



Texas Manufacturing Outlook Survey

DALLAS**FED**

January 27, 2014

TEXAS MANUFACTURING CONTINUES TO EXPAND, DEMAND RISES SHARPLY

What's New This Month

This month's survey data include annual seasonal factor 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/microsites/research/surveys/tmos/seasonal.cfm.

Texas factory activity increased for the ninth month in a row in January, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, edged up from 6 to 7.1, indicating output grew at a slightly stronger pace than in December.

Other measures of current manufacturing activity also reflected a pickup in growth. The new orders index surged from 1.3 in December to 14.4 in January, reaching a seven-month high and suggesting a sharp rise in demand. The shipments index also rebounded strongly, rising from near zero to 9.2. Growth in capacity utilization held steady, with the index remaining at 8.2.

Perceptions of broader business conditions continued to be optimistic in January. The general business activity index posted its eighth consecutive positive reading and was nearly unchanged at a reading of 3.8. Similarly, the company outlook index posted its eighth positive reading in a row and held steady at 15.9.

Labor market indicators reflected increased hiring and longer workweeks. The January employment index edged up for a second month, rising to 8.6. Eighteen percent of firms reported net hiring compared with 10 percent reporting net layoffs. The hours worked index returned to positive territory, rising to 3.4 after dipping to -1.1 in December.

Upward pressure on prices and wages continued in January. The raw materials price index fell to 26.8 but remained high relative to what it was most of last year. The finished goods price index rose to a four-month high of 11. Looking ahead, 43 percent of respondents anticipate further increases in raw materials prices over the next six months, while 41 percent expect higher finished goods prices. Compensation costs increased at about the same above-average pace this month as in December, with the wages and benefits index coming in at 21.6 after a reading of 22.2 last month.

Expectations regarding future business conditions remained optimistic in January. The index of future general business activity edged down but posted a still-robust reading of 22.3. The index of future company outlook rose 9 points to 33.5, reaching its highest level in three years. Indexes for future manufacturing activity showed mixed movements but remained in solidly 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 Jan. 14–22, and 99 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.

