



Texas Manufacturing Outlook Survey

DALLAS **FED**

November 25, 2013

TEXAS MANUFACTURING ACTIVITY PICKS UP FURTHER

Growth in Texas factory activity picked up for a third consecutive month in November, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 13.3 to 16.9, reaching its highest reading in five months.

Other measures of current manufacturing activity indicated further expansion in November. The new orders index came in at 5.4, similar to its October level, and marked a seventh consecutive month of increased demand. The capacity utilization index rose to 16.2, its highest level since March 2011, and the shipments index edged up to 14.8.

Perceptions of broader business conditions remained modestly optimistic in November. The general business activity index posted its sixth consecutive positive reading but edged down to 1.9. The company outlook index also posted its sixth positive reading in a row and moved up to 8, its highest level since June.

Labor market indicators reflected continued employment growth and longer workweeks. The November employment index was 5, down slightly from its October level but still indicative of increased employee headcounts. Fifteen percent of firms reported hiring new workers compared with 10 percent reporting layoffs. The hours worked index held fairly steady at a reading of 4.2, suggesting a slight increase in average workweek length.

Upward pressure on prices and wages continued in November. The raw materials price index was unchanged at 22.6, with 27 percent of firms noting an increase in input costs. The finished goods price index remained positive for the fourth month in a row but edged down to 2.2. The wages and benefits index fell from 20.4 to 14.6, indicating that upward pressure on compensation costs eased slightly this month. Looking ahead, 38 percent of respondents anticipate further increases in raw materials prices over the next six months, while 33 percent expect higher finished goods prices.

Expectations regarding future business conditions remained optimistic in November. The index of future general business activity was little changed at a reading of 7, and the index of future company outlook rose 5 points to 20.1. Indexes for future manufacturing activity pushed further into 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 Nov. 12–20, and 85 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.

