



# Texas Manufacturing Outlook Survey

DALLAS**FED**

February 25, 2013

## TEXAS MANUFACTURING ACTIVITY INCREASES BUT AT A SLOWER PACE

Texas factory activity expanded in February, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell from 12.9 to 6.2, suggesting growth continued but at a slower pace.

Other measures of current manufacturing activity also indicated slower growth in February. The new orders index was positive for the second month in a row, although it fell from 12.2 to 2.8. The capacity utilization index declined from 14.0 to 5.4, suggesting utilization rates increased less than last month. The shipments index plunged almost 20 points but stayed in positive territory, indicating slightly higher shipments in February.

Perceptions of broader economic conditions improved a bit in February. The general business activity index was positive for the third month in a row, although it dipped from 5.5 to 2.2. The company outlook index was also positive for a third consecutive month, but it fell from 12.6 to 6.3.

Labor market indicators were mixed in February. Hiring slowed with the employment index moving down to 2.0, and about 17 percent of employers reporting hiring and 15 percent noting layoffs. The average workweek index dipped into negative territory with a reading of -3.0, suggesting hours worked declined.

Price and wage pressures diminished in February. The raw materials price index came in at 15.8, down from 27.8 in January. The finished goods price index dropped from 10.2 to 4.6. The wages and benefits index fell to 12.9, indicating wages rose at a slower pace. Still, 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 23 percent expect higher finished goods prices.

Expectations regarding future business conditions continued to reflect optimism. The index of future general business activity edged up from 9.2 to 10.8. The index of future company outlook remained unchanged at 20.1. Indexes for future manufacturing activity fell, but remained in solid positive territory 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 Feb. 12–20, and 95 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:** March 25, 2013

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

Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	6.2	12.9	-6.7	Increasing	15	27.3	51.6	21.1
Capacity Utilization	5.4	14.0	-8.6	Increasing	3	25.6	54.2	20.2
New Orders	2.8	12.2	-9.4	Increasing	2	28.3	46.2	25.5
Growth Rate of Orders	-5.5	-3.8	-1.7	Decreasing	3	20.3	53.9	25.8
Unfilled Orders	-3.5	-7.9	+4.4	Decreasing	8	15.3	65.8	18.8
Shipments	2.4	21.9	-19.5	Increasing	6	25.5	51.4	23.1
Delivery Time	0.0	4.6	-4.6	Unchanged	1	5.3	89.4	5.3
Materials Inventories	-0.5	-7.4	+6.9	Decreasing	3	16.8	65.9	17.3
Finished Goods Inventories	4.2	-5.6	+9.8	Increasing	1	12.6	78.9	8.4
Prices Paid for Raw Materials	15.8	27.8	-12.0	Increasing	43	20.8	74.2	5.0
Prices Received for Finished Goods	4.6	10.2	-5.6	Increasing	2	11.9	80.8	7.3
Wages and Benefits	12.9	19.2	-6.3	Increasing	39	14.1	84.7	1.2
Employment	2.0	8.7	-6.7	Increasing	2	17.1	67.8	15.1
Hours Worked	-3.0	0.8	-3.8	Decreasing	1	12.6	71.8	15.6
Capital Expenditures	12.4	21.6	-9.2	Increasing	7	20.5	71.4	8.1

**General Business Conditions**  
**Current (versus previous month)**

Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	6.3	12.6	-6.3	Improving	3	20.8	64.8	14.5
General Business Activity	2.2	5.5	-3.3	Improving	3	18.2	65.8	16.0

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

Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	28.7	35.7	-7.0	Increasing	48	41.7	45.4	13.0
Capacity Utilization	27.7	32.0	-4.3	Increasing	48	40.8	46.2	13.1
New Orders	29.6	35.9	-6.3	Increasing	48	42.2	45.1	12.6
Growth Rate of Orders	24.3	25.9	-1.6	Increasing	48	35.7	52.9	11.4
Unfilled Orders	8.7	9.4	-0.7	Increasing	3	17.4	73.9	8.7
Shipments	30.6	36.2	-5.6	Increasing	48	44.2	42.2	13.6
Delivery Time	-3.4	-0.9	-2.5	Decreasing	13	7.7	81.2	11.1
Materials Inventories	15.2	20.3	-5.1	Increasing	3	25.0	65.2	9.8
Finished Goods Inventories	5.5	1.2	+4.3	Increasing	2	10.9	83.7	5.4
Prices Paid for Raw Materials	38.1	41.1	-3.0	Increasing	47	42.4	53.3	4.3
Prices Received for Finished Goods	13.2	21.4	-8.2	Increasing	8	23.1	67.0	9.9
Wages and Benefits	36.0	42.4	-6.4	Increasing	105	39.0	58.0	3.0
Employment	23.9	28.6	-4.7	Increasing	42	34.8	54.3	10.9
Hours Worked	1.8	11.2	-9.4	Increasing	5	16.0	69.8	14.2
Capital Expenditures	25.0	29.8	-4.8	Increasing	39	34.8	55.4	9.8

