



Texas Manufacturing Outlook Survey

DALLAS **FED**

February 24, 2014

TEXAS MANUFACTURING PICKS UP AGAIN BUT LESS OPTIMISM IN OUTLOOK

Texas factory activity increased for the tenth month in a row in February, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 7.1 to 10.8, indicating output grew at a slightly stronger pace than in January.

Other measures of current manufacturing activity also reflected a pick up. The capacity utilization index edged up to 9.1, with a quarter of manufacturers noting an increase. The shipments index rose again in February, coming in at 13.3. The new orders index continued to indicate demand growth and was 9.5, down from 14.4 in January but above the levels seen toward the end of last year.

Perceptions of broader business conditions were not as positive this month as they were in January. The general business activity index fell to zero after eight positive readings in a row. The company outlook index also declined, from 15.9 to 3.4, hitting its lowest reading since last spring.

Labor market indicators reflected continued employment growth and longer workweeks. The February employment index edged up for a third consecutive month, rising to 9.9. Eighteen percent of firms reported net hiring compared with 8 percent reporting net layoffs. The hours worked index shot up from 3.4 to 12, reaching its highest level in more than two and a half years.

Upward pressure on prices and wages continued in February. The raw materials price index fell to 21.9 but remained high relative to what it was for most of 2013. The finished goods price index held steady at 11.2, a level well above the average over the last couple of years. Looking ahead, 43 percent of respondents anticipate further increases in raw materials prices over the next six months, while 33 percent expect higher finished goods prices. Compensation costs increased at a slightly stronger pace this month. The wages and benefits index rose from 21.6 to 25.8, hitting a six-year high.

Expectations regarding future business conditions remained optimistic in February, although most indexes of future activity fell from their January levels. The index of future general business activity moved down but posted a still-robust reading of 15.2. After hitting a three-year high last month, the index of future company outlook fell 12 points to 20.6.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Feb. 11–19, and 93 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.

