



TEXAS MANUFACTURING ACTIVITY REMAINS SLUGGISH

July 26, 2010

Texas factory activity rebounded slightly in July, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key indicator of state manufacturing conditions, rose from -2 to 5, suggesting output expanded slightly in July after contracting in June.

Several indexes for factory activity continued to fall in July. The new orders and growth rate of orders indexes pushed deeper into negative territory, indicating a further contraction of demand. The index for capacity utilization dipped to -1, its first negative reading in nine months. The shipments index stabilized in July, rising from -9 to -1, with nearly equal shares of respondents noting an increase or decrease.

The general business activity index fell sharply to -21, its lowest level since July 2009. Thirty-one percent of firms reported a worsening of activity, up from 22 percent in June. The company outlook index also fell to a 12-month low, as only 13 percent of manufacturers said their outlook had improved over the previous month, compared with 24 percent who said it had worsened.

The employment index edged up and was positive for the fifth consecutive month, with 20 percent of firms reporting new hires. The wages and benefits index also rose, but overall wage pressures remained minimal, as 90 percent of respondents noted no change in compensation costs. The hours worked index dipped into negative territory, with 23 percent of manufacturers reporting a decrease in the average employee workweek.

The index for raw materials prices fell from 30 in June to 12 in July, suggesting the upward pressure on raw materials prices continued to moderate. Two-thirds of manufacturers reported no change in input costs, the highest share in six months. Downward pressure on finished goods prices intensified again in July, driving the index further into negative territory. The future raw materials prices index remained positive but slid to its lowest level in a year, while the future finished goods prices index fell to zero.

Optimism regarding firms' six-month outlook continued to wane in July, although the indexes remained positive. The future production, capacity utilization and shipments indexes fell again this month, while the future indexes for new orders and growth rate of orders inched up but remained below the levels seen earlier this year. The future general business activity index decreased but remained in positive territory. The future company outlook index moved down from 22 to 16, with 32 percent of respondents expecting improved conditions 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 July 13-21, and 99 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.

