



# Texas Manufacturing Outlook Survey

F E D E R A L R E S E R V E B A N K O F D A L L A S

November 28, 2011

## TEXAS MANUFACTURING ACTIVITY DECLINES

Texas factory activity decreased in November, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, dipped from 4.1 to -5.1, registering its first negative reading in two years.

Other measures of current manufacturing conditions also indicated contraction in November. The new orders index suggested deterioration of demand, falling to -5.1 after a year in positive territory. Eighteen percent of manufacturers noted increased order volumes in November, compared with 23 percent noting a decrease. The shipments index edged down from 2.7 to -1.1, suggesting the volume of shipments fell slightly. The capacity utilization index tumbled to -10.2 after several months of weak readings centered around zero.

Perceptions of broader economic conditions improved slightly in November. The general business activity index posted its second positive reading in a row, and it edged up from 2.3 to 3.2. The company outlook index remained positive but moved down from 7.2 to 4.7. More than 90 percent of manufacturers said their outlooks were unchanged or improved from last month.

Labor market indicators reflected continued labor demand growth, albeit at a slower pace. The employment index came in at 9, down from 15.1 in October. Twenty-one percent of manufacturers reported hiring new workers, while 12 percent reported layoffs. The hours worked index continued to suggest average workweeks lengthened.

Selling prices were flat in November, while upward pressure on input prices and wages continued at about the same pace as in October. The finished goods price index remained near zero, and the great majority of respondents noted no change in selling prices. The raw materials price index held steady at 19, still below levels seen earlier in the year. Thirty-six percent of respondents anticipate further increases in raw materials prices over the next six months, while 26 percent expect higher finished goods prices. The wages and benefits index came in at 11 after a slightly lower reading of 8.9 in October.

Expectations regarding future business conditions were slightly less optimistic in November. The index of future general business activity moved down, as did most indexes of future manufacturing activity, although all remained in solid positive territory. The index of future company outlook inched down to 23 from a reading of 25.3 in October.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Nov. 15-22, and 91 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.

