



TEXAS MANUFACTURING ACTIVITY FLAT BUT SIX-MONTH OUTLOOK IMPROVES

January 31, 2011

Federal Reserve Bank of Dallas

WHAT'S NEW THIS MONTH

This month's survey data include annual seasonal revisions. In January of each year, the Federal Reserve Bank of Dallas revises the historical data for the Texas Manufacturing Outlook Survey after calculating new seasonal adjustment factors. Annual seasonal revisions result in slight changes in the seasonally adjusted indexes.

For this month's survey, manufacturers were asked supplemental questions on hiring plans. Nearly half of respondents expect their firm to increase employment over the next six to twelve months. See page 5 for results.

Texas factory activity held steady in January, 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, suggesting output was unchanged from December. Other measures of current activity signaled continued growth in manufacturing, albeit at a slower pace.

The capacity utilization and shipments indexes fell but remained in positive territory. The new orders index improved, edging up from 11 to 13, with 30 percent of manufacturers reporting increased order volumes.

Indexes reflecting general business conditions fell but remained positive for the fourth month in a row. The general business activity index decreased from 16 to 11, and the company outlook index moved down from 17 to 13. Eighty-eight percent of respondents said business activity was unchanged or improved from the prior month.

Labor market indicators continued to reflect expansion, although increases in employment and hours worked abated. The employment index came in at a reading of 9, with 21 percent of firms reporting hiring compared with 12 percent reporting layoffs. The hours worked index fell from 14 to 4, while the wages and benefits index rose.

Prices climbed again in January. The raw materials price index jumped from 43 to 62, reaching its highest level since mid-2008. The share of manufacturers who saw an increase in input costs surged to 64 percent, compared with only 2 percent who saw a decrease. Finished goods prices rose for the third month in a row, although the great majority of respondents continued to note no change. Sixty percent of respondents anticipate further increases in raw materials prices over the next six months, while 40 percent expect higher finished goods prices.

Although several of the current activity indexes fell from December levels, all future activity indexes rose this month. The future indexes for production and shipments moved up to their highest levels in four years. The future new orders index reached its highest level since 2005, with 56 percent of manufacturers expecting an increase in order volumes over the next six months. The future general business activity index advanced to a six-year high of 39, and the future company outlook index rose to 41.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected January 18–26, and 97 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.

