



Texas Manufacturing Outlook Survey

DALLAS**FED**

October 28, 2013

TEXAS MANUFACTURING ACTIVITY STRENGTHENS

What's New This Month

For this month's survey, manufacturers were asked supplemental questions on credit availability.

Texas factory activity picked up further in October, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 11.5 to 13.3, suggesting output increased at a slightly faster pace than in September.

Other measures of current manufacturing activity also indicated a slightly stronger expansion in October. The new orders index came in at 6.2, slightly above its September level, and marked a sixth consecutive month of increased demand. The capacity utilization index edged up to 11.9, and the shipments index rose 3 points to 13.2.

Perceptions of broader business conditions were less optimistic in October. The general business activity index remained positive but fell to 3.6 after rising sharply to 12.8 in September. The company outlook index posted a fifth consecutive positive reading but moved down to 5.4.

Labor market indicators reflected continued employment growth and longer workweeks. The October employment index was 9.6, largely unchanged from its September level. Seventeen percent of firms reported hiring new workers compared with 7 percent reporting layoffs. The hours worked index turned positive for the first time in three months, coming in at 3.9, indicating an increase in average workweek length.

Upward pressure on prices continued in October, and compensation costs picked up notably. The raw materials price index moved up to 22.7, posting its highest reading in nine months. The finished goods price index remained positive for the third month in a row but fell 7 points to 3.5. The wages and benefits index rose sharply from 9.7 to 20.4, reaching its highest level since July 2012. Looking ahead, 39 percent of respondents anticipate further increases in raw materials prices over the next six months, while 34 percent expect higher finished goods prices.

Expectations regarding future business conditions remained optimistic in October. The indexes of future general business activity and future company outlook declined from September levels but remained in strongly positive territory. Most indexes for future manufacturing activity also fell while remaining solidly positive.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Oct. 15–23, and 82 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.

