



# Texas Manufacturing Outlook Survey

DALLAS **FED**

September 24, 2012

## TEXAS MANUFACTURING GROWTH PICKS UP

Texas factory activity increased in September, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 6.4 to 10, suggesting stronger output growth.

Other measures of current manufacturing activity also indicated growth in September. The new orders index rose to 5.3 following a reading of zero last month, suggesting a pickup in demand. The capacity utilization index advanced from 1.7 to 9.3, largely due to fewer manufacturers noting a decrease. The shipments index rose to 4.5, bouncing back into positive territory after falling to -2.3 in August.

Indexes reflecting broader business conditions were mixed. The general business activity index remained slightly negative but edged up from -1.6 to -0.9. The company outlook index was positive for the fifth month in a row but fell slightly to 2.4 from a reading of 4.1 in August.

Labor market indicators reflected slower labor demand growth and slightly longer workweeks. The employment index remained positive but fell to 5.9, its lowest reading in more than a year. Sixteen percent of firms reported hiring new workers, while 10 percent reported layoffs. The hours worked index moved up from -0.9 to 2.8.

Price pressures were mixed in September. The raw materials price index jumped nearly 12 points to 22.5, indicating a sharp rise in input costs. The finished goods price index held steady at -1.3, continuing to suggest a slight decline in selling prices. The wages and benefits index edged up from 13.5 to 15.4, although the majority of manufacturers continued to note no change in compensation costs. Looking ahead, 52 percent of respondents anticipate further increases in raw materials prices over the next six months, while 30 percent expect higher finished goods prices.

Expectations regarding future business conditions were more optimistic in September. The index of future general business activity rose sharply from -5.1 to 5.5, registering its first positive reading in three months. The index of future company outlook increased slightly, coming in at 9.2. Indexes for future manufacturing activity moved down slightly from their August levels, but 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 Sept. 11-19, and 97 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:** October 29, 2012

**Business Indicators Relating to Facilities and Products in Texas  
Current (versus previous month)**

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	10.0	6.4	+3.6	Increasing	10	27.1	55.8	17.1
Capacity Utilization	9.3	1.7	+7.6	Increasing	10	24.7	59.9	15.4
New Orders	5.3	0.2	+5.1	Increasing	4	26.3	52.7	21.0
Growth Rate of Orders	-0.4	-8.7	+8.3	Decreasing	3	18.1	63.4	18.5
Unfilled Orders	-6.9	-9.2	+2.3	Decreasing	3	13.3	66.5	20.2
Shipments	4.5	-2.3	+6.8	Increasing	1	28.1	48.4	23.6
Delivery Time	-8.2	-9.9	+1.7	Decreasing	2	6.2	79.4	14.4
Materials Inventories	0.2	8.9	-8.7	Increasing	2	17.7	64.8	17.5
Finished Goods Inventories	-3.1	6.7	-9.8	Decreasing	1	10.3	76.3	13.4
Prices Paid for Raw Materials	22.5	10.9	+11.6	Increasing	38	27.8	66.9	5.3
Prices Received for Finished Goods	-1.3	-1.6	+0.3	Decreasing	7	12.4	73.9	13.7
Wages and Benefits	15.4	13.5	+1.9	Increasing	34	16.5	82.4	1.1
Employment	5.9	14.2	-8.3	Increasing	23	16.0	73.9	10.1
Hours Worked	2.8	-0.9	+3.7	Increasing	1	16.9	69.0	14.1
Capital Expenditures	8.6	3.2	+5.4	Increasing	2	16.2	76.2	7.6

**General Business Conditions  
Current (versus previous month)**

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	2.4	4.1	-1.7	Improving	5	20.2	62.0	17.8
General Business Activity	-0.9	-1.6	+0.7	Worsening	3	20.0	59.1	20.9

**Business Indicators Relating to Facilities and Products in Texas  
Future (six months ahead)**

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	26.4	28.6	-2.2	Increasing	43	40.1	46.2	13.7
Capacity Utilization	24.5	27.5	-3.0	Increasing	43	37.5	49.4	13.0
New Orders	25.3	27.1	-1.8	Increasing	43	39.4	46.5	14.1
Growth Rate of Orders	4.2	15.3	-11.1	Increasing	43	24.5	55.2	20.3
Unfilled Orders	-6.5	-7.9	+1.4	Decreasing	4	8.6	76.3	15.1
Shipments	26.9	33.8	-6.9	Increasing	43	42.3	42.3	15.4
Delivery Time	-5.4	-11.3	+5.9	Decreasing	6	8.6	77.4	14.0
Materials Inventories	-1.1	-2.3	+1.2	Decreasing	3	18.3	62.4	19.4
Finished Goods Inventories	-6.5	-3.5	-3.0	Decreasing	6	12.9	67.7	19.4
Prices Paid for Raw Materials	47.3	35.7	+11.6	Increasing	42	51.6	44.1	4.3
Prices Received for Finished Goods	21.7	21.6	+0.1	Increasing	3	30.4	60.9	8.7
Wages and Benefits	34.4	35.8	-1.4	Increasing	100	36.3	61.8	1.9
Employment	15.1	13.8	+1.3	Increasing	37	31.2	52.7	16.1
Hours Worked	0.2	0.7	-0.5	Increasing	42	16.3	67.6	16.1
Capital Expenditures	20.6	17.3	+3.3	Increasing	34	31.5	57.6	10.9

