



TEXAS MANUFACTURING ACTIVITY CONTINUES TO GROW

December 27, 2010

Texas factory activity increased in December, 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 fourth consecutive month.

Other indicators of current activity also remained positive, signaling continued growth in manufacturing. The shipments index held steady at a reading of 8, and the capacity utilization index rose from 10 to 15, with 29 percent of manufacturers reporting an increase. The new orders index declined in December but stayed in positive territory, with more than three-fourths of firms noting increased or unchanged order volumes.

Measures of general business conditions remained positive in December. The general business activity index came in at 13, with nearly a quarter of respondents noting improved activity. The company outlook index edged down to 15, although the share of manufacturers who said their outlook improved rose to its highest level since May.

Labor market indicators improved notably this month. The employment index rose from 6 in November to 15 in December, reaching its highest level since early 2007. Twenty-four percent of firms reported hiring new workers, compared with 9 percent reporting layoffs. Hours worked increased again this month, and the wages and benefits index rose from 5 to 10.

Prices climbed again in December. Input costs remained on an upward trend, with the raw materials price index rising from 35 to 44. Forty-six 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 for the second month in a row, although the great majority of respondents continued to note no change. More than half of respondents anticipate further increases in raw materials prices over the next six months, while 37 percent expect higher finished goods prices.

Manufacturers' six-month outlook continued to improve. The future indexes for production and shipments edged up further; more than half of respondents expect increases in these measures in coming months. The future new orders index rose to its highest level in four years, with all firms anticipating either increased or stable order volumes. The future general business activity index advanced from 26 to 37, and the future company outlook index rose to 38, 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 Dec. 14–21, and 96 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 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: January 31, 2011

**Company Business Indicators Relating to Facilities and Products in Texas
Current**

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	12.8	13.1	-0.3	Increasing	4	28.8	55.2	16.0
Capacity Utilization	14.8	9.9	+4.9	Increasing	2	28.8	57.2	14.0
Volume of New Orders	1.6	9.1	-7.5	Increasing	2	25.0	51.6	23.4
Growth Rate of Orders	2.5	9.3	-6.8	Increasing	2	20.1	62.3	17.6
Unfilled Orders	-1.6	0.0	-1.6	Decreasing	1	15.6	67.2	17.2
Volume of Shipments	7.8	7.8	0.0	Increasing	2	27.8	52.2	20.0
Delivery Time	-2.1	-1.0	-1.1	Decreasing	7	8.3	81.3	10.4
Materials Inventories	-3.2	-7.1	+3.9	Decreasing	8	17.9	61.1	21.1
Finished Goods Inventories	-1.1	-12.2	+11.1	Decreasing	3	15.6	67.7	16.7
Prices Paid for Raw Materials	43.9	34.9	+9.0	Increasing	17	46.1	51.7	2.2
Prices Received for Finished Goods	11.6	6.0	+5.6	Increasing	2	21.5	68.6	9.9
Wages and Benefits	9.5	5.1	+4.4	Increasing	13	13.7	82.1	4.2
Employment	15.0	5.8	+9.2	Increasing	2	24.2	66.6	9.2
Average Employee Workweek (Hours Worked)	9.4	6.2	+3.2	Increasing	2	21.9	65.6	12.5
Capital Expenditures	4.2	2.1	+2.1	Increasing	2	14.6	75.0	10.4

**General Business Conditions
Current**

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.4	18.6	-3.2	Improving	3	26.5	62.4	11.1
General Business Activity	12.8	16.2	-3.4	Improving	3	24.1	64.6	11.3

**Company Business Indicators Relating to Facilities and Products in Texas
Six Months Ahead**

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	47.9	45.1	+2.8	Increasing	22	50.5	46.9	2.6
Capacity Utilization	45.7	43.9	+1.8	Increasing	22	46.7	52.3	1.0
Volume of New Orders	54.8	49.4	+5.4	Increasing	24	54.8	45.2	0.0
Growth Rate of Orders	42.2	40.5	+1.7	Increasing	22	43.1	56.0	0.9
Unfilled Orders	14.9	13.4	+1.5	Increasing	5	20.2	74.5	5.3
Volume of Shipments	51.0	48.3	+2.7	Increasing	22	53.9	43.2	2.9
Delivery Time	3.2	-1.1	+4.3	Increasing	1	8.5	86.2	5.3
Materials Inventories	28.8	9.3	+19.5	Increasing	3	36.2	56.4	7.4
Finished Goods Inventories	22.3	6.2	+16.1	Increasing	2	35.1	52.1	12.8
Prices Paid for Raw Materials	46.2	41.3	+4.9	Increasing	21	52.7	40.9	6.5
Prices Received for Finished Goods	28.7	22.9	+5.8	Increasing	5	37.2	54.3	8.5
Wages and Benefits	32.9	33.0	-0.1	Increasing	79	34.0	64.9	1.1
Employment	36.2	37.9	-1.7	Increasing	16	38.3	59.6	2.1
Average Employee Workweek (Hours Worked)	22.3	22.1	+0.2	Increasing	22	25.5	71.3	3.2
Capital Expenditures	23.4	23.5	-0.1	Increasing	13	29.8	63.8	6.4

