



## TEXAS MANUFACTURING ACTIVITY RISES AGAIN

June 1, 2010

Texas factory activity continued to expand in May, 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 three years.

May's improvement in the production index came from a smaller share of respondents reporting declines in activity. The portion reporting no change rose from 39 percent to 45 percent, while the share reporting increased activity fell slightly.

Other indicators of factory activity also expanded again in May, although several posted slower advances than in the prior month. The index for capacity utilization was strongly positive but edged downward, and the growth rate of orders index fell from 20 to 9. The new orders and shipments indexes were positive but largely unchanged after increasing in April.

The business activity index—the broadest indicator in our survey—stayed positive but fell sharply in May, reversing April's strong increase. The company outlook index fell from 26 to 20, with about a third of manufacturers saying their outlook had improved over the previous month.

The employment index increased for the third consecutive month, with the share of firms hiring additional employees continuing to exceed the share making layoffs. The hours worked and the wages and benefits indexes were positive but nearly unchanged from April.

Strong upward pressure on raw materials prices continued in May. Forty-two percent of respondents saw increasing costs, while only 4 percent noted decreases. In contrast, only 13 percent of respondents noted increased finished goods prices. Half of respondents continued to anticipate further increases in raw materials prices over the next six months, and 29 percent expected higher finished goods prices.

Firms grew more optimistic about their six-month outlook in May, and most indexes for future manufacturing activity moved further into positive territory. The future business activity index jumped up, as the share of firms reporting improved activity exceeded those reporting worsened conditions by more than 3 to 1. The future company outlook also climbed, with 85 percent of respondents expecting either increased or unchanged activity six months from now.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected May 18–26, and 109 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 of firms 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. Where appropriate, the indexes are seasonally adjusted.