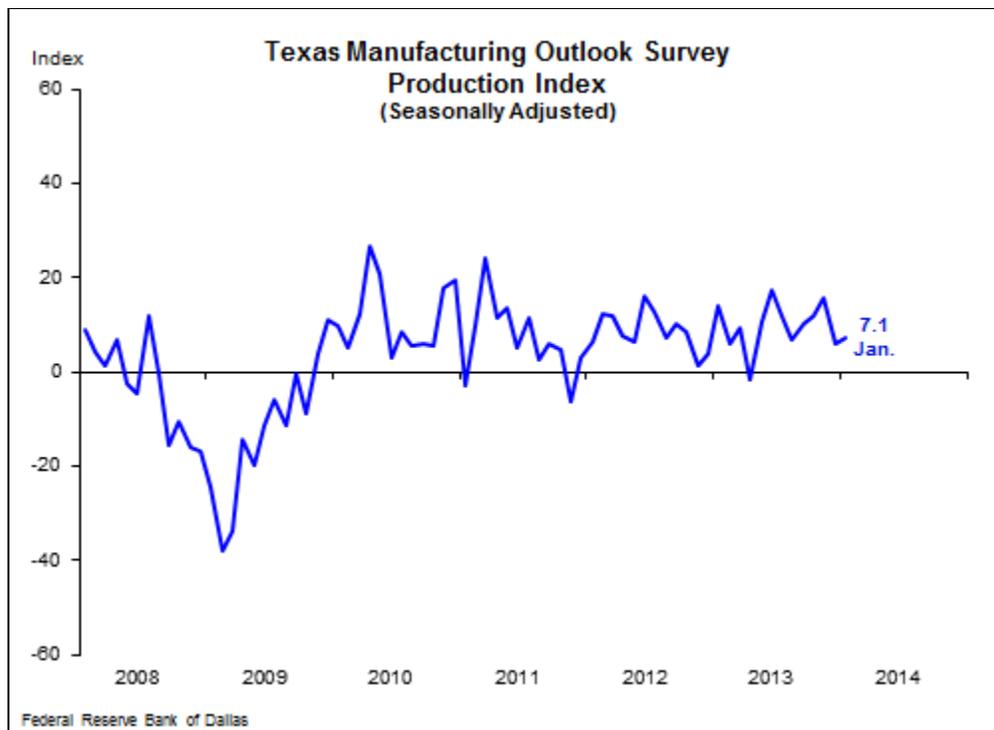
Next release: February 24, 2014

Business Indicators Relating to Facilities and Products in Texas Current (versus previous month)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	7.1	6.0	+1.1	Increasing	9	27.7	51.6	20.6
Capacity Utilization	8.2	8.6	-0.4	Increasing	14	25.8	56.6	17.6
New Orders	14.4	1.3	+13.1	Increasing	9	31.7	51.0	17.3
Growth Rate of Orders	6.4	-1.0	+7.4	Increasing	1	21.9	62.6	15.5
Unfilled Orders	-1.3	-4.0	+2.7	Decreasing	4	14.3	70.1	15.6
Shipments	9.2	0.4	+8.8	Increasing	9	27.9	53.4	18.7
Delivery Time	-5.1	-7.7	+2.6	Decreasing	7	7.7	79.5	12.8
Materials Inventories	2.6	1.3	+1.3	Increasing	3	17.7	67.1	15.1
Finished Goods Inventories	5.1	3.4	+1.7	Increasing	4	17.2	70.7	12.1
Prices Paid for Raw Materials	26.8	31.2	-4.4	Increasing	54	30.1	66.6	3.3
Prices Received for Finished Goods	11.0	6.1	+4.9	Increasing	6	18.0	75.0	7.0
Wages and Benefits	21.6	22.2	-0.6	Increasing	54	22.5	76.6	0.9
Employment	8.6	7.4	+1.2	Increasing	8	18.3	72.0	9.7
Hours Worked	3.4	-1.1	+4.5	Increasing	1	19.0	65.4	15.6
Capital Expenditures	18.9	13.3	+5.6	Increasing	28	22.8	73.3	3.9
General Business Conditions Current (versus previous month)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.9	16.3	-0.4	Improving	8	25.4	65.0	9.5
General Business Activity	3.8	3.7	+0.1	Improving	8	20.2	63.4	16.4
Business Indicators Relating to Facilities and Products in Texas Future (six months ahead)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	49.6	53.6	-4.0	Increasing	59	57.3	35.0	7.7
Capacity Utilization	48.0	45.9	+2.1	Increasing	59	53.4	41.3	5.4
New Orders	47.8	48.1	-0.3	Increasing	59	55.8	36.2	8.0
Growth Rate of Orders	38.5	31.3	+7.2	Increasing	59	47.9	42.7	9.4
Unfilled Orders	13.8	10.9	+2.9	Increasing	6	19.7	74.3	5.9
Shipments	45.4	42.9	+2.5	Increasing	59	52.8	39.8	7.4
Delivery Time	3.9	-4.7	+8.6	Increasing	1	15.0	73.9	11.1
Materials Inventories	14.0	5.9	+8.1	Increasing	6	23.7	66.7	9.7
Finished Goods Inventories	0.0	6.1	-6.1	Unchanged	1	11.8	76.3	11.8
Prices Paid for Raw Materials	39.6	42.2	-2.6	Increasing	58	42.9	53.8	3.3
Prices Received for Finished Goods	38.9	37.8	+1.1	Increasing	19	41.1	56.7	2.2
Wages and Benefits	50.4	47.7	+2.7	Increasing	116	51.9	46.6	1.5
Employment	38.5	30.5	+8.0	Increasing	53	47.3	44.0	8.8
Hours Worked	17.1	26.3	-9.2	Increasing	8	21.1	75.0	4.0
Capital Expenditures	24.2	30.1	-5.9	Increasing	50	30.8	62.6	6.6
General Business Conditions Future (six months ahead)								
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	33.5	24.6	+8.9	Improving	58	42.8	47.9	9.3
General Business Activity	22.3	24.8	-2.5	Improving	8	31.8	58.7	9.5

*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

- > Growth in auto sales, lower energy prices and the relatively low value of the U.S. dollar are leading many tire manufacturing companies to move production to the U.S., displacing their own imported tire shipments. We are hearing that there are more profits to be made by producing and selling in the U.S. than exporting to the U.S.
- > Our goal is to reduce the use of temporary workers during 2014 to avoid rising health care costs.

