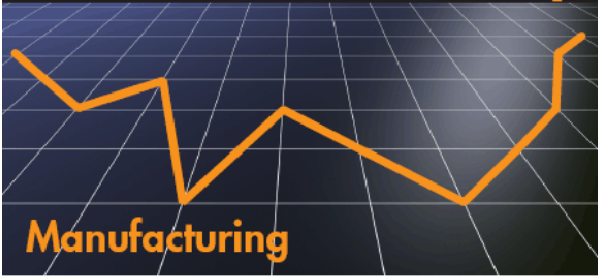


Business Outlook Survey



Federal Reserve Bank of Dallas

TEXAS MANUFACTURING ACTIVITY EXPANDS AT A SLOWER PACE

February 22, 2010

Texas factory activity continued to expand in February, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key indicator of state manufacturing conditions, edged downward from its January reading but remained positive, suggesting slower growth in output.

Several indicators of current factory activity turned negative in February, reversing recent months' improvements. The new orders index fell from 27 to -6, with the share of respondents reporting decreases more than tripling from January. With new orders falling, indexes for shipments and growth rate of orders also retreated, turning slightly negative. Capacity utilization was unchanged from January as the index came in at zero.

The business activity and company outlook indexes slid below zero due to an increase in the share of manufacturers reporting deteriorating conditions.

The index for employment remained negative but was little changed from January as most respondents held employment levels steady. The wages and benefits index was positive for the third consecutive month.

Upward pressure on raw materials prices continued in February, with 41 percent of producers reporting rising input costs. The finished goods price index remained close to zero, suggesting minimal pressures on selling prices. Expectations of upward price pressures over the next six months moderated in February as both the future raw materials price and the future finished goods price indexes edged downward.

Several future activity indexes weakened in February, but they remained positive, indicating firms are still optimistic about the six-month outlook. Forty-seven percent of executives continued to expect increases in production, capacity utilization and growth rate of orders six months from now, while one-third reported an improved six-month company outlook. The future business activity index was essentially unchanged in February.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Feb. 9-17, and 91 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: March 29, 2010

Company Business Indicators Relating to Facilities and Products in Texas

Current								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	2.3	7.4	-5.1	Increasing	4	26.6	49.1	24.3
Capacity utilization	0.0	6.3	-6.3	Unchanged	1	25.5	49.0	25.5
Volume of new orders	-6.0	26.8	-32.8	Decreasing	1	23.8	46.4	29.8
Growth rate of orders	-3.3	11.4	-14.7	Decreasing	1	22.9	50.9	26.2
Unfilled orders	-2.4	2.3	-4.7	Decreasing	1	14.8	68.0	17.2
Volume of shipments	-1.1	11.4	-12.5	Decreasing	1	25.4	48.1	26.5
Delivery time	3.3	-2.2	+5.5	Increasing	1	7.7	87.9	4.4
Materials inventories	-9.9	-10.0	+0.1	Decreasing	18	13.2	63.7	23.1
Finished goods inventories	-6.6	-18.9	+12.3	Decreasing	21	14.3	64.8	20.9
Prices paid for raw materials	40.9	32.6	+8.3	Increasing	7	41.1	58.7	0.2
Prices received for finished goods	-0.8	0.1	-0.9	Decreasing	1	13.3	72.6	14.1
Wages and benefits	6.6	7.8	-1.2	Increasing	3	11.0	84.6	4.4
Employment	-5.2	-4.5	-0.7	Decreasing	19	9.7	75.4	14.9
Average employee workweek	-5.5	1.1	-6.6	Decreasing	1	16.5	61.5	22.0
Capital expenditures	-8.8	-7.9	-0.9	Decreasing	21	7.7	75.8	16.5

General Business Conditions

Current								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
How has the outlook for your company changed?	-1.3	11.5	-12.8	Worsening	1	19.1	60.5	20.4
What is your evaluation of the level of general business activity?	-0.1	8.3	-8.4	Worsening	1	20.1	59.7	20.2

Company Business Indicators Relating to Facilities and Products in Texas

Six Months Ahead								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	40.0	51.8	-11.8	Increasing	12	47.6	44.8	7.6
Capacity utilization	40.3	45.3	-5.0	Increasing	12	47.3	45.7	7.0
Volume of new orders	48.9	51.7	-2.8	Increasing	14	55.6	37.8	6.7
Growth rate of orders	38.7	35.1	+3.6	Increasing	12	46.7	45.2	8.0
Unfilled orders	16.6	9.0	+7.6	Increasing	8	22.2	72.2	5.6
Volume of shipments	41.9	50.5	-8.6	Increasing	12	52.6	36.7	10.7
Delivery time	2.2	-2.2	+4.4	Increasing	1	11.1	80.0	8.9
Materials inventories	5.6	4.5	+1.1	Increasing	3	20.2	65.2	14.6
Finished goods inventories	-1.1	-6.7	+5.6	Decreasing	26	16.7	65.6	17.8
Prices paid for raw materials	47.8	57.3	-9.5	Increasing	11	48.9	50.0	1.1
Prices received for finished goods	16.6	20.7	-4.1	Increasing	4	23.3	70.0	6.7
Wages and benefits	27.2	27.1	+0.1	Increasing	69	28.1	71.0	0.9
Employment	22.5	21.4	+1.1	Increasing	6	28.1	66.3	5.6
Average employee workweek	28.8	23.6	+5.2	Increasing	12	34.4	60.0	5.6
Capital expenditures	6.8	18.0	-11.2	Increasing	3	16.9	73.0	10.1

