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June 20, 2010

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Texas Manufacturing Outlook Survey**July 2006**

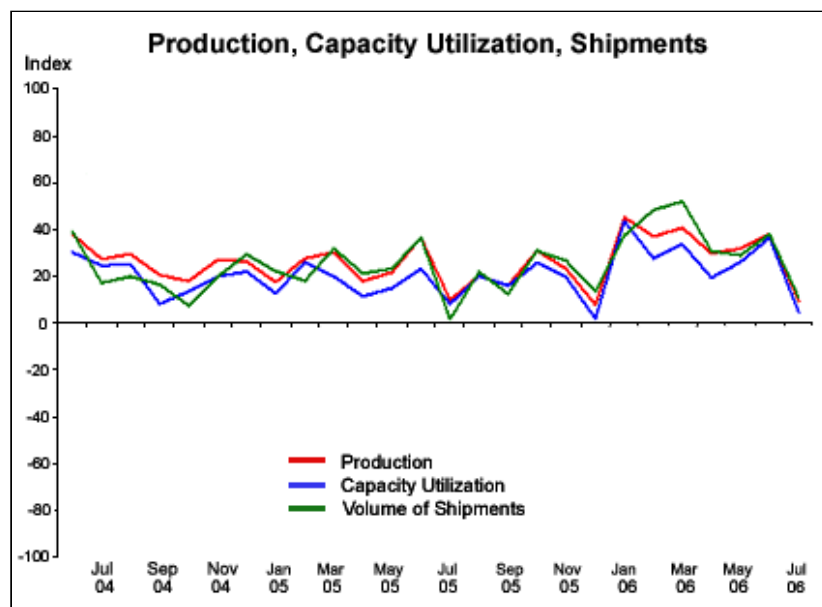
Texas is important to the nation's manufacturing. The state produced \$110.2 billion worth of manufactured goods in 2004, 7.8 percent of the U.S. total. Texas ranks second behind California in factory production and first as an exporter of manufactured products.

Texas turns out a large share of U.S. production of petroleum and coal products, reflecting the muscular refining industry. Texas also has nearly 10 percent of the nation's output of computer and electronics products and nonmetallic mineral products, such as brick, glass and cement.

Activity Weakens

Factory activity slowed in July, according to firms responding to the Texas Manufacturing Outlook Survey. Measures of current activity were substantially lower than last month, including [production](#), [capacity utilization](#) and [volume of shipments](#).

Indicators for activity six months from now mostly softened but remained quite strong. Nearly half of responding manufacturers expect a pickup in [production](#) six months from now, and 43 percent expect an increase in [capacity utilization](#). The index for [volume of shipments](#) six months from now increased from 33.9 to 38.1 in July.



Index values turned negative for [volume of new orders](#), [growth rate of orders](#) and [unfilled orders](#). The majority of respondents continue to report no change in these indicators, but a larger percentage of business executives are now reporting a decrease than reporting an increase.

Most producers expect an increase in the volume of new orders six months from now, causing that index value to increase from 27.4 last month to 40.3 in July.

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Texas Manufacturing Outlook Survey

