



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

September 26, 2011

TEXAS MANUFACTURING ACTIVITY PICKS UP

Texas factory activity increased in September, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 1.1 to 5.9, suggesting growth picked up this month after stalling in August.

Most other measures of current manufacturing conditions also indicated growth in September. The new orders index edged down from 4.8 to 3.6 this month, suggesting order volumes continued to increase, but at a slightly decelerated pace. The shipments index rose from 6.7 to 9.4, reaching its highest level since March. The capacity utilization index remained in negative territory in September but rose from -2.8 to -1.3.

Perceptions of general business conditions worsened in September. The general business activity index remained negative for the fifth month in a row and fell from -11.4 to -14.4; ten percent of manufacturers perceived an increase in activity this month, while one quarter noted a decrease. The company outlook index fell from 7.2 in August to a near-zero reading in September. Still, the great majority of respondents said their outlooks were unchanged or improved from last month.

Labor market indicators reflected higher labor demand growth. The employment index came in at 13.4, up notably from 5.4 in August. One quarter of manufacturers reported hiring new workers, while 12 percent reported layoffs. The hours worked index moved back into positive territory in September, suggesting average workweeks lengthened.

Input prices and wages rose at a pace similar to August, while selling prices increased slightly after holding steady last month. The raw materials price index was 23.5, virtually unchanged from its August reading. The finished goods price index moved up to 3.9 after coming in near zero last month. Forty-six percent of respondents anticipate further increases in raw materials prices over the next six months, while 29 percent expect higher finished goods prices. The wages and benefits index rose from 15.7 in August to 17.4 in September, although nearly three-fourths of respondents noted no change in labor costs.

Expectations regarding future business conditions were generally less optimistic in September. The index of future general business activity edged down to -1.5, the first negative reading since April 2009. The index of future company outlook fell as well, staying positive but registering its lowest reading in more than a year. Most indexes of future manufacturing activity inched down in September, although all 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 Sep.13-21, 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.

