Texas Manufacturing Outlook Survey

March 25, 2013

Texas Manufacturing Activity Picks Up

Texas factory activity increased in March, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 6.2 to 9.9, indicating a slightly faster pace of output growth. The share of manufacturers noting a decrease in production fell to its lowest level in two years.

Other survey measures also suggested a pickup in manufacturing activity, with the new orders and shipments indexes moving up strongly in March after dipping in February. The new orders index came in at 8.7, up from 2.8, and the shipments index rose 8 points to 10.6. The capacity utilization index held steady at 5.5, posting its fourth consecutive positive reading.

Perceptions of broader business conditions improved in March. The general business activity index rose from 2.2 to 7.4, reaching its highest level in a year. The company outlook index moved up from 6.3 to 9.6.

Labor market indicators remained mixed. The employment index has been in positive territory so far in 2013 and edged up to 2.6 in March. Sixteen percent of firms reported hiring new workers compared with 14 percent reporting layoffs. The hours worked index remained slightly negative but ticked up to from –3 to –2.4.

Upward pressure on prices and wages increased slightly in March. The raw materials price index rose to 19.1, up from 15.8 in February. The finished goods price index increased from 4.6 to 7.2, suggesting selling prices rose at a stronger pace in March. The wages and benefits index increased from 12.9 to 18.5, 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 27 percent expect higher finished goods prices.

Expectations regarding future business conditions increased in March. The indexes of future general business activity and future company outlook reached their highest levels in five months, coming in at 15.5 and 21.6, respectively. Indexes for future manufacturing activity also 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 Mar. 12–20, and 92 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: April 29, 2013

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	9.9	6.2	+3.7	Increasing	16	21.7	66.5	11.8
Capacity Utilization	5.5	5.4	+0.1	Increasing	4	19.1	67.3	13.6
New Orders	8.7	2.8	+5.9	Increasing	3	26.4	55.9	17.7
Growth Rate of Orders	-3.2	-5.5	+2.3	Decreasing	4	14.6	67.5	17.8
Unfilled Orders	-5.6	-3.5	-2.1	Decreasing	9	8.7	77.0	14.3
Shipments	10.6	2.4	+8.2	Increasing	7	27.0	56.6	16.4
Delivery Time	2.2	0.0	+2.2	Increasing	1	8.7	84.8	6.5
Materials Inventories	2.2	-0.5	+2.7	Increasing	1	17.7	66.8	15.5
Finished Goods Inventories	9.9	4.2	+5.7	Increasing	2	20.9	68.1	11.0
Prices Paid for Raw Materials	19.1	15.8	+3.3	Increasing	44	22.5	74.1	3.4
Prices Received for Finished Goods	7.2	4.6	+2.6	Increasing	3	15.5	76.2	8.3
Wages and Benefits	18.5	12.9	+5.6	Increasing	40	20.3	77.9	1.8
Employment	2.6	2.0	+0.6	Increasing	3	16.2	70.2	13.6
Hours Worked	-2.4	-3.0	+0.6	Decreasing	2	11.9	73.8	14.3
Capital Expenditures	13.7	12.4	+1.3	Increasing	8	20.7	72.3	7.0

General Business Conditions
Current (versus previous month)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	9.6	6.3	+3.3	Improving	4	19.5	70.6	9.9
General Business Activity	7.4	2.2	+5.2	Improving	4	18.9	69.6	11.5

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

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	35.6	28.7	+6.9	Increasing	49	43.4	48.8	7.8
Capacity Utilization	32.7	27.7	+5.0	Increasing	49	38.8	55.1	6.1
New Orders	33.8	29.6	+4.2	Increasing	49	42.0	49.7	8.2
Growth Rate of Orders	25.8	24.3	+1.5	Increasing	49	33.2	59.4	7.4
Unfilled Orders	9.3	8.7	+0.6	Increasing	4	17.4	74.4	8.1
Shipments	35.1	30.6	+4.5	Increasing	49	40.7	53.7	5.6
Delivery Time	-2.9	-3.4	+0.5	Decreasing	14	7.3	82.5	10.2
Materials Inventories	5.8	15.2	-9.4	Increasing	4	20.9	64.0	15.1
Finished Goods Inventories	1.2	5.5	-4.3	Increasing	3	16.3	68.6	15.1
Prices Paid for Raw Materials	41.9	38.1	+3.8	Increasing	48	44.2	53.5	2.3
Prices Received for Finished Goods	23.2	13.2	+10.0	Increasing	9	26.7	69.8	3.5
Wages and Benefits	35.1	36.0	-0.9	Increasing	106	36.9	61.3	1.8
Employment	30.6	23.9	+6.7	Increasing	43	36.5	57.6	5.9
Hours Worked	5.1	1.8	+3.3	Increasing	6	14.5	76.1	9.4
Capital Expenditures	18.8	25.0	-6.2	Increasing	40	25.9	67.1	7.1

