



# Texas Manufacturing Outlook Survey

DALLAS**FED**

April 29, 2013

## GROWTH IN TEXAS MANUFACTURING ACTIVITY STALLS

### What's New This Month

For this month's survey, manufacturers were asked supplemental questions on the impact of health care reform on employment and employee compensation plans.

Texas factory activity was flat in April, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell from 9.9 to -0.5. The near-zero reading indicates output was little changed from March levels.

Ebbing growth in manufacturing activity was reflected in other survey measures as well. The capacity utilization index came in at 2.7, down from 5.5, and the shipments index fell to zero after rising to 10.6 in March. The new orders index fell nearly 14 points to -4.9, posting its first negative reading this year.

Perceptions of broader business conditions worsened in April. The general business activity index plummeted from 7.4 to -15.6, reaching its lowest level since July 2012. The company outlook index turned negative as well, declining from 9.6 to -2.2.

Labor market indicators remained mixed. The employment index has been in positive territory so far in 2013 and moved up to 6.3 in April. Twenty percent of firms reported hiring new workers compared with 14 percent reporting layoffs. The hours worked index pushed further negative, from -2.4 to -6.5.

Price pressures abated in April. The raw materials price index dropped from 19.1 to 2.5, posting its lowest reading since last July. The finished goods price index dipped to -3 after posting positive readings throughout the first quarter. The wages and benefits index edged down from 18.5 to 17.7, although the great majority of manufacturers continued to note no change in compensation costs. Looking ahead, 34 percent of respondents anticipate further increases in raw materials prices over the next six months, while 21 percent expect higher finished goods prices.

Expectations regarding future business conditions fell markedly in April. The index of future general business activity fell 22 points to -6.7, its first negative reading in five months. The index of future company outlook also plunged, dropping from 21.6 to 6. Indexes for future manufacturing activity fell slightly 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 April 16–24, and 94 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.

