Texas Manufacturing Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

January 30, 2012

TEXAS MANUFACTURING ACTIVITY PICKS UP

WHAT'S NEW THIS MONTH

This month's survey data include annual seasonal revisions. In January of each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Manufacturing Outlook Survey after calculating new seasonal adjustment factors. Annual seasonal revisions result in slight changes in the seasonally adjusted series. Read more information on seasonal adjustment at **www.dallasfed.org/data/outlook/seasonal.html.**

Texas factory activity increased in January, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 0.2 to 5.8, suggesting growth resumed this month.

Other measures of current manufacturing conditions also indicated growth in January. The new orders index jumped to 9.5, its highest reading in six months, after two months in negative territory. Similarly, the shipments index turned positive after two negative readings, rising from –1.1 to 6.1. Capacity utilization increased further in January; the index moved up from 4 to 8.5. Twenty-eight percent of manufacturers noted higher capacity utilization, the highest share in nine months.

Perceptions of broader economic conditions were notably more positive in January. The general business activity index shot up to 15.3 after dipping into negative territory in December. Nearly a quarter of manufacturers noted improvement in the level of business activity, while nine percent noted a worsening. The company outlook index also increased markedly, rising from 5 to 13.5. Both indexes reached their highest readings in 10 months.

Labor market indicators reflected continued labor demand growth. The employment index came in at 12.2, up from 9.9 in December. Twenty-one percent of firms reported hiring new workers, while nine percent reported layoffs. The hours worked index continued to suggest average workweeks lengthened.

Prices and wages increased in January. The raw materials price index was 24.4, little changed from December. The finished goods price index climbed from –0.8 to 9, suggesting selling prices rose. Forty-seven percent of respondents anticipate further increases in raw materials prices over the next six months, while 32 percent expect higher finished goods prices. The January wages and benefits index came in at 17.5, down slightly from a reading of 19.4 in December but still indicative of rising labor costs.

Expectations regarding future business conditions were markedly more optimistic in January. The index of future general business activity rose sharply from 9.5 to 22.3, reaching its highest level in almost a year. The index of future company outlook came in at 27.9, up from 19.9 last month. Other indexes for future manufacturing activity also increased.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Jan.17–25, and 92 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: February 27, 2012

Business Indicators Relating to Facilities and Products in Texas
Current

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	5.8	0.2	+5.6	Increasing	2	27.2	51.4	21.4
Capacity Utilization	8.5	4.0	+4.5	Increasing	2	28.2	52.1	19.7
New Orders	9.5	-2.0	+11.5	Increasing	1	30.5	48.5	21.0
Growth Rate of Orders	6.6	-7.3	+13.9	Increasing	1	25.8	54.9	19.2
Unfilled Orders	-1.0	-5.1	+4.1	Decreasing	6	12.5	74.0	13.5
Shipments	6.1	-1.1	+7.2	Increasing	1	27.8	50.5	21.7
Delivery Time	8.7	-7.9	+16.6	Increasing	1	14.1	80.4	5.4
Materials Inventories	5.8	-6.7	+12.5	Increasing	1	18.5	68.8	12.7
Finished Goods Inventories	0.0	-7.9	+7.9	Unchanged	1	15.2	69.6	15.2
Prices Paid for Raw Materials	24.4	25.7	-1.3	Increasing	30	32.0	60.4	7.6
Prices Received for Finished Goods	9.0	-0.8	+9.8	Increasing	1	15.0	78.9	6.0
Wages and Benefits	17.5	19.4	-1.9	Increasing	26	18.4	80.7	0.9
Employment	12.2	9.9	+2.3	Increasing	15	21.4	69.4	9.2
Hours Worked	6.6	3.5	+3.1	Increasing	5	21.9	62.8	15.3
Capital Expenditures	9.6	7.7	+1.9	Increasing	4	15.7	78.2	6.1

