Texas Manufacturing Outlook Survey

DALLASFED

April 28, 2014

TEXAS MANUFACTURING PICKS UP AND OUTLOOK IMPROVES NOTABLY

Texas factory activity increased for the 12th month in a row in April, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 17.1 to 24.7, reaching its highest level in four years and indicating stronger output growth.

Some other measures of current manufacturing activity also reflected more robust growth. The new orders index posted a four-year high, rising to 21.3. The capacity utilization index rose to a multiyear high as well, climbing from 13.1 to 18.7, with a third of manufacturers noting an increase. The shipments index fell 7 points to 12.4, indicating the volume of shipments grew but at a slower pace than in March.

Perceptions of broader business conditions were markedly more optimistic in April. The general business activity index rose for a second consecutive month, increasing from 4.9 to 11.7. The company outlook index jumped nearly 15 points to a four-year high of 23.4, reflecting a sharp rise in optimism among manufacturers.

Labor market indicators reflected stronger employment growth and longer workweeks. The April employment index rose to 19.7, its highest reading in more than two years. Twenty-eight percent of firms reported net hiring compared with 8 percent reporting net layoffs. The hours worked index spiked from 5.3 to 13.9, indicating a sizeable increase in workweek length.

Upward pressure on input prices eased somewhat in April, while pressure ticked up for selling prices and wages. The raw materials price index declined sharply from 23.1 to 10.2, reaching an 8-month low. Meanwhile, the finished goods price index edged up to a reading of 8. Looking ahead, 36 percent of respondents anticipate further increases in raw materials prices over the next six months, while 25 percent expect higher finished goods prices. The wages and benefits index increased slightly to 21.3. This index has been consistently elevated since December, suggesting strong upward pressure on compensation costs for five months.

Expectations regarding future business conditions remained optimistic in April. The index of future general business activity rose 7 points to 24.5, while the index of future company outlook was largely unchanged at 26.9. 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 Apr. 15–23, and 109 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: May 27, 2014

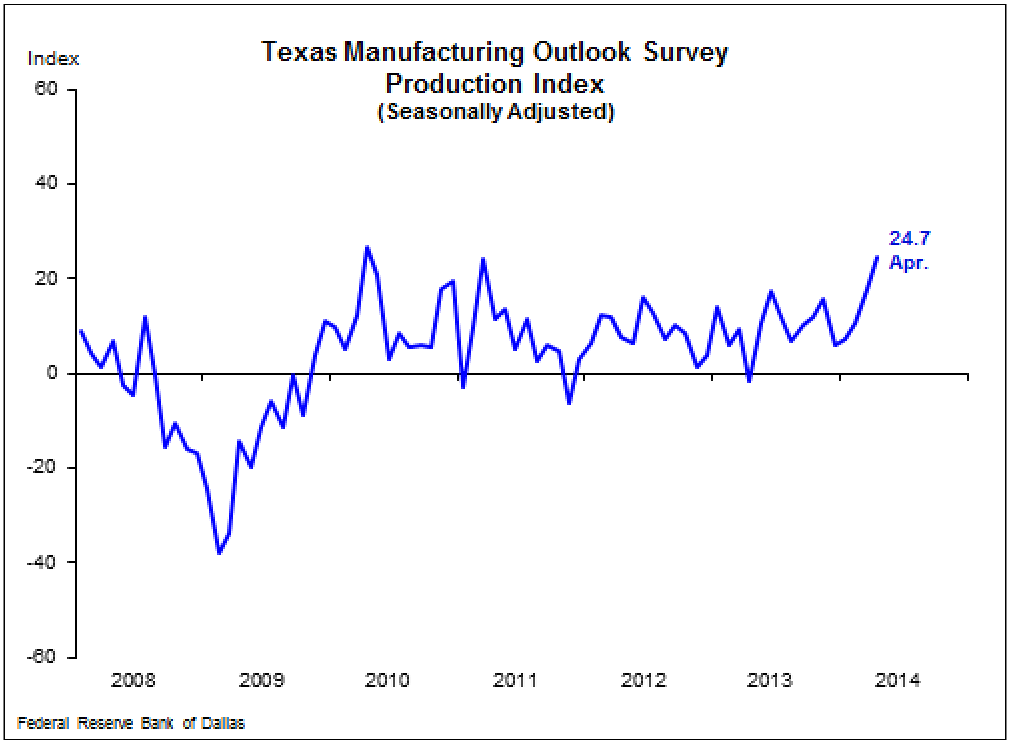
Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	24.7	17.1	+7.6	Increasing	12	40.7	43.3	16.0
Capacity Utilization	18.7	13.1	+5.6	Increasing	17	33.5	51.7	14.8
New Orders	21.3	14.7	+6.6	Increasing	12	36.5	48.3	15.2
Growth Rate of Orders	13.4	8.6	+4.8	Increasing	4	29.8	53.8	16.4
Unfilled Orders	3.1	0.9	+2.2	Increasing	3	17.2	68.8	14.1
Shipments	12.4	19.5	-7.1	Increasing	12	32.2	48.0	19.8
Delivery Time	3.2	1.7	+1.5	Increasing	3	14.9	73.4	11.7
Materials Inventories	10.2	9.6	+0.6	Increasing	6	26.3	57.6	16.1
Finished Goods Inventories	5.6	9.1	-3.5	Increasing	2	17.6	70.4	12.0
Prices Paid for Raw Materials	10.2	23.1	-12.9	Increasing	57	19.2	71.8	9.0
Prices Received for Finished Goods	8.0	7.3	+0.7	Increasing	9	14.6	78.8	6.6
Wages and Benefits	21.3	20.8	+0.5	Increasing	57	24.3	72.7	3.0
Employment	19.7	15.0	+4.7	Increasing	11	28.0	63.7	8.3
Hours Worked	13.9	5.3	+8.6	Increasing	4	22.6	68.7	8.7
Capital Expenditures	14.3	14.1	+0.2	Increasing	31	19.1	76.1	4.8