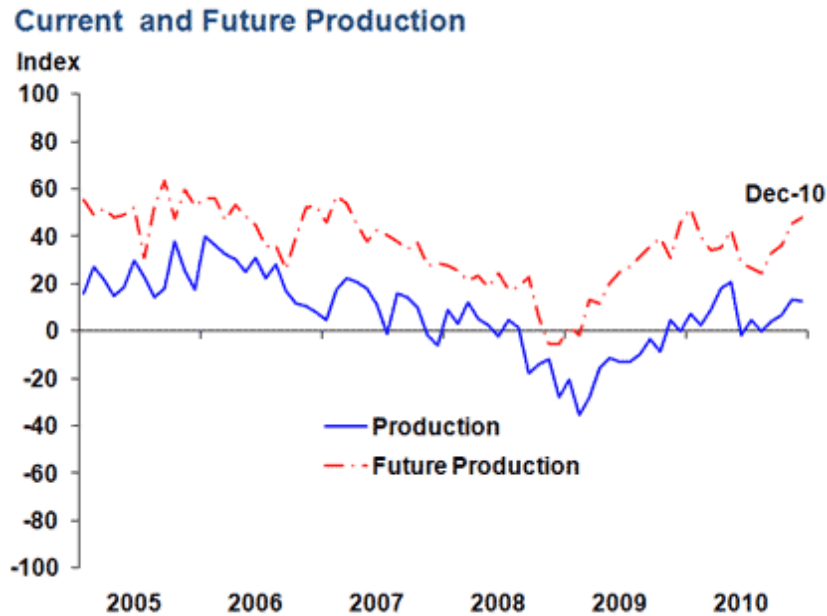
**General Business Conditions
Six Months Ahead**

Indicator	Dec Index	Nov Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	38.0	31.4	+6.6	Improving	19	43.8	50.4	5.8
General Business Activity	37.2	26.1	+11.1	Improving	4	43.6	50.0	6.4

*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

The tone of the general economy as well as for our business with our customers (midstream and downstream energy markets) has improved slightly. Further improvement over the next six months seems likely at this point. However, we are all maintaining a cautious and conservative posture because there is still a lot of uncertainty.

Orders for our capital goods dried up in the last half of November and first half of December. Order activity is very similar to late 2008 and early 2009.

Chemical Manufacturing

We have gone to operating 24 hours a day, seven days a week with an increase in personnel so that we do not have to run with much overtime. We are not sure if the pace can continue, but it will be interesting to see how business holds up in the first quarter of 2011. December will be a record month for us.

We believe the level of activity will pick up in the second quarter of 2011, although we also foresee increased feed prices due to crude oil prices increasing. The increase in crude oil prices will be from commodity investment activity rather than a significant change in the supply and demand balance.

Fabricated Metal Product Manufacturing

Prices for finished goods declined during the aftermath of the global financial crisis. Prices for commodities and other raw materials that are necessary for manufacturing are increasing more than 20 percent year-over-year, regardless of low inflationary expectations.

Vessel business is picking up due to the natural gas market.

Petroleum and Coal Products Manufacturing

We are unable to guess what our business outlook is six months down the road. There is so much uncertainty about federal and state government policy that it is difficult to assess the unknown impact on our business.

Nonmetallic Mineral Product Manufacturing

A slight improvement in economic conditions is expected after the first half of 2011. The forecast for slow economic growth in the U.S. will not provide much benefit to home building in the near future. We expect home

building to take several years to get back on firm footing.

Furniture and Related Product Manufacturing

Retail sales growth was slightly negative moving off of Thanksgiving. Small retailers are still hurting, and if a stronger spending pattern does not develop soon, many of them may not make it. Our view is that the renewed hold on drilling in the Eastern Gulf is having a continued dampening effect on business in about one-third of our trade area.

Food Manufacturing

Increased regulation from numerous government entities continues to make manufacturing business in the U.S. increasingly difficult. Manufacturing continues to leave this country for overseas suppliers.

Printing and Related Support Activities

We are leveling out at a marginally profitable operation with the recent acquisition of the book of business of a competitor, and we do not see many changes for the near term. One area of concern is the general economy slowing down after the holidays, which may negatively impact the overall business climate.

Miscellaneous Manufacturing

Export business is the reason for the negative change for our company. Our business in the U.S. is severely below 2008–2009 levels.

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.
