



TEXAS MANUFACTURING ACTIVITY STILL WEAK

August 30, 2010

For this month's survey, manufacturers were asked supplemental questions on their export sales and the impact the Gulf oil spill and related policy actions have had on their businesses. See page five for results.

Texas factory activity was unchanged in August, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, came in at zero, posting a third consecutive month of little to no growth.

Most other indexes for current activity remained negative in August. The new orders index stayed at -9, implying incoming orders continue to fall. The capacity utilization and shipments indexes pushed deeper into negative territory, suggesting further contraction of business.

The general business activity index was negative for the third month in a row, but advanced in August as the share of respondents reporting improved activity rose from 10 to 15 percent. The company outlook index climbed back into positive territory after being negative for two months, as 23 percent of manufacturers said their outlook improved in August, compared with 13 percent in July.

The employment index turned negative for the first time in six months, largely due to the share of firms reporting layoffs rising from 15 percent in July to 23 percent in August, and hours worked contracted again. Wage and benefits costs rose modestly.

The raw materials price index doubled from 12 in July to 24 in August, reflecting a surge in input costs. Twenty-eight percent of manufacturers reported an increase in raw materials prices, while only 4 percent noted a decrease. Finished goods prices fell again in August, although three-fourths of firms reported no change in selling prices. The future indexes for both raw materials prices and finished goods prices were positive and rose.

Most future indexes of manufacturing conditions fell in August, but remained in solid positive territory. The future company outlook index fell from 16 to 9, with 31 percent of respondents expecting an improved outlook six months from now. However, the future general business activity index, a broader measure of economic conditions, dipped into negative territory for the first time in more than a year.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected August 17-25, 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: September 27, 2010

