

TEXAS MANUFACTURING ACTIVITY EXPANDS AGAIN

January 25, 2010

What's New This Month

This month's survey data include annual seasonal revisions. In January each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Manufacturing Outlook Survey by recalculating the seasonal adjustments. Recalculating the seasonal factors for the indexes that exhibit seasonality has resulted in slight revisions in the levels of these indexes. The Dallas Fed has been publishing seasonally adjusted data for the Texas Manufacturing Outlook Survey since August 2009.

Texas factory activity expanded in January, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key indicator of state manufacturing conditions, climbed further into positive territory as more producers reported either increased or unchanged activity from December.

The production barometer has signaled increases in factory activity in the last three months, suggesting a recovery is under way for an industry that has endured a 14-month decline, from September 2008 through October 2009.

In January, signs of improving manufacturing activity also came from several of the survey's other indicators. The new orders index posted a large improvement as the share of respondents noting increases in orders rose from 25.6 percent to 34.9 percent. Indexes for shipments and growth rate of orders strengthened, with the share of respondents reporting increases exceeding those reporting declines by nearly 2 to 1. Capacity utilization also increased.

The business activity and company outlook indexes continued to improve in January, reaching their highest levels since mid-2007.

The index for employment remained negative but was little changed from December as 73.1 percent of employers reported no staffing changes. The average workweek index turned positive for the first time since July 2008 as the share of firms reporting declines in work hours fell substantially. The index for wages and benefits rose, but overall wage pressures remained minimal, with 83.3 percent of respondents noting no change in compensation costs.

January's survey found continued upward pressure on raw materials prices. Thirty-three percent of producers reported rising input costs. The downward price pressures on finished goods that had been present throughout 2009 subsided in January, with the index coming in close to zero. Expectations of future price increases also rose. The future raw materials price index increased again in January, with 57.3 percent of firms foreseeing further increases in prices six months from now and the rest expecting no change. The future finished goods price index was also positive and rose further, suggesting that a sizable share of firms expect higher selling prices in the next six months.

Firms continue to be optimistic about their six-month outlook. The indexes for future production, capacity utilization, new orders and shipments strengthened further in January. The future company outlook and business activity indexes remained positive, with 39.3 percent of producers reporting an improved outlook and nearly a third expecting better business conditions.

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.12-20, and 90 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.

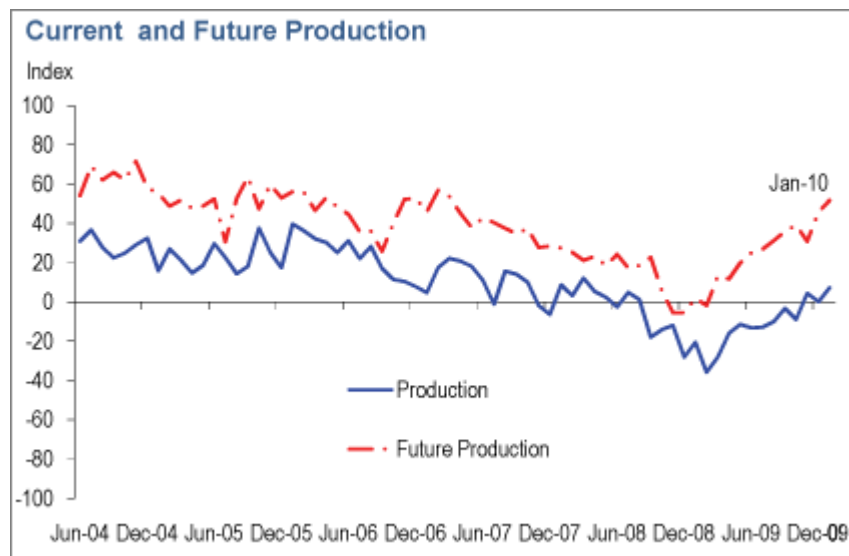
Survey responses are used to calculate an index for each question. Each index is calculated by subtracting the percentage reporting a decrease from the percentage reporting an increase. When all firms report that activity has increased, an index will register 100. An index will register -100 when all firms report a decrease. An index will be zero when the number of firms reporting an increase or decrease is equal. Where appropriate, the indexes are seasonally adjusted.

