



Texas Manufacturing Outlook Survey

DALLAS FED

December 29, 2014

TEXAS MANUFACTURING ACTIVITY PICKS UP PACE

Texas factory activity increased again in December, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose strongly from 6 to 15.8, indicating output grew at a faster pace in December.

Other measures of current manufacturing activity reflected continued growth during the month. The capacity utilization index rose from 9.8 to 12.4, due to a higher share of respondents noting an increase in December than in November. The shipments index climbed to 19.6, its highest reading in five months. The new orders index moved down from 5.6 to 1.3, suggesting moderating demand growth, but more than a quarter of firms noted increases in new orders over November levels.

Perceptions of broader economic conditions remained positive this month. The general business activity index fell from 10.5 to 4.1. The company outlook index was almost unchanged at 8.4, with 21 percent of respondents noting an improved outlook.

Labor market indicators reflected unchanged workweeks but continued employment increases. The December employment index held steady at a solid reading of 9.2, with 17 percent of firms reporting net hiring compared with 7 percent reporting net layoffs. The hours worked index dropped from 5.7 to 0, indicating no change in hours worked in December.

Upward pressures on prices eased, while wage pressure increased slightly. The raw materials prices index fell from 15.3 to 10.2, its lowest reading in eight months. The finished goods prices index declined as well to a 13-month low of 4.2. Looking ahead, 26 percent of respondents anticipate increases in raw materials prices over the next six months, while 24 percent expect higher finished goods prices. The wages and benefits index ticked up from 23.9 to 25.1. This index has been consistently elevated this year, suggesting continued upward pressure on compensation costs.

Expectations regarding future business conditions remained optimistic in December. The index of future general business activity fell from 18.3 to 13.9, while the index of future company outlook edged up to 24.1. Indexes for future manufacturing activity moved down in December 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 Dec.15–23, and 107 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.

