



Federal Reserve Bank of Dallas

TEXAS MANUFACTURING ACTIVITY PICKS UP

February 28, 2011

Texas factory activity increased in February, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose to 10 following a reading near zero in January.

Most other indicators of current activity moved further into positive territory, signaling stronger growth in manufacturing. The capacity utilization index rose from 4 to 9, with 27 percent of manufacturers reporting an increase. The new orders and shipments indexes moved up as well; roughly 30 percent of firms noted increases in each of these measures.

In addition, materials inventories and finished goods inventories rose in February after shrinking for several months in a row. Capital expenditures grew, with the index coming in at 6, its best reading since May 2008.

Respondents also noted continued improvement in the broader economy as indexes reflecting general business conditions had positive readings for the fifth month in a row. The general business activity index advanced from 11 to 18, with one-quarter of firms reporting an improvement. The company outlook index held steady at 13. Ninety-two percent of respondents said their outlooks were unchanged or improved from the prior month.

Labor market indicators continued to reflect more hiring, a longer workweek and rising labor costs. The employment index came in at a reading of 11, up from 9 last month. The hours worked index was unchanged at 4, while the wages and benefits index fell from 15 to 9.

Prices continued to climb in February. The raw materials price index edged up from 62 to 63, with 64 percent of firms noting an increase in input costs compared with only 1 percent noting a decrease. The finished goods price index was positive for the fourth month in a row, although it moved down from 19 to 17. Nearly 70 percent of respondents anticipate further increases in raw materials prices over the next six months, while 37 percent expect higher finished goods prices.

Future indexes of manufacturing conditions generally fell in February, but remained in solid positive territory. More than half of manufacturers expect an increase in production over the next six months, compared with 4 percent expecting a decrease. The future general business activity index was 28, down from 39 in January, and the future company outlook index fell to 29.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Feb. 15–23, and 95 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.

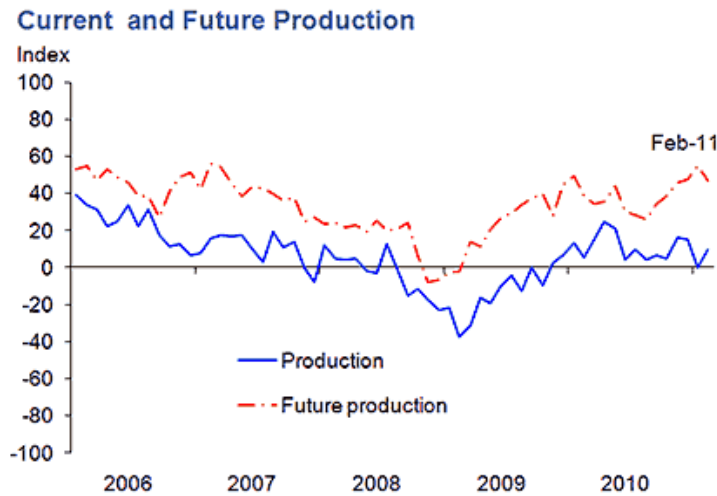
Next release March 28, 2011

Company Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	9.7	0.2	+9.5	Increasing	16	27.7	54.3	18.0
Capacity Utilization	9.2	4.1	+5.1	Increasing	6	27.2	54.8	18.0
Volume of New Orders	14.7	12.7	+2.0	Increasing	4	30.4	53.9	15.7
Growth Rate of Orders	6.4	8.3	-1.9	Increasing	4	21.8	62.8	15.4
Unfilled Orders	1.3	-3.1	+4.4	Increasing	1	16.4	68.5	15.1
Volume of Shipments	7.2	4.6	+2.6	Increasing	4	28.7	49.9	21.5
Delivery Time	-3.2	-4.1	+0.9	Decreasing	9	8.4	80.0	11.6
Materials Inventories	6.0	-1.0	+7.0	Increasing	1	23.5	59.0	17.5
Finished Goods Inventories	8.4	-8.3	+16.7	Increasing	1	22.1	64.2	13.7
Prices Paid for Raw Materials	62.6	61.6	+1.0	Increasing	19	63.8	35.0	1.2
Prices Received for Finished Goods	17.1	19.4	-2.3	Increasing	4	23.2	70.7	6.1
Wages and Benefits	9.4	14.6	-5.2	Increasing	15	12.6	84.2	3.2
Employment	10.5	9.3	+1.2	Increasing	4	19.1	72.3	8.6
Average Employee Workweek (Hours Worked)	3.6	3.6	0.0	Increasing	4	20.2	63.2	16.6
Capital Expenditures	6.3	1.0	+5.3	Increasing	4	14.7	76.8	8.4
General Business Conditions								
Current								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	13.1	13.0	+0.1	Improving	5	21.5	70.1	8.4
General Business Activity	17.5	10.9	+6.6	Improving	5	24.8	67.9	7.3
Company Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	47.1	54.9	-7.8	Increasing	24	50.7	45.7	3.6
Capacity Utilization	42.2	52.5	-10.3	Increasing	24	46.0	50.2	3.8
Volume of New Orders	44.4	53.7	-9.3	Increasing	24	48.1	48.2	3.7
Growth Rate of Orders	30.9	42.6	-11.7	Increasing	24	35.3	60.3	4.4
Unfilled Orders	10.8	15.6	-4.8	Increasing	7	18.3	74.2	7.5
Volume of Shipments	45.8	53.1	-7.3	Increasing	24	50.0	45.8	4.2
Delivery Time	3.2	0.0	+3.2	Increasing	1	9.7	83.9	6.5
Materials Inventories	10.9	11.5	-0.6	Increasing	5	20.7	69.6	9.8
Finished Goods Inventories	6.4	5.2	+1.2	Increasing	4	16.1	74.2	9.7
Prices Paid for Raw Materials	67.4	56.2	+11.2	Increasing	23	68.5	30.4	1.1
Prices Received for Finished Goods	33.4	34.4	-1.0	Increasing	7	36.6	60.2	3.2
Wages and Benefits	44.4	31.3	+13.1	Increasing	81	44.5	55.4	0.1
Employment	39.1	38.6	+0.5	Increasing	18	41.3	56.5	2.2
Average Employee Workweek (Hours Worked)	24.5	28.1	-3.6	Increasing	24	26.7	71.1	2.2
Capital Expenditures	28.0	20.9	+7.1	Increasing	15	31.2	65.6	3.2
General Business Conditions								
Six Months Ahead								
Indicator	Feb Index	Jan Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	28.6	40.7	-12.1	Improving	21	38.9	50.8	10.3
General Business Activity	27.8	39.1	-11.3	Improving	6	33.2	61.4	5.4

