



TEXAS MANUFACTURING PICKS UP AND SIX-MONTH OUTLOOK IMPROVES

September 27, 2010

Texas factory activity rose slightly in September, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, edged back into positive territory following a reading near zero in August.

Other factory activity indicators also improved in September. The new orders and shipments indexes remained negative for the fourth month in a row but moved up from their August levels. The growth rate of orders index jumped from -13 to zero, suggesting the pace of incoming orders may be stabilizing. Meanwhile, the September capacity utilization index climbed back into positive territory, with the share of manufacturers reporting an increase rising from 22 to 28 percent.

Measures of general business conditions continued to worsen. The general business activity index pushed further negative this month, falling to -18. The company outlook index dipped back into negative territory, with 25 percent of firms reporting a worsened outlook, the highest share in more than a year.

Labor market indicators improved slightly in September. The employment index turned positive, up from a negative reading in August. Nineteen percent of respondents said they hired additional employees, while 17 percent noted layoffs. Hours worked were largely unchanged, while wages and benefits rose modestly.

Prices firmed this month. After doubling in August, the raw materials price index remained at 24 in September, with 31 percent of manufacturers reporting higher input prices. Finished goods prices stabilized, ending a three-month streak of declines. The future indexes for both raw materials prices and finished goods prices were positive and posted large increases over last month.

The six-month outlook improved in September. Most future indexes of manufacturing conditions rose this month after falling in August. The future indexes for production and new orders jumped up; nearly half of manufacturers expect increases in these indicators in coming months. The future general business activity index advanced from -4 to 5, and the future company outlook index rose as well, with 80 percent of firms anticipating flat or improved 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 September 14-22, and 100 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: October 25, 2010

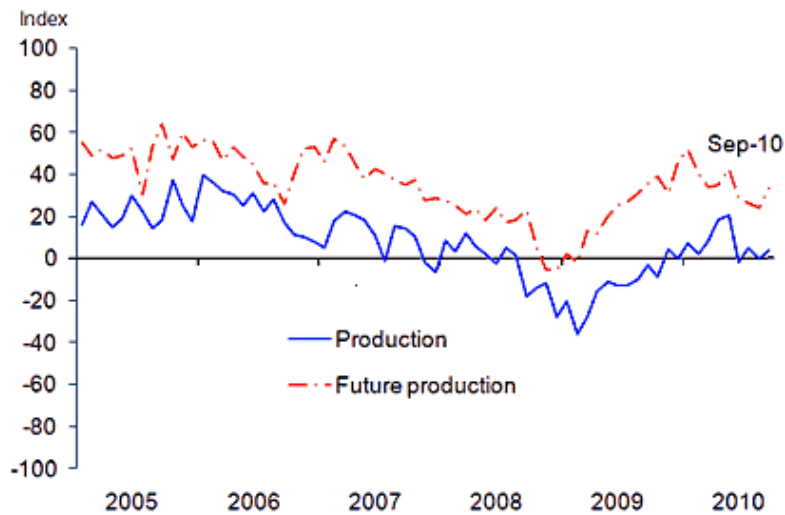
Company Business Indicators Relating to Facilities and Products in Texas Current								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	4.0	-0.1	+4.1	Increasing	1	35.6	32.8	31.6
Capacity Utilization	3.9	-3.1	+7.0	Increasing	1	27.7	48.4	23.8
Volume of New Orders	-3.0	-9.3	+6.3	Decreasing	4	28.3	40.3	31.3
Growth Rate of Orders	0.0	-13.2	+13.2	Unchanged	1	26.6	46.8	26.6
Unfilled Orders	-14.0	-4.6	-9.4	Decreasing	4	13.6	58.8	27.6
Volume of Shipments	-1.0	-3.4	+2.4	Decreasing	4	28.1	42.8	29.1
Delivery Time	-9.0	-4.0	-5.0	Decreasing	4	11.0	69.0	20.0
Materials Inventories	-3.0	-9.1	+6.1	Decreasing	5	20.0	57.0	23.0
Finished Goods Inventories	1.0	-8.2	+9.2	Increasing	1	20.2	60.6	19.2
Prices Paid for Raw Materials	24.4	24.3	+0.1	Increasing	14	31.1	62.2	6.7
Prices Received for Finished Goods	0.5	-5.7	+6.2	Increasing	1	12.2	76.1	11.7
Wages and Benefits	7.2	7.1	+0.1	Increasing	10	13.3	80.6	6.1
Employment	1.8	-5.1	+6.9	Increasing	1	19.1	63.6	17.3
Average Employee Workweek (Hours Worked)	-1.0	-6.0	+5.0	Decreasing	3	17.2	64.6	18.2
Capital Expenditures	-12.1	1.0	-13.1	Decreasing	1	8.1	71.7	20.2
General Business Conditions Current								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	-4.3	1.7	-6.0	Worsening	1	20.3	55.1	24.6
General Business Activity	-17.7	-13.5	-4.2	Worsening	4	12.9	56.5	30.6
Company Business Indicators Relating to Facilities and Products in Texas Six Months Ahead								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	33.1	24.2	+8.9	Increasing	19	48.7	35.7	15.6
Capacity Utilization	25.3	23.3	+2.0	Increasing	19	39.7	45.9	14.4
Volume of New Orders	35.8	20.8	+15.0	Increasing	21	48.0	39.8	12.2
Growth Rate of Orders	22.5	15.1	+7.4	Increasing	19	34.8	52.9	12.3
Unfilled Orders	8.2	3.1	+5.1	Increasing	2	19.4	69.4	11.2
Volume of Shipments	30.8	23.6	+7.2	Increasing	19	45.8	39.3	15.0
Delivery Time	-5.1	-7.2	+2.1	Decreasing	6	8.2	78.6	13.3
Materials Inventories	-4.1	-9.3	+5.2	Decreasing	2	18.6	58.8	22.7
Finished Goods Inventories	-10.3	-12.5	+2.2	Decreasing	4	14.4	60.8	24.7
Prices Paid for Raw Materials	31.9	23.7	+8.2	Increasing	18	41.2	49.5	9.3
Prices Received for Finished Goods	19.8	7.2	+12.6	Increasing	2	30.2	59.4	10.4
Wages and Benefits	25.0	30.9	-5.9	Increasing	76	25.8	73.4	0.8
Employment	8.2	1.0	+7.2	Increasing	13	23.7	60.8	15.5
Average Employee Workweek (Hours Worked)	5.2	2.0	+3.2	Increasing	19	17.7	69.8	12.5
Capital Expenditures	6.2	3.1	+3.1	Increasing	10	23.7	58.8	17.5
General Business Conditions Six Months Ahead								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	13.5	9.3	+4.2	Improving	16	32.9	47.6	19.4
General Business Activity	5.2	-4.3	+9.5	Improving	1	27.1	51.0	21.9