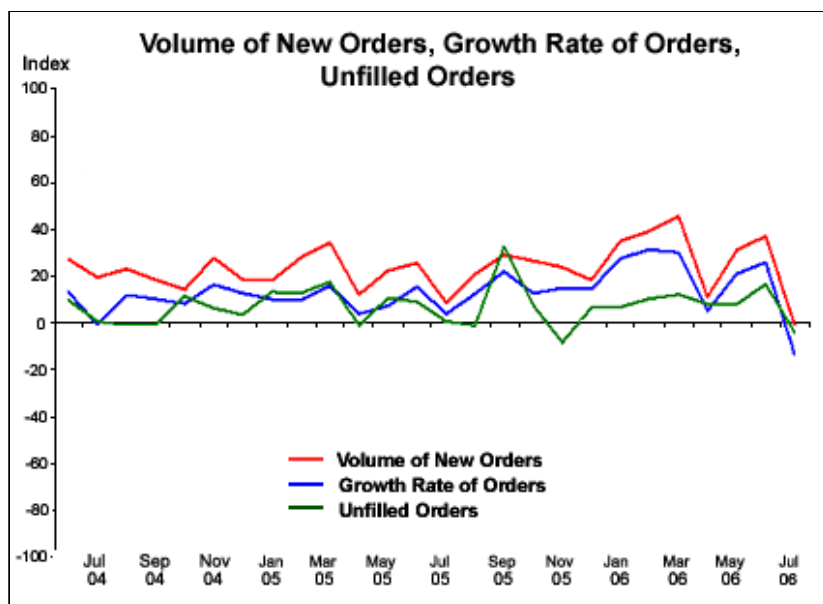
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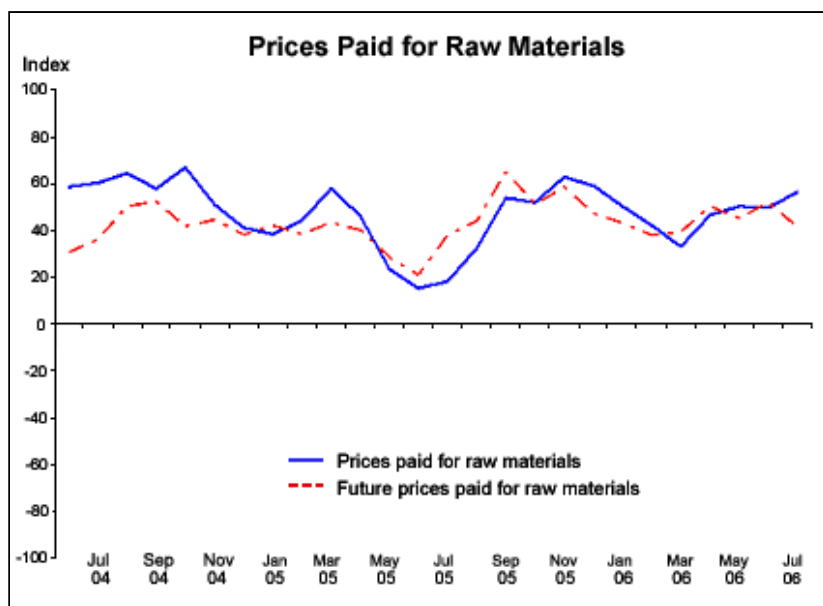


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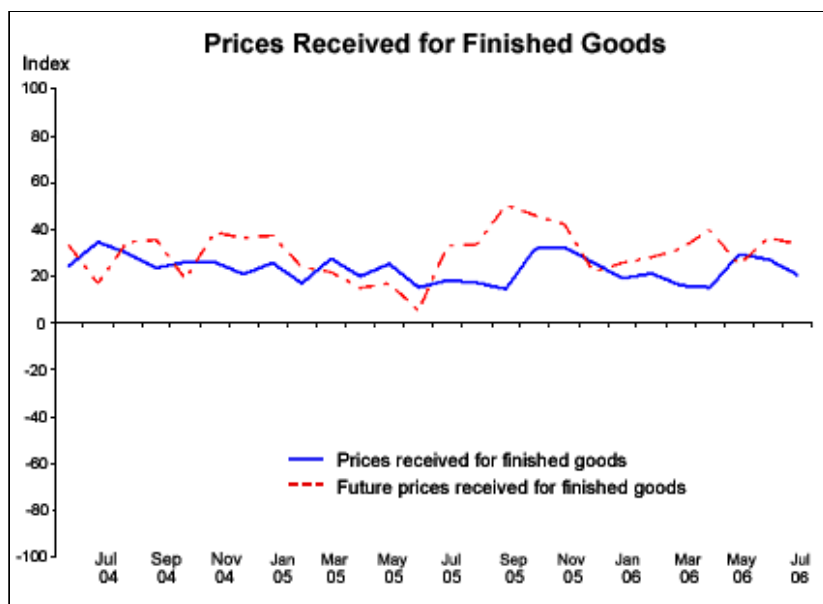
After falling negative last month, the index for [finished goods inventories](#) was less negative this month, suggesting producers are drawing down inventories at a slower rate. The index for [material inventories](#) increased sharply in July, however. There has been a decrease in delivery time.

