



TEXAS MANUFACTURING ACTIVITY STRENGTHENS FURTHER

March 28, 2011

Federal Reserve Bank of Dallas

Texas factory activity increased in March, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose sharply to 24, its highest level in nearly a year.

Most other indicators of current activity also moved further into positive territory, signaling stronger growth in manufacturing. The capacity utilization and shipments indexes jumped up, with about 30 percent of manufacturers reporting increases over the prior month. The new orders index was largely unchanged in March, suggesting new orders rose at about the same pace as in February.

Respondents also noted continued improvement in the broader economy as indexes reflecting general business conditions had positive readings for the sixth month in a row. The general business activity index remained positive but fell from its February level. The company outlook index advanced from 13 to 16, with more than a quarter of respondents saying their outlooks were improved from the prior month.

Labor market indicators continued to reflect expansion. The employment index came in at a reading of 12, similar to February. Twenty percent of manufacturers reported hiring new workers compared with eight percent reporting layoffs. The hours worked index jumped to 13, with the share of firms reporting decreases in employee workweeks falling to its lowest level since 2006. The wages and benefits index rose from 9 to 12, although the great majority of respondents noted no change in labor costs.

Prices continued to climb in March although the pace of increase was either flat or down. Increases in input prices abated slightly; the raw materials price index edged down from 63 to 57 after posting increases for seven months in a row. The finished goods price index was positive for the fifth consecutive month, but held steady at a reading of 17. Roughly 60 percent of respondents anticipate further increases in raw materials prices over the next six months, while 36 percent expect higher finished goods prices.

Movement in the future indexes of manufacturing conditions were mixed in March, but all indexes remained in solid positive territory. Future indexes for production, capacity utilization and new orders moved up from their February readings. The future general business activity index fell from 28 to 17. The future company outlook index came in at 27, down slightly from a reading of 29 last month.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Mar. 15–23, and 101 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.

