase in paper demand has held up well and reflects positively in our profits.

Printing and Related Support Activities

- January business is strong out of the gate. We feel that many companies held off on ordering until fiscal policy decisions were made. We downsized in December to take our company below the employee threshold in the Affordable Care Act. We had intended on employee growth starting in January, but instead we have six to seven fewer employees starting the year. In addition, we were forced to trim back vacation benefit time to a max of one week per year. If we can only have 49 employees, we need everyone here every day. In 30 years of running a small business, we have never felt worse about the future of our company than we do today. Small businesses pray for growth that we feel has been stopped in its tracks. It will cost us more to grow our company than it's worth.

Chemical Manufacturing

- We expect 2013 to be better than 2012, and at the earnings before taxes level, 2012 was twice 2011.

Plastics and Rubber Products Manufacturing

- We are encouraged by the sense of renewed confidence in the volume of purchases. We are also encouraged by the increasing opportunities to quote new or existing jobs returning from China.

Primary Metal Manufacturing

- Lower production numbers in January are due to a planned equipment shutdown in January. Stable business is expected for the next six months.

Fabricated Metal Manufacturing

- Summer starts the slow period for our business, so we forecast a seasonal slowdown in six months.
- Current demand is flat, but we expect that a broader economic recovery will stimulate demand for nonresidential construction during the second half of 2013.
- Increases in production, capacity utilization, sales volume, materials inventory, employment and capital expenditures are the result of a new product launch by one of our major customers. General activity for our other customers is flat.

Machinery Manufacturing

- Our end market demand—maintenance for midstream and downstream energy facilities—remains steady to good. Overall uncertainties remain because of national debt and deficit issues.

Furniture and Related Product Manufacturing

- The seasonal cycle of home construction is the cause for the slowdown in January activity.

Computer and Electronic Product Manufacturing

- We expect first quarter demand to be below seasonal averages again. Our backlog is very weak, especially for March and beyond. Book-to-bill ratio remains less than 1.0. Positives for our company include short lead times and lean inventories for our customers and distributors. We still believe we are near a cyclical trough, and demand will return at some point this year.

Miscellaneous Manufacturing

- Accelerating government regulation, increasing costs of labor, benefits and taxes, and interruption of international trade are adding volatility to our business and are serious concerns for future expansion beyond one year.

Food Manufacturing

- We are still concerned about the high prices we are paying for raw materials.

Beverage and Tobacco Product Manufacturing

- Our sales have been fairly consistently down 2 to 5 percent for the last six months. We have to raise prices to offset increased costs of goods sold. Our benefits costs are increasing, especially health insurance. We are taking steps to expand our business, but success is almost measured by just getting back to flat sales.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Pia Orrenius at pia.orrinius@dal.frb.org.
The Texas Manufacturing Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tmos/.