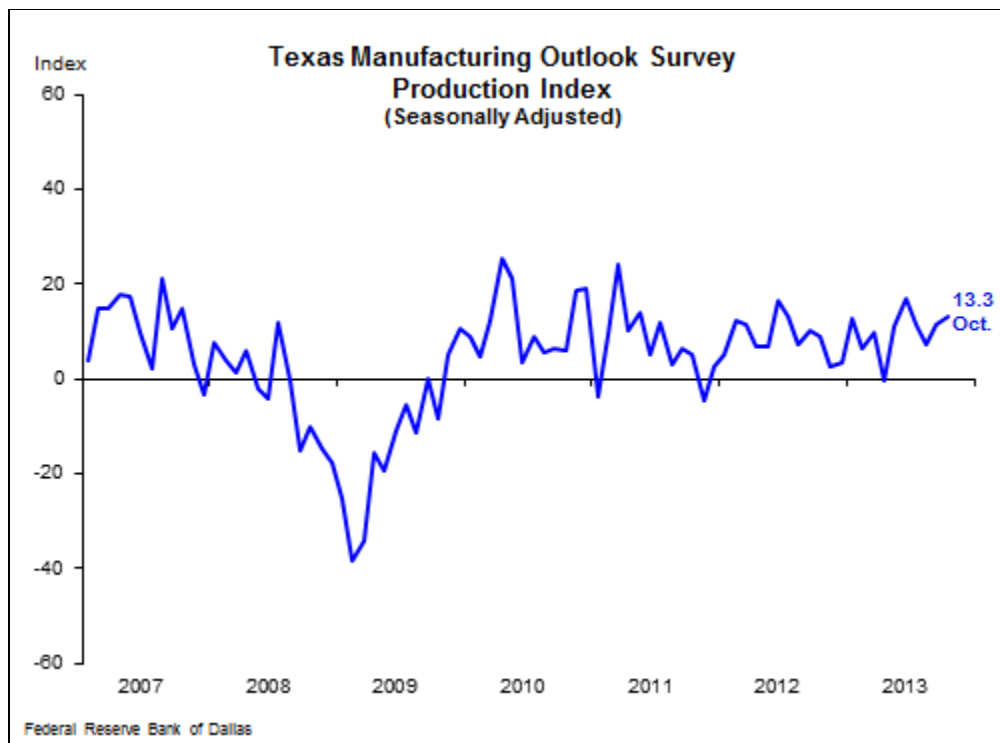
Next release: November 25, 2013

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	13.3	11.5	+1.8	Increasing	6	30.0	53.3	16.7
Capacity Utilization	11.9	10.7	+1.2	Increasing	11	26.3	59.3	14.4
New Orders	6.2	5.0	+1.2	Increasing	6	30.7	44.8	24.5
Growth Rate of Orders	-0.1	0.9	-1.0	Decreasing	1	21.5	56.9	21.6
Unfilled Orders	-3.9	1.1	-5.0	Decreasing	1	13.0	70.1	16.9
Shipments	13.2	10.3	+2.9	Increasing	6	29.8	53.6	16.6
Delivery Time	-3.6	-1.1	-2.5	Decreasing	4	11.0	74.4	14.6
Materials Inventories	-3.0	-7.9	+4.9	Decreasing	4	14.6	67.8	17.6
Finished Goods Inventories	1.2	-10.0	+11.2	Increasing	1	14.6	72.0	13.4
Prices Paid for Raw Materials	22.7	17.6	+5.1	Increasing	51	28.3	66.1	5.6
Prices Received for Finished Goods	3.5	10.6	-7.1	Increasing	3	12.7	78.1	9.2
Wages and Benefits	20.4	9.7	+10.7	Increasing	47	21.7	77.0	1.3
Employment	9.6	10.0	-0.4	Increasing	5	16.7	76.2	7.1
Hours Worked	3.9	-0.6	+4.5	Increasing	1	20.8	62.3	16.9
Capital Expenditures	11.8	5.9	+5.9	Increasing	15	20.5	70.8	8.7
General Business Conditions								
Current (versus previous month)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	5.4	7.9	-2.5	Improving	5	22.5	60.4	17.1
General Business Activity	3.6	12.8	-9.2	Improving	5	22.9	57.8	19.3
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	26.1	33.3	-7.2	Increasing	56	38.8	48.6	12.7
Capacity Utilization	28.5	31.5	-3.0	Increasing	56	37.7	53.1	9.2
New Orders	24.6	32.7	-8.1	Increasing	56	35.6	53.4	11.0
Growth Rate of Orders	17.1	25.4	-8.3	Increasing	56	29.5	58.1	12.4
Unfilled Orders	7.6	4.6	+3.0	Increasing	3	16.5	74.7	8.9
Shipments	33.8	31.0	+2.8	Increasing	56	43.0	47.9	9.2
Delivery Time	-0.2	3.7	-3.9	Decreasing	1	9.3	81.2	9.5
Materials Inventories	10.2	4.6	+5.6	Increasing	3	20.3	69.6	10.1
Finished Goods Inventories	5.1	-1.2	+6.3	Increasing	1	16.5	72.2	11.4
Prices Paid for Raw Materials	32.9	31.0	+1.9	Increasing	55	39.2	54.4	6.3
Prices Received for Finished Goods	27.9	13.9	+14.0	Increasing	16	34.2	59.5	6.3
Wages and Benefits	38.4	28.6	+9.8	Increasing	113	40.0	58.4	1.6
Employment	13.9	21.9	-8.0	Increasing	50	25.3	63.3	11.4
Hours Worked	5.5	9.5	-4.0	Increasing	5	16.8	71.9	11.3
Capital Expenditures	17.9	16.1	+1.8	Increasing	47	28.2	61.5	10.3
General Business Conditions								
Future (six months ahead)								
Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.3	17.3	-2.0	Improving	54	33.9	47.6	18.6
General Business Activity	8.1	13.3	-5.2	Improving	5	27.1	53.9	19.0

*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

- > This is our busy time of year, but it is not meeting our expectations. We expect higher costs for benefits in 2014. We expect a better year in 2014 based on better alignment of sales and production per plant. We have increased our sales push, with results to be seen.

