



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

December 27, 2011

TEXAS MANUFACTURING ACTIVITY EDGES DOWN

Texas factory activity weakened slightly in December, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, posted a second negative reading but moved up from -5.1 to -1.3. This suggests a slowing of the pace of decline.

Other measures of current manufacturing conditions indicated flat activity in December. The new orders index suggested stagnant demand, registering a near-zero reading after dipping into negative territory last month. The shipments index was little changed from its November reading and continued to suggest flat shipment volumes. The capacity utilization index was also near zero although it rebounded from last month, rising from -10.2 to 0.7.

Perceptions of broader economic conditions were mixed in December. The general business activity index dipped into negative territory after two consecutive positive readings. The index came in at -3, with 12 percent of manufacturers noting improvement in the level of business activity while 15 percent noted a worsening. The company outlook index remained positive and edged up from 4.7 to 6.6. Nearly 90 percent of manufacturers said their outlooks were unchanged or improved from last month.

Labor market indicators reflected continued labor demand growth. The employment index came in at 11.8, up from 9 in November. Twenty-one percent of firms reported hiring new workers, while 9 percent reported layoffs. The hours worked index continued to suggest average workweeks lengthened.

Input prices and wages continued to increase in December, while selling prices declined. The raw materials price index rose from 19 to 26.6 but remained below levels seen earlier in the year. The finished goods price index edged down to -2.6, continuing its recent trend of readings centered around zero. Forty-three percent of respondents anticipate further increases in raw materials prices over the next six months, while 31 percent expect higher finished goods prices. The December wages and benefits index came in at 16.7 after a reading of 11 in November.

Expectations regarding future business conditions were largely unchanged in December, and all indexes remained in solid positive territory. The index of future general business activity was 10.3, about the same as in November. The index of future company outlook came in at 22.8, also little changed from last month.

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.13-21, and 90 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.