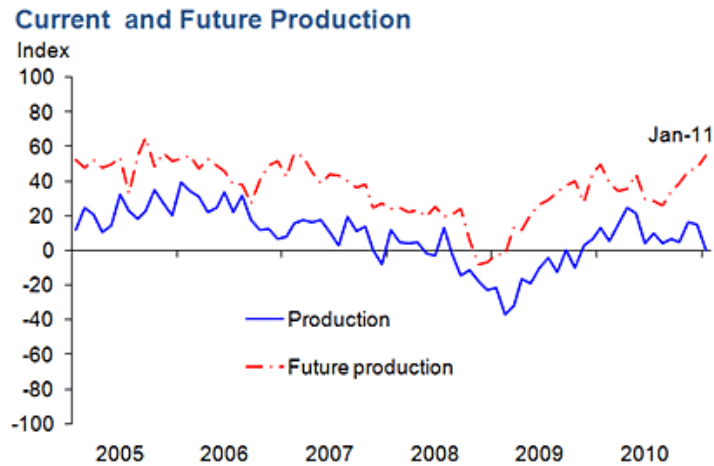
Next release: February 28, 2011

Company Business Indicators Relating to Facilities and Products in Texas									
Current									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	0.2	15.3	-15.1	Increasing	15	23.5	53.1	23.3	
Capacity Utilization	4.1	18.8	-14.7	Increasing	5	24.2	55.7	20.1	
Volume of New Orders	12.7	11.3	+1.4	Increasing	3	30.3	52.1	17.6	
Growth Rate of Orders	8.3	5.0	+3.3	Increasing	3	23.0	62.3	14.7	
Unfilled Orders	-3.1	-2.2	-0.9	Decreasing	8	11.3	74.3	14.4	
Volume of Shipments	4.6	16.0	-11.4	Increasing	3	26.2	52.2	21.6	
Delivery Time	-4.1	-2.1	-2.0	Decreasing	8	6.3	83.3	10.4	
Materials Inventories	-1.0	-0.7	-0.3	Decreasing	10	16.8	65.4	17.8	
Finished Goods Inventories	-8.3	-1.1	-7.2	Decreasing	4	12.5	66.7	20.8	
Prices Paid for Raw Materials	61.6	42.6	+19.0	Increasing	18	63.7	34.2	2.1	
Prices Received for Finished Goods	19.4	11.9	+7.5	Increasing	3	23.7	72.0	4.3	
Wages and Benefits	14.6	9.5	+5.1	Increasing	14	15.6	83.3	1.0	
Employment	9.3	16.1	-6.8	Increasing	3	21.2	66.8	11.9	
Average Employee Workweek (Hours Worked)	3.6	14.3	-10.7	Increasing	3	18.4	66.7	14.8	
Capital Expenditures	1.0	4.2	-3.2	Increasing	3	11.3	78.4	10.3	
General Business Conditions									
Current									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	13.0	17.1	-4.1	Improving	4	23.0	66.9	10.0	
General Business Activity	10.9	15.8	-4.9	Improving	4	23.3	64.3	12.4	
Company Business Indicators Relating to Facilities and Products in Texas									
Six Months Ahead									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	54.9	47.7	+7.2	Increasing	23	57.5	39.9	2.6	
Capacity Utilization	52.5	48.0	+4.5	Increasing	23	54.7	43.1	2.2	
Volume of New Orders	53.7	47.4	+6.3	Increasing	23	56.2	41.4	2.5	
Growth Rate of Orders	42.6	42.0	+0.6	Increasing	23	46.6	49.4	4.0	
Unfilled Orders	15.6	14.9	+0.7	Increasing	6	21.9	71.9	6.3	
Volume of Shipments	53.1	50.5	+2.6	Increasing	23	57.3	38.5	4.2	
Delivery Time	0.0	3.2	-3.2	Unchanged	1	9.4	81.3	9.4	
Materials Inventories	11.5	28.8	-17.3	Increasing	4	21.9	67.7	10.4	
Finished Goods Inventories	5.2	22.3	-17.1	Increasing	3	18.9	67.4	13.7	
Prices Paid for Raw Materials	56.2	46.2	+10.0	Increasing	22	60.4	35.4	4.2	
Prices Received for Finished Goods	34.4	28.7	+5.7	Increasing	6	39.6	55.2	5.2	
Wages and Benefits	31.3	34.5	-3.2	Increasing	80	32.5	66.3	1.2	
Employment	38.6	36.2	+2.4	Increasing	17	41.7	55.2	3.1	
Average Employee Workweek (Hours Worked)	28.1	22.3	+5.8	Increasing	23	30.2	67.7	2.1	
Capital Expenditures	20.9	23.4	-2.5	Increasing	14	24.0	72.9	3.1	
General Business Conditions									
Six Months Ahead									
Indicator	Jan Index	Dec Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	40.7	38.5	+2.2	Improving	20	43.9	53.0	3.2	
General Business Activity	39.1	35.0	+4.1	Improving	5	42.1	54.9	3.0	

*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.

Chemical Manufacturing

We just ended a record year, and thus far we are surpassing last year's numbers for revenue and bookings.

The last half of December is usually quiet for us as our customers concentrate on inventory control for property tax purposes. January has actually come back weaker than what we normally would have expected. We think we will see an uptick in business in the second quarter when the weather warms and optimism and confidence in the economy strengthen.

Plastics and Rubber Products Manufacturing

Uncertainty regarding tax and health care costs has led us to add people cautiously and more aggressively invest in automation and productivity projects.

Nonmetallic Mineral Product Manufacturing

Modest economic improvement is expected in the second half of the year, which we believe will translate into slightly higher demand for our products.

Primary Metal Manufacturing

We are now heading into our third month of increased activity. Raw materials have increased, causing some of the growth in demand as customers are getting ahead of price increases. It appears real demand is picking up in Texas. Because it looks like federal and state spending may level out or decrease over the next year or two due to debt and budget cuts, we need private industry demand to take up the slack and propel us to more steady and stable growth in the economy.

Fabricated Metal Product Manufacturing

We are cautiously optimistic about increased activity. We are overwhelmed with requests for quotations. However, margins are still very compressed, even though we are experiencing significant increases in steel prices. Another increase in steel prices is likely in February, which will follow increases in two of the last three months. We are still experiencing a great deal of push back from our bank when we have asked them to relax terms and conditions in order to expand our business model and fund new money for purchasing materials.

Machinery Manufacturing

We are cautiously optimistic. We have seen some modest market improvement, and we expect more throughout the year. We feel like the general economy will also continue to improve modestly.

Orders for new equipment since mid-November have been very slow with just a slight increase since the beginning of 2011.

Food Manufacturing

We are being hurt by very high prices for dairy ingredients, sugar and diesel.

Paper Manufacturing

We are in a traditionally slow period, but our outlook is positive for 2011. We are seeing a bit more order activity this year over last year.

We are off to a slow start in 2011; however, we are still optimistic about growing our business in coming months.

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

January 31, 2011

	Jan. '11 (percent)
1. Do you expect your firm to increase employment, leave employment unchanged, or decrease employment over the next six to twelve months?	
Increase	47.7
Leave Unchanged	41.9
Decrease	10.5

Respondents answering "increase" for question 1 were asked follow-up questions 2 and 3.