Nonmetallic Mineral Product Manufacturing

- > October 2013 will end up our busiest month ever. This is the sixth new record month this year.
- > The housing sector of the economy has shown improvement in recent months, and our expectation is for this to continue in 2014. Concern for downside risk related to interest rates and inflation continues, given the slow economic recovery and the potential negative impact of the Affordable Care Act.

Primary Metal Manufacturing

- > We have seen reduced feed material to the plant, resulting in slightly reduced production.
- > The federal government needs to run better.

Fabricated Metal Manufacturing

- > Refineries are pushing some turnaround work, and as a result, emergency repair work is increasing, which is higher-margin work.
- > Bookings since August have improved after nine months of slightly negative monthly year-over-year comparisons.
- > Although our level of requests for quotations has increased dramatically, we are not receiving confirmation of purchase orders, which indicates owners are delaying decisions and/or designing/shopping for lower alternatives.
- > The government budget mess is dramatically affecting our business. Our primary clients include the federal government, government contractors, public schools, public hospitals and large commercial businesses. All have put new orders on hold, and some existing orders are not being processed properly.
- > The government shutdown and possible default of the U.S. on its debt and the ramifications of that have us stopped dead on capital spending. We had planned on over \$2 million over the next 12 months. All of that is on hold now.
- > The slowdown came faster and deeper than the normal fourth quarter slowing due to uncertainty in the government/budget/debt policy concerns.

Machinery Manufacturing

- > We are beginning to experience some upward wage pressures in several markets (particularly in the Gulf Coast area) as

general contractors begin recruiting to staff major construction projects.

- > Current threat of an increase in interest rates appears to have subsided; that is good in the short run but may prevent long-term growth.

Computer and Electronic Product Manufacturing

- > The effects of the sequestration on the Department of Defense are anticipated to bring more declines in 2014.
- > We were expecting things to be a bit stronger in the fourth quarter but would characterize the fourth quarter as in the range of a seasonal decline. Generally speaking, orders are down but consistent with a seasonally weaker fourth quarter.

Transportation Equipment Manufacturing

- > There is increasing global competition with new foreign competitors depressing prices and margins. There is only minor growth potential without taking market share. We are focusing on overall cost competitiveness to maintain our new order intake. We anticipate a relatively flat rate of year-over-year growth.

Food Manufacturing

- > Dairy products have a direct elasticity connection to the prices consumers pay, and the rising farm raw milk costs will continue to depress volumes manufactured and consumed. The battle for the consumers' stomach against an array of drinks and water items will intensify this problem. It appears as though the increase in exports of dairy manufactured powder, butter and the like has managed to keep milk prices at higher levels domestically and possibly for the foreseeable future.

Miscellaneous Manufacturing

- > We manufacture and sell class rings and yearbooks, which are a consumer discretionary spend. In addition, we see negative trends for traditional commemorative products.

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/.



Texas Manufacturing Outlook Survey

DALLASFED

October 28, 2013

SPECIAL QUESTIONS

1. How do borrowing conditions facing your firm compare to those six months ago?

	Oct '11 (percent)	Oct '12 (percent)	Oct '13 (percent)
Eased substantially	1.4	0.0	0.0
Eased somewhat	11.0	3.9	6.9
No change	39.7	53.2	51.4
Tightened somewhat	13.7	9.1	13.9
Tightened substantially	6.8	2.6	1.4
Not applicable—haven't sought credit	27.4	31.2	26.4

2. How does the cost of credit compare to what it was six months ago?*

	Oct '13 (percent)
Eased substantially	4.2
Eased somewhat	31.9
No change	31.9
Tightened somewhat	2.8
Tightened substantially	0.0
Not applicable—haven't sought credit	29.2

3. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?

