



Texas Manufacturing Outlook Survey

DALLAS**FED**

May 28, 2013

TEXAS MANUFACTURING ACTIVITY EXPANDS

Texas factory activity increased sharply in May, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from -0.5 to 11.2, indicating a notable pickup in output.

Stronger manufacturing activity was reflected in other survey measures as well. The new orders index rebounded to 6.2 after falling to -4.9 in April. Similarly, the shipments index bounced back to 3.1 after dipping to -0.4. The capacity utilization index came in at 6.4, up from 2.7 last month.

Perceptions of broader business conditions continued to worsen in May. The general business activity index remained negative but moved up five points to -10.5. The company outlook index declined from -2.2 to -6.8, reaching its lowest level since July 2010.

Labor market indicators reflected weaker labor demand. The employment index fell to -6.3 in May, registering its first negative reading this year and reaching its lowest level since November 2009. Eight percent of firms reported hiring new workers compared with 15 percent reporting layoffs. The hours worked index came in at -2.3, suggesting the workweek shrunk further.

Price movements were mixed in May; input prices and wages rose while selling prices declined. The raw materials price index was 6.4, above the April reading but still below the levels seen over the last eight months. The wages and benefits index edged down to 14, although the great majority of manufacturers continued to note no change in compensation costs. The finished goods price index pushed further negative to -8.3, its lowest reading since July 2010. Looking ahead, 30 percent of respondents anticipate further increases in raw materials prices over the next six months, while 19 percent expect higher finished goods prices.

Expectations regarding future business conditions were mixed. The index of future general business activity remained negative but moved up from -6.7 to -2.6. The index of future company outlook was positive although it edged down to 5.3. Indexes for future manufacturing activity remained in strong positive territory.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected May 14–22, and 93 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.

