



# 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

February 27, 2012

## TEXAS MANUFACTURING EXPANSION STRENGTHENS

Texas factory activity continued to increase in February, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, rose from 5.8 to 11.2, suggesting a pickup in the pace of growth.

Other measures of current manufacturing conditions also indicated expansion in February. The new orders index was positive for a second month in a row but fell from 9.5 to 5.8. Similarly, the shipments index moved down from 6.1 to 4.2. Capacity utilization increased further in February; the index edged up from 8.5 to 10.

Perceptions of broader economic conditions were more positive in February. The general business activity index rose to 17.8, its highest reading since November 2010. More than a quarter of manufacturers noted improvement in the level of business activity, while 8 percent noted a worsening. The company outlook index also reached a level not seen since 2010; it advanced from 13.5 to 15.8.

Labor market indicators reflected a sharp increase in hiring and longer workweeks. The employment index jumped to 25.2, its highest level since the beginning of 2006. Twenty-nine percent of firms reported hiring new workers, while 4 percent reported layoffs. The hours worked index continued to suggest average workweeks lengthened.

Prices and wages increased in February. The raw materials price index was 25.2, little changed from January. The finished goods price index climbed from 9 to 16.2, suggesting selling prices rose at a faster pace. About half of respondents anticipate further increases in raw materials prices over the next six months, while 30 percent expect higher finished goods prices. The February wages and benefits index was 18.4, indicating a continued rise in labor costs.

Expectations regarding future business conditions remained optimistic in February. The index of future general business activity remained positive for the fifth month in a row but moved down from 22.3 to 15.9. The index of future company outlook came in at 24.2, down from 27.9 last month. Most other indexes for future manufacturing activity also receded slightly, but 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 Feb. 14–22, and 85 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.

