



TEXAS MANUFACTURING ACTIVITY CONTINUES TO GROW

March 29, 2010

Texas factory activity expanded for the fifth straight month in March, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key indicator of state manufacturing conditions, rose to its highest level in two years.

Additional signs of strength came from other indicators of current factory activity. Capacity utilization rebounded, with the index rising to 15 in March after falling to 0 in February. The new orders index also jumped up sharply into positive territory after dipping below zero last month. The indexes for shipments and growth rate of orders also turned positive in March.

The business activity and company outlook indexes rebounded into positive territory after they slid below zero in February.

After several months of growth in production, there are finally signs that manufacturers have begun to replenish their materials inventories. The index turned positive in March after 18 months of negative readings. Finished goods inventories held steady as the index came in at zero, with 78 percent of producers noting no change in inventories over last month.

Labor demand among manufacturers improved in March. Eighteen percent of firms reported increases in employment, pushing the index into positive territory for the first time since July 2008. Hours worked and wages and benefits also increased.

Strong upward pressure on raw materials prices continued in March, and the share of respondents reporting higher input costs remained near 40 percent. Finished goods prices fell for the second month in a row. Expectations of price increases for raw materials and finished goods over the next six months abated.

All indexes for future activity were positive but moved lower in March, suggesting producers have lowered their expectations for the pace of growth in factory activity in coming months. The future business activity index and six-month company outlook index edged downward to 16 and 18, respectively. The indexes for future production, capacity utilization, new orders and shipments remained positive but fell in March.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected March 16–24, and 89 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.