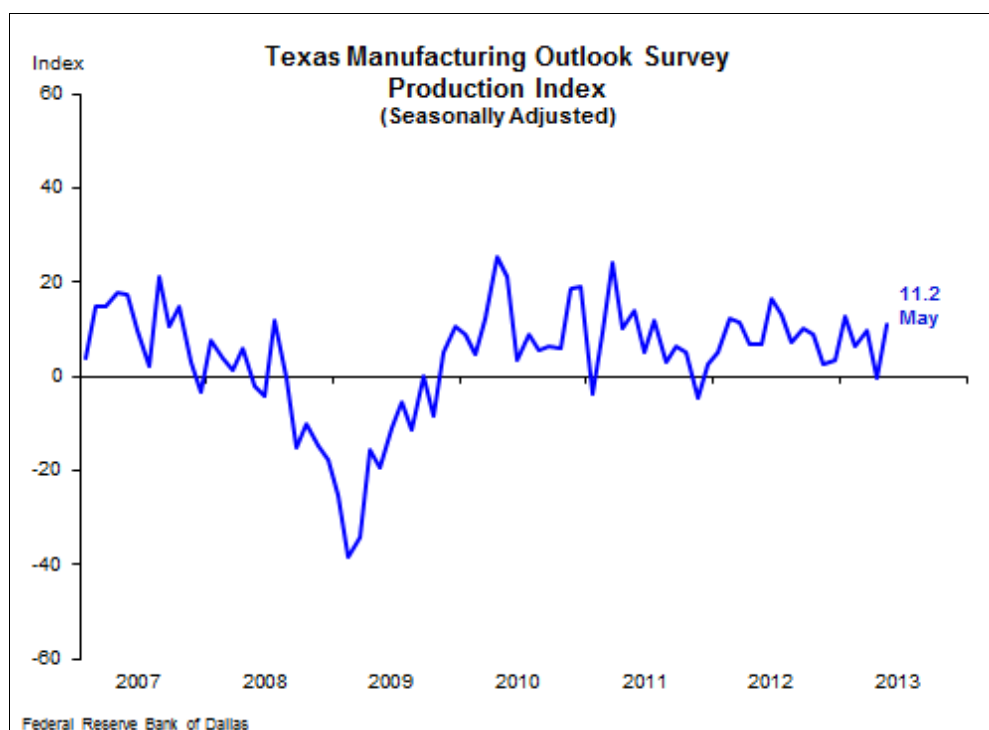
Next release: June 24, 2013

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	11.2	-0.5	+11.7	Increasing	1	28.2	54.8	17.0
Capacity Utilization	6.4	2.7	+3.7	Increasing	6	23.4	59.6	17.0
New Orders	6.2	-4.9	+11.1	Increasing	1	28.7	48.8	22.5
Growth Rate of Orders	-4.3	-12.0	+7.7	Decreasing	6	18.2	59.3	22.5
Unfilled Orders	-8.3	-7.9	-0.4	Decreasing	11	12.0	67.7	20.3
Shipments	3.1	-0.4	+3.5	Increasing	1	26.1	50.9	23.0
Delivery Time	3.3	-6.4	+9.7	Increasing	1	10.8	81.7	7.5
Materials Inventories	-7.3	7.7	-15.0	Decreasing	1	12.9	66.9	20.2
Finished Goods Inventories	0.0	2.1	-2.1	Unchanged	1	15.1	69.9	15.1
Prices Paid for Raw Materials	6.4	2.5	+3.9	Increasing	46	17.0	72.3	10.6
Prices Received for Finished Goods	-8.3	-3.0	-5.3	Decreasing	2	8.5	74.7	16.8
Wages and Benefits	14.0	17.7	-3.7	Increasing	42	17.2	79.6	3.2
Employment	-6.3	6.3	-12.6	Decreasing	1	8.3	77.1	14.6
Hours Worked	-2.3	-6.5	+4.2	Decreasing	4	13.4	70.9	15.7
Capital Expenditures	2.2	4.2	-2.0	Increasing	10	13.8	74.6	11.6
General Business Conditions Current (versus previous month)								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-6.8	-2.2	-4.6	Worsening	2	14.2	64.8	21.0
General Business Activity	-10.5	-15.6	+5.1	Worsening	2	13.1	63.3	23.6
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	34.6	32.8	+1.8	Increasing	51	43.8	46.9	9.2
Capacity Utilization	27.9	29.0	-1.1	Increasing	51	39.7	48.4	11.8
New Orders	26.9	32.4	-5.5	Increasing	51	38.0	50.9	11.1
Growth Rate of Orders	18.6	18.8	-0.2	Increasing	51	28.3	62.0	9.7
Unfilled Orders	0.0	6.8	-6.8	Unchanged	1	13.3	73.3	13.3
Shipments	30.1	29.0	+1.1	Increasing	51	41.4	47.4	11.3
Delivery Time	-5.4	-2.8	-2.6	Decreasing	16	6.5	81.6	11.9
Materials Inventories	2.2	2.2	0.0	Increasing	6	18.9	64.4	16.7
Finished Goods Inventories	2.2	2.2	0.0	Increasing	5	15.7	70.8	13.5
Prices Paid for Raw Materials	27.8	31.1	-3.3	Increasing	50	30.0	67.8	2.2
Prices Received for Finished Goods	11.1	13.4	-2.3	Increasing	11	18.9	73.3	7.8
Wages and Benefits	31.9	38.2	-6.3	Increasing	108	35.9	60.1	4.0
Employment	14.5	22.2	-7.7	Increasing	45	25.6	63.3	11.1
Hours Worked	-3.3	-3.1	-0.2	Decreasing	2	12.5	71.7	15.8
Capital Expenditures	14.8	13.4	+1.4	Increasing	42	27.3	60.2	12.5
General Business Conditions Future (six months ahead)								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	5.3	6.0	-0.7	Improving	49	23.1	59.1	17.8
General Business Activity	-2.6	-6.7	+4.1	Worsening	2	18.4	60.6	21.0

*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

- > We have passed along a second price increase in a six-month period for containerboard. This should continue to improve margins since there were no increases for the previous two and a half years.

Plastics and Rubber Products Manufacturing

- > We continue to see a few customers move their business offshore, although we anticipate this trend will reverse with the 13 percent annual wage increases in China that are planned.

Primary Metal Manufacturing

- > The markets we serve are down nationwide.
- > We have seen an overall decrease in activity from the energy, mining and agriculture sectors. Our current indicators do not show an improvement until late in the fourth quarter or early in first quarter 2014. Much of this continues to tie into uncertainty with new regulations, proposed tax increases and a very weak growth climate.

Fabricated Metal Manufacturing

- > Our new orders have just stopped in May. We do not know if it is a calm before the capital expenditures storm that is forecast, or a change in the refining outlook that has the buyers and decisionmakers spooked.
- > We hope the demand we are currently seeing continues throughout the year. If it does, then 2013 will be our best year since 2009.
- > Our business growth is currently driven by one key customer. The balance of business is less strong and lacks visibility.

Machinery Manufacturing

- > Equipment replacement orders are definitely higher this year, most likely from the sharp drop of replacements in 2009 and 2010.
- > Business is steady, but we have a cautious outlook.

Transportation Equipment Manufacturing

- > Approximately 50 percent of our business is related to U.S. military and homeland security support. The federal budget sequestration is seriously curtailing this activity.

Furniture and Related Product Manufacturing

- > The housing recovery continues to gain momentum. We trust that will carry through the remainder of the year.

Food Manufacturing

- > Drought conditions in our supplier's area could materially change the outlook for both increased cost for raw milk and the resulting increased selling price of this commodity that would then negatively affect sales volume. Nondairy items bottled would not be affected significantly.

Beverage and Tobacco Product Manufacturing

- > Cogs are up, pricing is flat, and sales are down. Insurance and health insurance costs are both up big. Profits are down 50 percent over last year.

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/.