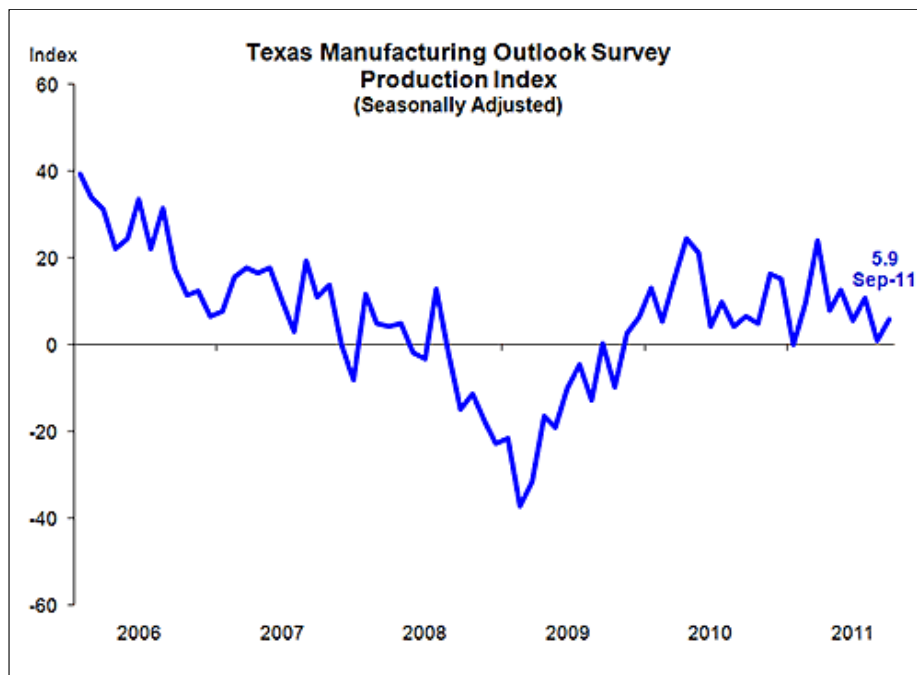
Next release: October 31, 2011

Business Indicators Relating to Facilities and Products in Texas								
Current								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	5.9	1.1	+4.8	Increasing	23	26.9	52.1	21.0
Capacity Utilization	-1.3	-2.8	+1.5	Decreasing	2	21.4	55.9	22.7
New Orders	3.6	4.8	-1.2	Increasing	11	28.7	46.3	25.1
Growth Rate of Orders	0.6	-4.6	+5.2	Increasing	1	20.8	59.0	20.2
Unfilled Orders	-5.1	-8.6	+3.5	Decreasing	2	16.4	62.1	21.5
Shipments	9.4	6.7	+2.7	Increasing	11	28.5	52.4	19.1
Delivery Time	-4.3	-5.3	+1.0	Decreasing	2	8.6	78.5	12.9
Materials Inventories	2.1	7.3	-5.2	Increasing	4	21.0	60.1	18.9
Finished Goods Inventories	-6.4	-6.4	0.0	Decreasing	2	14.0	65.6	20.4
Prices Paid for Raw Materials	23.5	23.2	+0.3	Increasing	26	32.1	59.3	8.6
Prices Received for Finished Goods	3.9	-0.5	+4.4	Increasing	1	14.2	75.5	10.3
Wages and Benefits	17.4	15.7	+1.7	Increasing	22	21.7	73.9	4.3
Employment	13.4	5.4	+8.0	Increasing	11	25.0	63.4	11.6
Hours Worked	5.5	-2.2	+7.7	Increasing	1	20.2	65.1	14.7
Capital Expenditures	1.1	8.4	-7.3	Increasing	2	8.6	83.9	7.5
General Business Conditions								
Current								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	0.5	7.2	-6.7	Improving	12	20.7	59.1	20.2
General Business Activity	-14.4	-11.4	-3.0	Worsening	5	10.4	64.8	24.8
Business Indicators Relating to Facilities and Products in Texas								
Six Months Ahead								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	24.3	25.4	-1.1	Increasing	31	37.7	48.9	13.4
Capacity Utilization	24.6	22.5	+2.1	Increasing	31	36.8	51.0	12.2
New Orders	26.3	26.7	-0.4	Increasing	31	37.8	50.7	11.5
Growth Rate of Orders	16.9	17.2	-0.3	Increasing	31	27.4	62.1	10.5
Unfilled Orders	3.3	1.1	+2.2	Increasing	3	16.3	70.7	13.0
Shipments	26.1	32.7	-6.6	Increasing	31	37.7	50.7	11.6
Delivery Time	-7.6	-8.7	+1.1	Decreasing	4	7.6	77.2	15.2
Materials Inventories	-4.4	-7.5	+3.1	Decreasing	3	15.2	65.2	19.6
Finished Goods Inventories	-17.4	-18.3	+0.9	Decreasing	3	8.7	65.2	26.1
Prices Paid for Raw Materials	37.4	25.3	+12.1	Increasing	30	46.2	45.1	8.8
Prices Received for Finished Goods	20.6	16.8	+3.8	Increasing	14	29.3	62.0	8.7
Wages and Benefits	32.4	34.2	-1.8	Increasing	88	35.6	61.2	3.2
Employment	13.0	11.6	+1.4	Increasing	25	23.9	65.2	10.9
Hours Worked	4.3	2.1	+2.2	Increasing	31	14.1	76.1	9.8
Capital Expenditures	13.3	20.0	-6.7	Increasing	22	23.3	66.7	10.0
General Business Conditions								
Six Months Ahead								
Indicator	Sep Index	Aug Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	11.8	16.1	-4.3	Improving	28	29.5	52.8	17.7
General Business Activity	-1.5	2.9	-4.4	Worsening	1	18.7	61.1	20.2

*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 are from respondents' completed surveys and have been edited for publication.

Primary Metal Manufacturing

Our incoming order rate has dropped significantly. Most of our customers are seeing a downturn in their orders.

Fabricated Metal Product Manufacturing

We began to experience a downturn in June. It has worsened with fourth quarter projections showing continued downward trends. We began decreasing our workforce the last week of August with layoffs continuing during September. Unfortunately, we feel this is an overall trend, as business continues to experience stress and uncertainty.

Our backlog has increased, and there seems to be an increase in activity from our major customers. However, pricing for to-be-awarded contracts has continued to see margin pressure, which results in lower profitability.

Nonmetallic Mineral Product Manufacturing

Housing is expected to remain weak for the foreseeable future. Improvements in consumer confidence will be the key in any business improvement.

Chemical Manufacturing

Most of our new business is generated by activity in the energy fields.

Machinery Manufacturing

The impact of the government suing numerous big banks over risky mortgage securities at the beginning of September is unknown. It could lead to tighter loan requirements for our customers who want to upgrade their equipment or open a new location. The overall impact will most likely be lower business volume over the next year than it would have been without the recent government action.

Computer and Electronic Product Manufacturing

We began the quarter with some softness in computing and some parts of consumer electronics (TV, some gaming). We would have expected order rates and build plans in these areas to increase as original equipment manufacturers prepare for the holiday season. Although demand is not falling apart, we have not seen the normal strength we would expect. Since the beginning of the quarter, we have seen weakness spread across all segments and regions. One exception is we are seeing Japan bounce back off a very low post-disaster bottom. At the same time, inventories in our distribution channel remains near target levels, and we are not aware of any significant pockets of inventory issues. Our factory starts continue to trend lower to reduce our internal inventory in response to the weakening demand.

Furniture and Related Product Manufacturing

The lack of financing for our customers and our own company has resulted in a declining sales base of dealers. Recent bankruptcies of a few of our dealers have left us in very bad shape.

Food Manufacturing

Increased governmental regulation from all fronts is making manufacturing in the U.S. difficult.

The very high prices of raw materials have hurt us over the last two years. The ethanol program and the cheap dollar have combined to put pressure on prices of agricultural commodities. The high prices of gas and diesel have hurt us and have hurt our employees.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org.
The Texas Manufacturing Outlook Survey can be found online at www.dallasfed.org/data/outlook.