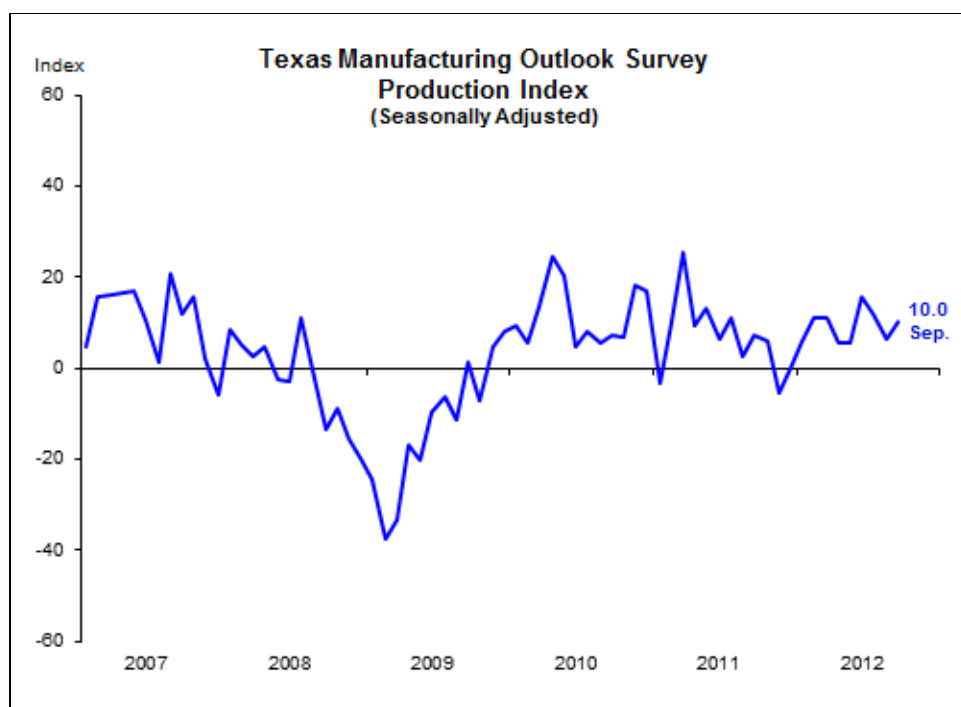
**General Business Conditions  
Future (six months ahead)**

Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	9.2	6.2	+3.0	Improving	41	24.7	59.8	15.5
General Business Activity	5.5	-5.1	+10.6	Improving	1	23.3	58.9	17.8

\*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.

### Chemical Manufacturing

- > Sales this year are running 10 percent above last year at this time, and we expect this year to be at least 10 percent better than last year. We are expecting an uptick in business for next year. Our company has started a program to replace one of its manufacturing facilities with a new plant at twice the capacity and expects the number of employees to remain the same.
- > The outlook six months from now will depend on the outcome of the elections.
- > Although the rig count is trending down, we have been able to bring new customers online; therefore, we are seeing an increase in business. Our existing customer base is telling us that they will be increasing orders going into the end of the year and the first part of 2013. Thus, our six-month forward outlook is looking quite positive. We also purchased a new building that is adjacent to our current facility that we will be expanding into.

### Plastics and Rubber Products Manufacturing

- > We had a great first six months, but it has slowed a bit in the last three months. We are encouraged that work is coming back from China to some of the smaller manufacturers in North Texas.
- > We are having a challenge finding growth opportunities; we may have to consider acquisitions of competitors.

### Nonmetallic Mineral Product Manufacturing

- > We are seeing some improvement in the housing sector of the economy and are cautiously optimistic about a continued improvement in the future. Our expectation is that this improvement will be slow.

### Primary Metal Manufacturing

- > We have had eight weeks of steadily decreasing order rates.

### Fabricated Metal Manufacturing

- > Our business would be flat at best were it not for the relatively strong demand in the industrial sector (manufacturing and energy). The market is still very weak.
- > Our company has benefited from investments in new product development and a recovering housing market. The significant uncertainties related to the U.S. government's tax changes, debt, etc. appears to be front and center on our customers' minds.
- > Although there seems to be a lot of announcements of new projects, there has been a slowdown in the awarding of contracts from owners and contractors. We have seen a lot of request for quotation activity and a slight increase in awards from August into September. This activity has mostly been smaller components of larger projects or maintenance-related work.
- > A lot will depend on the presidential election.

### Machinery Manufacturing

- > A seasonal increase in business has returned this year. Three of our largest customers are expanding much faster than the rest of

the industry.

- > In the short term we are watching the International Longshoremen's Association's negotiations for supply chain reasons. Should they not resolve their issues, it could impact production and hence revenue dollars shipped.
- > The midstream and downstream energy sector (our primary customer base) remains steady with a positive outlook. We worry about macro events (e.g., election, U.S. budget/deficit issues) negatively impacting the outlook. There is a lot of uncertainty.

### **Furniture and Related Product Manufacturing**

- > Our outlook depends on the election.

### **Food Manufacturing**

- > We are seeing more mediocrity, with no sign of an upside.
- > Raw milk costs are steadily rising as the U.S. Department of Agriculture makes adjustments to the dairy farmers' minimum pricing. All of our other supplies related to gas and oil composition, such as plastics, are also rising in cost. As prices rise for finished dairy products, we anticipate falling volumes since milk cost versus volume has a direct elasticity connection.
- > A raw milk price increase is expected. The general economy is projected to be not as good.

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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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