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June 20, 2010

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Texas Manufacturing Outlook Survey**August 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 Rebounds

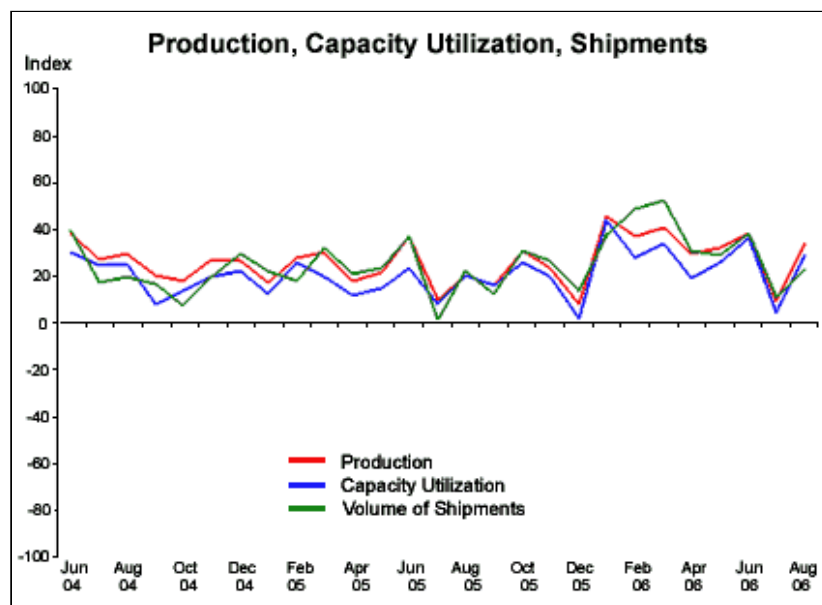
Factory activity rebounded in August, according to firms responding to the Texas Manufacturing Outlook Survey. After dipping in July, measures of current activity increased to levels close to those posted in early summer.

Indicators for activity six months from now were largely unchanged. The indexes for [production](#) and [capacity utilization](#) are now similar for both the current period and for activity six months from now.

[Company outlook](#) rebounded only slightly in August, and the index for level of [general business activity](#) was essentially unchanged.

Production, Capacity Utilization and Shipments Increase

Forty-five percent of business executives reported an increase in [production](#) in August, and 47 percent expect production to increase six months from now. Thirty-nine percent of respondents reported an increase in [capacity utilization](#), while 42 percent expect capacity utilization to rise six months into the future. Forty-one percent reported an increase in the [volume of shipments](#) in August, and 55 percent expect the volume of shipments to increase in six months.



Index values for [volume of new orders](#) and [growth rate of orders](#) also rebounded in August. The majority of respondents continue to report no change in these

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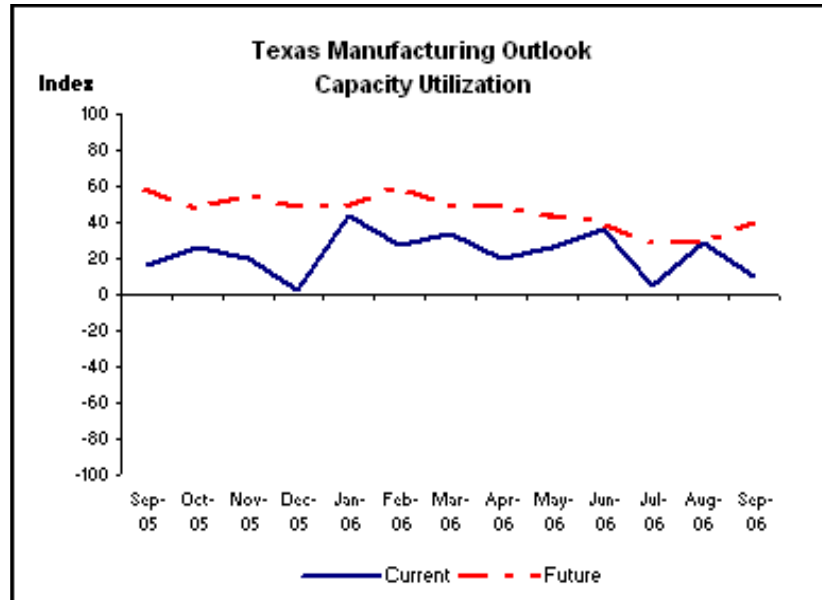
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indicators, but—in a shift from last month—there is now a larger percentage of business executives reporting an increase than reporting a decrease.