Next release: February 22, 2010

Company Business Indicators Relating to Facilities and Products in Texas											
	January vs. December						Six months from now				
	Jan Index	% Increase	No Change	% Decrease	Dec Index		Jan Index	% Increase	No Change	% Decrease	Dec Index
Production	7.4	23.3	60.8	15.9	0.1		51.8	53.9	44.0	2.1	45.8
Capacity utilization	6.3	20.7	64.9	14.4	5.8		45.3	48.9	47.5	3.6	41.2
Volume of new orders	26.8	34.9	57.0	8.1	4.3		51.7	55.1	41.6	3.4	50.5
Growth rate of orders	11.4	22.5	66.4	11.1	4.3		35.1	39.9	55.3	4.8	35.4
Unfilled orders	2.3	14.8	72.7	12.5	-1.3		9.0	15.7	77.5	6.7	14.3
Volume of shipments	11.4	25.0	61.4	13.6	-0.8		50.5	55.0	40.5	4.5	43.8
Delivery time	-2.2	7.8	82.2	10.0	-3.2		-2.2	8.0	81.8	10.2	0.0
Materials inventories	-10.0	12.2	65.6	22.2	-21.5		4.5	19.1	66.3	14.6	6.6
Finished goods inventories	-18.9	7.8	65.6	26.7	-19.8		-6.7	7.9	77.5	14.6	-5.5
Prices paid for raw materials	32.6	32.8	67.0	0.2	28.2		57.3	57.3	42.7	0.0	53.8
Prices received for finished goods	0.1	11.2	77.7	11.1	-2.6		20.7	28.7	63.2	8.0	16.5
Wages and benefits	7.8	12.2	83.3	4.4	1.1		27.1	28.0	71.1	0.9	26.6
Employment	-4.5	11.2	73.1	15.7	-4.0		21.4	28.1	65.2	6.7	26.4
Average employee workweek	1.1	14.4	72.2	13.3	-9.7		23.6	28.1	67.4	4.5	25.5
Capital expenditures	-7.9	6.7	78.7	14.6	-15.4		18.0	24.7	68.5	6.7	11.3

General Business Conditions											
	January vs. December						Six months from now				
	Jan Index	% Improved	Remained the Same	% Worsened	Dec Index		Jan Index	% Improved	Remained the Same	% Worsened	Dec Index
How has the outlook for your company changed?	11.5	25.9	59.7	14.4	5.1		30.4	39.3	51.8	8.9	30.3
What is your evaluation of the level of general business activity?	8.3	25.7	56.9	17.4	3.2		21.4	32.6	56.2	11.2	31.9

Data have been seasonally adjusted as necessary.



COMMENTS FROM SURVEY RESPONDENTS

These comments were selected from respondents' completed surveys and have been edited for publication.

Wood Product Manufacturing

The homebuyer tax credit will continue to have a meaningful positive impact on our volumes until it ends. We will suffer during the months following its expiration, as it is pulling demand forward and significantly increasing the number of current potential buyers.

Chemical Manufacturing

We are seeing our traditional business coming back as well as continued growth in the new technology that has moved from research and development to production.

We believe speculation in commodities will contribute to rising energy prices and will have a dampening effect on the economic recovery. More money in the gas tank means less money for consumer spending.

Plastics and Rubber Products Manufacturing

The business level is still 25–30 percent under the so-called normal.

Our customers continue to hold off on placing new orders, instead awaiting government stimulus dollars.

January sales are trending higher than historical norms. Weather conditions may be the cause, leading to more in-home meals being prepared.

Fabricated Metal Product Manufacturing

We continue to see stress on margins and tight cash flow. U.S. manufacturing opportunities continue to improve in sectors such as telecom and defense. The government stimulus package has not filtered down to our level. The proposed increase in SBA loans would greatly help us take advantage of opportunities and accelerate the creation of additional manufacturing jobs.

We are seeing a slight increase in orders.

Furniture and Related Product Manufacturing

Raw material pricing pressure and low volume has caused us to redesign our entire line and bring out most items with more features but at the same or slightly higher selling prices. If retailers buy into this, then the ultimate consumer will benefit. The unknown in this equation is inflation because consumers are not willing to pay more at this time. If the economy double dips, the consequences will be devastating. The uptick in new orders is due to the new products.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Laila Assanie at laila.assanie@dal.frb.org.

The Business Outlook Survey can be found online at www.dallasfed.org/data/outlook.
