



Texas Manufacturing Outlook Survey

F E D E R A L R E S E R V E B A N K O F D A L L A S

April 25, 2011

TEXAS MANUFACTURING ACTIVITY INCREASES BUT AT A SLOWER PACE

Texas factory activity continued to expand in April, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, moved down from 24 to 8, suggesting slower growth in output.

Other measures of current manufacturing activity remained positive but retreated from their March levels. The capacity utilization and shipments indexes declined to readings of 10 and 8, respectively. The new orders index was positive for the sixth consecutive month, although it decreased from 14 to 4 in April. Downward movement in the indexes for current activity was largely due to a rise in the share of manufacturers reporting decreases in these indicators.

Respondents noted continued improvement in the broader economy as indexes reflecting general business conditions had positive readings for the seventh month in a row. The general business activity index was largely unchanged in April, coming in at a reading of 11. The company outlook index declined from 16 to 10, with a quarter of respondents saying their outlooks were improved from the prior month compared with 15 percent saying their outlooks had worsened.

Labor market indicators showed mixed movements in April. The employment index edged up from 12 to 13, its highest reading this year. Nineteen percent of manufacturers reported hiring new workers compared with 6 percent reporting layoffs. Hours worked were essentially flat in April after increasing for five consecutive months.

Prices and wages continued to climb in April. The raw materials price index held steady at a reading of 57, suggesting input prices rose at about the same pace as in March. The finished goods price index advanced from 17 to 24, its highest level since mid-2008. More than 60 percent of respondents anticipate further increases in raw materials prices over the next six months, while 37 percent expect higher finished goods prices. The wages and benefits index rose from 12 to 16, although the great majority of respondents noted no change in labor costs.

Future indexes of manufacturing activity were little changed in April, and all remained in solid positive territory. Future indexes for production and shipments moved up from their March readings. The future general business activity index held steady at 17. The future company outlook index came in at 25, down slightly from a reading of 27 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 Apr. 12-20, and 94 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.

