



# 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

August 29, 2011

## TEXAS MANUFACTURING ACTIVITY FLAT

Texas factory activity was largely unchanged in August, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, remained positive but fell from 10.8 to 1.1, suggesting growth stalled this month.

Most other measures of current manufacturing conditions indicated slower growth in August. The new orders index fell from 16 to 4.8 this month, suggesting order volumes continued to increase, but at a decelerated pace. The shipments index was positive and little changed, edging down from 7.8 to 6.7. The capacity utilization index dipped into negative territory in August, with one-quarter of manufacturers noting a decrease.

Perceptions of general business conditions were mixed in August. The general business activity index remained negative for the fourth month in a row and fell from -2 to -11.4. The change in the index was largely due to a notable increase in the share of firms noting worsened activity. The company outlook index stayed positive but edged down from 11 in July to 7.2 in August. Still, the great majority of respondents said their outlooks were unchanged or improved from last month.

Labor market indicators reflected slower labor demand growth. The employment index came in at 5.4, down from 12.1 in July. Twenty-three percent of manufacturers reported hiring new workers, while 17 percent reported layoffs. The hours worked index fell from 7.9 to -2.2, suggesting average workweeks shrank.

Input prices and wages rose at a slower pace in August, while selling prices were unchanged. The raw materials price index retreated from 34.3 to 23.2, its lowest reading since September 2010. The finished goods price index came in at -0.5, down from 4.6 in July. The near-zero reading suggests selling prices were flat in August. Thirty-eight percent of respondents anticipate further increases in raw materials prices over the next six months, while 26 percent expect higher finished goods prices. The wages and benefits index moved down from 18.4 in July to 15.7 in August, although the great majority of respondents noted no change in labor costs.

Expectations regarding future business conditions were generally less optimistic in August. The index of future general business activity edged down, as did most indexes of future manufacturing activity, although all remained in solid positive territory. The index of future company outlook inched up for the second month in a row, coming in at 16.1.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Aug. 16-24, and 96 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.