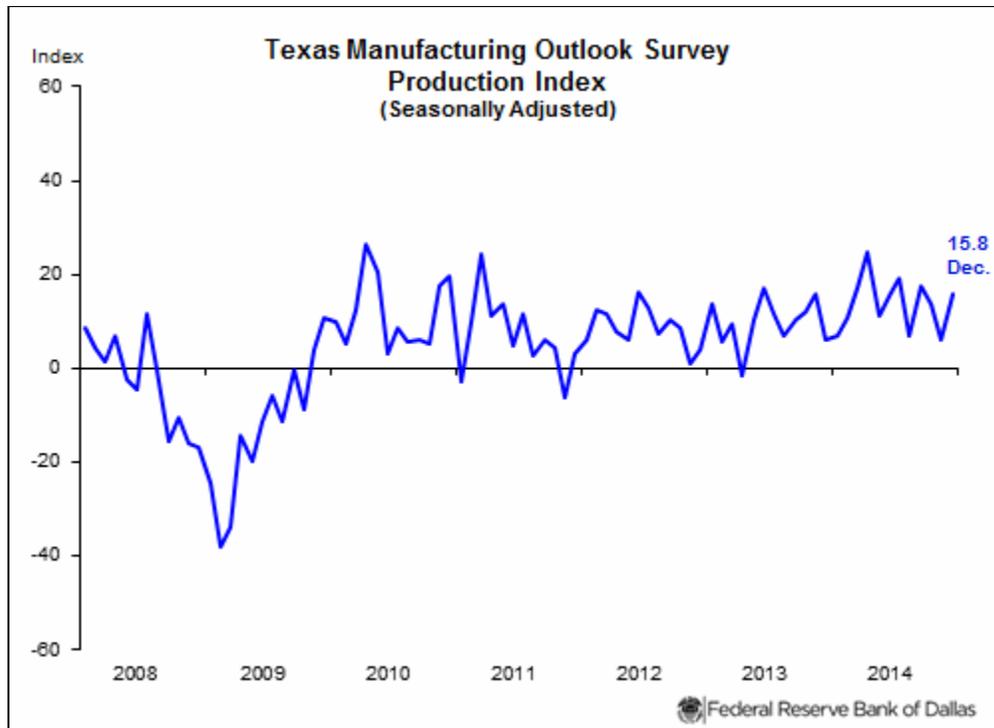
Next release: January 26, 2015

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	15.8	6.0	+9.8	Increasing	20	30.2	55.4	14.4
Capacity Utilization	12.4	9.8	+2.6	Increasing	25	27.3	57.8	14.9
New Orders	1.3	5.6	-4.3	Increasing	20	27.3	46.7	26.0
Growth Rate of Orders	-5.6	-2.9	-2.7	Decreasing	2	20.3	53.8	25.9
Unfilled Orders	-9.3	1.0	-10.3	Decreasing	1	11.4	67.9	20.7
Shipments	19.6	12.1	+7.5	Increasing	20	32.7	54.2	13.1
Delivery Time	1.9	-2.2	+4.1	Increasing	1	9.8	82.3	7.9
Materials Inventories	-2.4	15.3	-17.7	Decreasing	1	14.6	68.4	17.0
Finished Goods Inventories	-7.4	-1.9	-5.5	Decreasing	2	13.0	66.7	20.4
Prices Paid for Raw Materials	10.2	15.3	-5.1	Increasing	65	23.9	62.4	13.7
Prices Received for Finished Goods	4.2	9.7	-5.5	Increasing	17	16.6	71.0	12.4
Wages and Benefits	25.1	23.9	+1.2	Increasing	65	25.3	74.5	0.2
Employment	9.2	9.6	-0.4	Increasing	19	16.5	76.2	7.3
Hours Worked	0.0	5.7	-5.7	Unchanged	1	15.6	68.8	15.6
Capital Expenditures	5.6	13.3	-7.7	Increasing	39	12.2	81.2	6.6
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	8.4	8.8	-0.4	Improving	19	20.6	67.2	12.2
General Business Activity	4.1	10.5	-6.4	Improving	19	16.2	71.7	12.1
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	34.2	40.9	-6.7	Increasing	70	44.8	44.5	10.6
Capacity Utilization	32.3	35.1	-2.8	Increasing	70	42.4	47.6	10.1
New Orders	33.5	37.6	-4.1	Increasing	70	44.8	43.8	11.3
Growth Rate of Orders	27.1	29.8	-2.7	Increasing	70	38.6	49.9	11.5
Unfilled Orders	-1.6	8.9	-10.5	Decreasing	1	11.7	75.0	13.3
Shipments	30.2	38.7	-8.5	Increasing	70	45.8	38.6	15.6
Delivery Time	-4.0	-0.2	-3.8	Decreasing	2	8.0	80.0	12.0
Materials Inventories	10.1	8.9	+1.2	Increasing	4	26.3	57.6	16.2
Finished Goods Inventories	3.0	7.9	-4.9	Increasing	2	19.0	65.0	16.0
Prices Paid for Raw Materials	12.2	28.0	-15.8	Increasing	69	26.3	59.6	14.1
Prices Received for Finished Goods	12.0	23.5	-11.5	Increasing	30	24.0	64.0	12.0
Wages and Benefits	38.5	42.3	-3.8	Increasing	127	38.8	60.9	0.3
Employment	23.3	27.5	-4.2	Increasing	64	35.4	52.5	12.1
Hours Worked	0.4	14.2	-13.8	Increasing	19	12.4	75.6	12.0
Capital Expenditures	19.4	21.0	-1.6	Increasing	61	28.6	62.2	9.2
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	23.1	+1.0	Improving	69	35.3	53.5	11.2
General Business Activity	13.9	18.3	-4.4	Improving	19	23.7	66.5	9.8

*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.

Primary Metal Manufacturing

- > There is a holiday vacation slowdown at many customers operations.

Fabricated Metal Product Manufacturing

- > The drop in crude oil prices is going to make things ugly ... quickly.
- > The price of oil tanking was a surprise.
- > Many customers placed orders in order to close out the year.
- > We don't know if we are seeing a slowdown because of the holiday/hunting season or if oil prices are a cause. Our requests for quotes (RFQs) have slowed down from existing customers, and one job has been cancelled. Our backlog has dropped but remains significant compared with the last two end-of-the-year amounts.

Machinery Manufacturing

- > The drop in oil prices has not affected bookings. We have received comments on both sides of the issue ranging from "equipment purchases will be delayed" to "we are using this period to ramp up for next year."
- > Equipment demand for delivery prior to year-end has increased over last year.
- > Low oil prices will drive reductions in U.S. drilling rigs, which will in turn reduce the market for our products.
- > Our business remains quite strong, and our outlook is good. However, we remain cautious over concerns about how lower oil prices will impact our midstream and downstream energy customers. We don't believe it will be a negative impact, but there could be unanticipated consequences (e.g., market fear).

Chemical Manufacturing

- > Lower oil prices will adversely impact margins. Energy volatility will cause our customers to keep inventories tight.

Computer and Electronic Product Manufacturing

- > Demand/orders are reasonably steady. Lead times and inventories remain in check. We are hopeful that 2015 will be a year of modest growth.

Electrical Equipment, Appliance, and Component Manufacturing

- > Falling oil prices will negatively affect our business.

Food Manufacturing

- > The holidays are our slowest time of the year. We are anticipating an excellent 2015 driven by lower energy costs, a decent economy and continued reasonable interest rates.

Wood Product Manufacturing

- > The price of oil makes me very concerned about the service sector.

Printing and Related Support Activities

- > We are systematically implementing internal changes that will improve our ability to compete. 2015 should be a better year overall unless customer demand implodes for some reason. We are not export driven, so Europe's problems are not our problems.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Laila Assanie at laila.assanie@dal.frb.org. The Texas Manufacturing Outlook Survey can be found online at www.dallasfed.org/microsites/research/surveys/tmos/.