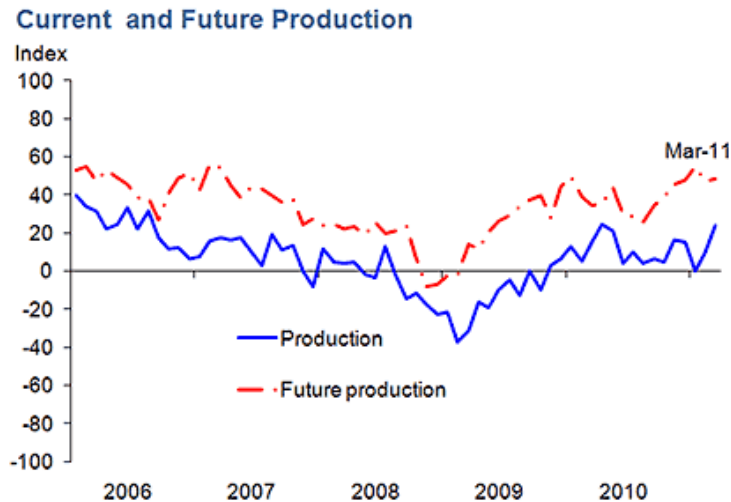
Next release: April 25, 2011

Company Business Indicators Relating to Facilities and Products in Texas Current								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	24.1	9.7	+14.4	Increasing	17	34.8	54.5	10.7
Capacity Utilization	18.7	9.2	+9.5	Increasing	7	29.6	59.5	10.9
Volume of New Orders	13.6	14.7	-1.1	Increasing	5	30.8	52.0	17.2
Growth Rate of Orders	10.0	6.4	+3.6	Increasing	5	24.9	60.2	14.9
Unfilled Orders	-3.3	1.3	-4.6	Decreasing	1	14.4	67.9	17.7
Volume of Shipments	18.7	7.2	+11.5	Increasing	5	32.7	53.3	14.0
Delivery Time	-3.0	-3.2	+0.2	Decreasing	10	6.9	83.2	9.9
Materials Inventories	6.6	6.0	+0.6	Increasing	2	20.0	66.6	13.4
Finished Goods Inventories	1.0	8.4	-7.4	Increasing	2	18.0	65.0	17.0
Prices Paid for Raw Materials	57.2	62.6	-5.4	Increasing	20	59.3	38.6	2.1
Prices Received for Finished Goods	17.0	17.1	-0.1	Increasing	5	22.2	72.6	5.2
Wages and Benefits	11.9	9.4	+2.5	Increasing	16	13.9	84.2	2.0
Employment	11.6	10.5	+1.1	Increasing	5	20.0	71.6	8.4
Average Employee Workweek (Hours Worked)	12.8	3.6	+9.2	Increasing	5	22.2	68.4	9.4
Capital Expenditures	6.0	6.3	-0.3	Increasing	5	13.1	79.8	7.1
General Business Conditions Current								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	15.7	13.1	+2.6	Improving	6	25.7	64.3	10.0
General Business Activity	11.5	17.5	-6.0	Improving	6	24.1	63.3	12.6
Company Business Indicators Relating to Facilities and Products in Texas Six Months Ahead								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	48.5	47.1	+1.4	Increasing	25	54.0	40.5	5.5
Capacity Utilization	44.6	42.2	+2.4	Increasing	25	49.0	46.6	4.4
Volume of New Orders	46.4	44.4	+2.0	Increasing	25	52.0	42.4	5.6
Growth Rate of Orders	36.7	30.9	+5.8	Increasing	25	41.5	53.7	4.8
Unfilled Orders	7.0	10.8	-3.8	Increasing	8	15.0	77.0	8.0
Volume of Shipments	42.7	45.8	-3.1	Increasing	25	49.3	44.0	6.6
Delivery Time	-1.0	3.2	-4.2	Decreasing	1	7.0	85.0	8.0
Materials Inventories	13.2	10.9	+2.3	Increasing	6	25.3	62.6	12.1
Finished Goods Inventories	0.0	6.4	-6.4	Unchanged	1	15.2	69.7	15.2
Prices Paid for Raw Materials	57.6	67.4	-9.8	Increasing	24	60.6	36.4	3.0
Prices Received for Finished Goods	34.7	33.4	+1.3	Increasing	8	35.7	63.3	1.0
Wages and Benefits	32.4	44.4	-12.0	Increasing	82	32.5	67.4	0.1
Employment	31.0	39.1	-8.1	Increasing	19	35.0	61.0	4.0
Average Employee Workweek (Hours Worked)	18.2	24.5	-6.3	Increasing	25	21.2	75.8	3.0
Capital Expenditures	16.0	28.0	-12.0	Increasing	16	23.0	70.0	7.0
General Business Conditions Six Months Ahead								
Indicator	Mar Index	Feb Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	26.5	28.6	-2.1	Improving	22	37.0	52.5	10.5
General Business Activity	16.8	27.8	-11.0	Improving	7	29.8	57.2	13.0

*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.

Plastics and Rubber Products Manufacturing

We've seen a drop off of new orders and particularly repeat orders, perhaps related to the expiration of stimulus funds in the general economy.

Nonmetallic Mineral Product Manufacturing

Two factors have resulted in an increase in demand: consolidation of a sister location into our location and the closure of the sister location, and exit from the industry by a competitor in Florida. These factors have significantly improved order flow through our location. We have also seen a minor increase in order flow from existing customers, indicating the beginning of a recovery in the housing sector. Commodity-based raw material prices have begun to increase, partially due to higher energy prices and a weak U.S. currency. As a result, we will seek a small price increase for our products within the next two months. The impact of the recent situation in Japan on the world economy has yet to be determined, so we remain cautiously optimistic at this time.

Fabricated Metal Product Manufacturing

A large new project with a local maker of high-end furniture may double our volume of shipments.

Our oil field service, coal mining and minerals mining customers continue to accelerate their demand. Other markets remain soft. We are adding to our labor resources. The only area of difficulty we have is hiring and retaining qualified machinists.

Machinery Manufacturing

We continue to see a slow improvement in demand in our markets, but our industrial customers remain very cautious and cost-conscious. My impression of the general economy is less optimistic than a month ago. Costs that matter to consumers, like food and fuel, are going up very significantly. The uncertainties in the Middle East and Japan are affecting everyone's confidence.

Chemical Manufacturing

We are seeing a small slowdown in new orders thus far this month, but we expect it to pick back up to February-type numbers.

Demand seems to be gaining traction slowly, but we are concerned about the effect of higher oil prices, particularly on consumer demand.

Furniture and Related Product Manufacturing

The outlook seems to be on the edge again, and we are very unclear as to the direction. The last three weeks, which are normally dramatically upward, are two weeks up and one week down. How much world events are playing on this is unknown, but gas prices are dampening business. All of our dealers are certain on that one point.

Computer and Electronic Product Manufacturing

Commercial aircraft business is anticipated to increase. Military and defense business is fairly flat.

About 10 percent of our revenue is sourced from manufacturing sites in Japan that have been affected by the recent earthquake. About 60 percent of our products are sourced from other facilities, and it is possible to move all production to other sites over time. Due to our manufacturing processes, most of our WIP (work in process) to meet the current quarter demand is in final stages in other parts of the world. Hence, supply impact will be greatest in second quarter 2011. Near-term, about 10 percent of our revenue ships into Japan, and customer sites vary from being fully back on line to not knowing when production would resume. The impact on demand is not known at this point.

Food Manufacturing

Prices are high, which makes for lower volume. The supply of cattle is limited. The cost of grain for livestock is unusually high because of high corn prices, partly attributable to ethanol subsidies.

All of our raw material costs are at record highs. The cost of diesel also hurts us. A weak dollar is not good for us.

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.