*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.

Plastics and Rubber Products Manufacturing

Our decreased volume and activity resulted mostly from weather conditions. We are seeing a slight pickup in private sector demand.

Rising raw material prices are beginning to have a real impact on our business.

Raw material price increases from suppliers are more frequent. We have begun hiring engineering, technician and quality personnel, mostly out of El Paso.

Nonmetallic Mineral Product Manufacturing

We have seen a modest improvement in business activity due to improved economic activity. With the demise of some competitors, our company has gained market share, which has led to a greater increase in revenues than the general economic conditions would warrant.

Fabricated Metal Product Manufacturing

Bookings, which provide a six-month forward look, have increased year-over-year each month for the past four months in our nonresidential construction buildings business. If that trend continues through April, we will likely see overall year-over-year improvement in both volume and value for the first time since 2007. However, even if that were to occur, nonresidential new construction starts would be only slightly better than 2009, which was the second worst year in 50 years, behind only 2010.

Domestic orders are definitely increasing, partially due to the introduction of new products. International orders are also up. Overall, it seems activity and general conditions are improving.

February will be hit with a weather-related negative impact.

Weather impacted February performance. We have begun to see an uptick in orders.

Our backlog has decreased and not been replaced. However, our backlog and production shipments in January were the highest at comparable times for the last two years. We have not seen profitable bid margins improve on awards of major contracts.

Machinery Manufacturing

We are running at plant capacity and have been since fall of 2010. We expect to run at capacity at least through spring of 2011. We will soon begin to book orders for the summer and fall. The prospects look very good to sell all of our capacity for the rest of 2011 in the next two months.

In the near term, the severe weather in the Midwest and very cold weather in Texas has deferred some activity by a few weeks, which could lead to a softer first quarter. Overall, we still see improving (modest, not dramatic) overall demand for our services. However, we are also seeing strong increases in steel prices that will be a new challenge for maintaining our profit margins.

Capital expenditures in the domestic foodservice industry continue to be much slower than the normal seasonal pattern. Operators continue to try to keep old equipment operating at almost any cost instead of investing to replace it.

Wood Product Manufacturing

In Texas construction trades (including suppliers) there is still more supply of goods and services than demand. As a result, there are many bidders on each job, and margins are thin. Unfortunately, there will probably be more business failures before things equalize in the Texas building industry. Smaller towns in Texas are faring better than Dallas, Houston, San Antonio, Austin and Fort Worth.

Furniture and Related Product Manufacturing

We have experienced a significant slowdown because of weather for our retail dealers in several regions, including Oklahoma, Arkansas, Missouri and Kansas.

Only in the last four days have we seen seasonal improvement in sales, but it is sufficient to suggest a real improvement with some legs.

Paper Manufacturing

Talk of a price increase for the March–April time frame would not be good for business. Even though we are seeing a slight increase in orders, we don't think the timing would be right this early in the year.

Food Manufacturing

Record-high costs for our raw materials are hurting us. The price of diesel is also bad for us.

Beverage and Tobacco Product Manufacturing

We missed a few days due to weather. In addition, the bad weather keeps people out of the stores. The recent nice weather is helping us catch up. We see our sugar, aluminum, plastic and fuel prices increasing in the next six 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.