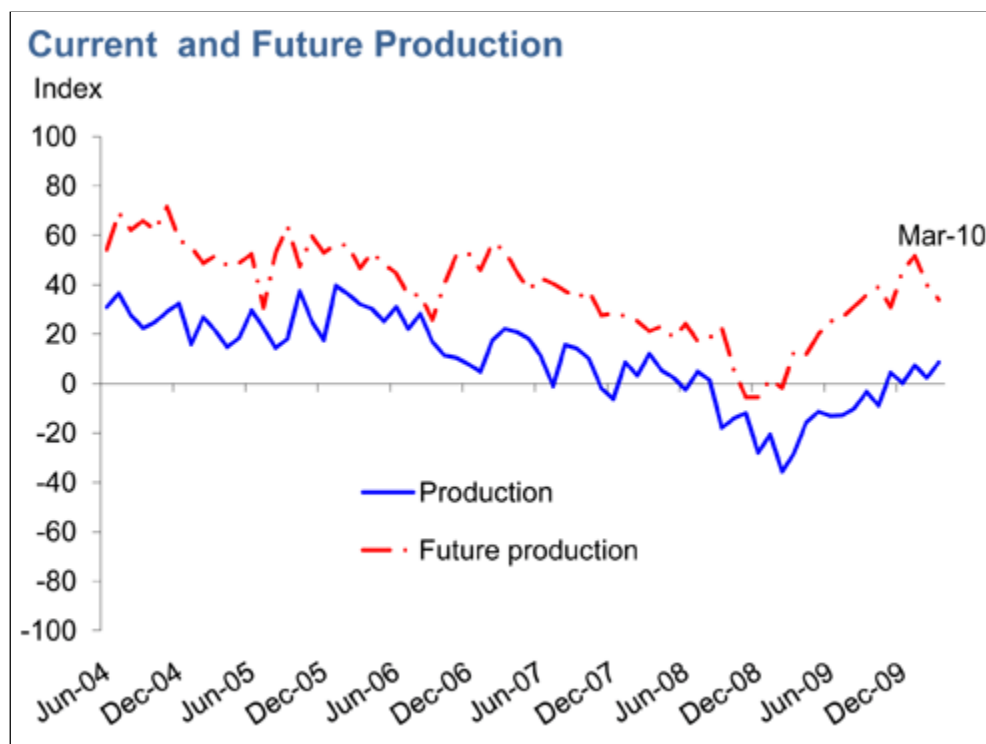
Next release: April 26, 2010

Company Business Indicators Relating to Facilities and Products in Texas Current								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	8.7	2.3	+6.4	Increasing	5	31.3	46.0	22.6
Capacity Utilization	14.9	0.0	+14.9	Increasing	1	33.3	48.3	18.4
Volume of New Orders	10.9	-6.0	+16.9	Increasing	1	28.7	53.5	17.8
Growth Rate of Orders	8.6	-3.3	+11.9	Increasing	1	26.1	56.4	17.5
Unfilled Orders	7.4	-2.4	+9.8	Increasing	1	19.2	69.0	11.8
Volume of Shipments	1.6	-1.1	+2.7	Increasing	1	26.4	48.8	24.8
Delivery Time	-7.8	3.3	-11.1	Decreasing	1	7.9	76.4	15.7
Materials Inventories	7.8	-9.9	+17.7	Increasing	1	20.2	67.4	12.4
Finished Goods Inventories	0.0	-6.6	+6.6	Unchanged	1	11.2	77.5	11.2
Prices Paid for Raw Materials	39.3	40.9	-1.6	Increasing	8	40.4	58.5	1.1
Prices Received for Finished Goods	-3.3	-0.8	-2.5	Decreasing	2	12.1	72.5	15.4
Wages and Benefits	4.5	6.6	-2.1	Increasing	4	10.2	84.1	5.7
Employment	2.8	-5.2	+8.0	Increasing	1	18.2	66.4	15.4
Average Employee Workweek	13.5	-5.5	+19.0	Increasing	1	28.1	57.3	14.6
Capital Expenditures	-7.8	-8.8	+1.0	Decreasing	22	7.9	76.4	15.7
General Business Conditions Current								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Has the outlook for your company changed?	7.1	-1.3	+8.4	Improving	1	20.3	66.5	13.2
What is your evaluation of the level of general business activity?	7.2	-0.1	+7.3	Improving	1	22.9	61.4	15.7
Company Business Indicators Relating to Facilities and Products in Texas Six Months Ahead								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	34.0	40.0	-6.0	Increasing	13	45.7	42.5	11.7
Capacity Utilization	32.1	40.3	-8.2	Increasing	13	42.8	46.5	10.7
Volume of New Orders	29.5	48.9	-19.4	Increasing	15	42.0	45.5	12.5
Growth Rate of Orders	28.5	38.7	-10.2	Increasing	13	40.2	48.1	11.7
Unfilled Orders	5.8	16.6	-10.8	Increasing	9	20.7	64.4	14.9
Volume of Shipments	38.1	41.9	-3.8	Increasing	13	51.2	35.7	13.1
Delivery Time	0.0	2.2	-2.2	Unchanged	1	12.5	75.0	12.5
Materials Inventories	-4.6	5.6	-10.2	Decreasing	1	18.4	58.6	23.0
Finished Goods Inventories	3.4	-1.1	+4.5	Increasing	1	19.5	64.4	16.1
Prices Paid for Raw Materials	40.3	47.8	-7.5	Increasing	12	46.0	48.3	5.7
Prices Received for Finished Goods	11.4	16.6	-5.2	Increasing	5	25.0	61.4	13.6
Wages and Benefits	31.8	27.2	+4.6	Increasing	70	32.6	66.6	0.8
Employment	12.5	22.5	-10.0	Increasing	7	22.7	67.0	10.2
Average Employee Workweek	25.3	28.8	-3.5	Increasing	13	34.5	56.3	9.2
Capital Expenditures	6.9	6.8	+0.1	Increasing	4	19.5	67.8	12.6
General Business Conditions Six Months Ahead								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Has the outlook for your company changed?	16.4	21.7	-5.3	Improving	10	33.7	49.1	17.3
What is your evaluation of the level of general business activity?	18.4	21.1	-2.7	Improving	8	33.3	51.7	14.9

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

Chemical Manufacturing

The oilfield service sector is booming. Inventory has been depleted at the same time that new orders have been coming in, so everyone is squeezed right now.

Demand has generally decreased in 2010, after remaining pretty strong during late 2008 and all throughout 2009. In December 2009 we saw a big dip, which we attributed to customers controlling inventories at the end of the year. However, first quarter 2010 has not shown the return of demand that we expected. Optimistically, we think demand will return in the spring and summer. The weather and other factors are causing business owners to be cautious.

Plastics and Rubber Products Manufacturing

We are beginning to experience a subtle uptick in raw material costs without fundamental improvement in the economy as a whole. This is cause for concern as it is very similar to what we experienced in 2008.

Customers are delaying the release of new contracts as they await funding commitments from government stimulus money.

Nonmetallic Mineral Product Manufacturing

We have seen some minor improvement in demand due to improved weather conditions and the seasonal nature of our business. We expect that a modest improvement will occur in 2010 because of improved economic conditions.

Fabricated Metal Product Manufacturing

Business has picked up for the moment. Backlogs are up more than 30 percent over last month. Existing customers in several industrial sectors are placing new orders. Production has fallen a bit behind because we're not hiring fast enough. It is still uncertain how long this uptick will last.

Overall, we are seeing our domestic business stabilize at levels seen in 2003 and 2004. Our export business has

remained robust, and credit financing has improved for these markets as well. Our outlook for the general level of business activity continues to improve.

We are still seeing more small maintenance-type bid requests with little movement in larger capital expenditure projects. Bidding is very competitive with many of the bids being accepted at levels that are breakeven or less.

Machinery Manufacturing

While we believe markets will slowly improve over the next six months, we are more pessimistic about the rate and timing of improvement. Every customer segment we serve (refining, power, steel, pulp and paper, pipelines) continues to struggle. It is impacting their activity levels and our business. We no longer expect a return to "business as usual" anytime soon.

Projects that we bid on are very competitive. We have seen an increase in quotes each month since November 2009. Raw material prices have firmed up.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Pia Orrenius at pia.orrenius@dal.frb.org.

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