



Texas Manufacturing Outlook Survey

DALLAS **FED**

September 30, 2013

TEXAS MANUFACTURING ACTIVITY PICKS UP

Texas factory activity expanded in September, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 7.3 to 11.5, suggesting output increased at a slightly faster pace than in August.

Other measures of current manufacturing activity indicated continued growth in September. The capacity utilization index rose 6 points to a reading of 10.7. The new orders index was 5, largely unchanged from its August level. The shipments index edged down from 11.4 to 10.3.

Perceptions of broader business conditions improved further in September. The general business activity index jumped nearly 8 points to 12.8, its highest reading in a year and a half. The company outlook index posted a fourth consecutive positive reading and came in at 7.9, little changed from August.

Labor market indicators reflected continued employment growth but flat workweeks. The September employment index was 10, its third reading in a row in solidly positive territory. Seventeen percent of firms reported hiring new workers compared with 7 percent reporting layoffs. The hours worked index was near zero, indicating little change from August in average workweek length.

Upward pressure on prices picked up in September, while wage pressure abated. The raw materials price index increased from 10 to 17.6, posting its highest reading in six months. The finished goods price index also rose notably—from 4 to 10.6—reaching a 19-month high. The wages and benefits index was positive but moved down to 9.7, its lowest level since early 2011. Looking ahead, 38 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 remained optimistic in September. The indexes of future general business activity and future company outlook showed mixed movements but remained in strongly positive territory. Indexes for future manufacturing activity also remained solidly positive, and the index for future employment spiked 10 points to 21.9.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Sep. 17–25, and 90 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: October 28, 2013

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

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	11.5	7.3	+4.2	Increasing	5	26.1	59.3	14.6
Capacity Utilization	10.7	4.6	+6.1	Increasing	10	23.4	63.9	12.7
New Orders	5.0	5.4	-0.4	Increasing	5	26.7	51.6	21.7
Growth Rate of Orders	0.9	2.2	-1.3	Increasing	4	18.9	63.1	18.0
Unfilled Orders	1.1	0.5	+0.6	Increasing	2	15.3	70.5	14.2
Shipments	10.3	11.4	-1.1	Increasing	5	27.2	55.9	16.9
Delivery Time	-1.1	-9.8	+8.7	Decreasing	3	8.9	81.1	10.0
Materials Inventories	-7.9	-11.6	+3.7	Decreasing	3	12.9	66.3	20.8
Finished Goods Inventories	-10.0	-11.0	+1.0	Decreasing	4	11.1	67.8	21.1
Prices Paid for Raw Materials	17.6	10.0	+7.6	Increasing	50	21.2	75.2	3.6
Prices Received for Finished Goods	10.6	4.0	+6.6	Increasing	2	15.4	79.8	4.8
Wages and Benefits	9.7	14.5	-4.8	Increasing	46	16.9	75.9	7.2
Employment	10.0	11.2	-1.2	Increasing	4	16.8	76.4	6.8
Hours Worked	-0.6	-9.9	+9.3	Decreasing	2	15.6	68.2	16.2
Capital Expenditures	5.9	10.4	-4.5	Increasing	14	9.6	86.7	3.7

General Business Conditions
Current (versus previous month)

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	7.9	7.3	+0.6	Improving	4	21.1	65.7	13.2
General Business Activity	12.8	5.0	+7.8	Improving	4	22.9	67.0	10.1

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

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	33.3	36.0	-2.7	Increasing	55	38.0	57.3	4.7
Capacity Utilization	31.5	32.4	-0.9	Increasing	55	36.0	59.5	4.5
New Orders	32.7	35.8	-3.1	Increasing	55	38.7	55.3	6.0
Growth Rate of Orders	25.4	31.0	-5.6	Increasing	55	32.2	61.0	6.8
Unfilled Orders	4.6	1.3	+3.3	Increasing	2	13.8	77.0	9.2
Shipments	31.0	41.2	-10.2	Increasing	55	35.4	60.2	4.4
Delivery Time	3.7	-3.7	+7.4	Increasing	1	9.9	83.9	6.2
Materials Inventories	4.6	2.6	+2.0	Increasing	2	18.4	67.8	13.8
Finished Goods Inventories	-1.2	-1.3	+0.1	Decreasing	2	12.6	73.6	13.8
Prices Paid for Raw Materials	31.0	24.1	+6.9	Increasing	54	37.9	55.2	6.9
Prices Received for Finished Goods	13.9	16.4	-2.5	Increasing	15	26.7	60.5	12.8
Wages and Benefits	28.6	40.7	-12.1	Increasing	112	31.6	65.4	3.0
Employment	21.9	11.5	+10.4	Increasing	49	27.6	66.7	5.7
Hours Worked	9.5	5.9	+3.6	Increasing	4	14.3	80.9	4.8
Capital Expenditures	16.1	20.5	-4.4	Increasing	46	25.3	65.5	9.2