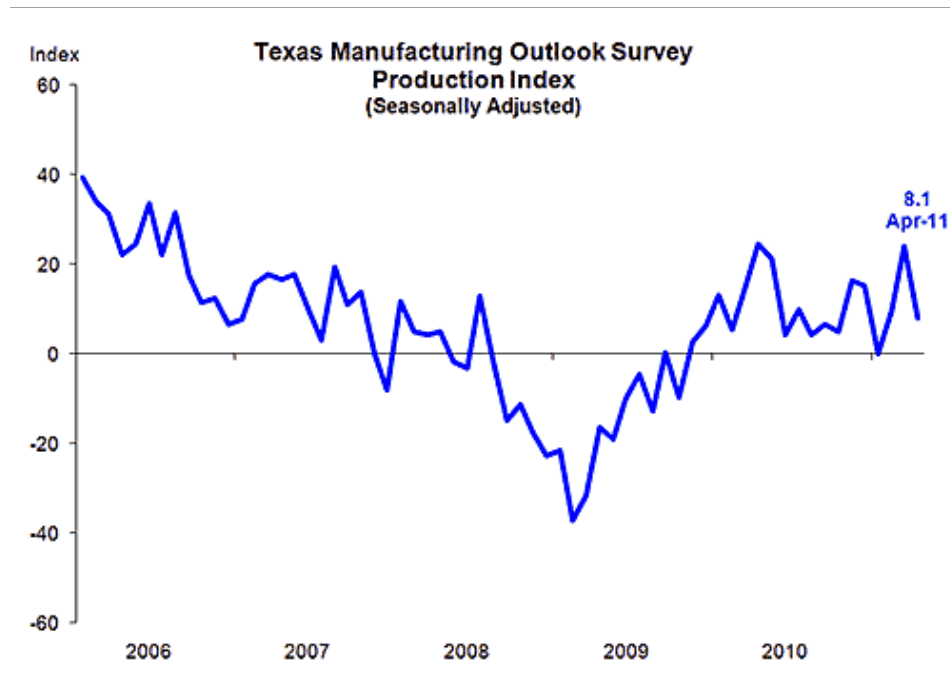
Next release: May 31, 2011

Business Indicators Relating to Facilities and Products in Texas									
Current									
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	8.1	24.1	-16.0	Increasing	18	31.5	45.1	23.4	
Capacity Utilization	9.7	18.7	-9.0	Increasing	8	29.1	51.5	19.4	
New Orders	4.3	13.6	-9.3	Increasing	6	29.6	45.2	25.3	
Growth Rate of Orders	5.0	10.0	-5.0	Increasing	6	25.5	54.0	20.5	
Unfilled Orders	-3.1	-3.3	+0.2	Decreasing	2	13.1	70.7	16.2	
Shipments	7.8	18.7	-10.9	Increasing	6	29.4	49.1	21.6	
Delivery Time	-3.3	-3.0	-0.3	Decreasing	11	7.5	81.7	10.8	
Materials Inventories	3.7	6.6	-2.9	Increasing	3	18.2	67.3	14.5	
Finished Goods Inventories	4.2	1.0	+3.2	Increasing	3	17.0	70.2	12.8	
Prices Paid for Raw Materials	56.6	57.2	-0.6	Increasing	21	61.7	33.2	5.1	
Prices Received for Finished Goods	23.9	17.0	+6.9	Increasing	6	27.9	68.1	4.0	
Wages and Benefits	15.9	11.9	+4.0	Increasing	17	17.0	81.9	1.1	
Employment	13.4	11.6	+1.8	Increasing	6	19.4	74.6	6.0	
Hours Worked	-0.7	12.8	-13.5	Decreasing	1	14.9	69.5	15.6	
Capital Expenditures	7.5	6.0	+1.5	Increasing	6	12.9	81.7	5.4	
General Business Conditions									
Current									
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	10.0	15.7	-5.7	Improving	7	25.0	60.0	15.0	
General Business Activity	10.5	11.5	-1.0	Improving	7	24.4	61.7	13.9	
Business Indicators Relating to Facilities and Products in Texas									
Six Months Ahead									
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease	
Production	50.4	48.5	+1.9	Increasing	26	58.6	33.2	8.2	
Capacity Utilization	43.9	44.6	-0.7	Increasing	26	51.7	40.5	7.8	
New Orders	42.2	46.4	-4.2	Increasing	26	52.0	38.2	9.8	
Growth Rate of Orders	29.4	36.7	-7.3	Increasing	26	39.6	50.2	10.2	
Unfilled Orders	5.4	7.0	-1.6	Increasing	9	15.1	75.3	9.7	
Shipments	46.1	42.7	+3.4	Increasing	26	53.7	38.7	7.6	
Delivery Time	-1.1	-1.0	-0.1	Decreasing	2	8.6	81.7	9.7	
Materials Inventories	12.0	13.2	-1.2	Increasing	7	26.1	59.8	14.1	
Finished Goods Inventories	-1.0	0.0	-1.0	Decreasing	1	15.1	68.8	16.1	
Prices Paid for Raw Materials	58.7	57.6	+1.1	Increasing	25	62.0	34.8	3.3	
Prices Received for Finished Goods	34.1	34.7	-0.6	Increasing	9	37.4	59.3	3.3	
Wages and Benefits	35.7	32.4	+3.3	Increasing	83	36.2	63.3	0.5	
Employment	28.3	31.0	-2.7	Increasing	20	34.8	58.7	6.5	
Hours Worked	14.0	18.2	-4.2	Increasing	26	21.5	71.0	7.5	
Capital Expenditures	22.0	16.0	+6.0	Increasing	17	25.3	71.4	3.3	
General Business Conditions									
Six Months Ahead									
Indicator	Apr Index	Mar Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened	
Company Outlook	24.9	26.5	-1.6	Improving	23	37.4	50.1	12.5	
General Business Activity	16.9	16.8	+0.1	Improving	8	30.9	55.1	14.0	

*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 are very encouraged by the breadth of activity with our cross section of customers in the Dallas–Fort Worth area. It is not just a few companies with increased requirements for plastic parts, but pretty much all of our diverse customer base.

Nonmetallic Mineral Product Manufacturing

We have seen a modest increase in demand with existing customers. We have also added some new customers as a result of competitor failures. From a cost standpoint, commodity prices continue to increase, negatively impacting material and delivery costs. As a result, we are in the process of taking a price increase to the market, which should occur in May. Our future expectations remain guardedly optimistic.

Fabricated Metal Product Manufacturing

Lead times for machine tools made in Japan and Korea have increased. We understand the principal issue is the availability of castings for the machine tool bodies. We assume our Korean castings supplier sources from Japan.

The recent Japan supply chain disruption has increased concern for diversification in the supply chain to minimize risk. Higher transportation costs along with the need to reduce cycle time favor manufacturing being close to the distribution channel. This increases opportunity for North America manufacturers. Increased manufacturing increases job creation.

The rate of improvement and the actual improvement in volume of products shipped is only forecasted to achieve production levels that are 50 percent of 2007 levels. We have 25 percent fewer manufacturing plants and 40 percent fewer people than in 2007. As a result of previous investments in efficiency improvements (technical systems and automation), we can produce the same amount of products as we did in 2007 with vastly less cost.

We have seen a slowdown in awards of outstanding quotations from the first quarter. Our backlog has been reduced to less than one month. Renewal of bank credit facility remains very uncertain.

Machinery Manufacturing

The economy is still moving, but it remains shaky and unstable.

We are cautiously optimistic. Activity levels are ticking up a little. We worry about the impact inflation (energy and food) may have on the recovery and consumer spending.

We continue to see little change in the foodservice equipment market, new restaurant openings or equipment replacements. The only real change that we see is higher prices from almost all of our suppliers, especially for stainless steel.

Chemical Manufacturing

If energy prices stay the same or moderate a little, we believe we will see some improvement in volumes over the next few months. A rapid increase in prices from current levels will definitely have a dampening effect on the markets. In times of uncertainty, people and companies hold back on expenditures, control inventories, etc.

Furniture and Related Product Manufacturing

Our industry has hit another brick wall. Rapidly increasing costs and fuel costs have shocked the consumer away from any nonmandatory spending. They normally adjust, but it may take several months.

Computer and Electronic Product Manufacturing

Raw materials (e.g., steel, tungsten) prices are rising exponentially, with an anticipated leveling out at new highs around August or September of this year. Our customers are unwilling to accept the increased pricing from U.S. manufactured product and are turning to China, India and Korea for cheaper prices.

Paper Manufacturing

Because of the slower recovery of nondurable goods, business has remained flat. The only positive coming out of this is that the expected price increase this spring on containerboard is now off the table until July or August at the earliest.

Food Manufacturing

Our sales are up, but our cost of goods sold and the cost of diesel are keeping our margins at record lows. A weak dollar does not help us. High commodity prices also hurt 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.