*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.

Current and Future Production



COMMENTS FROM SURVEY RESPONDENTS

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

Printing and Related Support Activities

We have just acquired the list of clients of another firm going out of business.

Machinery Manufacturing

The tone of our customer markets (refining, petrochemical and power) seems to be improving a little. It is still depressed versus historical levels, but we are seeing a slight uptick in maintenance spending, an encouraging initial indication of improvement.

Customers continue to avoid purchasing capital goods, if possible, and new construction has not recovered at all from its bottom.

New orders have increased substantially. Many of these orders have an accelerated delivery schedule. We feel confident this level of activity will continue into 2011.

Fabricated Metal Product Manufacturing

Nonresidential construction continues to worsen.

Six months of steady growth beginning in March 2010 has given us some confidence for the remainder of the year and into 2011. Several quality prospects have been in the Dallas-Fort Worth area looking for qualified sources of supply.

Our business is flat from the prior month, as concerns remain regarding the government's position on tax and business incentives.

Uncertainties about the economy are too numerous to elaborate, but they combine to stymie meaningful improvement, at least until some semblance of order is regained. Adjusting to new realities—whatever they may become—will only occur once reality is redefined sufficiently that making medium- to long-term investment decisions is rational behavior.

Since the BP oil spill, people are much less optimistic about increases in business activity. There is a mood of indecision and negative perception about the Gulf Coast's future, related to the offshore moratorium and limited capital expenditures in the petrochemical and refining industries. Our business in 2010 as a fabricator for these industries, in general, is worse than 2009.

Business is slowing, and price cutting is rampant. This economy is lousy.

Paper Manufacturing

With the reversal of the previously announced containerboard price increase, the industry has avoided a disaster.

Chemical Manufacturing

Things have heated up, and we are running three shifts to keep up. As long as the rig count stays up, we should see continued demand for our customers' products. If the rig count starts to decrease, our six-month outlook will worsen.

Plastics and Rubber Products Manufacturing

We are very eager to gain clarification of next year's tax and health care policies and their implications for our company.

Computer and Electronic Product Manufacturing

We are facing increased costs from a number of fronts. We have reduced salaries and wages by 5 to 15 percent. Customers are demanding that we hold inventory for them because they are unable to forecast their own demand. The prospect of substantial tax increases and additional regulatory and insurance costs makes it impossible for us to even consider trying to expand business.

Nonmetallic Mineral Product Manufacturing

Infrastructure spending may increase business activity in mid-2011.

We do not believe that there will be any significant change in economic conditions for at least 12 months, given the low level of consumer confidence, high unemployment and uncertain political environment. Only after some modest economic recovery will the housing sector begin to grow towards normalized levels, which we do not expect to happen until 2012.

The uncertainty of government regulations and tax issues has hurt small business.

Furniture and Related Product Manufacturing

We are seeing the normal seasonal drop-off in business combined with a few bankruptcies, which, though small, are troubling because we have seen about 40 so far this year. Our personal attempts to increase or secure new lines of credit have been unsuccessful so far. Banks do not want to loan to small business.

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.
