Texas Manufacturing Outlook Survey
FEDERAL RESERVE BANK OF DALLAS

October 31, 2011

Texas Manufacturing Activity Expands

What's New This Month

For this month's survey, manufacturers were asked supplemental questions on borrowing conditions and credit availability.

Texas factory activity increased in October, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, remained positive but edged down from 5.9 to 4.1, suggesting growth slowed slightly.

Other measures of current manufacturing conditions also indicated growth in October, and the pace of new orders increased. The shipments index fell from 9.4 to 2.7, suggesting shipment volumes continued to increase but at a slower pace. The capacity utilization index moved back into positive territory after being negative for two months. The new orders index suggested a pickup in demand, moving from 3.6 to 8.3. Nearly 30 percent of manufacturers noted increased order volumes in October, compared with about 20 percent noting a decrease.

Perceptions of general business conditions improved in October. The general business activity index jumped up from -14.4 to 2.3, its first positive reading in six months. The company outlook index also rose markedly, bouncing back to a reading of 7.2 after coming in near zero in September.

Labor market indicators reflected higher labor demand growth. The employment index came in at 15.1, up slightly from 13.4 in September. Twenty-one percent of manufacturers reported hiring new workers, while 6 percent reported layoffs. This share of layoffs represents the lowest figure since 2006. The hours worked index continued to suggest average workweeks lengthened.

Upward pressure on input prices and wages abated in October, and selling prices were unchanged from September levels. The raw materials price index fell to 19.1, its lowest reading since mid-2010. The finished goods price index came in near zero after a reading of 3.9 last month. Forty-four percent of respondents anticipate further increases in raw materials prices over the next six months, while 27 percent expect higher finished goods prices. The wages and benefits index fell from 17.4 in September to 8.9 in October, although the great majority of respondents continued to note no change in labor costs.

Expectations regarding future business conditions were notably more optimistic in October. The index of future general business activity advanced to 14.7 after dipping into negative territory in September. The index of future company outlook jumped up as well, rising from 11.8 to 25.3. Most indexes of future manufacturing activity also increased considerably in October, reaching their highest levels since spring.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected Oct.18–26, and 90 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: November 28, 2011

Business Indicators Relating to Facilities and Products in Texas
Current

Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	4.1	5.9	-1.8	Increasing	24	24.0	56.1	19.9
Capacity Utilization	2.8	-1.3	+4.1	Increasing	1	23.2	56.4	20.4
New Orders	8.3	3.6	+4.7	Increasing	12	28.6	51.1	20.3
Growth Rate of Orders	-0.9	0.6	-1.5	Decreasing	1	20.7	57.7	21.6
Unfilled Orders	-5.7	-5.1	-0.6	Decreasing	3	14.4	65.5	20.1
Shipments	2.7	9.4	-6.7	Increasing	12	22.7	57.3	20.0
Delivery Time	-6.7	-4.3	-2.4	Decreasing	3	4.4	84.4	11.1
Materials Inventories	-0.1	2.1	-2.2	Decreasing	1	18.6	62.7	18.7
Finished Goods Inventories	-6.7	-6.4	-0.3	Decreasing	3	14.4	64.4	21.1
Prices Paid for Raw Materials	19.1	23.5	-4.4	Increasing	27	29.3	60.5	10.2
Prices Received for Finished Goods	-0.6	3.9	-4.5	Decreasing	1	10.6	78.2	11.2
Wages and Benefits	8.9	17.4	-8.5	Increasing	23	12.2	84.4	3.3
Employment	15.1	13.4	+1.7	Increasing	12	20.8	73.5	5.7
Hours Worked	7.1	5.5	+1.6	Increasing	2	18.3	70.5	11.2
Capital Expenditures	7.8	1.1	+6.7	Increasing	3	16.7	74.4	8.9

General Business Conditions
Six Months Ahead

Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	7.2	0.5	+6.7	Improving	13	19.4	68.4	12.2
General Business Activity	2.3	-14.4	+16.7	Improving	1	17.5	67.3	15.2

Business Indicators Relating to Facilities and Products in Texas
Six Months Ahead

Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Increase	% Reporting No Change	% Reporting Decrease
Production	43.2	24.3	+18.9	Increasing	32	48.9	45.4	5.7
Capacity Utilization	42.5	24.6	+17.9	Increasing	32	46.5	49.4	4.0
New Orders	39.7	26.3	+13.4	Increasing	32	45.0	49.8	5.3
Growth Rate of Orders	23.4	16.9	+6.5	Increasing	32	29.7	64.0	6.3
Unfilled Orders	8.0	3.3	+4.7	Increasing	4	14.9	78.2	6.9
Shipments	39.8	26.1	+13.7	Increasing	32	46.4	46.9	6.6
Delivery Time	-2.3	-7.6	+5.3	Decreasing	5	6.8	84.1	9.1
Materials Inventories	-3.4	-4.4	+1.0	Decreasing	4	14.8	67.0	18.2
Finished Goods Inventories	-6.8	-17.4	+10.6	Decreasing	4	10.2	72.7	17.0
Prices Paid for Raw Materials	36.3	37.4	-1.1	Increasing	31	44.3	47.7	8.0
Prices Received for Finished Goods	20.5	20.6	-0.1	Increasing	15	27.3	65.9	6.8
Wages and Benefits	32.1	32.4	-0.3	Increasing	89	35.0	62.1	2.9
Employment	19.3	13.0	+6.3	Increasing	26	29.5	60.2	10.2
Hours Worked	5.7	4.3	+1.4	Increasing	32	18.2	69.3	12.5
Capital Expenditures	18.2	13.3	+4.9	Increasing	23	27.3	63.6	9.1