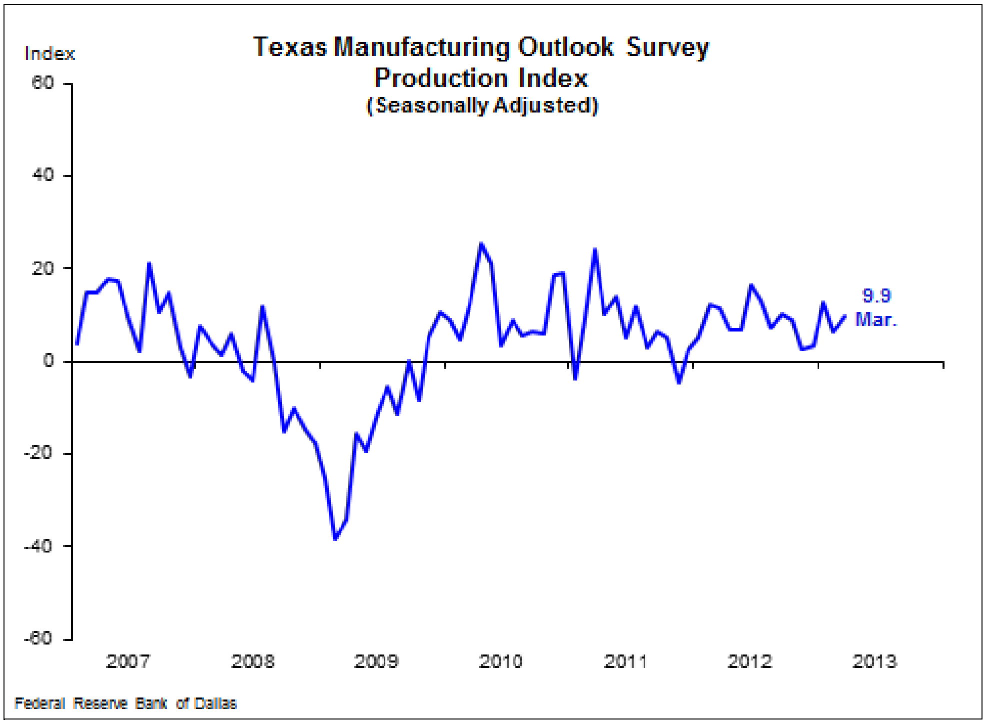
General Business Conditions
Future (six months ahead)

Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	21.6	20.1	+1.5	Improving	47	32.3	57.0	10.7
General Business Activity	15.5	10.8	+4.7	Improving	4	28.3	58.9	12.8

*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.

Plastics and Rubber Products Manufacturing

- We are still awaiting further definition of Affordable Care Act regulations for planning purposes.

Primary Metal Manufacturing

- We have seen a slight improvement in orders. Several manufacturing plants in our industry have closed over the past five years, generating more business for those of us still operating. Also, several markets that we serve, mainly transportation, are replacing products due to age, which is affecting our increase in business.
- We have not seen much change this month.

Fabricated Metal Manufacturing

- We have had record months and are beginning to see a slowdown. We do not know if this is temporary or due to a more normalized level of business.
- We are being overwhelmed with requests for quotations, but our backlog and orders have slowed to receipt of only small jobs.

Machinery Manufacturing

- Replacement equipment orders have been much stronger the past six months than 2009 through the first half of 2012.

Computer and Electronic Product Manufacturing

- Order volatility appears to be increasing. Customers are up one month, down the next. This likely is a reflection of a conservative approach to placing inventory replenishment orders.
- We are seeing signs that business may strengthen in the second half of this year. It is too early to tell if it will follow through.

Paper Manufacturing

- We have some new large accounts coming soon and expect a nice increase in volume. Also, a paper price increase has been announced and will probably be in place by May. This will give us an opportunity to increase margins.

Food Manufacturing

- Continuing arbitrary changes to federal regulations are making conditions more and more difficult for the meat industry. Revised Country of Origin regulations being pushed through so that the USDA satisfies the World Trade Organization's demands are going to be next to impossible for the industry to meet. A small company like ours will be forced to add five employees to meet the demands of the new regulations. We will also add about five hours per week to approximately 40 of our existing employees in order to comply. This will cost us approximately $300,000 per year, which is about 1 percent of our sales. A 1 percent margin in the beef industry would be considered a home run, so we will either have to pass along these costs in our prices, which is unlikely, or cut our margins to near nothing. The end result will probably discourage most Mexican feeder cattle from entering the U.S., adding to an already short supply of cattle on feed in our country's feedlots and a shrunken supply of finished cattle for feeding our nation.

- We purchase a number of commodities that are increasing in price. Our ability to raise prices in the short term is limited.

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/.
