



Texas Manufacturing Outlook Survey

DALLAS **FED**

March 31, 2014

TEXAS MANUFACTURING STRENGTHENS FURTHER

Texas factory activity increased for the eleventh month in a row in March, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 10.8 to 17.1, indicating output grew at a stronger pace than in February.

Other measures of current manufacturing activity also reflected more robust growth. The new orders index rose to a nine-month high of 14.7, with nearly a third of manufacturers noting an increase in demand and less than a fifth noting a decrease. The shipments index rose from 13.3 to 19.5, posting its strongest reading in nearly four years. The capacity utilization index rose as well, climbing four points to 13.1.

Perceptions of broader business conditions were more optimistic in March. The general business activity index moved up to a six-month high of 4.9 after slipping to zero last month. The company outlook index also rebounded, rising six points to 9.1 after falling sharply in February.

Labor market indicators reflected stronger employment growth and longer workweeks. The March employment index rose markedly to a 21-month high of 15. Nearly a quarter of firms reported net hiring compared with 9 percent reporting net layoffs. The hours worked index fell from 12 to 5.3 but remained positive for the third month in a row.

Upward pressure on prices and wages continued in March. The raw materials price index edged up to 23.1, staying well above the level seen for most of 2013. The finished goods price index edged back to single digits, coming in at 7.3. 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. The wages and benefits index remained elevated but fell from 25.8 to 20.8, suggesting compensation costs increased but at a slightly weaker pace than in February.

Expectations regarding future business conditions remained optimistic in March. The index of future general business activity edged up to 17.6, and the index of future company outlook rose 7 points to 27.4. Indexes for future manufacturing activity showed mixed movements but remained in solidly 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 March 18–26, and 100 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.