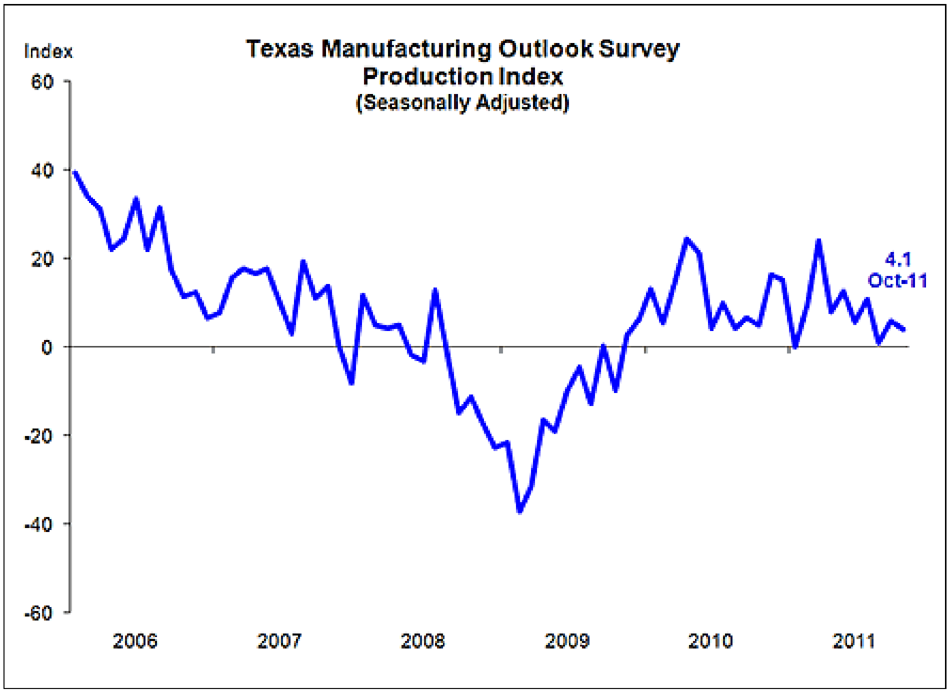
General Business Conditions
Six Months Ahead

Indicator	Oct Index	Sep Index	Change	Indicator Direction*	Trend** (months)	% Reporting Improved	% Reporting No Change	% Reporting Worsened
Company Outlook	25.3	11.8	+13.5	Improving	29	31.9	61.5	6.6
General Business Activity	14.7	-1.5	+16.2	Improving	1	24.0	66.7	9.3

*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.

Fabricated Metal Product Manufacturing

Our outlook is murky due to a lack of political and fiscal direction.

The nonresidential market has seen improved demand in manufacturing, maintenance and warehousing. This improvement has not overcome the broader market weakness.

We are bidding a lot of projects, but at this time very few are being awarded. The need exists; however, the confidence to move forward is not there. Hopefully confidence will improve over the next six months.

There seems to be increased request for quotation activity, but there continues to be extreme pressure on margins. There is still considerable uncertainty in the regulatory and banking environments affecting our industry and related customers.

Nonmetallic Mineral Product Manufacturing

We do not expect any meaningful improvement in current economic conditions, and risks are on the downside. Present geopolitical events and conditions along with the U.S. political environment have greatly impacted the present level of uncertainty. We do not expect that these conditions will improve until after the 2012 elections.

Chemical Manufacturing

We have a seasonal slowdown historically this last quarter. We expect things to stay fairly strong post this quarter, if our customers are correct in their forecasts for next year. We still need to see what exploration and production budgets are from our major customers to really get a better idea.

Part of our business is seasonal. Improvements in April of next year depend on the warmer weather arriving normally. This past year, cooler weather later in the spring delayed our normal uptick until June.

Plastics and Rubber Product Manufacturing

Our orders for November and December are lagging due to customers moving production in-house to save freight and keep their own employees on the payroll.

Business has remained the same at a good level of production. We are busy.

Machinery Manufacturing

We see a very busy project schedule for spring 2012. We are not sure whether this is just project timing or a strengthening of activity levels in refining and petrochemical markets. Overall economy doom and gloom sentiment seems a little over done to me. It is not great, but it also is not collapsing.

Computer and Electronic Product Manufacturing

We have seen demand drop across a wide range of markets and geographies with the exception of Japan, as they rebound off a low from the impact of the earthquake.