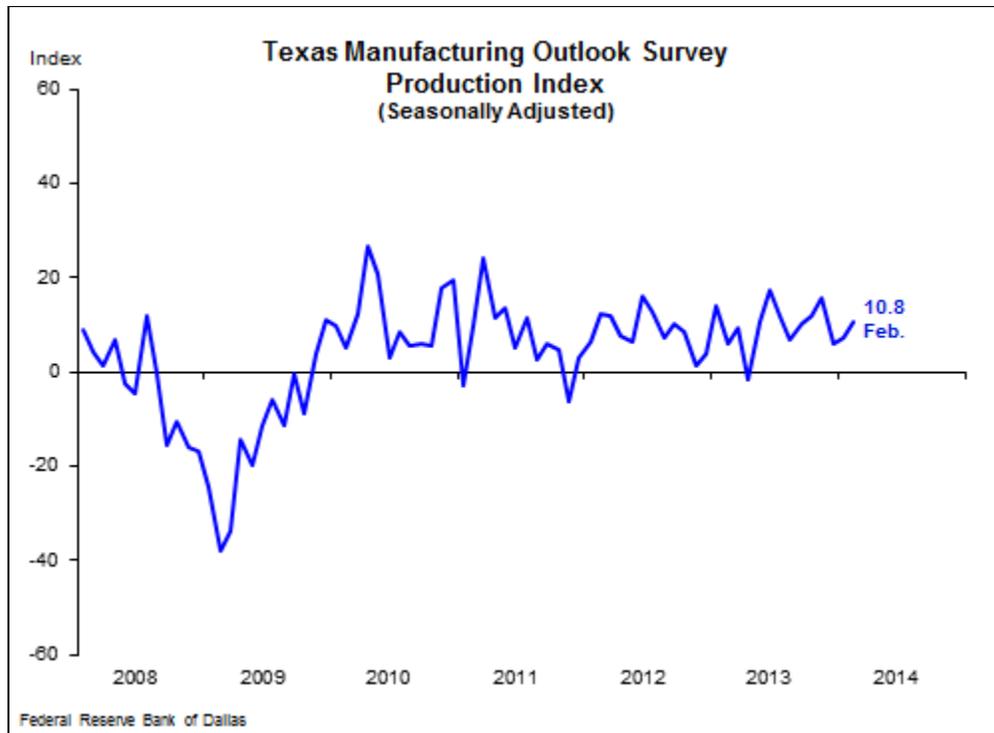
Next release: March 31, 2014

Business Indicators Relating to Facilities and Products in Texas								
Current (versus previous month)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	10.8	7.1	+3.7	Increasing	10	25.8	59.2	15.0
Capacity Utilization	9.1	8.2	+0.9	Increasing	15	24.6	59.9	15.5
New Orders	9.5	14.4	-4.9	Increasing	10	28.1	53.3	18.6
Growth Rate of Orders	5.3	6.4	-1.1	Increasing	2	23.7	57.9	18.4
Unfilled Orders	1.9	-1.3	+3.2	Increasing	1	19.6	62.7	17.7
Shipments	13.3	9.2	+4.1	Increasing	10	31.8	49.8	18.5
Delivery Time	4.4	-5.1	+9.5	Increasing	1	15.6	73.2	11.2
Materials Inventories	7.7	2.6	+5.1	Increasing	4	21.8	64.1	14.1
Finished Goods Inventories	-1.1	5.1	-6.2	Decreasing	1	14.1	70.7	15.2
Prices Paid for Raw Materials	21.9	26.8	-4.9	Increasing	55	27.6	66.7	5.7
Prices Received for Finished Goods	11.2	11.0	+0.2	Increasing	7	17.3	76.6	6.1
Wages and Benefits	25.8	21.6	+4.2	Increasing	55	28.9	68.0	3.1
Employment	9.9	8.6	+1.3	Increasing	9	17.8	74.3	7.9
Hours Worked	12.0	3.4	+8.6	Increasing	2	24.3	63.4	12.3
Capital Expenditures	7.0	18.9	-11.9	Increasing	29	11.8	83.4	4.8
General Business Conditions								
Current (versus previous month)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	3.4	15.9	-12.5	Improving	9	17.2	69.0	13.8
General Business Activity	0.3	3.8	-3.5	Improving	9	15.8	68.7	15.5
Business Indicators Relating to Facilities and Products in Texas								
Future (six months ahead)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	46.6	49.6	-3.0	Increasing	60	52.1	42.4	5.5
Capacity Utilization	40.2	48.0	-7.8	Increasing	60	44.6	51.0	4.4
New Orders	41.9	47.8	-5.9	Increasing	60	48.5	44.9	6.6
Growth Rate of Orders	34.6	38.5	-3.9	Increasing	60	42.1	50.4	7.5
Unfilled Orders	5.4	13.8	-8.4	Increasing	7	16.6	72.2	11.2
Shipments	39.1	45.4	-6.3	Increasing	60	43.8	51.5	4.7
Delivery Time	5.9	3.9	+2.0	Increasing	2	13.6	78.7	7.7
Materials Inventories	12.5	14.0	-1.5	Increasing	7	26.1	60.2	13.6
Finished Goods Inventories	2.2	0.0	+2.2	Increasing	1	17.0	68.2	14.8
Prices Paid for Raw Materials	40.9	39.6	+1.3	Increasing	59	43.2	54.5	2.3
Prices Received for Finished Goods	27.3	38.9	-11.6	Increasing	20	33.0	61.4	5.7
Wages and Benefits	42.8	50.4	-7.6	Increasing	117	43.7	55.4	0.9
Employment	37.5	38.5	-1.0	Increasing	54	37.5	62.5	0.0
Hours Worked	13.1	17.1	-4.0	Increasing	9	20.6	71.9	7.5
Capital Expenditures	25.0	24.2	+0.8	Increasing	51	29.5	65.9	4.5
General Business Conditions								
Future (six months ahead)								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	20.6	33.5	-12.9	Improving	59	30.1	60.4	9.5
General Business Activity	15.2	22.3	-7.1	Improving	9	25.5	64.2	10.3

*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

- > Our February business was affected by the weather.
- > The extreme weather throughout the U.S. impacted our ability to receive components needed in our manufacturing process. Weather also impacted revenue, as customers are unable to deploy products, resulting in increased inventory in the distribution channels and reduced requirements for manufacturing.
- > Refinery activity slowed significantly due to the cold weather and the uncertain rhetoric coming from Washington and the EPA.
- > We are experiencing a very modest (6 to 8 percent) recovery in the volume (square feet) of new nonresidential construction starts for buildings five stories and less.

Machinery Manufacturing

- > Weather has been a significant near-term factor in our business. We estimate a 5 to 10 percent revenue impact in both January and February at this point. We expect the major construction boom along the Gulf Coast (associated with new lower cost gas and gas liquids supplies) to begin to favorably impact our business in the second half of 2014.
- > It seems to us that the national economy is slowing a bit, and this economic slowdown will affect the Texas economy also. We believe we will see a small recession in late third quarter to fourth quarter of 2014.
- > Winter is our slower time due to limited construction. May and June will tell if the general economy is getting stronger.

Computer and Electronic Product Manufacturing

- > We are getting information that the capital manufacturing businesses suffered a major slowdown due to the weather, transportation and materials problems.
- > Order trends and shipments strengthen after the Chinese New Year, so we are cautiously hopeful that will turn into a strengthening first half of this year.

Transportation Equipment Manufacturing

- > Health care costs have increased significantly—more than usual.
- > Consumer activity is very strong, despite the horrible winter. We manufacture discretionary consumer goods sold through retailers and distributors. Our three largest resellers report retail sales (of our products) up 12 percent, 29 percent and 11 percent, respectively. Our number two customer reports sales trending up 54 percent in February.

Weather will determine momentum. A long, bitter winter will negatively impact the spring selling season. We shall see.

Wood Product Manufacturing

- > It is not unusual that our area (South Texas) is enjoying a recovery from the building downturn later than other areas. South Texas did not have the wild party and escalated prices (homes and other real estate) that many other areas had. Therefore, we may have entered the downturn after others, and again, have entered a recovery phase after others.

Furniture and Related Product Manufacturing

- > The extreme winter we have experienced across the country, including Texas, may be affecting order volumes more than we think, but forecasted volumes into mid-2014 have decreased.

Paper Manufacturing

- > We had a tremendous growth spurt in 2013, and it is looking like 2014 will be similar. It is traditionally slow in the first quarter, but we have not experienced any slowdown so far.

Food Manufacturing

- > Increasing governmental regulations from all directions are taking up the time of many of our key people. We are spending more time on paperwork and regulations than on doing business. We believe that U.S. businesses need relief.
- > It appears we are going to win new business, which will increase our sales substantially.
- > Prices for dairy ingredients are at record highs and are greatly decreasing our margins. We are contemplating a price increase. We perceive the regulatory environment to be the most antibusiness of anything experienced in the lifetimes of the leadership of our company.
- > The rising cost of raw materials has hurt our business.

Miscellaneous Manufacturing

- > Our business has been impacted by the harsh winter conditions. We are assuming that the war conditions worldwide have not deteriorated.

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/.

