



TEXAS MANUFACTURING ACTIVITY STRENGTHENS FURTHER

November 29, 2010

Texas factory activity increased in November, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, was positive for the third consecutive month and came in at a reading of 13, up from 7 in October.

All other manufacturing activity indicators also rose, posting their best month since May. The new orders and shipments indexes turned positive after five months of negative readings. The capacity utilization index rose from -2 to 10, with 27 percent of respondents reporting an increase.

Measures of general business conditions improved in November, suggesting the broader economy continued to strengthen. The general business activity index jumped from 3 in October to 16 this month, with 23 percent of manufacturers reporting improved activity. The company outlook index also rose, increasing from 13 to 19, as more than one-quarter of respondents said their outlook improved in November.

Labor market indicators picked up this month. The employment index rose from -4 to 6, reaching its highest level since May, and hours worked increased for the first time in four months. The wages and benefits index remained positive, although 89 percent of companies noted no change in compensation costs.

Prices firmed in November. Input costs continued to climb, with the raw materials price index rising from 30 to 35. Thirty-seven percent of manufacturers saw an increase in prices paid for raw materials, compared with only 2 percent who saw a decrease. Finished goods prices rose slightly as the index pushed into positive territory after posting negative readings in four of the last five months. Over the next six months, 49 percent of respondents anticipate further increases in raw materials prices, while one-third expect higher finished goods prices.

Manufacturers' six-month outlook continued to improve. The future indexes for production, new orders, shipments and capacity utilization rose to their highest levels since January. The future general business activity index advanced from 14 to 26, and the future company outlook index rose to 31, with 94 percent of firms anticipating similar or 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 Nov. 16-23, and 98 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.