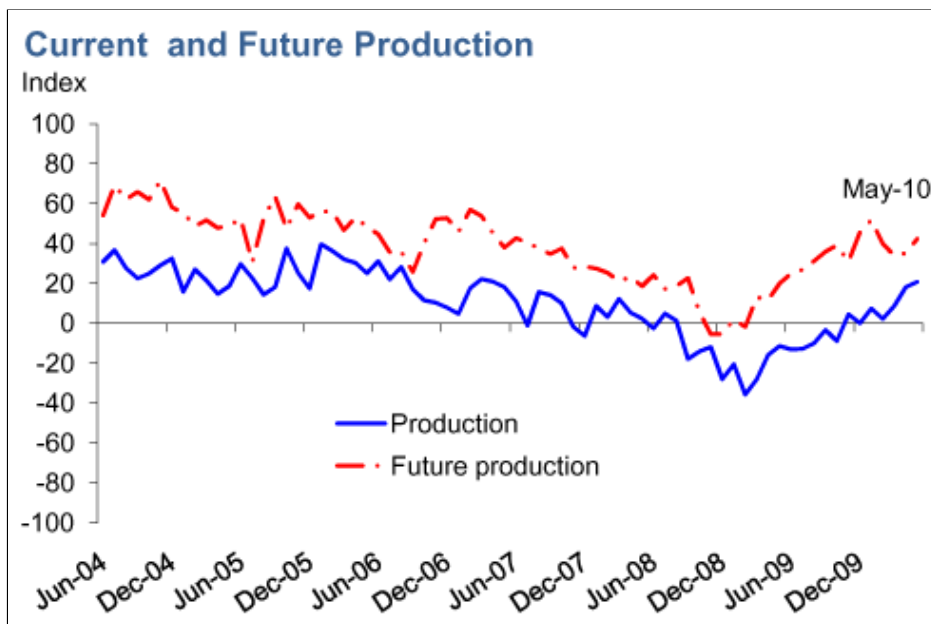
**Next release:** June 28, 2010

Company Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	20.8	18.2	+2.6	Increasing	7	38.0	44.7	17.2
Capacity Utilization	18.7	20.6	-1.9	Increasing	3	31.8	55.1	13.1
Volume of New Orders	15.8	15.8	0.0	Increasing	3	37.2	41.4	21.4
Growth Rate of Orders	9.1	19.6	-10.5	Increasing	3	28.1	52.9	19.0
Unfilled Orders	1.8	8.9	-7.1	Increasing	3	17.2	67.4	15.4
Volume of Shipments	14.8	14.6	+0.2	Increasing	3	34.8	45.3	20.0
Delivery Time	6.4	4.3	+2.1	Increasing	2	12.0	82.4	5.6
Materials Inventories	-4.6	2.2	-6.8	Decreasing	1	15.6	64.2	20.2
Finished Goods Inventories	-8.3	-6.5	-1.8	Decreasing	2	10.2	71.3	18.5
Prices Paid for Raw Materials	38.5	42.1	-3.6	Increasing	10	42.3	53.9	3.8
Prices Received for Finished Goods	2.4	2.9	-0.5	Increasing	2	12.9	76.6	10.5
Wages and Benefits	16.7	16.3	+0.4	Increasing	6	16.7	83.3	0.0
Employment	11.5	9.8	+1.7	Increasing	3	20.8	69.9	9.3
Average Employee Workweek	21.5	22.8	-1.3	Increasing	3	29.9	61.7	8.4
Capital Expenditures	4.7	1.1	+3.6	Increasing	2	15.0	74.8	10.3
General Business Conditions								
Current								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Has the outlook for your company changed?	19.6	26.4	-6.8	Improving	3	32.3	55.0	12.7
What is your evaluation of the level of general business activity?	2.9	21.1	-18.2	Improving	3	25.3	52.3	22.4
Company Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	42.4	35.1	+7.3	Increasing	15	56.1	30.2	13.7
Capacity Utilization	37.1	33.0	+4.1	Increasing	15	50.3	36.5	13.2
Volume of New Orders	42.6	30.5	+12.1	Increasing	17	53.7	35.2	11.1
Growth Rate of Orders	29.4	26.2	+3.2	Increasing	15	42.0	45.4	12.6
Unfilled Orders	7.5	7.7	-0.2	Increasing	11	21.5	64.5	14.0
Volume of Shipments	40.2	28.7	+11.5	Increasing	15	53.9	32.4	13.7
Delivery Time	-10.2	-2.2	-8.0	Decreasing	2	3.7	82.4	13.9
Materials Inventories	1.9	13.0	-11.1	Increasing	2	20.4	61.1	18.5
Finished Goods Inventories	0.0	6.5	-6.5	Unchanged	1	16.7	66.7	16.7
Prices Paid for Raw Materials	41.7	47.2	-5.5	Increasing	14	50.0	41.7	8.3
Prices Received for Finished Goods	18.7	16.5	+2.2	Increasing	7	29.0	60.7	10.3
Wages and Benefits	31.5	29.6	+1.9	Increasing	72	32.3	66.9	0.8
Employment	21.3	17.6	+3.7	Increasing	9	29.6	62.0	8.3
Average Employee Workweek	13.2	18.4	-5.2	Increasing	15	25.5	62.3	12.3
Capital Expenditures	13.8	9.9	+3.9	Increasing	6	23.1	67.6	9.3
General Business Conditions								
Six Months Ahead								
Indicator	May Index	Apr Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Has the outlook for your company changed?	26.3	19.6	+6.7	Improving	12	41.4	43.6	15.1
What is your evaluation of the level of general business activity?	28.0	23.1	+4.9	Improving	10	41.1	45.8	13.1

\*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.



## COMMENTS FROM SURVEY RESPONDENTS

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

### Wood Product Manufacturing

We have seen a significant increase in shipments to builders trying to complete houses before the homebuyer tax credit expires on June 30.

### Paper Manufacturing

After the second price increase on linerboard this year, we feel that no additional increases will occur. If production at the mills improves and inventories rise, there is the possibility that prices will erode.

### Petroleum and Coal Products Manufacturing

Private-sector demand has still not materialized. All of our current demand is public, and it is primarily stimulus-related. The end of stimulus funding and cutbacks in state, city and county budgets due to budget shortfalls will have a serious effect on our business.

### Plastics and Rubber Products Manufacturing

The uncertainty in the marketplace is paralyzing.

Uncertainty about taxes and health care is leading us to postpone some hiring.

### Nonmetallic Mineral Product Manufacturing

We haven't seen any significant changes in business levels. Revenues were up year over year in April, the first such improvement in 12 months. We don't expect any real improvement in demand until 2011.

### Primary Metal Manufacturing

We have seen a noticeable decrease in business over the past three weeks. It appears to be industry-wide for our segment of manufacturing. Transportation as well as building and construction have slowed from prior weeks.

### Fabricated Metal Product Manufacturing

We are still not seeing major projects released for construction. Much of our increased work is related to maintenance, not capital expenditure. Our production levels are well below breakeven, relative to throughput and margins. We are continuing to have great difficulty in completing our loan renewal, even though we have very liquid guarantors.

We supply the air conditioning industry, so we always get busier as it gets warmer, but there seems to be additional activity this year.

### **Machinery Manufacturing**

We see some very modest improvement in demand on the horizon, but we remain very cautious. Pricing pressure from customers remains very high.

### **Furniture and Related Product Manufacturing**

Retailers are continuing to struggle due to lack of credit.

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Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Pia Orrenius at [pia.orrenius@dal.frb.org](mailto:pia.orrenius@dal.frb.org).

The Business Outlook Survey can be found online at [www.dallasfed.org/data/outlook](http://www.dallasfed.org/data/outlook).

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