



TEXAS MANUFACTURING ACTIVITY WEAKENS

June 28, 2010

Texas factory activity declined slightly in June, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key indicator of state manufacturing conditions, fell from 21 in May to -2 in June, abruptly ending a seven-month streak of positive readings.

All remaining indexes for factory activity also fell in June, and many turned negative. The new orders index fell from 16 to -8 as 78 percent of respondents reported that their June orders were either flat or down from May. The shipments index fell from 15 to -9, suggesting shipments contracted in June after three consecutive months of growth.

The general business activity index turned negative also, with 82 percent of respondents noting that June activity worsened or was unchanged from the prior month. The company outlook index fell from 20 to -3, as only 18 percent of manufacturers said their outlook had improved over the previous month, compared with nearly a third in May.

The employment index remained positive for the fourth consecutive month, though it edged down in June as the share of firms reporting layoffs increased. The hours worked and wages and benefits indexes followed a similar pattern, moving lower but staying positive. The weaker labor market indexes are consistent with a slower pace of employment growth.

Upward pressure on raw materials prices moderated in June but remained strong, as more than a third of respondents continued to see increasing costs. Meanwhile, downward pressure on finished goods prices intensified, driving the index into negative territory. Nevertheless, the great majority of firms—82 percent—reported no change in prices received for finished goods. Forty-three percent of respondents anticipate further increases in raw materials prices over the next six months, while about one-quarter expect higher finished goods prices.

Firms were less optimistic about their six-month outlook in June. The indexes for future production, new orders and shipments stayed positive but fell this month. The future general business activity index decreased but remained in positive territory, with the share of firms expecting improved activity exceeded those anticipating worsened conditions by nearly 2 to 1. The future company outlook index edged down but stayed very positive, with 86 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 June 15–23, and 105 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.