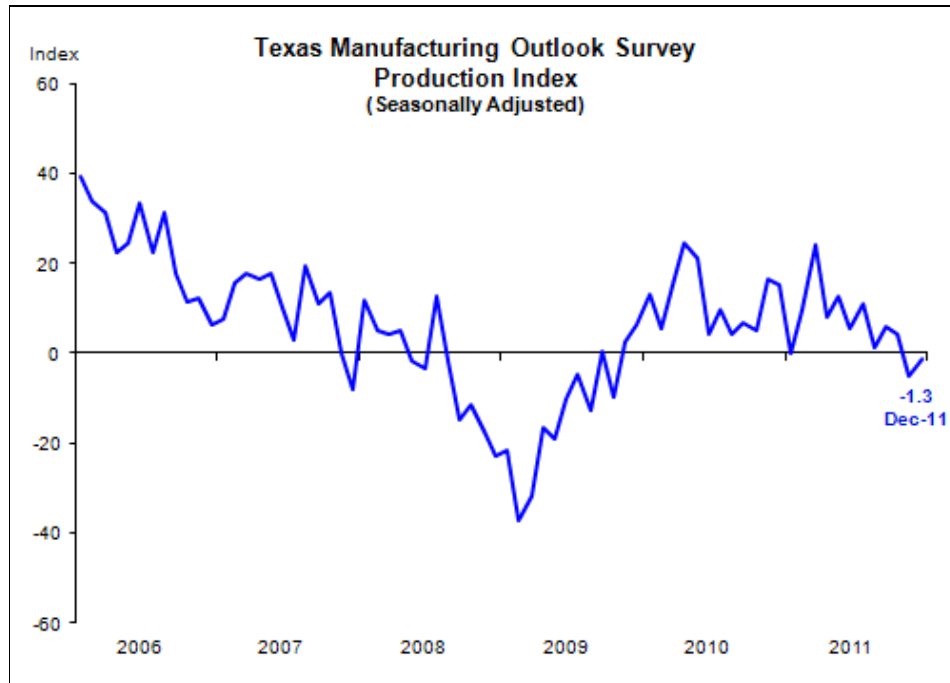
Next release: January 30, 2012

Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	-1.3	-5.1	+3.8	Decreasing	2	24.0	50.7	25.3
Capacity Utilization	0.7	-10.2	+10.9	Increasing	1	24.6	51.5	23.9
New Orders	-0.5	-5.1	+4.6	Decreasing	2	26.9	45.7	27.4
Growth Rate of Orders	-6.3	-6.8	+0.5	Decreasing	3	19.8	54.1	26.1
Unfilled Orders	-6.8	-6.5	-0.3	Decreasing	5	12.6	68.0	19.4
Shipments	-0.8	-1.1	+0.3	Decreasing	2	24.3	50.6	25.1
Delivery Time	-7.9	-5.5	-2.4	Decreasing	5	6.7	78.7	14.6
Materials Inventories	-7.2	-1.9	-5.3	Decreasing	3	19.1	54.6	26.3
Finished Goods Inventories	-7.9	-9.9	+2.0	Decreasing	5	18.2	55.7	26.1
Prices Paid for Raw Materials	26.6	19.0	+7.6	Increasing	29	34.4	57.8	7.8
Prices Received for Finished Goods	-2.6	1.1	-3.7	Decreasing	1	8.8	79.8	11.4
Wages and Benefits	16.7	11.0	+5.7	Increasing	25	18.9	78.9	2.2
Employment	11.8	9.0	+2.8	Increasing	14	20.9	69.9	9.1
Hours Worked	5.7	7.3	-1.6	Increasing	4	19.7	66.3	14.0
Capital Expenditures	4.5	3.3	+1.2	Increasing	5	11.2	82.0	6.7
General Business Conditions								
Current								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	6.6	4.7	+1.9	Improving	15	19.2	68.2	12.6
General Business Activity	-3.0	3.2	-6.2	Worsening	1	11.9	73.2	14.9
Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	37.1	35.1	+2.0	Increasing	34	44.3	48.5	7.2
Capacity Utilization	35.2	31.1	+4.1	Increasing	34	41.4	52.4	6.2
New Orders	35.0	32.7	+2.3	Increasing	34	41.2	52.6	6.2
Growth Rate of Orders	23.9	26.1	-2.2	Increasing	34	30.4	63.1	6.5
Unfilled Orders	9.1	6.8	+2.3	Increasing	6	19.3	70.5	10.2
Shipments	32.3	32.6	-0.3	Increasing	34	41.4	49.5	9.1
Delivery Time	-2.3	1.1	-3.4	Decreasing	1	5.7	86.4	8.0
Materials Inventories	18.4	12.7	+5.7	Increasing	2	28.7	60.9	10.3
Finished Goods Inventories	-9.1	1.2	-10.3	Decreasing	1	10.2	70.5	19.3
Prices Paid for Raw Materials	34.1	28.4	+5.7	Increasing	33	43.2	47.7	9.1
Prices Received for Finished Goods	25.0	13.8	+11.2	Increasing	17	30.7	63.6	5.7
Wages and Benefits	38.5	36.6	+1.9	Increasing	91	39.0	60.5	0.5
Employment	23.8	13.6	+10.2	Increasing	28	31.8	60.2	8.0
Hours Worked	9.0	11.3	-2.3	Increasing	34	17.0	75.0	8.0
Capital Expenditures	21.6	11.4	+10.2	Increasing	25	27.3	67.0	5.7
General Business Conditions								
Six Months Ahead								
Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	22.8	23.0	-0.2	Improving	31	29.9	63.0	7.1
General Business Activity	10.3	9.7	+0.6	Improving	3	20.1	70.1	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.

Fabricated Metal Product Manufacturing

We are experiencing a deteriorating booking rate for new orders that exceeds the normal seasonal pattern. It is uncertain whether this is an anomaly or the result of continuing delays for commercial construction coupled with decreased government project releases.

Our bookings for the last six months compared with the same period last year are up 39 percent. Bookings in December are off slightly from this pace, but quoting activity remains high relative to the past two years. Our nonresidential markets, while being down year over year, do reflect growth within the energy and manufacturing sector, which has underpinned our bookings growth.

Our company has seen the annual slowdown for December. However, January orders booked have been very strong. We feel very confident going into the first quarter of 2012. Wage increases are inevitable—most likely in the first quarter of 2012—due to growing pressures from employees who have not seen increases in two to three years.

We are being told that first quarter 2012 activity should increase as new 2012 budgets begin to be used for communications industry capital expenditure. Quoting activity and business development opportunities continue to be above normal compared with fourth quarters in prior years. There seems to be a general overall slowdown compared with the usual December year-end rush. Global competitiveness is driving the price for goods downward.

We expect decreases in activity six months from now but only because we experienced extremely high levels of activity in November and December, which is abnormal. Our six-month forecast is to return to more normal levels of business activity (down from now). New orders are down, however. Some of that may be seasonal or year-end. Requests for quotations are down from normal levels, which is unusual as companies generally want to have project quotes in hand when the new fiscal year budgets are released. We currently are very busy due to existing orders and expect to be so through the end of January. We are having continued problems finding qualified workers. We have brought back retirees, previous interns and friends of employees just to be able to build products. All are on board as contract workers with the exception of one full-time, permanent hire picked up this month. We have orders booked through August 2012 which is unusual; however, that work will not justify retention of the temporary help past January. Our current workload is predominantly for new production equipment (capital equipment for our customers). Our general machining business (machined parts for repair of equipment) remains steady. Most local suppliers of manufacturing services (anodizing, plating, sheet metal fabrication, etc.) are very busy, and that is affecting planning and lead times for projects.

Refinery utilization continues to be a concern as this is the main driver of our business.

Nonmetallic Mineral Product Manufacturing

Housing activity continues to bump along the bottom, due to tight credit conditions, high unemployment and low levels of consumer confidence. With 2012 being an election year and the Supreme Court deciding on some controversial issues, we do not expect any significant economic improvement until after these issues are settled.

Chemical Manufacturing

The second and third quarters are usually our strongest quarters. Thus, seasonality accounts for the expected increases over the next six months. We don't think we will see a great change in the economy until the elections are over. There is too much question about government policies going forward.

Our customers have been saying that they are seeing an increase for several months, and we are now seeing that increase, not only in the expedites we have been receiving but also in the new orders as well. 2011 is a new record year for us, and 2012 may continue that trend.

Plastics and Rubber Products Manufacturing

We purchased three new injection molding machines this year to take advantage of the \$500,000 tax write-off on them. We are generally optimistic about 2012 based on conversations with our good customers.

Machinery Manufacturing

We are seeing some strengthening in our major markets—maintenance for downstream and midstream energy facilities. Our optimism is tempered by major uncertainties facing the general economy in both U.S. and Europe.

Paper Manufacturing

This is a seasonal slowdown and won't start picking up until February or early March, unless we see a swing in the economy and world stability.

Computer and Electronic Product Manufacturing

Raw material prices continue to climb. Our major competition is Asian companies. We are not able to maintain AS9100 quality management system requirements as prescribed in the U.S., abide by EPA regulations and still compete against companies in China and India. Therefore, our primary customers are purchasing more of their assemblies and subassemblies for aerospace frames from abroad. We lose what Asia gains.

We believe we are getting closer to the bottom. Inventories of customers are getting lean.

Furniture and Related Product Manufacturing

There has been a seasonal and weather-related slowdown for construction.

Food Manufacturing

High commodity prices hurt us, our employees and our customers.

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/data/outlook.