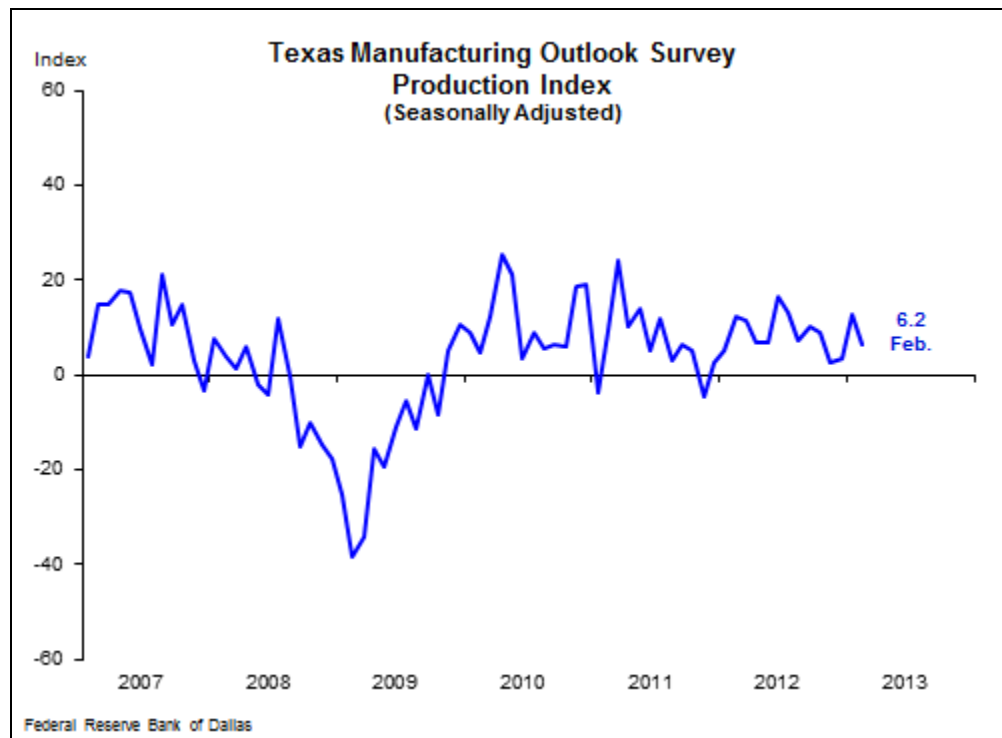
**General Business Conditions**  
**Future (six months ahead)**

Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	20.1	20.8	-0.7	Improving	46	33.3	53.5	13.2
General Business Activity	10.8	9.2	+1.6	Improving	3	27.7	55.4	16.9

\*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 to new home construction, and the start of the year has exceeded expectations.

### Chemical Manufacturing

- > This year has started slower than last year. While trying to be optimistic, we are encountering more headwinds this year than last year.

### Plastics and Rubber Products Manufacturing

- > We are starting to see some business return from China, but we are still losing other projects to China.
- > We are encouraged by the number of custom molding plastics users looking for prices for molding in the U.S.

### Primary Metal Manufacturing

- > Our increase in February over January was due to a planned maintenance shutdown in January.
- > There are too many government regulations, and compliance is expensive. We have had to pass on costs to our customers.

### Nonmetallic Mineral Product Manufacturing

- > Postponing the U.S. debt and spending issue a few months keeps a certain level of anxiety and uncertainty in the minds of consumers that may make them reluctant to commit to a 30-year mortgage. This may continue to throttle the housing recovery. While interest rates continue to be accommodative, the threat of higher taxes creates a risk of less disposable income and kicks some potential buyers out of the market altogether.

### Fabricated Metal Manufacturing

- > We are seeing an increase in bookings and backlog, but even if the expected improvement in nonresidential construction activity occurs, it will likely remain at a historically low level.
- > Onshoring continues to expand opportunities, while the main challenge remains finding trained skilled workers. Our major concerns include the additional unknown costs to provide health care and policies that will increase costs for our business in an already competitive global market.
- > We are a small machining job shop, and we are concerned that new orders have not rebounded in February to date. The end of December through January is usually flat, but orders begin to increase by the end of January, and we have not seen that so far this year. We are still optimistic for growth in 2013, but we may have to market harder to make it happen.
- > We are beginning to see an increase in incoming orders.
- > We have seen an increase in requests for quotations, but our receipt of purchase orders and backlog has increased.

## **Machinery Manufacturing**

- > We are waiting to find out if planned government spending cuts will impact the economy over the next three to six months. Then in fourth quarter 2013, we expect to start to feel the impact of the Affordable Care Act. For these reasons, it is very difficult for us to develop long-term plans that require a stable and growing economy.
- > While there has not yet been a significant decline in projected volume, our field groups are reporting some softening in overall demand for our services, including industrial maintenance for the refining, petrochemical, and other heavy manufacturing industries. We hope this is a blip, but it could be the beginning of a tightening in our major customer industries. We have experienced stable to strong overall market demand for the last two to three years.

## **Furniture and Related Product Manufacturing**

- > Petroleum-related raw materials demand continues to climb, and just the hint of increasing the minimum wage has our employees talking. Costs are rising, and passing on the increases is still difficult in the housing market.

## **Computer and Electronic Product Manufacturing**

- > We are prepared for a cyclical recovery. We see some signs that things might get better, but it is too early to know if we are just running sideways.
- > We anticipate the industry will stabilize by summer after sequestration is solved.

## **Electrical Equipment, Appliance, and Component Manufacturing**

- > Some of the growth in business we have seen relates to larger, new construction projects. We are unsure if the quantity and volume of orders generally have increased. We expect to receive orders for large international projects, typically hotels, that will cause spikes in demand and support expected continual growth looking six months out.

## **Food Manufacturing**

- > We just gave all of our employees a raise; however, after the increase in FICA tax and the increase in health care premiums for employee dependents, take home pay will be less.
- > Our six-month forecast has changed because we lost volume to a competitor.

---

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

---