



# 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

May 31, 2011

## TEXAS MANUFACTURING ACTIVITY EXPANDS

Texas factory activity increased in May, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 8 to 13 with 27 percent of respondents noting output increased from April.

Other measures of current manufacturing conditions also indicated growing activity, although the pace of new orders slowed. The capacity utilization index edged up from its April level, while the shipments index held steady at a reading of 8. The new orders index moved down from 4 to 1, with the share of manufacturers reporting increased order volumes falling from 30 percent to 22 percent. The growth rate of orders index turned negative after six months of positive readings. For all indicators, there was a significant rise in the percentage of firms noting no change from the prior month.

Perceptions of general business conditions were mixed in May. The general business activity index declined from 11 to -7, its first negative reading in eight months. However, more than three-fourths of respondents said activity was unchanged from April. The company outlook index fell from 10 to 3, with 16 percent of respondents saying their outlooks were improved from the prior month compared with 13 percent saying their outlooks had worsened.

Labor market indicators reflected more hiring and longer workweeks. The employment index came in at 12, with the share of manufacturers adding workers reaching its highest level this year. The hours worked index jumped up from -1 in April to 13 in May.

Prices climbed again this month, although at a reduced rate, and labor costs continued an upward trend. The raw materials price index retreated from 57 to 43, suggesting input prices rose but at a slower pace than in April. The finished goods price index fell from 24 to 9, its lowest level this year. About 60 percent of respondents anticipate further increases in raw materials prices over the next six months, while 32 percent expect higher finished goods prices. The wages and benefits index rose from 16 to 19, although the great majority of respondents noted no change in labor costs.

Expectations regarding future business conditions were less optimistic in May. The future general business activity index was 8, its lowest reading since September 2010, and the future company outlook index also fell to an 8-month low. Future indexes of manufacturing conditions also fell in May, but remained in solid positive territory.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected May 17-25, and 93 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.