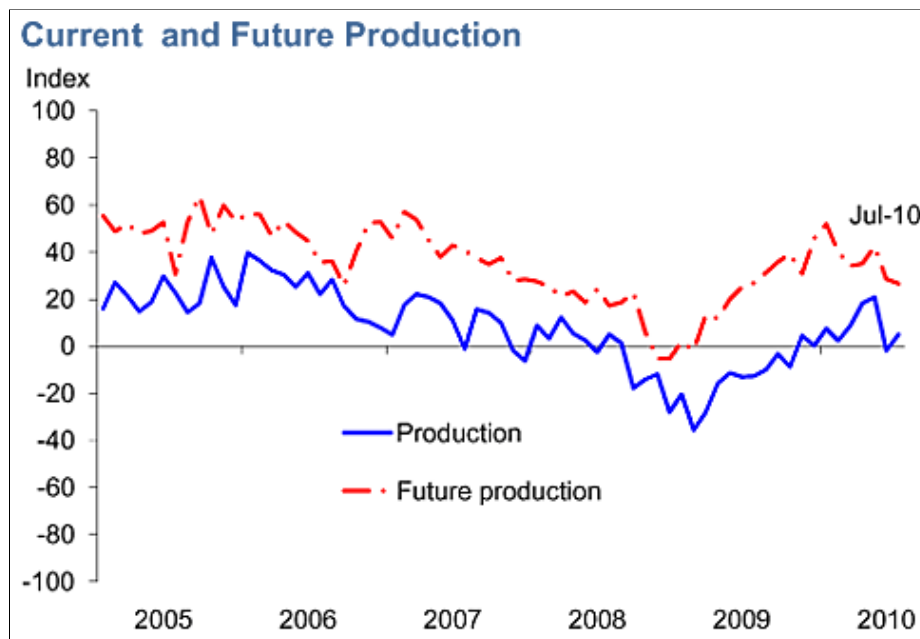
Next release: August 30, 2010

Company Business Indicators Relating to Facilities and Products in Texas Current								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	4.9	-1.9	+6.8	Increasing	1	27.2	50.5	22.3
Capacity Utilization	-0.6	2.7	-3.3	Decreasing	1	22.0	55.4	22.6
Volume of New Orders	-9.6	-8.2	-1.4	Decreasing	2	19.4	51.6	29.0
Growth Rate of Orders	-9.9	-4.9	-5.0	Decreasing	2	19.2	51.7	29.1
Unfilled Orders	-7.6	-9.3	+1.7	Decreasing	2	12.9	66.6	20.5
Volume of Shipments	-1.1	-9.0	+7.9	Decreasing	2	25.3	48.4	26.4
Delivery Time	-6.0	-2.9	-3.1	Decreasing	2	6.1	81.8	12.1
Materials Inventories	-6.1	-8.6	+2.5	Decreasing	3	16.3	61.2	22.4
Finished Goods Inventories	-7.0	-8.6	+1.6	Decreasing	4	15.2	62.6	22.2
Prices Paid for Raw Materials	12.3	29.7	-17.4	Increasing	12	22.6	67.1	10.3
Prices Received for Finished Goods	-11.4	-6.8	-4.6	Decreasing	2	5.1	78.4	16.5
Wages and Benefits	8.0	4.8	+3.2	Increasing	8	9.0	90.0	1.0
Employment	5.1	4.3	+0.8	Increasing	5	20.3	64.5	15.2
Average Employee Workweek (Hours Worked)	-7.0	1.9	-8.9	Decreasing	1	16.0	61.0	23.0
Capital Expenditures	1.0	1.9	-0.9	Increasing	4	16.0	69.0	15.0
General Business Conditions Current								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-10.4	-2.8	-7.6	Worsening	2	13.1	63.4	23.5
General Business Activity	-21.0	-4.0	-17.0	Worsening	2	9.9	59.2	30.9
Company Business Indicators Relating to Facilities and Products in Texas Six Months Ahead								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	26.6	28.5	-1.9	Increasing	17	41.6	43.5	15.0
Capacity Utilization	20.7	30.1	-9.4	Increasing	17	39.9	41.0	19.2
Volume of New Orders	29.6	26.2	+3.4	Increasing	19	45.9	37.8	16.3
Growth Rate of Orders	25.6	24.0	+1.6	Increasing	17	39.1	47.4	13.5
Unfilled Orders	0.0	-0.9	+0.9	Unchanged	1	15.3	69.4	15.3
Volume of Shipments	28.2	34.1	-5.9	Increasing	17	44.7	38.8	16.5
Delivery Time	-8.0	-1.0	-7.0	Decreasing	4	6.1	79.8	14.1
Materials Inventories	1.0	-1.9	+2.9	Increasing	1	22.4	56.1	21.4
Finished Goods Inventories	-3.0	-4.9	+1.9	Decreasing	2	19.4	58.2	22.4
Prices Paid for Raw Materials	20.2	35.9	-15.7	Increasing	16	32.3	55.6	12.1
Prices Received for Finished Goods	0.0	15.7	-15.7	Unchanged	1	17.2	65.7	17.2
Wages and Benefits	29.8	30.7	-0.9	Increasing	74	30.6	68.6	0.8
Employment	2.0	11.7	-9.7	Increasing	11	20.2	61.6	18.2
Average Employee Workweek (Hours Worked)	1.0	5.9	-4.9	Increasing	17	18.2	64.6	17.2
Capital Expenditures	1.0	2.0	-1.0	Increasing	8	17.3	66.3	16.3
General Business Conditions Six Months Ahead								
Indicator	Jul Index	Jun Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.8	21.5	-5.7	Improving	14	32.2	51.4	16.4
General Business Activity	5.0	13.7	-8.7	Improving	12	24.2	56.6	19.2

*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.

Food Manufacturing

We don't understand why some commodity prices are as high as they are.

Beverage and Tobacco Product Manufacturing

Like June, our July sales are down 2-3 percent.

Paper Manufacturing

A third price increase this year on linerboard could potentially be devastating, as our customers will go out for bids and our margins will be lost trying to hang on to them.

Chemical Manufacturing

We have added staff for three work shifts in order to increase capacity. We have also lowered the number of employee work hours because we have been working them too many hours.

It seems the general confidence level for the petrochemical industry has taken a downturn. Everyone is conserving cash and keeping inventories at a minimum.

Plastics and Rubber Products Manufacturing

We are hoarding cash and postponing hiring and capital equipment decisions until the November election. If taxes and overhead costs associated with labor increase, we will be more likely to invest in additional automation and productivity tools.

We work for retailers, and they are frightened. We are cycling back through reverse auction buying. The problem is that fewer suppliers exist today, and fewer will be around tomorrow.

Nonmetallic Mineral Product Manufacturing

The decline in housing starts has had a negative impact on our bookings and shipments. It is unclear how long the correction stemming from the expiration of the homebuyer tax credit will take.

A decline in consumer confidence has extended to the home building industry. The expiration of the homebuyer tax credit has created a falloff in new home construction. Uncertain economic conditions will act as a constraint on business expansion, growth and job creation, which will extend the low levels of consumer confidence and the time required for economic recovery.

Primary Metal Manufacturing

We have been positively impacted by two large orders because some of our competitors are having difficulty servicing their customers. The competitors' service problems are related to cutbacks and a lack of capital. Overall, we still do not see a positive outlook for basic manufacturing in the U.S.

Construction activity seems to have slowed slightly. We didn't see the significant bump in orders and activity that we expected going into the summer busy season.

Fabricated Metal Product Manufacturing

While we see the volume of quotations to be equal to 2009, the results of these efforts are much lower than expected, and some of the quotes are for 2011 budgets.

We are experiencing a pause in the economic recovery. In fact, the fairly normal seasonal increase in construction activity is less than we expected and is weaker than in 2009.

Machinery Manufacturing

While we are moderately optimistic about our own business due to initiatives we are taking to improve our competitiveness, we are getting more pessimistic about the general U.S. economy. The level of uncertainty related to new regulations and government initiatives combined with a general "anti-business" tone is unsettling and is leading to more caution and conservatism for both businesses and consumers.

We continue to try to broaden our customer base to increase volume.

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.