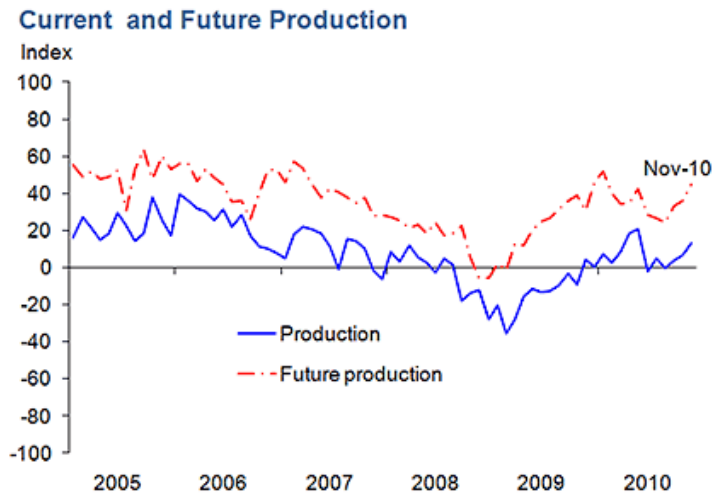
Next release: December 27, 2010

Company Business Indicators Relating to Facilities and Products in Texas Current								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	13.1	6.9	+6.2	Increasing	3	29.1	54.9	16.0
Capacity Utilization	9.9	-2.3	+12.2	Increasing	1	27.3	55.3	17.4
Volume of New Orders	9.1	-4.3	+13.4	Increasing	1	29.8	49.5	20.7
Growth Rate of Orders	9.3	-2.5	+11.8	Increasing	1	25.7	57.9	16.4
Unfilled Orders	0.0	-6.3	+6.3	Unchanged	1	17.0	66.0	17.0
Volume of Shipments	7.8	-2.3	+10.1	Increasing	1	25.8	56.2	18.0
Delivery Time	-1.0	-11.5	+10.5	Decreasing	6	10.2	78.6	11.2
Materials Inventories	-7.1	-1.9	-5.2	Decreasing	7	14.3	64.3	21.4
Finished Goods Inventories	-12.2	-12.5	+0.3	Decreasing	2	10.2	67.3	22.4
Prices Paid for Raw Materials	34.9	29.9	+5.0	Increasing	16	36.9	61.1	2.0
Prices Received for Finished Goods	6.0	-3.5	+9.5	Increasing	1	15.3	75.4	9.3
Wages and Benefits	5.1	10.6	-5.5	Increasing	12	8.2	88.7	3.1
Employment	5.8	-4.1	+9.9	Increasing	1	17.5	70.8	11.7
Average Employee Workweek (Hours Worked)	6.2	-7.7	+13.9	Increasing	1	18.6	69.1	12.4
Capital Expenditures	2.1	-1.9	+4.0	Increasing	1	10.3	81.4	8.2
General Business Conditions Current								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	18.6	13.0	+5.6	Improving	2	25.7	67.2	7.1
General Business Activity	16.2	2.6	+13.6	Improving	2	22.8	70.6	6.6
Company Business Indicators Relating to Facilities and Products in Texas Six Months Ahead								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	45.1	36.2	+8.9	Increasing	21	49.1	47.0	4.0
Capacity Utilization	43.9	36.0	+7.9	Increasing	21	46.7	50.5	2.8
Volume of New Orders	49.4	40.2	+9.2	Increasing	23	51.5	46.4	2.1
Growth Rate of Orders	40.5	35.4	+5.1	Increasing	21	44.4	51.7	3.9
Unfilled Orders	13.4	10.0	+3.4	Increasing	4	21.6	70.1	8.2
Volume of Shipments	48.3	34.9	+13.4	Increasing	21	52.6	43.1	4.3
Delivery Time	-1.1	-5.0	+3.9	Decreasing	1	8.2	82.5	9.3
Materials Inventories	9.3	2.0	+7.3	Increasing	2	23.7	61.9	14.4
Finished Goods Inventories	6.2	-5.9	+12.1	Increasing	1	20.6	64.9	14.4
Prices Paid for Raw Materials	41.3	35.7	+5.6	Increasing	20	48.5	44.3	7.2
Prices Received for Finished Goods	22.9	11.0	+11.9	Increasing	4	33.3	56.3	10.4
Wages and Benefits	33.0	23.8	+9.2	Increasing	78	33.8	65.4	0.8
Employment	37.9	13.0	+24.9	Increasing	15	43.2	51.6	5.3
Average Employee Workweek (Hours Worked)	22.1	17.9	+4.2	Increasing	21	23.2	75.8	1.1
Capital Expenditures	23.5	10.1	+13.4	Increasing	12	30.9	61.7	7.4
General Business Conditions Six Months Ahead								
Indicator	Nov Index	Oct Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	31.4	26.9	+4.5	Improving	18	37.2	57.0	5.8
General Business Activity	26.1	14.2	+11.9	Improving	3	34.4	57.3	8.3

*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.

Machinery Manufacturing

Orders continue to be very uneven compared with normal years. July and August were as bad as the fall of 2008, and September and October orders were much higher but still significantly below the levels in the first half of 2008. Future growth is planned through increased market share, but we are in a market that is experiencing very little real growth.

Chemical Manufacturing

We have seen an increase in business coming from several areas, and our customers want us to do more items turnkey. Previously, we would just put rubber on pipe, but now our customers want us to buy the pipe as well. Therefore, we have seen an increase in our inventory, particularly for pipe. We also have confirmed that the inventory buildup among our customers over the past several months has started to deplete, and they are now reordering.

Fabricated Metal Product Manufacturing

We are cautiously optimistic.

Computer and Electronic Product Manufacturing

Some large companies are leaning hard on the small companies that manufacture their products in order to reduce costs, pushing inventories and costs down onto the manufacturers.

Plastics and Rubber Product Manufacturing

Overall business is still slow.

Furniture and Related Product Manufacturing

More dealers are barely holding on, and we are hearing rumbles of one or two major companies getting ready to file for bankruptcy. Retail is very soft in the home furnishing arena.

Food Manufacturing

High dairy and sugar prices are really hurting us, and a weaker dollar does not help.

Beverage and Tobacco Product Manufacturing

The local economy has improved slightly here in East Texas.

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.