General Business Conditions Current (versus previous month)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	23.4	9.1	+14.3	Improving	11	31.4	60.6	8.0
General Business Activity	11.7	4.9	+6.8	Improving	11	24.7	62.3	13.0

Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	47.1	46.4	+0.7	Increasing	62	52.4	42.3	5.3
Capacity Utilization	39.1	39.0	+0.1	Increasing	62	45.9	47.4	6.8
New Orders	43.9	42.1	+1.8	Increasing	62	51.1	41.7	7.2
Growth Rate of Orders	37.0	33.5	+3.5	Increasing	62	44.1	48.8	7.1
Unfilled Orders	5.9	8.1	-2.2	Increasing	9	16.5	72.9	10.6
Shipments	43.3	42.3	+1.0	Increasing	62	50.3	42.7	7.0
Delivery Time	-2.6	-0.1	-2.5	Decreasing	2	9.6	78.2	12.2
Materials Inventories	2.9	9.6	-6.7	Increasing	9	19.4	64.1	16.5
Finished Goods Inventories	1.0	-5.3	+6.3	Increasing	1	15.7	69.6	14.7
Prices Paid for Raw Materials	31.4	32.6	-1.2	Increasing	61	36.3	58.8	4.9
Prices Received for Finished Goods	21.2	28.4	-7.2	Increasing	22	25.0	71.2	3.8
Wages and Benefits	39.8	47.6	-7.8	Increasing	119	41.1	57.6	1.3
Employment	30.8	35.1	-4.3	Increasing	56	38.5	53.8	7.7
Hours Worked	10.3	8.8	+1.5	Increasing	11	20.0	70.3	9.7
Capital Expenditures	17.7	15.8	+1.9	Increasing	53	27.5	62.7	9.8

General Business Conditions Future (six months ahead)								
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	26.9	27.4	-0.5	Improving	61	34.0	58.9	7.1
General Business Activity	24.5	17.6	+6.9	Improving	11	33.6	57.3	9.1

*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.

Fabricated Metal Manufacturing

- Wage pressure is getting very intense due to all the major capital projects starting in the Gulf Coast. Union contracts are resulting in 5 to 7 percent per year increases.
- We believe that the politicization of economic decisions, such as whether to create the Keystone XL oil pipeline, undermines overall economic growth.
- Our six-month view remains positive, but it is subject to negative revision if the winter slowness is not resolved with better weather.

Machinery Manufacturing

- We expect our business to expand this fall with heavier than normal maintenance schedules and new construction activities related to the low-cost energy environment.

Computer and Electronic Product Manufacturing

- We are starting to see a mild retraction or slowdown in the capital equipment manufacturing forecast for the second half of 2014.

Chemical Manufacturing

- We are seeing more of our clients increase their inventories as a result of increased market activity compared with this time last year. We are also anticipating increased raw material pricing and payroll costs in the third quarter that will put downward pressure on profits.

Printing and Related Support Activities

- We hope to increase production and improve our business by adding new services. We will be adding equipment and improving our current technology to better serve our customers' needs.

Transportation Equipment Manufacturing

- We continue to be fully booked through 2015 with a modest increase in overall business. The growth rate of new orders is requiring increasingly aggressive pricing actions due to foreign competitors pricing below traditional market prices.
- Our largest distributor reported a year-over-year sales increase of 30 percent in March.

Food Manufacturing

- We believe that increasing federal regulations will force all manufacturing overseas.
- We are being hurt by record high dairy prices. We have announced a price increase effective June 1.
- World affairs, such as the tension in Ukraine, have created some pressure on grains and other food products, and costs have climbed significantly in the past 30 days.

Beverage and Tobacco Product Manufacturing

- First quarter sales were bad, down 6 percent year over year, with March being down 10 percent year over year. April is up 6 percent year over year, but we are still down 3.5 percent year to date. We have cut some employees and other costs, but profits are at a decade low.

Wood Product Manufacturing

- Multifamily building is good but has very poor margins. Single-family building is in a confused state momentarily.

Miscellaneous Manufacturing

- Our business faces a secular decline for commemorative scholastic products such as yearbooks and class rings.

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/.
