



Texas Manufacturing Outlook Survey

DALLAS **FED**

December 30, 2013

TEXAS MANUFACTURING GROWTH SLOWS BUT OUTLOOK IMPROVES

Texas factory activity increased for the eighth month in a row in December, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell from 16.9 to 7.1, indicating output grew at a slower pace than in November.

Other measures of current manufacturing activity reflected slower or no growth. The new orders index came in near zero, suggesting demand was largely unchanged from November after seven months of increases. The shipments index also fell to around zero, coming in at 0.7, after rising to 14.8 last month. The capacity utilization index declined 8 points to 8.6.

Perceptions of broader business conditions were more optimistic in December. The general business activity index posted its seventh consecutive positive reading and edged up to 3.1. The company outlook index also posted its seventh positive reading in a row and shot up 7.5 points to 15.5, its highest level in nearly two years.

Labor market indicators reflected increased hiring but slightly shorter workweeks. The December employment index was 6.8, up slightly from its November level. Seventeen percent of firms reported hiring new workers compared with 10 percent reporting layoffs. The hours worked index dipped to a reading of -2, suggesting a slight decrease in average workweek length.

Upward pressure on prices and wages picked up in December. The raw materials price index rose 10 points to 32.8, with a third of firms noting an increase in input costs. The finished goods price index moved up from 2.2 to 5.9. Compensation costs increased at a faster pace this month, with the wages and benefits index increasing to 21.6, its highest level since July 2012. Looking ahead, 46 percent of respondents anticipate further increases in raw materials prices over the next six months, while 44 percent expect higher finished goods prices, the highest share since 2008.

Expectations regarding future business conditions were notably more optimistic in December. The index of future general business activity spiked 16 points to 22.8, reaching its highest reading in nearly three years. The index of future company outlook rose to 24.1, a 21-month high. Indexes for future manufacturing activity also 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 Dec. 17–24, and 87 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.

