



# Texas Manufacturing Outlook Survey

FEDERAL RESERVE BANK OF DALLAS

April 30, 2012

## TEXAS MANUFACTURING GROWTH SLOWS

Texas factory activity increased in April, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell from 11.1 to 5.6, suggesting growth continued but at a slower pace than last month.

Other measures of current manufacturing conditions stagnated in April. The capacity utilization index came in at 1.4, down markedly from 12.3 in March, with one-quarter of respondents noting decreases. Shipment volumes were flat in April after increasing for the previous three months; the shipments index fell from 8.6 to -0.8. The new orders index posted a near-zero reading for the second consecutive month.

Perceptions of broader economic conditions worsened in April. The general business activity index turned negative after three months of positive readings, falling from 10.8 to -3.4. Thirteen percent of firms noted improvement in the level of business activity, while 16 percent noted a worsening. The company outlook index also fell into negative territory, slipping to -4.5 after a reading of 9.5 last month.

Labor market indicators reflected sharply slower labor demand growth and shorter workweeks. Employment growth continued in April, but at a much slower pace than in previous months, with the index receding from 21.7 to 11.8. Nineteen percent of firms reported hiring new workers, while 7 percent reported layoffs. The hours worked index declined eight points to -4.6, its first negative reading in eight months.

Input prices and wages increased at a slower pace in April, and selling prices declined. The raw materials price index was 21.2, down from 27.7 in March. This was the index's lowest reading in five months and is well below last year's April reading of 57.1. The wages and benefits index moved down from 21 to 15.2. The finished goods price index was negative for a second month in a row and edged down to -5.4. Looking ahead, 45 percent of respondents anticipate further increases in raw materials prices over the next six months, while 24 percent expect higher finished goods prices.

Expectations regarding future business conditions were less optimistic in April. The index of future general business activity edged down from 19.1 to 15.7. The index of future company outlook came in at 14.4, down significantly from 26.2 in March. Other indexes for future manufacturing activity also decreased, although all remained in strong 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 Apr. 17-25, and 89 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:** May 29, 2012

**Business Indicators Relating to Facilities and Products in Texas**  
**Current**

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	5.6	11.1	-5.5	Increasing	5	29.7	46.1	24.1
Capacity Utilization	1.4	12.3	-10.9	Increasing	5	25.9	49.6	24.5
New Orders	-1.0	-0.3	-0.7	Decreasing	2	25.4	48.2	26.4
Growth Rate of Orders	-2.6	-0.8	-1.8	Decreasing	2	22.7	52.0	25.3
Unfilled Orders	-8.3	0.3	-8.6	Decreasing	1	11.8	68.1	20.1
Shipments	-0.8	8.6	-9.4	Decreasing	1	26.2	46.9	27.0
Delivery Time	-1.1	6.8	-7.9	Decreasing	1	7.9	83.1	9.0
Materials Inventories	7.3	-0.3	+7.6	Increasing	1	21.4	64.5	14.1
Finished Goods Inventories	-5.6	-8.0	+2.4	Decreasing	3	15.7	62.9	21.3
Prices Paid for Raw Materials	21.2	27.7	-6.5	Increasing	33	27.6	66.0	6.4
Prices Received for Finished Goods	-5.4	-1.3	-4.1	Decreasing	2	6.0	82.6	11.4
Wages and Benefits	15.2	21.0	-5.8	Increasing	29	18.3	78.6	3.1
Employment	11.8	21.7	-9.9	Increasing	18	19.3	73.2	7.5
Hours Worked	-4.6	2.9	-7.5	Decreasing	1	14.6	66.2	19.2
Capital Expenditures	6.1	6.3	-0.2	Increasing	7	15.7	74.7	9.6

**General Business Conditions**  
**Current**

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-4.5	9.5	-14.0	Worsening	1	10.6	74.3	15.1
General Business Activity	-3.4	10.8	-14.2	Worsening	1	12.8	71.0	16.2

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

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	38.5	44.0	-5.5	Increasing	38	46.7	45.1	8.2
Capacity Utilization	34.9	41.8	-6.9	Increasing	38	43.5	47.8	8.6
New Orders	31.4	44.0	-12.6	Increasing	38	44.4	42.5	13.0
Growth Rate of Orders	21.1	37.2	-16.1	Increasing	38	33.7	53.7	12.6
Unfilled Orders	4.6	15.1	-10.5	Increasing	10	14.9	74.7	10.3
Shipments	34.7	42.8	-8.1	Increasing	38	45.9	42.9	11.2
Delivery Time	-2.3	1.2	-3.5	Decreasing	1	9.2	79.3	11.5
Materials Inventories	5.8	11.8	-6.0	Increasing	6	18.4	69.0	12.6
Finished Goods Inventories	-2.3	7.0	-9.3	Decreasing	1	10.5	76.7	12.8
Prices Paid for Raw Materials	40.2	55.8	-15.6	Increasing	37	44.8	50.6	4.6
Prices Received for Finished Goods	16.1	29.1	-13.0	Increasing	21	24.1	67.8	8.0
Wages and Benefits	36.4	40.3	-3.9	Increasing	95	38.0	60.4	1.6
Employment	19.8	36.9	-17.1	Increasing	32	29.1	61.6	9.3
Hours Worked	9.8	9.6	+0.2	Increasing	37	18.4	72.9	8.6
Capital Expenditures	21.0	25.6	-4.6	Increasing	29	29.1	62.8	8.1