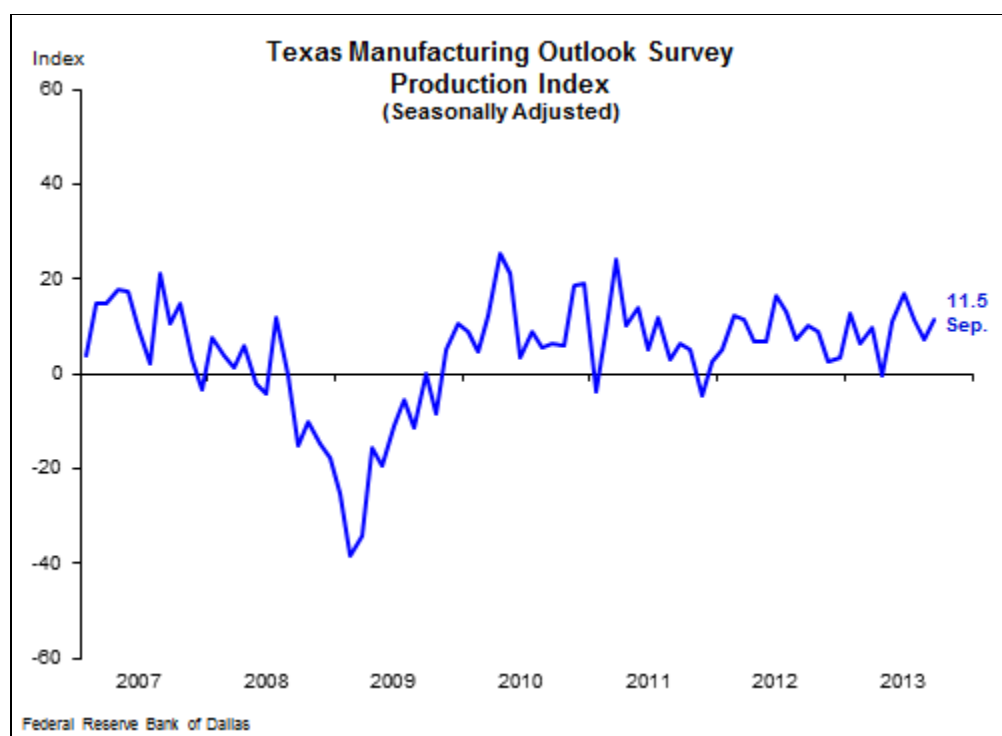
General Business Conditions
Future (six months ahead)

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	17.3	14.5	+2.8	Improving	53	25.3	66.7	8.0
General Business Activity	13.3	14.2	-0.9	Improving	4	22.9	67.5	9.6

*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

- > Ninety-eight percent of our revenue comes from new single-family residential construction. We are beginning to wonder to what extent the following may impact us over the next six to 12 months. Rising interest rates means buyers on average will qualify for a lower-priced home. Builders will respond by lowering prices and reducing the cost of the home. That in turn means we will ship less material per house. Further pressure will come as builder's cost to build a house (lot, labor and materials) will continue to increase over the next 12 months. If new starts remain level or even increase, we may struggle to maintain revenue, margin and profitability. Articles will appear saying that new home price increases have slowed or even stopped, and lower-priced starter homes have returned to the market. But for the industry, on a per unit basis, this will not be a good thing.

Paper Manufacturing

- > Business is slower than usual at this time.

Chemical Manufacturing

- > Some of our raw material prices have fallen to a level we have not seen in several years. We believe they are at a low and will probably not remain there for very long (a few months).

Nonmetallic Mineral Product Manufacturing

- > We have been seeing strong growth in the housing sector of the economy, which has driven up demand in our business. Further, our expectation is for this to continue since during the downturn, productive capacity was removed from our industry. As such, we expect to benefit from both the increased demand and lower industry capacity, which should provide for a stronger position for increasing selling prices.

Primary Metal Manufacturing

- > Production was down in September due to a reduced availability of feed material.

Fabricated Metal Manufacturing

- > We have been seeing very strong competition from Korean manufacturers, where final pricing is below our cost for the raw material alone. We cannot compete on large projects at all.
- > While forward-looking indicators have been positive for 10 months, actual shipping activity has been flat to slightly down on a year-over-year basis. However, bookings have increased nicely during the last four weeks, which points to increased shipping.

Machinery Manufacturing

- > We are beginning to see competition for our field service technicians that is driving up market wage rates, particularly along the Gulf Coast areas.
- > How businesses react when they have to pay real money for funds is totally unknown. Will they accept that as normal or stop expansion?

Computer and Electronic Product Manufacturing

- > The third quarter is on track to be the third sequential quarter of slightly above seasonal growth, for the first time since 2010. Orders remain solid, and the fourth quarter looks to be in line with normal seasonality. So far things are not too hot and not too cold.

Electrical Equipment, Appliance, and Component Manufacturing

- > We are reinvesting our profits in contracting out engineering for new product introductions in 2014. We have found it difficult to locate engineering talent in our geography. We see opportunities for growth in our business domestically and internationally and posit higher growth on new product introductions. Higher growth in sales will lead to increased capital expenditures, growth in employee count, etc. For us, the linchpin to this dynamic is product innovation through engineering.

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/.