Raw Material Price Pressures Continue

Price indicators continue to suggest inflationary pressures, with most business executives reporting rising raw material prices and expectations for further increases six months from now. The index value for [prices paid for raw materials](#) increased from 49.3 in June to 56.2 in July, with 61 percent of responding manufacturers reporting an increase in raw materials prices.

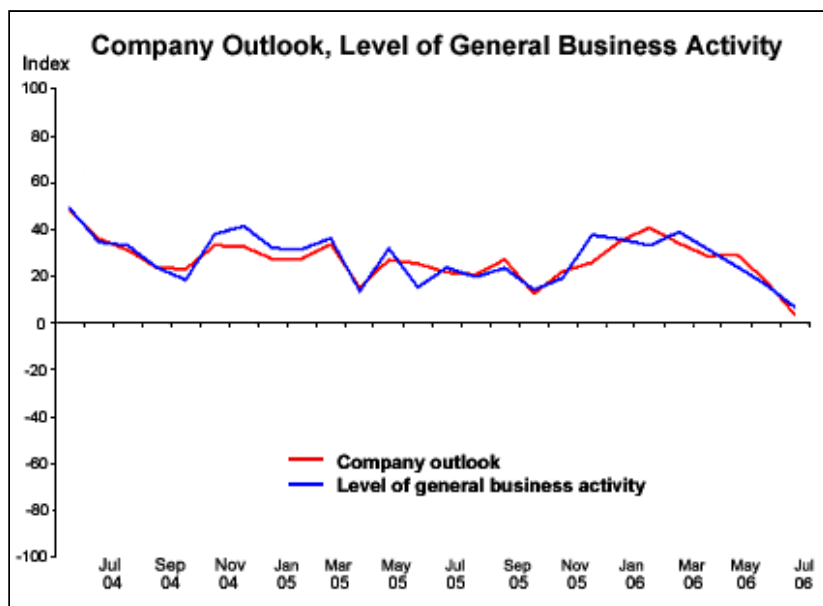


The index for [finished goods prices](#) remains positive at 20.3 but declined slightly from 26.9 last month. Only 9.4 percent of respondents reported a decrease in finished goods prices. The index value for finished goods prices six months from now is higher than the current value, with 39.7 percent of respondents expecting higher prices six months from now.



Business Activity and Company Outlook Weaken

[Company outlook](#) and the level of [general business activity](#) continue to soften. Both indexes remained positive in July but declined to the lowest level reported since the series began in May 2004.



Seasonal Factors May Be Affecting Results

The recent dip in factory activity is similar to the slowing that occurred in July 2005. This suggests that some of the recent weakening in the Texas Manufacturing Outlook Survey could be attributable to a normal seasonal pattern—the series is not yet sufficiently long enough to permit seasonal adjustment.^[1] However, there was no softening of activity in July 2004, and the July 2005 weakness was not accompanied by dips in company outlook or the evaluation of the level of general business activity, suggesting that the recent slowing is more than just a seasonal pattern.

Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Fiona Sigalla at Fiona.Sigalla@dal.frb.org or 214-922-5166.

Note

1. The Texas Manufacturing Outlook Survey does not yet have a sufficiently large sample size to permit seasonal adjustment of the indexes. Thus, while respondents are asked to adjust for normal seasonal variation, the month-to-month values of these indexes may include some normal seasonal variation that is not indicative of

changes in the business cycle. Other Federal Reserve Bank business outlook indexes benefit from seasonal adjustment, and the Texas indexes will be seasonally adjusted when a sufficient series are available.

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