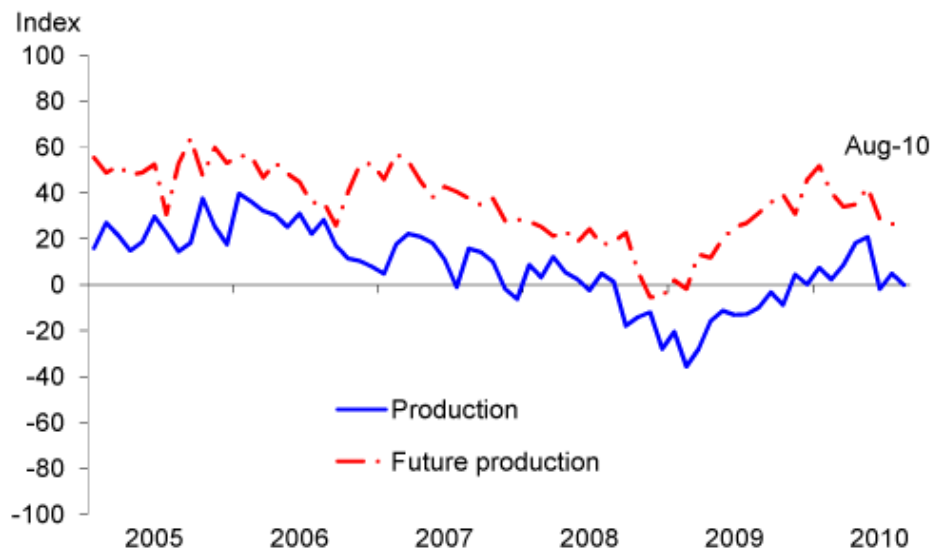
Company Business Indicators Relating to Facilities and Products in Texas Current								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	-0.1	4.9	-5.0	Decreasing	1	25.5	48.9	25.6
Capacity Utilization	-3.1	-0.6	-2.5	Decreasing	2	21.7	53.5	24.8
Volume of New Orders	-9.3	-9.6	+0.3	Decreasing	3	23.4	43.8	32.7
Growth Rate of Orders	-13.2	-9.9	-3.3	Decreasing	3	17.5	51.8	30.7
Unfilled Orders	-4.6	-7.6	+3.0	Decreasing	3	13.0	69.4	17.6
Volume of Shipments	-3.4	-1.1	-2.3	Decreasing	3	22.7	51.2	26.1
Delivery Time	-4.0	-6.0	+2.0	Decreasing	3	9.1	77.8	13.1
Materials Inventories	-9.1	-6.1	-3.0	Decreasing	4	16.2	58.6	25.3
Finished Goods Inventories	-8.2	-7.0	-1.2	Decreasing	5	12.2	67.3	20.4
Prices Paid for Raw Materials	24.3	12.3	+12.0	Increasing	13	28.3	67.7	4.0
Prices Received for Finished Goods	-5.7	-11.4	+5.7	Decreasing	3	9.2	75.9	14.9
Wages and Benefits	7.1	8.0	-0.9	Increasing	9	10.1	86.9	3.0
Employment	-5.1	5.1	-10.2	Decreasing	1	17.9	59.1	23.0
Average Employee Workweek (Hours Worked)	-6.0	-7.0	+1.0	Decreasing	2	15.2	63.6	21.2
Capital Expenditures	1.0	1.0	0.0	Increasing	5	13.4	74.2	12.4
General Business Conditions Current								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	1.7	-10.4	+12.1	Improving	1	23.4	54.9	21.7
General Business Activity	-13.5	-21.0	+7.5	Worsening	3	14.9	56.7	28.4
Company Business Indicators Relating to Facilities and Products in Texas Six Months Ahead								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	24.2	26.6	-2.4	Increasing	18	41.2	41.9	17.0
Capacity Utilization	23.3	20.7	+2.6	Increasing	18	40.0	43.3	16.7
Volume of New Orders	20.8	29.6	-8.8	Increasing	20	37.5	45.8	16.7
Growth Rate of Orders	15.1	25.6	-10.5	Increasing	18	31.3	52.5	16.2
Unfilled Orders	3.1	0.0	+3.1	Increasing	1	14.4	74.2	11.3
Volume of Shipments	23.6	28.2	-4.6	Increasing	18	40.9	41.8	17.3
Delivery Time	-7.2	-8.0	+0.8	Decreasing	5	6.2	80.4	13.4
Materials Inventories	-9.3	1.0	-10.3	Decreasing	1	16.5	57.7	25.8
Finished Goods Inventories	-12.5	-3.0	-9.5	Decreasing	3	10.4	66.7	22.9
Prices Paid for Raw Materials	23.7	20.2	+3.5	Increasing	17	33.0	57.7	9.3
Prices Received for Finished Goods	7.2	0.0	+7.2	Increasing	1	19.6	68.0	12.4
Wages and Benefits	30.9	29.8	+1.1	Increasing	75	31.7	67.5	0.8
Employment	1.0	2.0	-1.0	Increasing	12	19.6	61.9	18.6
Average Employee Workweek (Hours Worked)	2.0	1.0	+1.0	Increasing	18	17.5	67.0	15.5
Capital Expenditures	3.1	1.0	+2.1	Increasing	9	14.6	74.0	11.5
General Business Conditions Six Months Ahead								
Indicator	Aug Index	Jul Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	9.3	15.8	-6.5	Improving	15	30.8	47.7	21.5
General Business Activity	-4.3	5.0	-9.3	Worsening	1	18.9	57.9	23.2

*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.

Current and Future Production



COMMENTS FROM SURVEY RESPONDENTS

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

Primary Metal Manufacturing

We have had an overall increase in orders and production over the past few weeks related to market share gains. In general, economic indications are not positive for the major markets we serve, which include building and construction and transportation.

Fabricated Metal Product Manufacturing

We have lowered our pricing to incite business, resulting in very low-margin projects. Clients ask for fast schedules that do not allow for third party production lead time times, and they ask us to store the finished product at no cost, as other vendors or contractors are unable to meet schedules. We have started to charge for storing products.

We are aggressively seeking business in South America.