Furniture and Related Product Manufacturing

Housing is bouncing at or near the bottom. Second quarter was up, and the third quarter slowed. The fourth quarter will be a slow period, followed by some pickup in the first quarter. It's a wait and see what happens with the economy and jobs before releasing new housing starts.

Paper Manufacturing

Business was very good last period and is starting out pretty good this period. We needed this as our slower periods are November and December.

Food Manufacturing

High commodity prices are still hurting us. The ethanol program and the cheap dollar are resulting in very high commodity prices.

Beverage and Tobacco Product Manufacturing

Unit sales improved, but not enough to offset increase in cost and decrease in price. Price decline lessened from the prior month, but cost increases ramped up more. Our gross margin decline was better than last month, but we still made less money than the prior year. We have no visibility six months out.

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/microsites/research/surveys/tmos/.

October 31, 2011

Special Questions

1. How do borrowing conditions facing your firm compare to those six months ago?	Oct '10 (percent)	Oct '11 (percent)
Eased substantially	2.7	1.4
Eased somewhat	13.5	11.0
No change	43.2	39.7
Tightened somewhat	5.4	13.7
Tightened substantially	5.4	6.8
Not applicable—haven't sought credit	29.7	27.4

2. To what extent is your business having difficulty obtaining financing for desired long-term uses such as capital expenditures?	Oct '10 (percent)	Oct '11 (percent)
Eased substantially	2.7	1.4
No difficulty	35.6	34.2
Some difficulty	12.3	17.8
Substantial difficulty	8.2	8.2
Extreme difficulty	1.4	2.7
Not applicable—haven't sought credit	42.5	37.0

3. To what extent is your business having difficulty obtaining financing for desired short-term uses such as paying workers and acquiring inventories of material or supplies?	Oct '10 (percent)	Oct '11 (percent)
No difficulty	36.1	35.6
Some difficulty	11.1	9.6
Substantial difficulty	5.6	5.5
Extreme difficulty	1.4	4.1
Not applicable—haven't sought credit	45.8	45.2

4. Has your firm's production and/or sales been adversely affected by difficulty obtaining credit?	Oct '10 (percent)	Oct '11 (percent)
Yes, significantly	2.7	5.5
Yes, somewhat	9.5	13.7
No	29.7	31.5
Not applicable—haven't had problems obtaining credit	18.9	15.1
Not applicable—haven't sought credit	39.2	34.2

5. Has your firm reduced hiring and/or increased layoffs due to difficulty obtaining credit?	Oct '10 (percent)	Oct '11 (percent)
Yes, significantly	1.4	2.7
Yes, somewhat	5.4	13.7
No	40.5	32.9
Not applicable—haven't had problems obtaining credit	14.9	16.4
Not applicable—haven't sought credit	37.8	34.2

Survey Collection period: 10/11/2011 to 10/14/2011

Special Questions Comments

These comments have been edited for publication.

Chemical Manufacturing
We are running counter to most and have increased employees.

Plastics and Rubber Products Manufacturing
Our bank attempted to tighten credit in 2009, but retreated in negotiations. We believe their attempt was prompted by their uncertainty at corporate headquarters regarding loan standards that might have been imposed at that time.

Nonmetallic Mineral Product Manufacturing
We feel that bankers are making only the loans they think the regulators will like.

Fabricated Metal Product Manufacturing
Our firm ($38 million sales) has been fortunate to enjoy excellent growth and profitability. This is primarily due to the rebound of the oil and gas exploration market and the mining market that together represent over half of our sales. We replaced our existing working capital credit facility with a new one earlier this year that has a subprime interest rate. Our observation is that it is a bifurcated market with the banks fighting over top tier performing firms and being cautious with others.

Nonresidential construction continues to be negatively impacted by the lack of financing from regional/community banks. The commercial and industrial loans have only modestly increased on a year-over-year basis from historically low 2010 levels.

Machinery Manufacturing
Our cash flow and balance sheet are in excellent condition. We renewed and extended our line of credit last spring for five years so we are not in the market for credit at this time. We have arranged and increased third party financing for our end users without rate participation from our company.

We renewed our multibank credit facility earlier this year without any difficulty. However, our debt leverage is fairly low, which may make it an easier credit decision for the banks. We have been with the same bank group for more than 10 years.

The lackluster economy continues to sap revenue, so financial results are weaker, and financing is more difficult to obtain. The weak economy and more government regulations make hiring employees less likely than using temps.

Transportation Equipment Manufacturing

We are recovering from a couple of very tough years; therefore, our financials are not good.

Paper Manufacturing

We have not had the need to seek credit or loans, but friends in the construction business are having a terrible time getting financing.

Wood Product Manufacturing

We are sitting on cash.

Food Manufacturing

We feel that small community banks are afraid to do business lending because of regulators. We have been in business since 1947, employ 55 employees and would probably have a hard time getting a loan to expand—so we will wait.

Credit is not the problem. High commodity prices are the problem for us.