General Business Conditions
Current

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	13.5	5.0	+8.5	Improving	4	23.7	66.1	10.2
General Business Activity	15.3	-0.3	+15.6	Improving	1	24.5	66.4	9.2

Business Indicators Relating to Facilities and Products in Texas
Six Months Ahead

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	43.6	38.1	+5.5	Increasing	35	52.2	39.3	8.6
Capacity Utilization	41.1	36.2	+4.9	Increasing	35	48.1	44.8	7.0
New Orders	45.6	36.0	+9.6	Increasing	35	51.8	42.0	6.2
Growth Rate of Orders	30.0	23.3	+6.7	Increasing	35	37.6	54.8	7.6
Unfilled Orders	13.3	9.1	+4.2	Increasing	7	20.0	73.3	6.7
Shipments	44.1	33.0	+11.1	Increasing	35	51.1	41.9	7.0
Delivery Time	6.6	-2.3	+8.9	Increasing	1	9.9	86.8	3.3
Materials Inventories	12.1	18.4	-6.3	Increasing	3	20.9	70.3	8.8
Finished Goods Inventories	6.7	-9.1	+15.8	Increasing	1	18.9	68.9	12.2
Prices Paid for Raw Materials	42.9	34.1	+8.8	Increasing	34	47.3	48.4	4.4
Prices Received for Finished Goods	27.0	25.0	+2.0	Increasing	18	31.5	64.0	4.5
Wages and Benefits	36.6	39.8	-3.2	Increasing	92	36.9	62.7	0.3
Employment	25.5	23.8	+1.7	Increasing	29	31.1	63.3	5.6
Hours Worked	11.2	6.5	+4.7	Increasing	34	19.5	72.2	8.3
Capital Expenditures	25.3	21.6	+3.7	Increasing	26	34.1	57.1	8.8

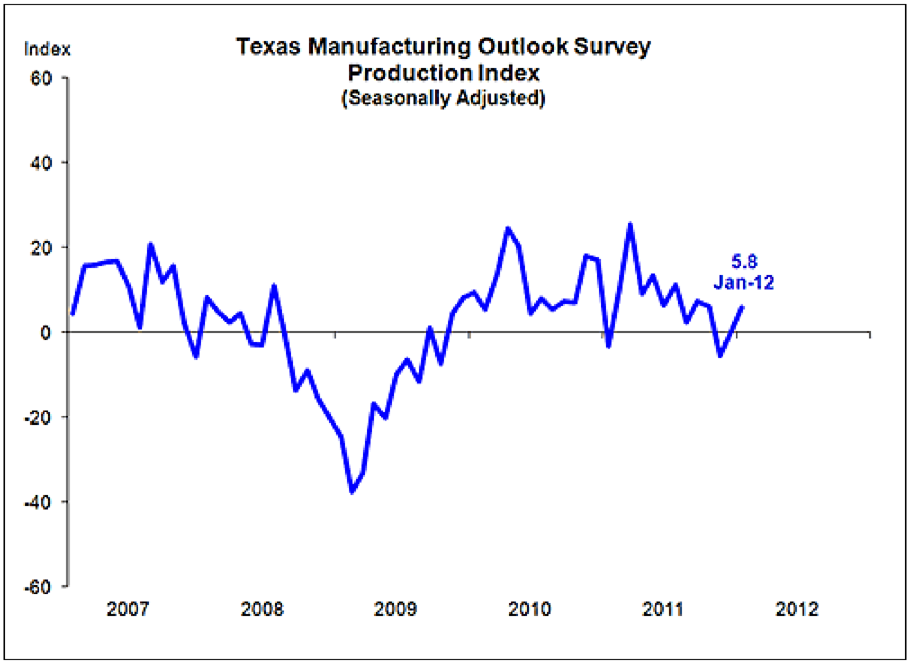
General Business Conditions
Six Months Ahead

Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	27.9	19.9	+8.0	Improving	33	32.0	64.0	4.1
General Business Activity	22.3	9.5	+12.8	Improving	4	28.4	65.5	6.1

*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.