	Oct '11 (percent)	Oct '12 (percent)	Oct '13 (percent)
No difficulty	34.2	41.6	48.6
Some difficulty	17.8	9.1	13.9
Substantial difficulty	8.2	9.1	1.4
Extreme difficulty	2.7	3.9	4.2
Not applicable—haven't sought credit	37.0	36.4	31.9

4. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?

	Oct '11 (percent)	Oct '12 (percent)	Oct '13 (percent)
No difficulty	35.6	42.7	50.0
Some difficulty	9.6	8.0	9.7
Substantial difficulty	5.5	5.3	2.8
Extreme difficulty	4.1	2.7	1.4
Not applicable—haven't sought credit	45.2	41.3	36.1

5. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?

	Oct '11 (percent)	Oct '12 (percent)	Oct '13 (percent)
Yes—significantly	5.5	3.9	1.4
Yes—somewhat	13.7	9.1	6.9
No	31.5	27.3	36.1
Not applicable—haven't had problems obtaining credit	15.1	19.5	20.8
Not applicable—haven't sought credit	34.2	40.3	34.7

6. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?

	Oct '11 (percent)	Oct '12 (percent)	Oct '13 (percent)
Yes—significantly	2.7	3.9	0.0
Yes—somewhat	13.7	6.5	11.1
No	32.9	32.5	34.7
Not applicable—haven't had problems obtaining credit	16.4	20.8	19.4
Not applicable—haven't sought credit	34.2	36.4	34.7

*Question added in 2013.

Survey collection period: 10/8/2013 to 10/11/2013

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Paper Manufacturing

- > We are lucky in that we are cash strong and don't foresee needing to borrow anytime in the near future.

Chemical Manufacturing

- > The future of health care issue is a larger influence on the business and hiring than credit availability.
- > We are in a good position as two or three large banks have vied for our business. In discussions with the banks, they have stated the difficulty they are having in finding quality loans to make. We have squeezed the banks quite hard and probably have reached a bottom in floating rates over Libor.
- > The Fed needs to induce banks to make lending to small businesses much easier. It is almost impossible to obtain credit from banks; we must go to alternate sources and pay much higher interest rates.

Plastics and Rubber Products Manufacturing

- > The interest rate is up slightly and more collateral is required, but we're able to use our credit line or borrow when needed.

Nonmetallic Mineral Product Manufacturing

- > Health care costs and uncertainty over them are a deterrent to hiring.

Primary Metal Manufacturing

- > We are still in a strong financial position and have not experienced a loss month since 2010, despite a downturn this year. The company is debt free and continues to plan for manufacturing expansions in 2014.
- > We have a very strong balance sheet and very strong ownership, financially speaking.

Fabricated Metal Product Manufacturing

- > There are two important considerations not captured by your questions. First, we were able to materially reduce our interest cost on a term loan B in June 2013 versus June 2012. Finance costs have ticked up moderately since June 2013. Second, the small contractors that install our products have not had adequate access to working capital. That has required manufacturers to step in to fill the void created by regional banks absence from nonresidential construction contractors' credit.
- > We are a publicly held multinational company. We are in a strong financial position with large cash reserves, especially overseas. Obtaining credit both privately and publicly has continually gotten easier over the last three years.
- > Although we have been able to obtain additional credit, the owners' personal risk, pledged collateral, higher interest costs and guarantees have increased. This has all been done with some optimism of improved business conditions that have been slow to develop.

Machinery Manufacturing

- > Credit from our bank is readily available as long as our financial performance is positive.

Computer and Electronic Product Manufacturing

- > We rolled \$1 billion in debt this past May, half at five years, the other half at 10 years. We have debt due almost every year for the next 10 years and plan to roll over as long as interest rates remain low. Balances due each year are about 10 to 25 percent of free cash flow, so rollover risk is low and won't be impactful to operations if we need to pay them off.
- > Business has slowed a lot!

Food Manufacturing

- > Credit is not the problem. The Affordable Care Act—now that's a problem. It doesn't matter what interest rates are.