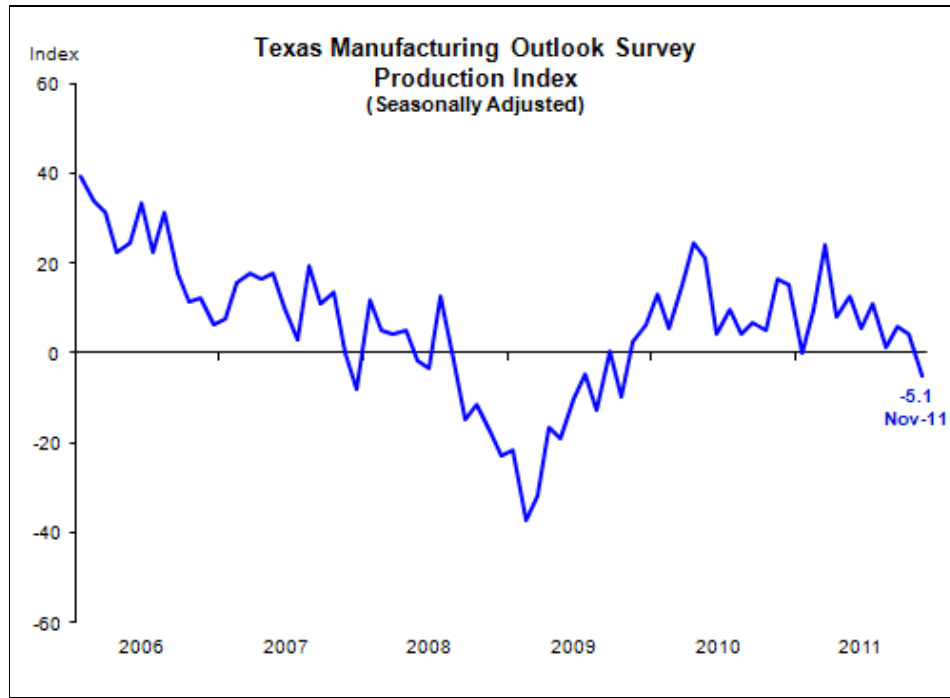
**Next release:** December 27, 2011

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Current</b>								
<b>Indicator</b>	<b>Nov Index</b>	<b>Oct Index</b>	<b>Change</b>	<b>Indicator Direction*</b>	<b>Trend** (months)</b>	<b>% Reporting Increase</b>	<b>% Reporting No Change</b>	<b>% Reporting Decrease</b>
Production	-5.1	4.1	-9.2	Decreasing	1	19.3	56.3	24.4
Capacity Utilization	-10.2	2.8	-13.0	Decreasing	1	17.1	55.6	27.3
New Orders	-5.1	8.3	-13.4	Decreasing	1	18.2	58.5	23.3
Growth Rate of Orders	-6.8	-0.9	-5.9	Decreasing	2	15.8	61.6	22.6
Unfilled Orders	-6.5	-5.7	-0.8	Decreasing	4	10.8	71.9	17.3
Shipments	-1.1	2.7	-3.8	Decreasing	1	21.0	56.9	22.1
Delivery Time	-5.5	-6.7	+1.2	Decreasing	4	8.8	76.9	14.3
Materials Inventories	-1.9	-0.1	-1.8	Decreasing	2	17.5	63.1	19.4
Finished Goods Inventories	-9.9	-6.7	-3.2	Decreasing	4	11.0	68.1	20.9
Prices Paid for Raw Materials	19.0	19.1	-0.1	Increasing	28	28.7	61.6	9.7
Prices Received for Finished Goods	1.1	-0.6	+1.7	Increasing	1	10.0	81.1	8.9
Wages and Benefits	11.0	8.9	+2.1	Increasing	24	14.3	82.4	3.3
Employment	9.0	15.1	-6.1	Increasing	13	20.7	67.6	11.7
Hours Worked	7.3	7.1	+0.2	Increasing	3	18.7	70.0	11.4
Capital Expenditures	3.3	7.8	-4.5	Increasing	4	14.3	74.7	11.0
<b>General Business Conditions</b>								
<b>Current</b>								
<b>Indicator</b>	<b>Nov Index</b>	<b>Oct Index</b>	<b>Change</b>	<b>Indicator Direction*</b>	<b>Trend** (months)</b>	<b>% Reporting Improved</b>	<b>% Reporting No Change</b>	<b>% Reporting Worsened</b>
Company Outlook	4.7	7.2	-2.5	Improving	14	12.8	79.1	8.1
General Business Activity	3.2	2.3	+0.9	Improving	2	11.3	80.6	8.1
<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Six Months Ahead</b>								
<b>Indicator</b>	<b>Nov Index</b>	<b>Oct Index</b>	<b>Change</b>	<b>Indicator Direction*</b>	<b>Trend** (months)</b>	<b>% Reporting Increase</b>	<b>% Reporting No Change</b>	<b>% Reporting Decrease</b>
Production	35.1	43.2	-8.1	Increasing	33	45.2	44.7	10.1
Capacity Utilization	31.1	42.5	-11.4	Increasing	33	40.5	50.1	9.4
New Orders	32.7	39.7	-7.0	Increasing	33	40.0	52.7	7.3
Growth Rate of Orders	26.1	23.4	+2.7	Increasing	33	33.6	58.9	7.5
Unfilled Orders	6.8	8.0	-1.2	Increasing	5	17.0	72.7	10.2
Shipments	32.6	39.8	-7.2	Increasing	33	42.8	46.9	10.2
Delivery Time	1.1	-2.3	+3.4	Increasing	1	9.1	83.0	8.0
Materials Inventories	12.7	-3.4	+16.1	Increasing	1	25.3	62.1	12.6
Finished Goods Inventories	1.2	-6.8	+8.0	Increasing	1	14.8	71.6	13.6
Prices Paid for Raw Materials	28.4	36.3	-7.9	Increasing	32	36.4	55.7	8.0
Prices Received for Finished Goods	13.8	20.5	-6.7	Increasing	16	26.4	60.9	12.6
Wages and Benefits	36.6	32.1	+4.5	Increasing	90	37.9	60.8	1.3
Employment	13.6	19.3	-5.7	Increasing	27	26.1	61.4	12.5
Hours Worked	11.3	5.7	+5.6	Increasing	33	22.7	65.9	11.4
Capital Expenditures	11.4	18.2	-6.8	Increasing	24	27.3	56.8	15.9
<b>General Business Conditions</b>								
<b>Six Months Ahead</b>								
<b>Indicator</b>	<b>Nov Index</b>	<b>Oct Index</b>	<b>Change</b>	<b>Indicator Direction*</b>	<b>Trend** (months)</b>	<b>% Reporting Improved</b>	<b>% Reporting No Change</b>	<b>% Reporting Worsened</b>
Company Outlook	23.0	25.3	-2.3	Improving	30	30.2	62.6	7.2
General Business Activity	9.7	14.7	-5.0	Improving	2	22.8	64.1	13.1

\*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 Product Manufacturing

Overall nonresidential volumes for the past 12 months are off six percent compared with the same period last year. However, manufacturing and energy end markets are up about 16 percent in volume, which is driving increased bookings. Our bookings in the part of our business focused on the industrial sector of nonresidential construction are up 38 percent for the last six months on a year-over-year basis.

We continue to expect slow growth, absent a European economic catastrophe. We believe Europe and our own Congress will muddle through, but we are concerned enough to be cautious in keeping our breakeven point low relative to current revenue levels.

Although our backlog and requests for quotations have increased, pricing remains significantly below expected margins to obtain the business. We are cautiously optimistic that capacity and delivery constraints restrict some of our competition. We see improved prospects.

Customers are indicating that fourth quarter 2011 will remain depressed with the December forecast continuing to move downward. However, all major customers indicate that in first quarter 2012 we should begin to experience an upside continuing through mid-2012.

### Nonmetallic Mineral Product Manufacturing

We do not expect to see much change in the housing market until after the November elections. Continued government actions in the marketplace have only contributed to the uncertainty that exists by causing off-trend results, which eliminates predictability.

### Chemical Manufacturing

Starting in the middle of the second quarter we saw an increase in activity in the chemical sector that we serve. However, after a good third quarter, things seem to have cooled, and it now looks like demand has flattened going forward. We are not expecting much growth in activity after the short burst of positives. We can't tell if it will come back in the spring.

We don't think the situation will stabilize, much less improve, until the governments in Europe and the U.S. government get their acts together.

### Plastics and Rubber Products Manufacturing

We are guardedly optimistic about the next six months. We wish we could receive some encouragement from the stalemate in Congress.

### Machinery Manufacturing

We see improving activity levels in our market segments this spring.

October and November are the seasonal high orders normally, and this year is no exception. The key question is if equipment orders will drop back to normal levels in December through February or fall out of bed as last year.

### Computer and Electronic Product Manufacturing

Our interim to long-term outlook is unstable. Aerospace manufacturing is continuing to move to European and Asian countries.

## Furniture and Related Product Manufacturing

Retailers are very cautious and are holding back, just to hold on in hopes that holiday sales this year will pick up.

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Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at [emily.kerr@dal.frb.org](mailto:emily.kerr@dal.frb.org). The Texas Manufacturing Outlook Survey can be found online at [www.dallasfed.org/data/outlook](http://www.dallasfed.org/data/outlook).

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