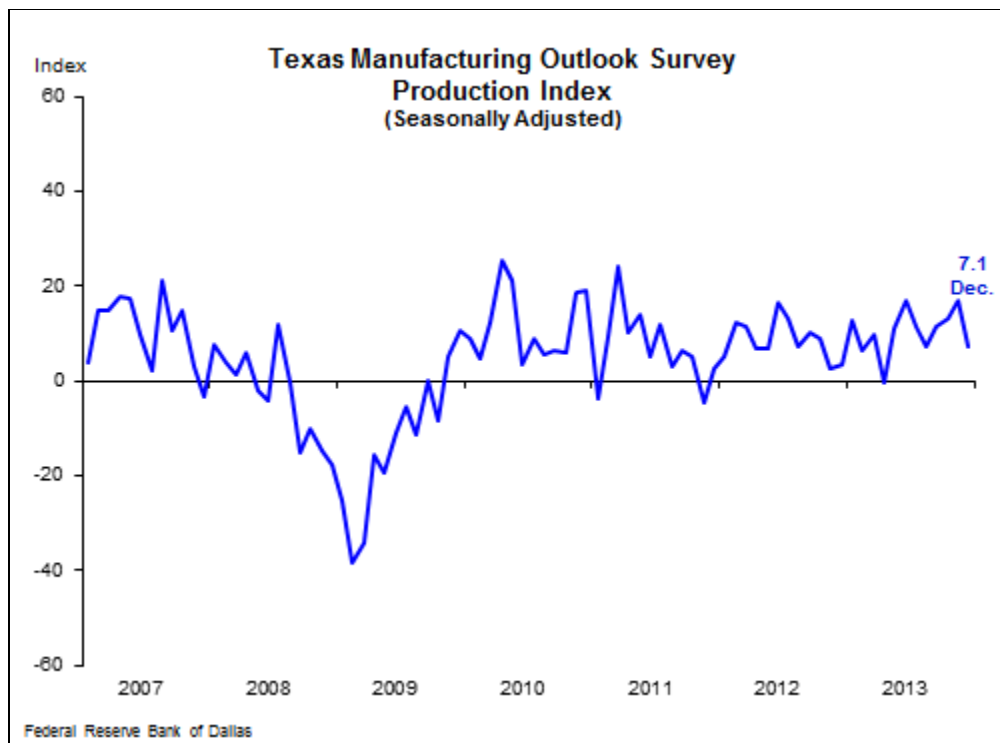
Next release: January 27, 2014

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	7.1	16.9	-9.8	Increasing	8	26.3	54.5	19.2
Capacity Utilization	8.6	16.2	-7.6	Increasing	13	21.8	65.0	13.2
New Orders	-0.5	5.4	-5.9	Decreasing	1	23.5	52.5	24.0
Growth Rate of Orders	-3.1	-0.1	-3.0	Decreasing	3	13.6	69.6	16.7
Unfilled Orders	-5.6	-5.2	-0.4	Decreasing	3	11.4	71.6	17.0
Shipments	0.7	14.8	-14.1	Increasing	8	23.6	53.5	22.9
Delivery Time	-10.4	-9.4	-1.0	Decreasing	6	3.4	82.8	13.8
Materials Inventories	-0.2	3.0	-3.2	Decreasing	1	13.9	72.0	14.1
Finished Goods Inventories	3.4	5.9	-2.5	Increasing	3	17.4	68.6	14.0
Prices Paid for Raw Materials	32.8	22.6	+10.2	Increasing	53	33.2	66.4	0.4
Prices Received for Finished Goods	5.9	2.2	+3.7	Increasing	5	14.9	76.1	9.0
Wages and Benefits	21.6	14.6	+7.0	Increasing	49	22.4	76.8	0.8
Employment	6.8	5.0	+1.8	Increasing	7	16.7	73.4	9.9
Hours Worked	-2.0	4.2	-6.2	Decreasing	1	16.9	64.2	18.9
Capital Expenditures	12.4	10.6	+1.8	Increasing	17	18.9	74.6	6.5
General Business Conditions Current (versus previous month)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.5	8.0	+7.5	Improving	7	22.8	69.9	7.3
General Business Activity	3.1	1.9	+1.2	Improving	7	13.2	76.7	10.1
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	51.3	34.8	+16.5	Increasing	58	57.3	36.7	6.0
Capacity Utilization	44.3	36.2	+8.1	Increasing	58	50.4	43.5	6.1
New Orders	44.9	33.6	+11.3	Increasing	58	51.7	41.5	6.8
Growth Rate of Orders	31.0	26.4	+4.6	Increasing	58	37.4	56.2	6.4
Unfilled Orders	14.3	7.3	+7.0	Increasing	5	22.6	69.0	8.3
Shipments	41.2	34.2	+7.0	Increasing	58	48.0	45.1	6.8
Delivery Time	-4.7	-3.7	-1.0	Decreasing	3	6.5	82.3	11.2
Materials Inventories	5.9	4.9	+1.0	Increasing	5	20.2	65.5	14.3
Finished Goods Inventories	6.1	-3.8	+9.9	Increasing	1	18.1	69.9	12.0
Prices Paid for Raw Materials	42.2	31.7	+10.5	Increasing	57	45.8	50.6	3.6
Prices Received for Finished Goods	37.8	26.8	+11.0	Increasing	18	43.9	50.0	6.1
Wages and Benefits	46.8	48.2	-1.4	Increasing	115	48.3	50.2	1.5
Employment	30.5	30.5	0.0	Increasing	52	37.8	54.9	7.3
Hours Worked	25.6	12.2	+13.4	Increasing	7	28.5	68.6	2.9
Capital Expenditures	30.1	21.0	+9.1	Increasing	49	34.9	60.2	4.8
General Business Conditions Future (six months ahead)								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	24.1	20.1	+4.0	Improving	56	34.2	55.7	10.1
General Business Activity	22.8	7.0	+15.8	Improving	7	28.3	66.2	5.5

*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

- > Because of the weather, it's really hard to say anything about changes.
- > Weather prevented two days of shipping.
- > The San Antonio/South Texas area is finally seeing the uptick in non-multifamily construction activity that much of the rest of the state has seen for the past year.

Paper Manufacturing

- > We are expecting raw material cost increases as well as labor and benefit cost increases. Our 2014 sales plan estimate will increase sales and cover these additional cost increases. We need the plan to be successful.

Chemical Manufacturing

- > Raw material prices seemed to have reached the bottom, and suppliers are trying to increase them. At the moment, increases are not sticking, but it is expected that the increase will start to take hold over the next few months.
- > We just received a large order from Pakistan.

Plastics and Rubber Product Manufacturing

- > Our new sales/marketing manager has been successful in attracting new business that will come onstream in the first half of 2014.

Primary Metal Manufacturing

- > December sales are lower primarily due to customers' holiday operations shutdowns.

Fabricated Metal Manufacturing

- > We have seen a slowdown in letting new work in the industrial sector. There is plenty of commercial fabrication available at below-cost pricing. We have elected to bid on selective work for our long-term customers.
- > Business is OK but very uncertain due to all that is currently affecting the refining industry. Exporting of refined product is certainly helping our customers and our business.
- > Indications reflected in our bookings and backlog support a modest recovery in nonresidential construction starts.
- > We are seeing an increase in engineering and design as more of our customers are investing in new capital equipment that involves automation.
- > We expect our business to improve because customers are running through inventories they previously overbought.

- > Volume increases are being driven entirely by one key customer. Demand from other customers is generally down from 2012 levels.
- > We are seeing a slight increase in requests for quotes, but we have not had an increase in orders. We are receiving notices of price increases for our raw materials that will take effect in January 2014. This will require us to raise our prices as well.

Machinery Manufacturing

- > Orders have slowed dramatically in the last four to six weeks.
- > Along the Gulf Coast, we are beginning to see a tightening labor market for skilled technicians as major new industrial plant projects get closer to starting. We expect this surge to last several years.

Computer and Electronic Product Manufacturing

- > We continue to believe we will be operating in a modest environment. Things are not getting especially better, but not getting worse.

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/.