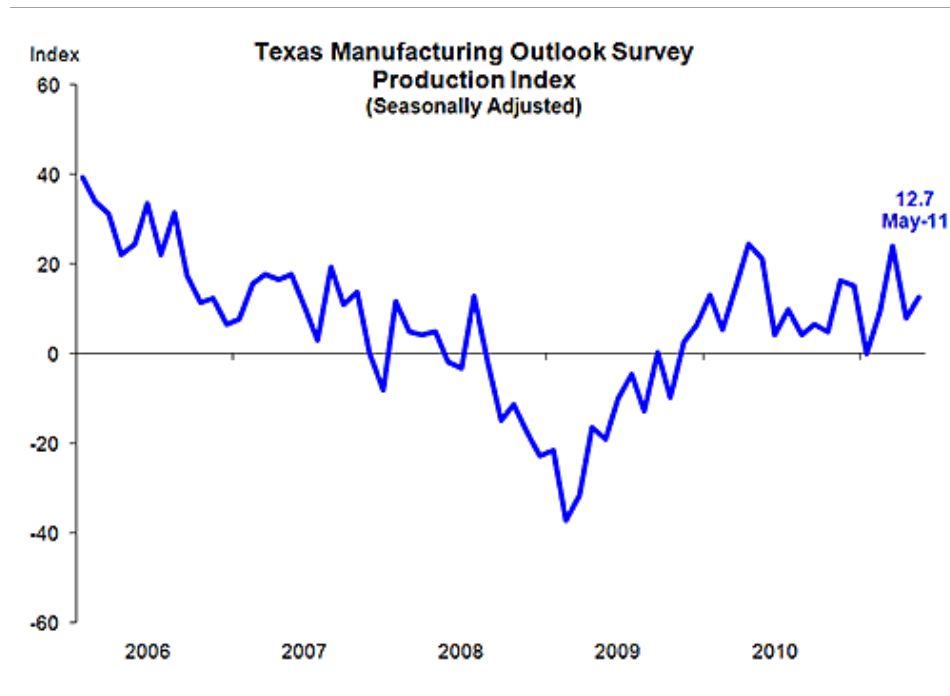
**Next release:** June 27, 2011

<b>Business Indicators Relating to Facilities and Products in Texas</b>									
<b>Current</b>									
<b>Indicator</b>	<b>May Index</b>	<b>Apr Index</b>	<b>Change</b>	<b>Indicator Direction*</b>	<b>Trend** (months)</b>	<b>% Reporting Increase</b>	<b>% Reporting No Change</b>	<b>% Reporting Decrease</b>	
Production	12.7	8.1	4.6	Increasing	19	26.8	59.1	14.1	
Capacity Utilization	11.1	9.7	1.4	Increasing	9	28	55.1	16.9	
New Orders	1.1	4.3	-3.2	Increasing	7	22	57.1	20.9	
Growth Rate of Orders	-5.4	5	-10.4	Decreasing	1	16.7	61.2	22.1	
Unfilled Orders	-7.8	-3.1	-4.7	Decreasing	3	7	78.2	14.8	
Shipments	8	7.8	0.2	Increasing	7	24.2	59.6	16.2	
Delivery Time	0	-3.3	3.3	Unchanged	1	8.6	82.8	8.6	
Materials Inventories	-0.1	3.7	-3.8	Decreasing	1	18.5	62.9	18.6	
Finished Goods Inventories	-4.3	4.2	-8.5	Decreasing	1	11.8	72	16.1	
Prices Paid for Raw Materials	42.3	56.6	-14.3	Increasing	22	48	46.4	5.7	
Prices Received for Finished Goods	8.8	23.9	-15.1	Increasing	7	16.1	76.6	7.3	
Wages and Benefits	18.5	15.9	2.6	Increasing	18	20.7	77.2	2.2	
Employment	11.6	13.4	-1.8	Increasing	7	22	67.6	10.4	
Hours Worked	13.2	-0.7	13.9	Increasing	1	25.4	62.4	12.2	
Capital Expenditures	8.7	7.5	1.2	Increasing	7	14.1	80.4	5.4	
<b>General Business Conditions</b>									
<b>Current</b>									
<b>Indicator</b>	<b>May Index</b>	<b>Apr Index</b>	<b>Change</b>	<b>Indicator Direction*</b>	<b>Trend** (months)</b>	<b>% Reporting Improved</b>	<b>% Reporting No Change</b>	<b>% Reporting Worsened</b>	
Company Outlook	3.2	10	-6.8	Improving	8	16.1	71	12.9	
General Business Activity	-7.4	10.5	-17.9	Worsening	1	8.5	75.6	15.9	
<b>Business Indicators Relating to Facilities and Products in Texas</b>									
<b>Six Months Ahead</b>									
<b>Indicator</b>	<b>May Index</b>	<b>Apr Index</b>	<b>Change</b>	<b>Indicator Direction*</b>	<b>Trend** (months)</b>	<b>% Reporting Increase</b>	<b>% Reporting No Change</b>	<b>% Reporting Decrease</b>	
Production	41.3	50.4	-9.1	Increasing	27	52.8	35.7	11.5	
Capacity Utilization	43.5	43.9	-0.4	Increasing	27	54.3	34.9	10.8	
New Orders	40.8	42.2	-1.4	Increasing	27	50.8	39.2	10	
Growth Rate of Orders	27.7	29.4	-1.7	Increasing	27	36.5	54.7	8.8	
Unfilled Orders	15.4	5.4	10	Increasing	10	23.1	69.2	7.7	
Shipments	43.7	46.1	-2.4	Increasing	27	54.4	34.9	10.7	
Delivery Time	2.2	-1.1	3.3	Increasing	1	10.9	80.4	8.7	
Materials Inventories	9.8	12	-2.2	Increasing	8	22.8	64.1	13	
Finished Goods Inventories	-1.1	-1	-0.1	Decreasing	2	14.1	70.7	15.2	
Prices Paid for Raw Materials	51.6	58.7	-7.1	Increasing	26	58.2	35.2	6.6	
Prices Received for Finished Goods	25	34.1	-9.1	Increasing	10	31.5	62	6.5	
Wages and Benefits	30.6	35.7	-5.1	Increasing	84	33.5	63.6	2.9	
Employment	28.3	28.3	0	Increasing	21	35.9	56.5	7.6	
Hours Worked	10.9	14	-3.1	Increasing	27	19.6	71.7	8.7	
Capital Expenditures	18.5	22	-3.5	Increasing	18	26.1	66.3	7.6	
<b>General Business Conditions</b>									
<b>Six Months Ahead</b>									
<b>Indicator</b>	<b>May Index</b>	<b>Apr Index</b>	<b>Change</b>	<b>Indicator Direction*</b>	<b>Trend** (months)</b>	<b>% Reporting Improved</b>	<b>% Reporting No Change</b>	<b>% Reporting Worsened</b>	
Company Outlook	19.6	24.9	-5.3	Improving	24	32.9	53.8	13.3	
General Business Activity	7.9	16.9	-9	Improving	9	24.1	59.7	16.2	

\*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 deal with a broad base of both large and small companies. We have seen increased demand for custom molded plastic parts from most of our customers. We are also seeing some new, first-time customers. Raw material prices have increased rather dramatically pretty much across the board. We really need the price of crude oil to go back down sooner rather than later, since it directly affects the price of plastic raw materials.

### Nonmetallic Mineral Product Manufacturing

We have experienced an improvement in orders due to competitors leaving the business. We don't expect any real benefit from economic improvements in the near-term. Longer term, we expect housing to rebound slowly. Concerns continue to exist regarding future inflation.

### Primary Metal Manufacturing

Our future business will be positively impacted by the bankruptcy of a competitor.

### Fabricated Metal Product Manufacturing

We are beginning to see original equipment manufacturers reevaluate their supply chain model and provide North America with manufacturing opportunities. The next challenge will be to find qualified skilled workers, thus the need for dual paths in education.

We have seen a cutback in customer orders due to the supply disruption from Japan.

After five consecutive months of positive indicators, the Architecture Billings Index slipped into decline. That puts the strength of the recovery at question.

### Machinery Manufacturing

We expect a modest continued strengthening of our business (maintenance services to refineries/power /petrochemical), but we are worried about the momentum for the general economy.

### Furniture and Related Product Manufacturing

We have instituted new marketing strategies for the short-term and mid-term. We hope to stabilize the downward spiral in home furnishings and start it on an upper trend. The battle will be uphill, but it must happen.

### Computer and Electronic Product Manufacturing

Overall continued uncertainty in the military budget outlook is having a negative impact, even with the funding finally approved. The move from original equipment manufacturers to contract manufacturers is causing a whiplash effect with inventories. Subcontractors are guarding cash flow and not wanting shipment until last minute.

### Food Manufacturing

The drought in Texas is going to limit supply of our raw material (cottonseed).

High prices for commodities and for diesel continue to hurt us. Our employees who commute longer distances are having difficulty coping with \$4.00 per gallon gas prices. Manufacturers who sell most or all of their products in America have great difficulty with a weak dollar and the result it has on the prices we pay for raw materials.

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Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at [emily.kerr@dal.frb.org](mailto:emily.kerr@dal.frb.org).

The Texas Manufacturing Outlook Survey can be found online at [www.dallasfed.org/data/outlook](http://www.dallasfed.org/data/outlook).

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