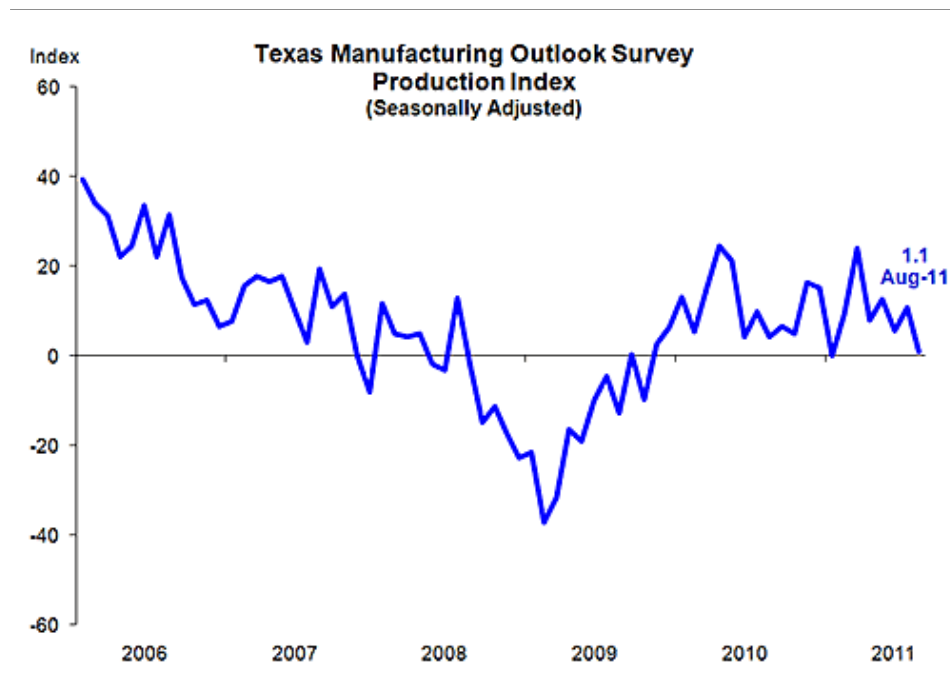
**Next release:** September 26, 2011

<b>Business Indicators Relating to Facilities and Products in Texas</b>									
<b>Current</b>									
<b>Indicator</b>	<b>Aug Index</b>	<b>Jul 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	1.1	10.8	-9.7	Increasing	22	25.8	49.5	24.7	
Capacity Utilization	-2.8	0.6	-3.4	Decreasing	1	22.8	51.6	25.6	
New Orders	4.8	16.0	-11.2	Increasing	10	29.6	45.7	24.8	
Growth Rate of Orders	-4.6	2.5	-7.1	Decreasing	1	20.9	53.6	25.5	
Unfilled Orders	-8.6	8.2	-16.8	Decreasing	1	12.7	66.0	21.3	
Shipments	6.7	7.8	-1.1	Increasing	10	29.1	48.6	22.4	
Delivery Time	-5.3	3.5	-8.8	Decreasing	1	8.4	77.9	13.7	
Materials Inventories	7.3	5.4	+1.9	Increasing	3	25.4	56.5	18.1	
Finished Goods Inventories	-6.4	0.0	-6.4	Decreasing	1	17.0	59.6	23.4	
Prices Paid for Raw Materials	23.2	34.3	-11.1	Increasing	25	32.8	57.6	9.6	
Prices Received for Finished Goods	-0.5	4.6	-5.1	Decreasing	1	12.8	73.9	13.3	
Wages and Benefits	15.7	18.4	-2.7	Increasing	21	16.8	82.1	1.1	
Employment	5.4	12.1	-6.7	Increasing	10	22.7	60.0	17.3	
Hours Worked	-2.2	7.9	-10.1	Decreasing	1	14.1	69.6	16.3	
Capital Expenditures	8.4	-2.3	+10.7	Increasing	1	16.7	75.0	8.3	
<b>General Business Conditions</b>									
<b>Current</b>									
<b>Indicator</b>	<b>Aug Index</b>	<b>Jul 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	7.2	11.0	-3.8	Improving	11	25.3	56.6	18.1	
General Business Activity	-11.4	-2.0	-9.4	Worsening	4	17.6	53.4	29.0	
<b>Business Indicators Relating to Facilities and Products in Texas</b>									
<b>Six Months Ahead</b>									
<b>Indicator</b>	<b>Aug Index</b>	<b>Jul 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	25.4	38.8	-13.4	Increasing	30	43.9	37.6	18.5	
Capacity Utilization	22.5	30.5	-8.0	Increasing	30	40.7	41.1	18.2	
New Orders	26.7	28.5	-1.8	Increasing	30	42.6	41.5	15.9	
Growth Rate of Orders	17.2	22.6	-5.4	Increasing	30	33.1	51.0	15.9	
Unfilled Orders	1.1	1.2	-0.1	Increasing	2	12.8	75.5	11.7	
Shipments	32.7	31.7	+1.0	Increasing	30	48.6	35.6	15.9	
Delivery Time	-8.7	-8.2	-0.5	Decreasing	3	8.7	73.9	17.4	
Materials Inventories	-7.5	-2.3	-5.2	Decreasing	2	17.0	58.5	24.5	
Finished Goods Inventories	-18.3	-3.5	-14.8	Decreasing	2	8.6	64.5	26.9	
Prices Paid for Raw Materials	25.3	47.6	-22.3	Increasing	29	37.9	49.5	12.6	
Prices Received for Finished Goods	16.8	20.9	-4.1	Increasing	13	26.3	64.2	9.5	
Wages and Benefits	34.2	29.1	+5.1	Increasing	87	36.4	61.4	2.2	
Employment	11.6	2.3	+9.3	Increasing	24	29.5	52.6	17.9	
Hours Worked	2.1	2.3	-0.2	Increasing	30	15.8	70.5	13.7	
Capital Expenditures	20.0	10.6	+9.4	Increasing	21	28.4	63.2	8.4	
<b>General Business Conditions</b>									
<b>Six Months Ahead</b>									
<b>Indicator</b>	<b>Aug Index</b>	<b>Jul 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	16.1	15.9	+0.2	Improving	27	33.3	49.5	17.2	
General Business Activity	2.9	3.7	-0.8	Improving	12	23.8	55.3	20.9	

\*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.

### Primary Metal Manufacturing

There has been a significant decrease in new orders over the past three to four weeks.

### Fabricated Metal Product Manufacturing

Our high revenue period is usually April through September. This year we increased as expected but have seen a decline beginning in late June and continuing into August, with a continuing declining forecast for September. We had to let go our temporary labor in July and August as well as a few regular team members. This was a very difficult decision since we focus on creating manufacturing jobs. We believe customers, markets, etc. became concerned with the length of time it took Congress to address the debt issue. This resulted in customers taking a wait and see attitude. Business has not gone away, but it has been pushed out due to risk concerns.

Some of our competitors are going out of business.

### Nonmetallic Mineral Product Manufacturing

Low levels of consumer confidence are reflected in the housing numbers. Continued unemployment coupled with eroding stock market values are driving this lack of confidence. We do not expect any significant change in these factors until after the 2012 elections, with risks being to the downside.

### Plastics and Rubber Products Manufacturing

We are really busy, but our sales backlog does not go out very far.

We have seen a noticeable drop-off in new orders and requests for quotation this summer.

### Machinery Manufacturing

The debt ceiling debacle, tax uncertainty, and U.S. credit rating downgrade all contribute to a more pessimistic outlook.

We are getting more discouraged about our general economic outlook. At this point, these general trends are not yet significantly impacting our customer base (principally refiners, midstream energy, petrochemical and power companies). Our activity levels are at all-time high levels, and we expect continued strength in our segment for some time. General economic issues and challenges temper this outlook.

The negative atmosphere in the nationwide economy continues to make capital equipment replacement a low priority for our customer base. All of the improvement expected in six months is based on adding additional customers. We are not expecting any improvement from our current customer base.

### Food Manufacturing

We have had three price increases in the last year, and our margins are still way below their historical averages. Since it looks like the cheap dollar and high commodity prices are here to stay, we will continue raising prices until we can reestablish reasonable margins.

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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).