General Business Conditions

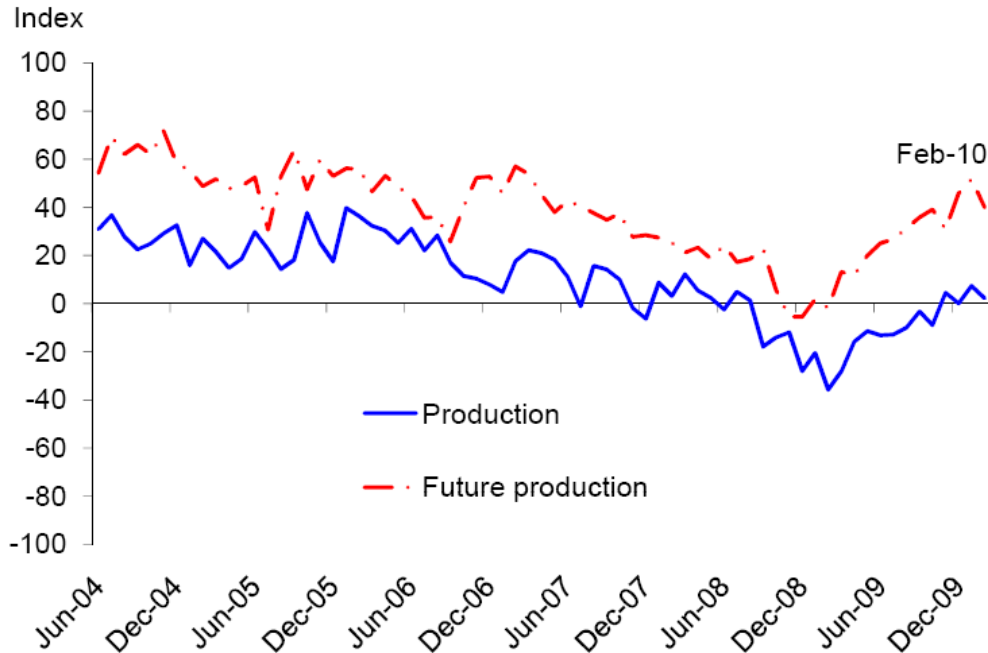
Six Months Ahead								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
How has the outlook for your company changed?	21.7	30.4	-8.7	Improving	9	33.5	54.7	11.8
What is your evaluation of the level of general business activity?	21.1	21.4	-0.3	Improving	7	32.2	56.7	11.1

*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.

Current and Future Production



COMMENTS FROM SURVEY RESPONDENTS

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

Food Manufacturing

High commodity prices hurt us, as we cannot raise prices enough to offset them. A weak dollar seems to raise many of our raw material costs.

Chemical Manufacturing

We are seeing more orders for traditional oil field parts and a positive outlook from our customers going forward.

After seeing some encouraging signs of life in January, February has slowed. We don't know if it is the stronger dollar slowing our customers' exports or if the weather has halted a lot of commercial movement. Energy prices coming down should help.

Plastics and Rubber Products Manufacturing

Business is still weak.

Hopefully the second half of 2010 will provide more growth opportunities.

Nonmetallic Mineral Product Manufacturing

We do not expect any significant change in building activity until 2011, as we anticipate a slow economic recovery.

Fabricated Metal Product Manufacturing

The business climate seems to have stalled and gone flat. We are not sure if this is a result of taxes coming due or just a slow start to the first quarter 2010. We have placed temporary workers on standby, decreased work hours and laid off a few permanent employees. There is not enough working capital available to hold on to resources as we assess what is driving the slow start to the first quarter. Therefore, it will be a challenge to take advantage of all the opportunities and continue job creation. In general, there currently are manufacturing opportunities available, which will continue to improve in selected industries.

While indicators are becoming more positive, the optimism is tentative. It is based on indications of more bidding activity, not any significant contract letting.

There is concern about bank financing, as it comes up for renewal during a period when receivables and inventory are at all-time lows. It is a highly competitive bidding environment that requires below-cost bidding to obtain work. We are hearing of projects being deferred or canceled due to low demand for gasoline and diesel fuels.

The prices we can get for our product is far below break-even. There is work to bid on, but competition from out-of-state steel fabricators is very intense and is driving prices into the ground. To top it off, steel mills have raised their prices, which causes an additional squeeze on our cost of goods sold. We have lost steel bids to fabricators from Alabama, Arkansas and even as far away as Minnesota. There is work in Texas, but there isn't enough work going on outside of Texas to keep other companies busy. I foresee a wave of bankruptcies, foreclosures and companies going out of business in our industry this year and possibly next year.

Machinery Manufacturing

State budget deficits are negatively affecting business activity.

Computer and Electronic Product Manufacturing

We are seeing a slight downtick in February and March, but some large orders have been placed for deliveries beginning in April.

Furniture and Related Product Manufacturing

Seasonal orders are slightly up over last year. If this holds for six more weeks, then this will be a better year overall.

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.