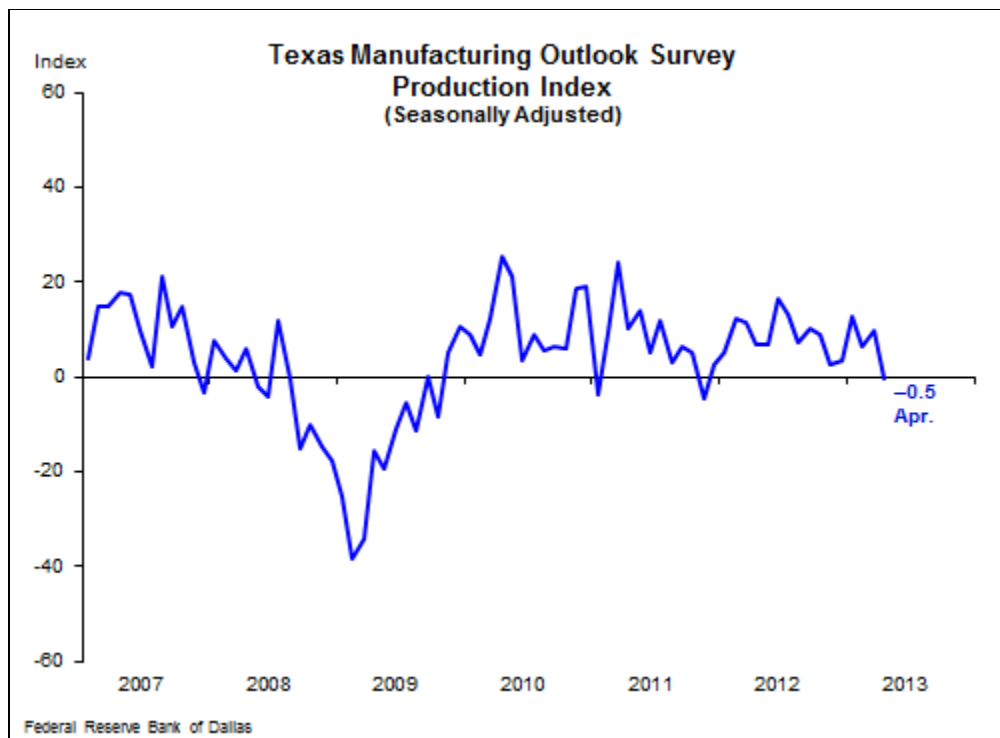
**Next release:** May 28, 2013

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	-0.5	9.9	-10.4	Decreasing	1	20.2	59.1	20.7
Capacity Utilization	2.7	5.5	-2.8	Increasing	5	19.9	62.9	17.2
New Orders	-4.9	8.7	-13.6	Decreasing	1	22.3	50.5	27.2
Growth Rate of Orders	-12.0	-3.2	-8.8	Decreasing	5	11.5	65.0	23.5
Unfilled Orders	-7.9	-5.6	-2.3	Decreasing	10	11.0	70.1	18.9
Shipments	-0.4	10.6	-11.0	Decreasing	1	19.6	60.4	20.0
Delivery Time	-6.4	2.2	-8.6	Decreasing	1	3.2	87.2	9.6
Materials Inventories	7.7	2.2	+5.5	Increasing	2	19.7	68.3	12.0
Finished Goods Inventories	2.1	9.9	-7.8	Increasing	3	13.8	74.5	11.7
Prices Paid for Raw Materials	2.5	19.1	-16.6	Increasing	45	18.0	66.5	15.5
Prices Received for Finished Goods	-3.0	7.2	-10.2	Decreasing	1	12.0	73.0	15.0
Wages and Benefits	17.7	18.5	-0.8	Increasing	41	20.2	77.3	2.5
Employment	6.3	2.6	+3.7	Increasing	4	19.9	66.5	13.6
Hours Worked	-6.5	-2.4	-4.1	Decreasing	3	12.1	69.2	18.6
Capital Expenditures	4.2	13.7	-9.5	Increasing	9	13.2	77.8	9.0
General Business Conditions Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-2.2	9.6	-11.8	Worsening	1	13.1	71.6	15.3
General Business Activity	-15.6	7.4	-23.0	Worsening	1	5.8	72.8	21.4
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	32.8	35.6	-2.8	Increasing	50	43.2	46.4	10.4
Capacity Utilization	29.0	32.7	-3.7	Increasing	50	36.5	56.0	7.5
New Orders	32.4	33.8	-1.4	Increasing	50	41.2	49.9	8.8
Growth Rate of Orders	18.8	25.8	-7.0	Increasing	50	26.6	65.6	7.8
Unfilled Orders	6.8	9.3	-2.5	Increasing	5	13.5	79.8	6.7
Shipments	29.0	35.1	-6.1	Increasing	50	38.4	52.2	9.4
Delivery Time	-2.8	-2.9	+0.1	Decreasing	15	7.9	81.4	10.7
Materials Inventories	2.2	5.8	-3.6	Increasing	5	14.6	73.0	12.4
Finished Goods Inventories	2.2	1.2	+1.0	Increasing	4	14.4	73.3	12.2
Prices Paid for Raw Materials	31.1	41.9	-10.8	Increasing	49	34.4	62.2	3.3
Prices Received for Finished Goods	13.4	23.2	-9.8	Increasing	10	21.3	70.8	7.9
Wages and Benefits	38.2	35.1	+3.1	Increasing	107	38.3	61.6	0.1
Employment	22.2	30.6	-8.4	Increasing	44	28.9	64.4	6.7
Hours Worked	-3.1	5.1	-8.2	Decreasing	1	11.7	73.5	14.8
Capital Expenditures	13.4	18.8	-5.4	Increasing	41	25.8	61.8	12.4
General Business Conditions Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	6.0	21.6	-15.6	Improving	48	19.3	67.4	13.3
General Business Activity	-6.7	15.5	-22.2	Worsening	1	10.7	71.9	17.4

\*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.

### Fabricated Metal Manufacturing

- > Since November 2012, low-rise (fewer than five stories) building products shipments have been flat year over year, while leading indicators, such as vacancy rates, lending standards and loan applications, and the Architectural Billings Index for the commercial/industrial sector have all been positive. Our quoting activity is positive, but bookings have only just shown year-over-year improvement during the month of April.
- > We had a busy first quarter, but uncertainty seems to be setting in with our customer base.

### Chemical Manufacturing

- > Our customers, who are largely chemical or petrochemical companies, have been expecting 2013 to be a good year. However, early results have been somewhat disappointing as there has not been the demand growth so far.
- > Uncertainty around the impact of health care costs is still impacting hiring decisions.

### Machinery Manufacturing

- > While our space (midstream and downstream maintenance activities) remains steady, it is our sense that overall economic activity levels are beginning to soften a bit. While housing improvement is a great positive catalyst, overall uncertainty about taxes, health care reform, regulation and global economic health are all inhibiting a "more normal" recovery growth trajectory.
- > Replacement orders have increased from the normal level, indicating some catch-up for the last few years when replacements were delayed.

### Computer and Electronic Product Manufacturing

- > The general trend has been improvement from the beginning of the year. There are new concerns that the broader recovery has no follow-through, and the potential for a slowdown is more possible now than 30 days ago.

### Printing and Related Support Activities

- > Over the past few years, offset printing has decreased and is continuing to decline. On the other hand, digital printing is increasing in sales. The problem is the cost difference between offset and digital is not enough to keep an offset printing company alive and growing. Small digital shops are increasing sales and profits due to less overhead cost. The larger printing companies that can offer their customers more services and better technology at a good price have a better chance of surviving in today's economy.

## Food Manufacturing

- > We are currently upgrading our facility to become more efficient, and we expect to accomplish more production with fewer personnel over the next six months.

## Beverage and Tobacco Product Manufacturing

- > Sales are weak. The weakness started last July through August. General and fleet insurance as well as health insurance costs are up high double-digits again.

---

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/).

---



# Texas Manufacturing Outlook Survey

DALLASFED

April 29, 2013

## SPECIAL QUESTIONS

1. What is your current number of employees?	
	Percent
0–24	2.7
25–49	8.1
50–74	9.5
75–100	4.1
More than 100	75.7

2. What impact will health care reform have on your labor costs?	
	Percent
No change	9.6
Increase	80.8
Decrease	0.0
Unknown	9.6

3. Are you planning to alter your current compensation structure (wages and benefits) as a result of health care reform?	
	Percent
Yes	56.3
No	43.7
<b>Firms answering "yes" were asked to give further explanation. Those results are summarized below.</b>	
Will likely pass some/all increased health care costs on to employees	24.3
Will likely reduce wages or other benefits to help offset increased health care costs	13.5
Will likely minimize raises and bonuses to help offset increased health care costs	8.1
Will likely discontinue health care coverage and pay penalty	5.4
Other	48.7

4. How will health care reform impact your staffing/employment plans? Please select all that apply.	
	Percent
No change	23.0
Reduce full-time employees	21.6
Reduce part-time, contract or temporary employees	16.2
Increase full-time employees	0.0
Increase part-time, contract or temporary employees	14.9
Other	8.1
Unknown	40.5

Survey collection period: 04/08/2013 to 04/11/2013