While many business leaders are speaking about their fears of a "double dip," nonresidential construction is in the third year of volume decline. The volumes include all new construction (high-, medium- and low-rise buildings) measured in square feet in the U.S. Year-over-year declines were significant for 2008 and 2009 and are projected to be significant for 2010 as well. Vacancy rates for the industrial, commercial and retail sectors are only moderately higher than the last down cycle in 2003, while 2010 building activity is much lower than forecasted.

Repeat orders seem consistent and strong. New orders and quote activity has slowed, but this may be due to vacations. There also seems to be continued onshoring of products distributed in North America. The trend continues to use technology to do more with less, use temporary labor to minimize the costs for benefits and taxes associated with hired employees, and limit risk in this unstable economy.

The uncertainty abounding throughout numerous industries and markets, coupled with the evidence of commercial overbuilding, will continue to dampen a significant recovery for building-related firms.

The current tax policy and the drilling moratorium are hurting our business.

Machinery Manufacturing

Business has stabilized, but at a lower level. There is a lot of uncertainty about the timing and rate of improvement.

The capital equipment market for the foodservice industry continues to operate at a low level with little indication

that it will improve over the next six to 12 months. We continue to operate at a very low continuous production level. Obtaining additional customers will increase our manufacturing efficiency and have little effect on capacity utilization.

Furniture and Related Product Manufacturing

We are seeing a slow decline in the number of retail stores. However, we are not seeing the return of new stores that is normal for a recovery. Therefore, we feel that we are on the edge of a cliff, waiting to be pulled back or allowed to fall even further.

Food Manufacturing

The price of sugar (sucrose) is a big negative for us.

Nonmetallic Mineral Product Manufacturing

We have seen slight improvements in order volume as a result of increases in multifamily construction. We expect housing to increase slowly beginning in 2011. However, we anticipate that the growth in housing will be slow for the foreseeable future, with housing not reaching normal levels until 2013, provided federal government policy does not interfere with the recovery.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org.

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



Federal Reserve Bank of Dallas

Special Questions

August 30, 2010

	Aug. '10 (percent)
1. What percent of your total sales is exported to foreign countries (outside the United States):	
None	23.4
1-10%	44.7
11-25%	17.0
26-50%	8.5
More than 50%	5.3
Don't know	1.1
2. Over the past year, have your export sales:	
Increased substantially	5.3
Increased modestly	20.2
Stayed the same	33.0
Decreased modestly	13.8
Decreased substantially	3.2
Not applicable	24.5
3. Over the past year, have you outsourced or moved any of your activities or production to a foreign country?	
Yes	21.3
No	78.7
4. Over the past few months, how have your sales been affected by the Gulf oil spill and related policy actions, such as the moratorium on deepwater drilling?	
Decreased substantially	5.3
Decreased modestly	18.1
Were not affected	44.7
Increased	1.1
Not applicable	30.9
Survey collection period: 8/02/2010-8/05/2010	

SPECIAL QUESTION COMMENTS

These comments have been edited for publication.

Plastics and Rubber Products Manufacturing

Our business is still weak, and our customers are very slow with new projects.

Nonmetallic Mineral Product Manufacturing

The oil spill and policy actions have had a negative impact on our customer base located in Louisiana, with a decline in jobs and earnings in the region.

We are involved in some oil and gas operations, and we have seen an increase in activity in anticipation of tighter permitting and other rules.

Fabricated Metal Product Manufacturing

The net effects of the deepwater drilling moratorium remain to be seen. It could potentially have a much larger impact within the next 12 to 24 months if it continues.

The people that have been primarily affected by the moratorium are the people directly on the Gulf coast that depend on that income for their livelihood.

The oil spill seemed to cause owners and contractors to hold off on making decisions until the government's overall response to the energy sector could be determined. Overall, the economic impact of government policy has caused a loss of confidence in business prospects. The timing of the oil spill was particularly ill-fated since we were starting to see increased activity and more positive business attitudes.

Computer and Electronic Product Manufacturing

We have almost 90 percent of our sales outside of the U.S.