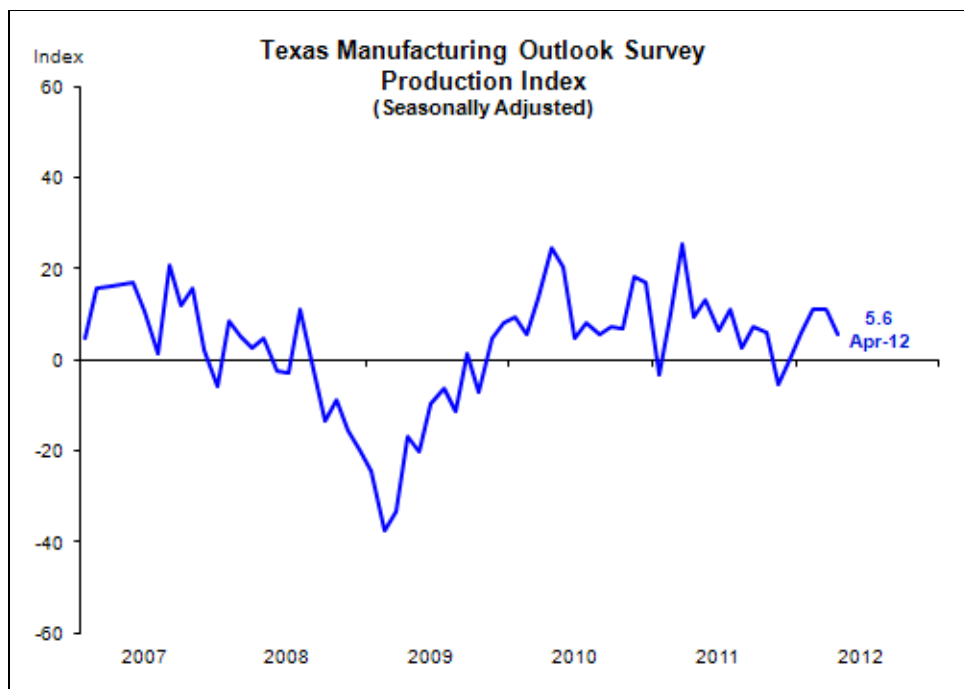
**General Business Conditions**  
**Six Months Ahead**

Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	14.4	26.2	-11.8	Improving	36	26.9	60.6	12.5
General Business Activity	15.7	19.1	-3.4	Improving	7	25.9	63.9	10.2

\*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 seeing a slowdown in the release of new contracts. There are still a number of requests for quotes. On the customer side, we are seeing large companies taking longer on payments for completed work.

The general level of activity associated with low natural gas prices is increasing from capital expansion projects to increased spending in the petrochemical facilities.

In April our company added a second shift to eliminate the need for overtime, which was affecting profitability. Our company had record revenues in the first quarter and the month of March. We anticipate growth of over 25 percent for 2012 versus 2011.

### Machinery Manufacturing

We are seeing pretty steady demand with a positive tone in our segment. There is still a lot of uncertainty relating to the general economy—that could trend either way from here.

Customers are generally seeing modest growth versus basically being flat last year. A major threat to our customers staying on a positive growth track is the continued rise in gas/diesel prices. If there is another spike in gas/diesel costs, our customer base expansion will come to a quick halt.

### Chemical Manufacturing

We have seen a slight slowdown this month, but last month was a record month. The rig count will be a driver in the future, and as of now it is holding up.

We will be seeing seasonal increases soon. They appear to be doing as is normal.

### Plastics and Rubber Products Manufacturing

We are most encouraged by the gradual ramping up this year. We were a bit slow in February and March but are busier in April with a good backlog.

Retail is very constipated.

### Nonmetallic Mineral Product Manufacturing

Revenues declined slightly in April as a result of a declining order volume. Some pull forward of business may have occurred in February due to the mild winter weather conditions. We feel that there is continued weakness in housing and that this weakness will continue as a result of the current economic conditions. Weak economic growth is

expected to continue due to the uncertainty of government policy. The delay in investment by business is expected to continue until after this uncertainty is removed following the November presidential election.

After a stronger than normal January and February, weakness/correction in March seems to have spilled over into April. There is still much uncertainty about the rest of 2012.

### **Food Manufacturing**

The continued increase in governmental regulations and paperwork becomes more of a burden each year.

### **Beverage and Tobacco Product Manufacturing**

We may be losing our best supplier, which would cause cost and price increases resulting in volume decreases.

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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/microsites/research/surveys/tmos/](http://www.dallasfed.org/microsites/research/surveys/tmos/).

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