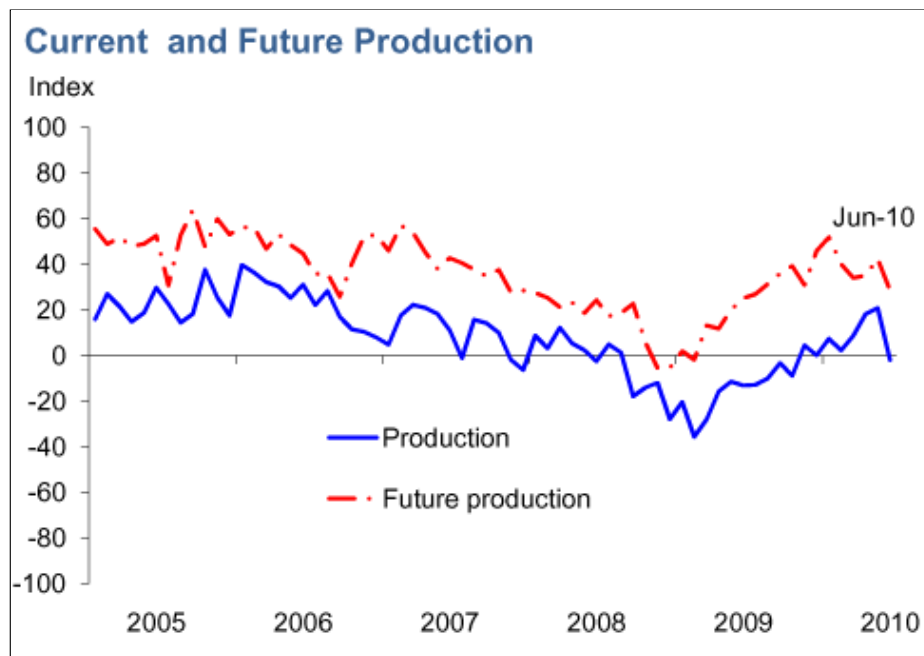
Next release: July 26, 2010

Company Business Indicators Relating to Facilities and Products in Texas Current								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	-1.9	20.8	-22.7	Decreasing	1	23.5	51.1	25.4
Capacity Utilization	2.7	18.7	-16.0	Increasing	4	24.2	54.3	21.5
Volume of New Orders	-8.2	15.8	-24.0	Decreasing	1	21.6	48.6	29.8
Growth Rate of Orders	-4.9	9.1	-14.0	Decreasing	1	19.8	55.5	24.7
Unfilled Orders	-9.3	1.8	-11.1	Decreasing	1	15.5	59.7	24.8
Volume of Shipments	-9.0	14.8	-23.8	Decreasing	1	21.4	48.3	30.4
Delivery Time	-2.9	6.4	-9.3	Decreasing	1	9.5	78.1	12.4
Materials Inventories	-8.6	-4.6	-4.0	Decreasing	2	17.1	57.1	25.7
Finished Goods Inventories	-8.6	-8.3	-0.3	Decreasing	3	14.3	62.9	22.9
Prices Paid for Raw Materials	29.7	38.5	-8.8	Increasing	11	36.6	56.5	6.9
Prices Received for Finished Goods	-6.8	2.4	-9.2	Decreasing	1	5.7	81.8	12.5
Wages and Benefits	4.8	16.7	-11.9	Increasing	7	8.6	87.6	3.8
Employment	4.3	11.5	-7.2	Increasing	4	21.7	60.9	17.4
Average Employee Workweek (Hours Worked)	1.9	21.5	-19.6	Increasing	4	18.1	65.7	16.2
Capital Expenditures	1.9	4.7	-2.8	Increasing	3	15.4	71.2	13.5
General Business Conditions Current								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-2.8	19.6	-22.4	Worsening	1	17.6	62.0	20.4
General Business Activity	-4.0	2.9	-6.9	Worsening	1	18.2	59.6	22.2
Company Business Indicators Relating to Facilities and Products in Texas Six Months Ahead								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	28.5	42.4	-13.9	Increasing	16	39.6	49.3	11.1
Capacity Utilization	30.1	37.1	-7.0	Increasing	16	40.5	49.2	10.4
Volume of New Orders	26.2	42.6	-16.4	Increasing	18	37.9	50.5	11.7
Growth Rate of Orders	24.0	29.4	-5.4	Increasing	16	35.8	52.4	11.8
Unfilled Orders	-0.9	7.5	-8.4	Decreasing	1	11.7	75.7	12.6
Volume of Shipments	34.1	40.2	-6.1	Increasing	16	44.1	46.0	10.0
Delivery Time	-1.0	-10.2	+9.2	Decreasing	3	10.9	77.2	11.9
Materials Inventories	-1.9	1.9	-3.8	Decreasing	1	17.5	63.1	19.4
Finished Goods Inventories	-4.9	0.0	-4.9	Decreasing	1	15.5	64.1	20.4
Prices Paid for Raw Materials	35.9	41.7	-5.8	Increasing	15	42.7	50.5	6.8
Prices Received for Finished Goods	15.7	18.7	-3.0	Increasing	8	23.5	68.6	7.8
Wages and Benefits	30.7	31.5	-0.8	Increasing	73	31.5	67.7	0.8
Employment	11.7	21.3	-9.6	Increasing	10	28.4	54.9	16.7
Average Employee Workweek (Hours Worked)	5.9	13.2	-7.3	Increasing	16	21.4	63.1	15.5
Capital Expenditures	2.0	13.8	-11.8	Increasing	7	15.7	70.6	13.7
General Business Conditions Six Months Ahead								
Indicator	Jun Index	May Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	21.5	26.3	-4.8	Improving	13	35.5	50.5	14.0
General Business Activity	13.7	28.0	-14.3	Improving	11	29.4	54.9	15.7

*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

After skyrocketing in February through April, the North American lumber market has collapsed, indicative of the slowdown at U.S. job sites. Small and medium businesses here in "the trenches" are hurting every bit as much as last year. Much of the downturn is a result of the stimulus ending and the typical midyear slowdown that occurs in the building and construction industry.

Paper Manufacturing

A third price increase on linerboard is a possibility within the next couple of months. If this occurs, it will cause a major uproar with our customers. They will all be going out for bids, causing margins to erode.

Chemical Manufacturing

We are not optimistic about the next couple years. There are too many negative factors in the world of finance right now.

Plastics and Rubber Products Manufacturing

As a business, we are just trying to hold on until the upturn comes.

The availability of skilled technicians and toolmakers is scarce, particularly in the 20- to 40-year-old age group.

Nonmetallic Mineral Product Manufacturing

Housing activity has had some pullback with the expiration of the homebuyer tax credit. The recovery will be lengthy and slow in coming, and it will be subject to improved employment levels and an upturn in the credit markets.

Fabricated Metal Product Manufacturing

After two consecutive months of increased activity, we have seen a dramatic drop in new business, with no backlog for July and beyond. We are having considerable trouble with our bank; although we are not in default and are making all payments, the bank has not executed a loan facility renewal after almost 90 days past our renewal date. There is a high degree of uncertainty in the marketplace, with owners and their designated contractors and design engineers seeing a dramatic reluctance to initiate planned projects, both maintenance and capital expenditure.

We have yet to see any evidence in Texas or across the country of an economic recovery.

Overall business has improved. There seems to be more onshoring of manufacturing due to risk control, inventory management and short lead times. Increased business expenses created by state tax increases are causing pressure on cost competitiveness. It is still very challenging to obtain financing for capital expenditure and growth.

Economic activity remains tenuous for building materials manufacturers. Financing and demand for capital goods will determine the strength of the recovery as it relates to construction.

Machinery Manufacturing

We are quite concerned about the trends in general business activity. It feels like we are slowing down, not speeding up. I don't see much that is encouraging at this point.

Our outlook for the next six months has improved due to our company broadening its product offerings, not necessarily due to improved economic conditions.

Demand for capital goods in the food service industry remains at a very low level.

Computer and Electronic Product Manufacturing

Right now business looks steady, but we're stepping lightly.

Furniture and Related Product Manufacturing

Business has worsened this month. Retail activity has gone down, damaging the hope for improvement among retailers.

Beverage and Tobacco Product Manufacturing

2009 was great, but the wheels came off a little bit in the first quarter of 2010. The second quarter has been better, but not great.

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.