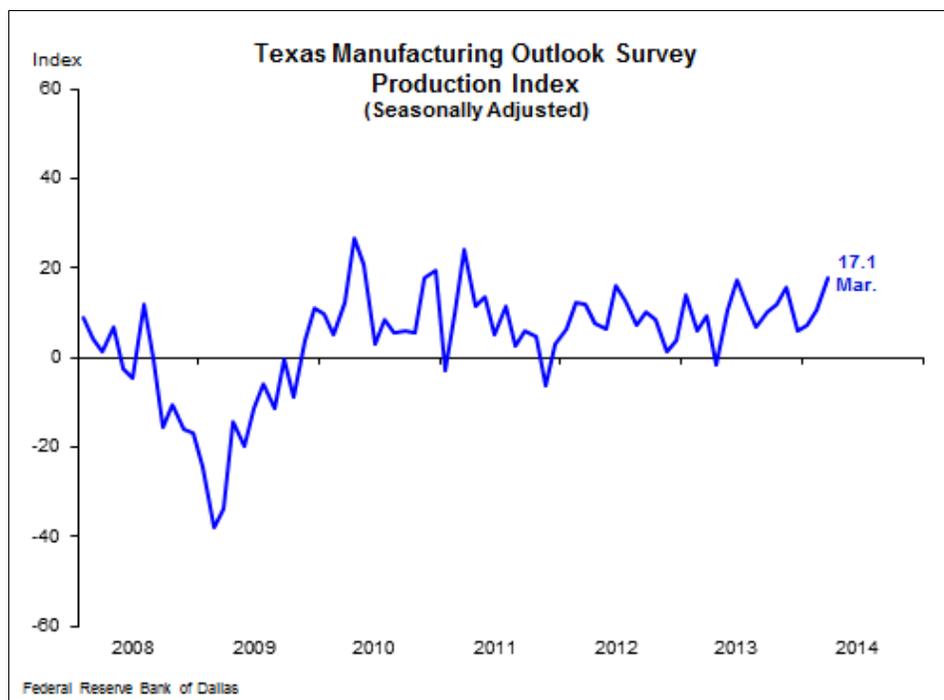
Next release: April 28, 2014

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)									
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	17.1	10.8	+6.3	Increasing	11	31.1	54.9	14.0	
Capacity Utilization	13.1	9.1	+4.0	Increasing	16	26.4	60.3	13.3	
New Orders	14.7	9.5	+5.2	Increasing	11	31.4	51.9	16.7	
Growth Rate of Orders	8.6	5.3	+3.3	Increasing	3	24.2	60.2	15.6	
Unfilled Orders	0.9	1.9	-1.0	Increasing	2	16.0	68.9	15.1	
Shipments	19.5	13.3	+6.2	Increasing	11	35.7	48.2	16.2	
Delivery Time	1.7	4.4	-2.7	Increasing	2	11.6	78.5	9.9	
Materials Inventories	9.6	7.7	+1.9	Increasing	5	20.9	67.8	11.3	
Finished Goods Inventories	9.1	-1.1	+10.2	Increasing	1	17.3	74.5	8.2	
Prices Paid for Raw Materials	23.1	21.9	+1.2	Increasing	56	26.9	69.3	3.8	
Prices Received for Finished Goods	7.3	11.2	-3.9	Increasing	8	12.7	81.9	5.4	
Wages and Benefits	20.8	25.8	-5.0	Increasing	56	21.4	78.0	0.6	
Employment	15.0	9.9	+5.1	Increasing	10	24.2	66.6	9.2	
Hours Worked	5.3	12.0	-6.7	Increasing	3	19.8	65.8	14.5	
Capital Expenditures	14.1	7.0	+7.1	Increasing	30	20.5	73.1	6.4	
General Business Conditions Current (versus previous month)									
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	9.1	3.4	+5.7	Improving	10	22.6	63.9	13.5	
General Business Activity	4.9	0.3	+4.6	Improving	10	18.4	68.1	13.5	
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)									
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	46.4	46.6	-0.2	Increasing	61	52.6	41.2	6.2	
Capacity Utilization	39.0	40.2	-1.2	Increasing	61	45.8	47.4	6.8	
New Orders	42.1	41.9	+0.2	Increasing	61	49.9	42.3	7.8	
Growth Rate of Orders	33.5	34.6	-1.1	Increasing	61	39.7	54.1	6.2	
Unfilled Orders	8.1	5.4	+2.7	Increasing	8	17.1	73.8	9.0	
Shipments	42.3	39.1	+3.2	Increasing	61	50.3	41.7	8.0	
Delivery Time	-0.1	5.9	-6.0	Decreasing	1	10.4	79.1	10.5	
Materials Inventories	9.6	12.5	-2.9	Increasing	8	21.3	67.0	11.7	
Finished Goods Inventories	-5.3	2.2	-7.5	Decreasing	1	10.5	73.7	15.8	
Prices Paid for Raw Materials	32.6	40.9	-8.3	Increasing	60	37.9	56.8	5.3	
Prices Received for Finished Goods	28.4	27.3	+1.1	Increasing	21	32.6	63.2	4.2	
Wages and Benefits	47.6	42.8	+4.8	Increasing	118	48.1	51.4	0.5	
Employment	35.1	37.5	-2.4	Increasing	55	39.4	56.4	4.3	
Hours Worked	8.8	13.1	-4.3	Increasing	10	16.4	76.0	7.6	
Capital Expenditures	15.8	25.0	-9.2	Increasing	52	26.3	63.2	10.5	
General Business Conditions Future (six months ahead)									
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	27.4	20.6	+6.8	Improving	60	35.9	55.6	8.5	
General Business Activity	17.6	15.2	+2.4	Improving	10	30.0	57.6	12.4	

*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

- > Weather doldrums are affecting shipments and new business generation. We are not certain about the effect of geopolitical rumblings yet.
- > We are experiencing significant wage pressure and increased competition from Korea and India for large liquefied natural gas projects in the U.S. We are simply not able to compete. The turnaround activity of the refinery base has been pushed out due to uncertain new regulation. It is a little tough in the market place.
- > Our businesses continue to experience a modest (less than 5 percent year over year) recovery. That pace appears to be sustainable.
- > There are still so many issues affecting the economy. We are not sure what six months from now will provide.

Machinery Manufacturing

- > Improvements now and in the future are the result of taking customers from competition rather than strong growth in the market.
- > Construction related to the North American low cost energy development is expected to create a tailwind for our business.

Computer and Electronic Product Manufacturing

- > Business is steady as she goes.
- > We have won several large deals this year that have contributed to substantial gains.

Electrical Equipment, Appliance, and Component Manufacturing

- > Our new orders and shipments are heavily influenced by the receipt and release of new orders that represent high volume. Our backlog is up approximately 30 percent over the year-ending figure, but we are waiting for these new orders to be released to production. Some of the backlog has been on our books for an extended time, which makes pipeline forecasting important but difficult to administer in practice.

Chemical Manufacturing

- > Raw material prices have started to increase, and we expect the trend to continue for the next few months.

Plastics and Rubber Products Manufacturing.

- > Given the lack of skilled workers available, we are looking into the federal guest worker program, particularly for toolmakers.

Furniture and Related Product Manufacturing

- > We believe we are seeing a temporary slowdown related to the extreme winter weather. We anticipate a busier summer season as a result.

Paper Manufacturing

- > Business has continued to stay strong and we continue to grow. Margins are on the rise also.

Food Manufacturing

- > We are having a general price increase, effective in June. Our raw ingredient costs have been at record levels for some time.
- > We are facing enormous margin pressure due to a rapid increase in our raw material prices (beef and pork). Although we have a price increase planned for April, the increase will not offset the rise in input costs. That is the reason for the lowered forecast in spite of higher volume.

Miscellaneous Manufacturing

- > Government-related expenses and overall regulation are increasingly shifting resources away from serving customers and markets. Human resources shortages are getting worse for quality employees, and costs for hiring quality people are rising without increasing output or quality. For these reasons our ability to seize new opportunities in the marketplace has been reduced. Confusing export requirements and processes are halting potential growth of oversea markets.
- > The scare of minimum wage increase is hurting us and will hurt. International unrest hurts overall morale and affects nonrequired retail sales. Health care reform hurts both internally and externally (in the plant and sales). The oil and gas boom is stealing good workers chasing higher wages. We cannot compete without moving production out of the country.

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/.