Plastics and Rubber Product Manufacturing

- > Our main challenge is finding skilled toolmakers to hire so that we do not have to source tool building in China, which is becoming more and more costly.

Nonmetallic Mineral Product Manufacturing

- > Our expectation is that the general economy will improve in 2014 and in doing so, the housing sector will continue to improve given the current tight housing inventory condition and the pent-up demand that was created during the recession.

Primary Metal Manufacturing

- > January is always a busy production month after customers reduce their inventory for year-end.

Fabricated Metal Manufacturing

- > Weather has caused a dampening effect on the maintenance portion of our business.
- > January has remained stagnant, especially within the information and communications technologies sector, possibly due to extreme winter conditions. Our long-term outlook remains optimistic, but there is concern for the lower-than-expected first-quarter forecast.
- > We believe we are experiencing a modest recovery in demand for new nonresidential starts. However, December was very weak, driven by the holiday schedule and poor weather.
- > We recently completed the open enrollment period for our health insurance benefits. The feedback we received has been very positive, even with an increase to the associate. We believe the Affordable Care Act allows the associate to shop and compare, and associates now realize what a great set of benefits our company offers for the cost at which the associate pays. Our overall cost rose 18 percent for our renewal, and we passed along just slightly less than half to the associates.
- > We are extremely concerned with the increasing costs of compliance and regulations that are adding to our overhead and therefore reducing our margins. We are trying to pass the cost to our customers, but that can be difficult in a "quoting for every job" environment. We do not see an end in sight for the regulations coming from the local, state and federal government.

- > Our business in the fourth quarter was very slow. While some of this is seasonal, we were significantly below expectations in the fourth quarter. So far in 2014, we are booking orders with a significant increase over the fourth quarter, which is seasonally expected.
- > We are seeing an increase in quote requests, but we have not had an increase in orders yet. Raw materials prices continue to increase.

Machinery Manufacturing

- > The costs of employee wages and benefits, raw materials and purchased components keep rising, but the price of finished goods continues to be very difficult to increase. When will companies be able to pass through these costs?
- > We are concerned with the low employment growth in the U.S.; 74,000 new jobs in the last month is just too low to help the U.S. economy.
- > We expect to begin benefitting from the new facility construction projects (related to the new low-cost natural gas and gas liquids production) along the Gulf Coast beginning late summer. This should be a several-year-long tail wind.

Computer and Electronic Product Manufacturing

- > January through June are normally our busiest months.
- > We believe it is time to provide a stimulus to the manufacturing sector and small business, where incentives would allow business executives to realize the benefit of bringing manufacturing to the United States.
- > We anticipate a major company restructure during 2014 that will hopefully create efficiencies and increase production.

Transportation Equipment Manufacturing

- > Our optimistic outlook is based on a major ramp up of our advertising and marketing expense. We increased our marketing budget by 40 percent for 2014 in order to break out of the malaise facing our business for the last five years, which have remained relatively flat. We have 47 employees, 17 of whom are direct labor. We are adding six to our direct labor workforce in anticipation of increased demand.

Food Manufacturing

- > At this time, we are strongly considering a general price increase for all of our products. Our raw ingredient prices are quite high by historical standards, and we don't see them coming down anytime soon. The new farm bill is a big unknown. If the proposed "supply management" for dairy is included, we will have high prices and insufficient supply—the worst of both worlds and a situation that only government intervention can achieve.

Beverage and Tobacco Product Manufacturing

- > Last year we had the worst fourth quarter ever. We are in a normally stable business, but we were down 10 percent year over year for the fourth quarter. It is too early to read for January, but we are going to need to see a solid uptick in sales before we believe the trend is broken. We can live with or work around 1–2 percent decreases, but 10 percent long-term decreases require drastic changes. We don't know if we are dealing with a weakened consumer and shift of oilfield service jobs from our territory due to low natural gas prices, or if we are selling buggy whips.

Miscellaneous Manufacturing

- > We are worried about health care and the minimum wage.

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/microsites/research/surveys/tmos/.

