



The Texas Manufacturing Outlook Survey: A Tool for Understanding the Economy

In May 2004, the Dallas Fed asked Texas' top manufacturers to help it better understand the economy. Each month, firms respond to an electronic survey about changes in a variety of indicators, including production, new orders, prices and general business conditions.

Roughly 80 manufacturers regularly participate, with respondents coming from all sectors of manufacturing. No one industry dominates the survey.

Each question asks participants whether certain items of interest have increased, decreased or remained unchanged. Answers cover changes over the previous month and expectations for six months into the future.

For each question, survey responses are used to generate an index. Each index is calculated by subtracting the percentage reporting a decrease from the percentage reporting an increase. If all firms report an increase in activity, an index will register 100; if all report a decrease, an index will register -100. An index will be zero when the number report-

ing an increase equals the number reporting a decrease.

There are not sufficient data to seasonally adjust the index, but survey respondents are asked to adjust their responses for normal seasonal variations. There seems to be no obvious seasonal pattern. The Dallas Fed will further examine the issue of seasonality as soon as sufficient data are available.

At the survey's inception, results pointed to an economy expanding strongly, with many indexes high or rising through 2004 and 2005. Several of the indexes began to decelerate along with the state's cooling economy in mid-2006 but rebounded in January (see charts below). Index movements over the last six months suggest continued expansion of the manufacturing sector but at a slower pace.

To the extent conclusions can be drawn with a limited sample size of just over 30 months, preliminary statistical analysis suggests the manufacturing survey may have some predictive power for understanding both the U.S. and Texas economies.

The employment diffusion index appears to help explain changes in U.S. and Texas employment. The general business activity index seems to be useful in understanding movements in U.S. and Texas industrial production. The future business activity index also appears to have some predictive power for understanding movements in U.S. industrial production over the next two months.

The Dallas Fed will continue to closely monitor the Texas Manufacturing Outlook Survey's monthly results and their ability to predict changes in the economy.

—Frank Berger, Tom Fomby, Fiona Sigalla, Mine Yücel

Note

The Texas Manufacturing Outlook Survey is released on the last Monday of the month, and results are posted on the Dallas Fed web site. An electronic mailing list is available to notify recipients each month when new data are released. To subscribe, go to www.dallasfed.org and click on "E-mail Alerts" under "Tools."