Machinery Manufacturing

We expect a fairly strong refining and petrochemical maintenance schedule this year, which could benefit our business.

Primary Metal Manufacturing

Pent-up demand in the transportation industry (mainly trailers) is driving some of our growth. Demand is related to replacement of aging fleets.

Production for first quarter 2012 will be approximately the same as the 2011 monthly average.

Fabricated Metal Product Manufacturing

Mixed economic signals and crosscurrents of business activity are difficult to evaluate. Lower than anticipated bookings and production conflict with growing private sector industrial manufacturing demand. It seems to be a transitioning period from public sector to private sector, single-purpose construction. The strength or duration of this period is uncertain.

Demand in the industrial sector of nonresidential construction remains strong compared with last year, which reflected a decline in new construction starts (measured in square feet) for the fourth consecutive year. Manufacturing and energy-related markets reflect approximately 20 percent improvement in volume, while all other parts of the market are flat or worse.

Publicly funded projects have not improved, but private funds have improved, especially in the oil and gas industry.

With higher wages and rising prices being paid for steel, margins continue to be very skinny, and competition for new works is very aggressive.

Due to the extremely low price of natural gas, we are seeing an increase from certain customers looking to export gas. This is driving demand for capital spending.

We expect lower levels of production, capacity utilization and unfilled orders six months from now. This is because we have been absolutely buried with work since November and will be coming out of that heavy workload period at the end of January, when we will go back to a more normal workload level. Volume of shipments was extraordinarily high in January, as we worked off the unusual previous high level of activity. Wages and benefits costs went up in January as our new medical and workers compensation policies were renewed (all with increases in spite of lower claims histories). We expect our number of employees to be down six months from now, as we let go the temporary workers that we brought in to handle the high workloads since November. Quoting levels for capital equipment projects are at normal levels. Contract awards are a little slow, but not too far off of normal. Machine shop work is up, which typically occurs when customers decide they want to repair rather than replace existing equipment. Tooling orders are up from normal. The last quarter of 2011 was extremely busy (72-hour weeks), but work has now returned to more normal levels (40-hour weeks). Our expectations for the next six months are solid, with no significant increases or decreases in business levels. We are still looking for skilled design and manufacturing staff to be able to better deal with business surges and anticipated retirements.

Chemical Manufacturing

We are seeing some signs of increased business from activity in the shale formations and the Canadian oil sands production. Some of our products are used by service companies associated with these areas.

Plastics and Rubber Products Manufacturing

We are close to signing a substantial contract renewal, so we are optimistic for later in 2012. We are concerned that taxes will rise and blunt our ability to compete with other nations.

We believe that the slowness in January may be a function of customers whose business ramps up in the spring and is slower in January.

Transportation Equipment Manufacturing

As we expected, we are seeing strong growth in our business, reflecting increased year-over-year commercial aircraft production and retrofit activities by both domestic and international airlines.

Computer and Electronic Product Manufacturing

The second half of December finished very strong, and the strength carried into January. We believe we have been undershipping customer demand for two to three quarters, as customers have reduced inventory in response to weaker demand and economic uncertainty. We believe the recent strength is a sign that inventory reduction is near its end and not a general sign of economic strength.

Our company is diversifying into other markets to increase production shipments.

We are having a good month for a change, but incoming orders have dropped off again. Tremendous uncertainty continues to abound.

Food Manufacturing

High prices for commodities and diesel continue to hurt us.

We lost our largest customer (about 50 percent of production) in our major produced product line due to being underbid by European producers. Thus, capacity utilization and production are down as well as materials and finished goods stocks. However, in our distributed lines we are seeing greatly increased demand (more profitable sales than the lost customer) and insufficient supply. Overall, we feel 2012 will be a very tough year, but we expect it to be profitable.

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.