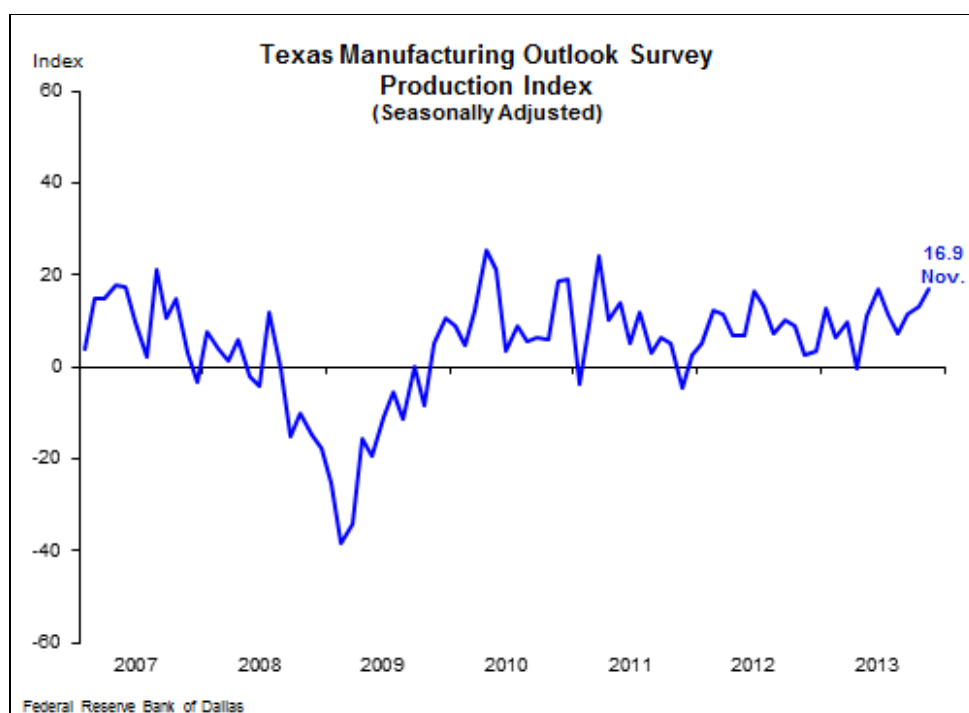
Next release: December 30, 2013

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	16.9	13.3	+3.6	Increasing	7	32.2	52.5	15.3
Capacity Utilization	16.2	11.9	+4.3	Increasing	12	28.4	59.4	12.2
New Orders	5.4	6.2	-0.8	Increasing	7	27.1	51.2	21.7
Growth Rate of Orders	-0.1	-0.1	0.0	Decreasing	2	18.9	62.0	19.0
Unfilled Orders	-5.2	-3.9	-1.3	Decreasing	2	11.7	71.4	16.9
Shipments	14.8	13.2	+1.6	Increasing	7	29.7	55.4	14.9
Delivery Time	-9.4	-3.6	-5.8	Decreasing	5	5.9	78.8	15.3
Materials Inventories	3.0	-3.0	+6.0	Increasing	1	16.2	70.6	13.2
Finished Goods Inventories	5.9	1.2	+4.7	Increasing	2	16.5	72.9	10.6
Prices Paid for Raw Materials	22.6	22.7	-0.1	Increasing	52	27.3	68.0	4.7
Prices Received for Finished Goods	2.2	3.5	-1.3	Increasing	4	11.6	79.0	9.4
Wages and Benefits	14.6	20.4	-5.8	Increasing	48	17.6	79.4	3.0
Employment	5.0	9.6	-4.6	Increasing	6	15.2	74.6	10.2
Hours Worked	4.2	3.9	+0.3	Increasing	2	21.2	61.8	17.0
Capital Expenditures	10.6	11.8	-1.2	Increasing	16	16.4	77.8	5.8
General Business Conditions Current (versus previous month)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	8.0	5.4	+2.6	Improving	6	19.3	69.4	11.3
General Business Activity	1.9	3.6	-1.7	Improving	6	16.7	68.5	14.8
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	34.8	26.1	+8.7	Increasing	57	48.0	38.9	13.2
Capacity Utilization	36.2	28.5	+7.7	Increasing	57	46.5	43.1	10.3
New Orders	33.6	24.6	+9.0	Increasing	57	45.5	42.6	11.9
Growth Rate of Orders	26.4	17.1	+9.3	Increasing	57	34.6	57.2	8.2
Unfilled Orders	7.3	7.6	-0.3	Increasing	4	14.6	78.0	7.3
Shipments	34.2	33.8	+0.4	Increasing	57	43.9	46.4	9.7
Delivery Time	-3.7	-0.2	-3.5	Decreasing	2	7.3	81.7	11.0
Materials Inventories	4.9	10.2	-5.3	Increasing	4	18.5	67.9	13.6
Finished Goods Inventories	-3.8	5.1	-8.9	Decreasing	1	10.0	76.3	13.8
Prices Paid for Raw Materials	31.7	32.9	-1.2	Increasing	56	37.8	56.1	6.1
Prices Received for Finished Goods	26.8	27.9	-1.1	Increasing	17	32.9	61.0	6.1
Wages and Benefits	48.2	38.4	+9.8	Increasing	114	48.2	51.8	0.0
Employment	30.5	13.9	+16.6	Increasing	51	39.0	52.4	8.5
Hours Worked	12.2	5.5	+6.7	Increasing	6	20.6	71.0	8.4
Capital Expenditures	21.0	17.9	+3.1	Increasing	48	30.9	59.3	9.9
General Business Conditions Future (six months ahead)								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	20.1	15.3	+4.8	Improving	55	33.7	52.7	13.6
General Business Activity	7.0	8.1	-1.1	Improving	6	21.0	65.0	14.0

*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.

Wood Product Manufacturing

- > Our company and the rest of "Small Business America" seem to be gaining traction, despite a perceived lack of economic support from Washington.

Chemical Manufacturing

- > The cost of fees associated with the new health care laws will cost us greatly. It may cost us in the number of employees. We are still working on alternatives.

Primary Metal Manufacturing

- > We seem to be having a year-end rush for orders.
- > There are major concerns in the industry on the upcoming OSHA proposed silica permissible exposure limits rule. This rule will have major negative economic impacts on numerous industries including mining, foundries and general construction. In the face of this proposed rule, many businesses, including ours, are now cancelling or postponing planned capital expenditures and major investments due to the possible financial impact this rule may have.

Fabricated Metal Manufacturing

- > We are very concerned regarding the global economy affecting the Gulf Coast refining business. A major portion of the region's refining output is now being exported. If this were not the case, the refining industry would be seriously depressed.
- > Based on current bookings and backlog, we are expecting a modest improvement (3 to 5 percent) in nonresidential construction activity over the next six months.
- > We still have backlog, but owners have not released contracts for fabrication. We have more requests for quotations open but have not seen a trend of increasing contract releases and purchase orders.

Machinery Manufacturing

- > We expect an expansion of market demand for our services due to significant new industrial construction activity along the U.S. Gulf Coast. We expect this to begin sometime during 2014.

Computer and Electronic Product Manufacturing

- > Things continue to be stubbornly weak in general. Business is not getting worse, but unfortunately it's not getting better.

Transportation Equipment Manufacturing

- > November appears to be slowing considerably for us for the end of year. We do not have good forward-looking capabilities. Our customers only let us know if they need product immediately. Lead times are becoming extinct. They want products shipped within a week that normally in the past took three to four weeks.

Furniture and Related Product Manufacturing

- > We have a healthy backlog of orders and expect that to continue through 2014. Our primary market is the multifamily residential new construction market. It has been quite strong this past year, and activity indicates this will continue. Pricing pressure on raw materials continues to be an issue, as is capacity for our suppliers. We frequently experience late deliveries to us from suppliers due to an inability to ramp up quickly enough. Much capacity was removed from the industry over the past five years due to the deep recession, which has caused a difficult-to-manage supply chain. We expect this to improve in 2014 as volumes level off somewhat, but prices of raw materials will continue to go up putting pressure on margins.

Food Manufacturing

- > If the Senate version of the farm bill were passed, it would be very bad for our business. If commodity prices continue to soften, it should eventually help lower dairy prices, which is positive for us. We will also benefit if diesel prices continue to be lower. We finance our expansions with retained earnings, so the level of interest rates and availability of credit are not factors. Hiring unskilled labor is no problem, and there are no wage pressures in that area. Skilled labor is in short supply. The Affordable Care Act will greatly increase our labor costs.

Beverage and Tobacco Product Manufacturing

- > Sales have been weak for the past year starting October 2012. We thought we would at least hurdle the weak comps, but we are down nearly 10 percent compared with last October through November (month to date). Our property and casualty insurance has doubled, and the cost of goods sold is up, so our gross margin percent is down. Adding in a 10 percent sales decrease, and it hurts.

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/.