	Most Important (percent)	Second Most Important (percent)	Third Most Important (percent)
2. What are the three most important factors behind your plans to increase employment? Please rank the three factors in order from most important to third most important.			
Expected growth of sales or revenue is higher	70.7	17.5	5.6
Current staff are overworked	12.2	27.5	22.2
Need skills not possessed by current staff	9.8	17.5	22.2
Labor costs have fallen	0.0	0.0	0.0
Decreased economic or financial uncertainty	0.0	15.0	27.8
Firm's financial position has improved	0.0	17.5	16.7
Other factors	7.3	5.0	5.6

	Most Important (percent)	Second Most Important (percent)	Third Most Important (percent)
3. Despite your plans to increase employment, are there still factors restraining your hiring plans? If so, please rank the three factors in order from most important to third most important.			
Expected growth of sales or revenue is low	13.2	3.0	12.9
Current staff are underutilized/working reduced hours	2.6	9.1	3.2
Cannot find workers with required skills	10.5	6.1	25.8
Labor costs are high	7.9	6.1	12.9
Uncertainty about the cost of health insurance	7.9	27.3	9.7
Uncertainty about other regulations or gov't policies	18.4	27.3	9.7

Firm's financial position has deteriorated	2.6	3.0	3.2
Continued economic or financial uncertainty	34.2	18.2	19.4
Other factors	2.6	0.0	3.2

Respondents answering “leave unchanged” or “decrease” for question 1 were asked follow-up question 4.

	Most Important (percent)	Second Most Important (percent)	Third Most Important (percent)
4. What are the three most important factors, if any, restraining your hiring plans? Please rank the three factors in order from most important to third most important.			
Expected growth of sales or revenue is low	43.2	15.4	12.8
Current staff are underutilized/working reduced hours	10.8	7.7	12.8
Cannot find workers with required skills	5.4	0.0	2.6
Labor costs are high	0.0	15.4	0.0
Uncertainty about the cost of health insurance	10.8	10.3	15.4
Uncertainty about other regulations or gov't policies	2.7	10.3	25.6
Firm's financial position has deteriorated	2.7	2.6	5.1
Continued economic or financial uncertainty	18.9	38.5	17.9
Other factors	5.4	0.0	7.7

Survey collection period: 1/10/2011–1/13/2011

SPECIAL QUESTIONS COMMENTS

These comments have been edited for publication.

Nonmetallic Mineral Product Manufacturing

Our parent company is consolidating operations, which has resulted in the transfer of product lines and customers to our company. This consolidation is the primary cause for the increase in employment, as well as volume. We do not expect any significant volume increases as a result of economic demand during 2011.

Primary Metal Manufacturing

Chinese imports are priced below our costs.

Fabricated Metal Product Manufacturing

Increased costs resulting from health care reform is a huge concern for us. We expect the domestic economy to recover ever so slowly and are concerned that events in other countries could again cause a world economy downturn. Thus, our confidence is not high, so our current operating philosophy is to reduce debt rather than to invest in equipment and growth, in order to protect our firm were further economic troubles to arise. We will be making some capital goods acquisitions, but on a limited basis, and only those that offer a fast payback.

While we remain significantly underutilized, we are cautiously optimistic about the coming year.

We have the work but are finding it difficult to find workers with the skills we need.

As a manufacturer, we need skilled workers (sheet metal mechanic and machinist). Also, we need government policy to encourage manufacturing in the U.S., such as tax incentives to build in America and create jobs.

An additional concern is whether the federal government will come to the aid of states and municipalities as they deal with their debt issues. If the federal government funds state and local obligations, it will be difficult to lower corporate and personal taxes rates. Such actions could further constrain hiring.

There are good people available, and we are anxious to upgrade and improve our skill set. Although we are cautiously optimistic compared with 2010, the political, economic and regulatory environment must improve in order for companies to make long-term capital expenditures. Our financing for future growth in inventory and project financings will continue to restrain how quickly we can grow and take advantage of any market opportunities for new work.

Machinery Manufacturing

We will hire more employees to support additional work opportunities concurrent with the actual increases in this work. We do expect a gradual improvement in demand over the next six to 12 months. We will not be adding employees in anticipation or forecast of future growth. There is still a lot of uncertainty about the timing of market improvement.

Based on a low rate of orders, no hiring is planned. If orders do not increase soon, mandatory 32-hour weeks will be put in place again, as they were for the fourth quarter of 2008 through the fourth quarter of 2009.

Computer and Electronic Product Manufacturing

We are moving cautiously in hiring additional people. Customers continue to be cautious in ordering and reticent to make long-term commitments. In addition, there appears to be more movement to expand regulatory actions by federal agencies, which will exacerbate already escalating costs.

Food Manufacturing

We need significantly more business to justify hiring additional people. In this uncertain economy and with little peace of mind about what regulations or policies might be implemented that would negatively impact our bottom line, we will not hire anyone until we absolutely need them.

The high level of commodity prices, including dairy products, sugar and diesel, is having a huge deleterious effect on us.

We decreased employment by 15 percent in the fourth quarter last year. We hope that is sufficient to make our company profitable this year after two years of losses because of extremely difficult, industry-specific market conditions, which we expect to continue this year.

Beverage and Tobacco Product Manufacturing

We are concerned about the cost of employing people and of doing business. We are trying to find ways to accomplish the same amount of work with fewer people. We are also doing away with a lot of company cars for

people who don't really need them, but we will adjust salaries to offset the loss of cars for personal use.

Miscellaneous Manufacturing

While things have improved, there is still a lot of uncertainty in terms of consumer demand and government actions. We are a medical device company that has suffered due to decreased spending by the health care sector, increased regulation by the Food and Drug Administration and uncertainty of the recent healthcare reform.