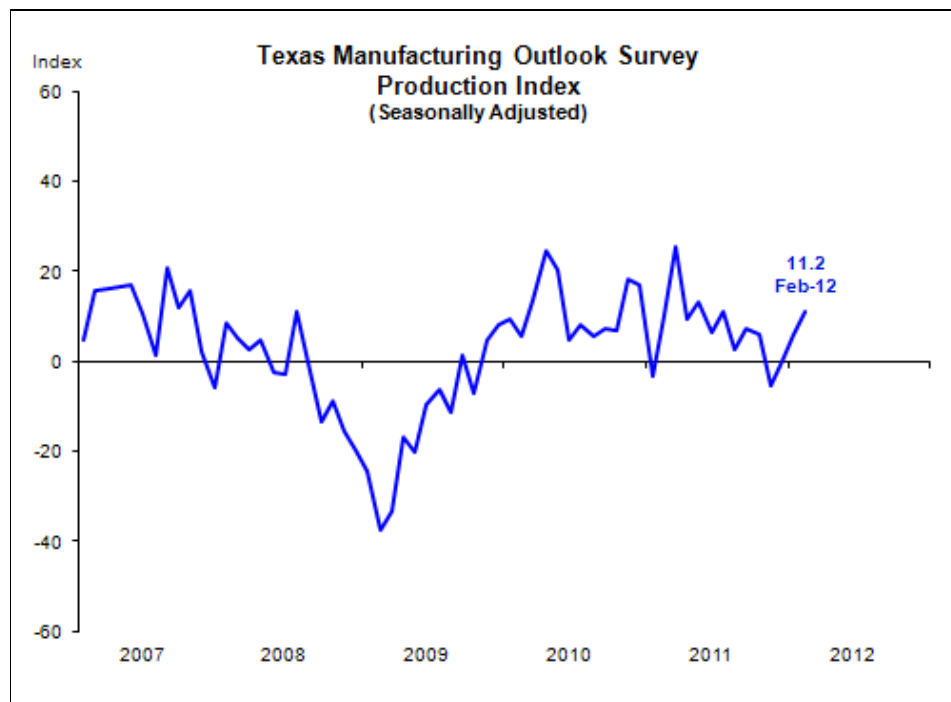
**Next release:** March 26, 2012

<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Current</b>								
<b>Indicator</b>	<b>Feb Index</b>	<b>Jan 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	11.2	5.8	+5.4	Increasing	3	29.1	53.0	17.9
Capacity Utilization	10.0	8.5	+1.5	Increasing	3	28.4	53.2	18.4
New Orders	5.8	9.5	-3.7	Increasing	2	22.9	60.0	17.1
Growth Rate of Orders	6.6	6.6	0.0	Increasing	2	25.0	56.6	18.4
Unfilled Orders	-12.7	-1.0	-11.7	Decreasing	7	9.7	67.9	22.4
Shipments	4.2	6.1	-1.9	Increasing	2	25.9	52.4	21.7
Delivery Time	3.6	8.7	-5.1	Increasing	2	13.1	77.4	9.5
Materials Inventories	2.0	5.8	-3.8	Increasing	2	18.3	65.4	16.3
Finished Goods Inventories	-5.8	0.0	-5.8	Decreasing	1	11.8	70.6	17.6
Prices Paid for Raw Materials	25.2	24.4	+0.8	Increasing	31	32.3	60.6	7.1
Prices Received for Finished Goods	16.2	9.0	+7.2	Increasing	2	20.1	76.0	3.9
Wages and Benefits	18.4	17.5	+0.9	Increasing	27	19.5	79.4	1.1
Employment	25.2	12.2	+13.0	Increasing	16	29.3	66.6	4.1
Hours Worked	7.1	6.6	+0.5	Increasing	6	21.2	64.7	14.1
Capital Expenditures	12.1	9.6	+2.5	Increasing	5	17.3	77.5	5.2
<b>General Business Conditions</b>								
<b>Current</b>								
<b>Indicator</b>	<b>Feb Index</b>	<b>Jan 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	15.8	13.5	+2.3	Improving	5	26.4	63.0	10.6
General Business Activity	17.8	15.3	+2.5	Improving	2	25.5	66.8	7.7
<b>Business Indicators Relating to Facilities and Products in Texas</b>								
<b>Six Months Ahead</b>								
<b>Indicator</b>	<b>Feb Index</b>	<b>Jan 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	40.8	43.6	-2.8	Increasing	36	47.6	45.6	6.8
Capacity Utilization	39.1	41.1	-2.0	Increasing	36	45.9	47.2	6.8
New Orders	37.0	45.6	-8.6	Increasing	36	43.3	50.4	6.3
Growth Rate of Orders	32.1	30.0	+2.1	Increasing	36	39.3	53.5	7.2
Unfilled Orders	10.9	13.3	-2.4	Increasing	8	19.3	72.3	8.4
Shipments	42.8	44.1	-1.3	Increasing	36	50.0	42.8	7.2
Delivery Time	-1.2	6.6	-7.8	Decreasing	1	4.8	89.2	6.0
Materials Inventories	3.7	12.1	-8.4	Increasing	4	14.5	74.7	10.8
Finished Goods Inventories	1.3	6.7	-5.4	Increasing	2	13.3	74.7	12.0
Prices Paid for Raw Materials	45.8	42.9	+2.9	Increasing	35	50.6	44.6	4.8
Prices Received for Finished Goods	22.9	27.0	-4.1	Increasing	19	30.1	62.7	7.2
Wages and Benefits	39.9	36.6	+3.3	Increasing	93	39.9	60.1	0.0
Employment	32.9	25.5	+7.4	Increasing	30	37.8	57.3	4.9
Hours Worked	10.0	11.2	-1.2	Increasing	35	19.4	71.2	9.4
Capital Expenditures	30.5	25.3	+5.2	Increasing	27	36.6	57.3	6.1
<b>General Business Conditions</b>								
<b>Six Months Ahead</b>								
<b>Indicator</b>	<b>Feb Index</b>	<b>Jan 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	24.2	27.9	-3.7	Improving	34	31.6	61.0	7.4
General Business Activity	15.9	22.3	-6.4	Improving	5	24.4	67.1	8.5

\*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.

### Machinery Manufacturing

The economy continues to slowly grow or remain flat other than a few areas such as oil and gas that are expanding at a strong pace.

We have seen an improvement in many regions of the country in home improvement and building. But it still feels very tenuous.

The general tone of the market has certainly improved since the beginning of the year. The markets we serve (midstream and downstream energy-related facility maintenance) continue to be sound—steady demand with a positive tone.

### Primary Metal Manufacturing

Pent-up demand to replace aging products is driving most of the increases over last year's levels of business.

### Chemical Manufacturing

The outlook in our business is positive due to lower natural gas prices and the Canadian oil sands development.

### Paper Manufacturing

A recent acquisition took place in our industry. It will be interesting to see if they can consolidate and close some box plants as they have stated. If that takes place, it should make for a healthier climate for all box plants.

### Furniture and Related Product Manufacturing

Business appears to be improving, but anything could happen in the housing sector.

### Computer and Electronic Product Manufacturing

We expect our industry to cyclically bottom out.

### Food Manufacturing

Increased regulatory burden from all fronts is driving manufacturing out of this country. It just keeps getting worse.

The price we pay for dairy ingredients has come down substantially in the last two months. Other commodities—for example, sugar, corn products and diesel—remain very expensive.

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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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