The index for [unfilled orders](#) remains negative and fell slightly, indicating that more respondents are catching up with their backlog of orders. Most respondents said there was no change in the level of unfilled orders, but there was a larger percentage reporting a decrease (19.4 percent) than reporting an increase (12.9 percent).

Index values for the volume of new orders and the growth rate of orders six months from now were positive but were lower in August than in July. Forty-two percent of respondents expect an increase in the volume of new orders in the future, but this figure was lower than last month when 50 percent indicated they expected an increase. There were slightly more firms that expect a decrease in the growth rate of orders six months from now than in July, although 34 percent still expect an increase.

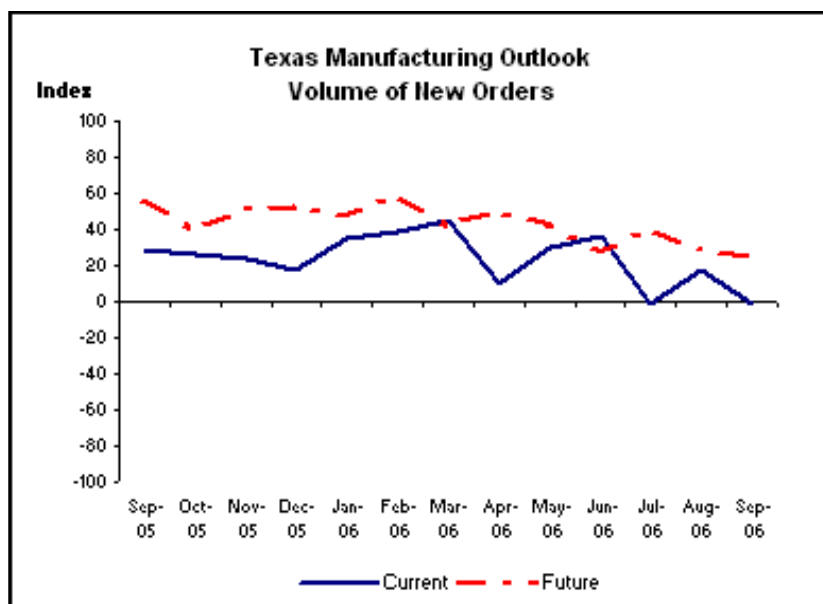


After falling negative in June and July, the index for [finished good inventories](#) increased to 12.9 in August, suggesting producers are building inventories. Most contacts (68 percent) report no change in finished goods inventories, but 23 percent said they had increased. The index for [material inventories](#) was slightly weaker in August. The index for [delivery time](#) continues to hover near zero, with most respondents (76 percent) reporting no change.

Raw Materials Price Pressures Persist

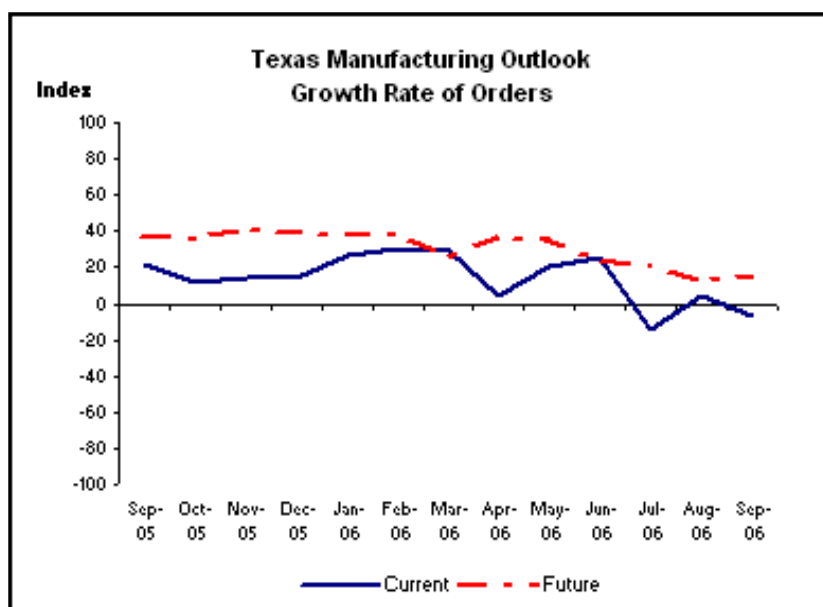
The index for [raw materials prices](#) remains high but fell slightly from 56.2 in July to 50 in August. The majority of business executives (55 percent) reported an increase in raw material prices this month and 40 percent reported no change. There was a slightly larger percentage of respondents (61 percent) reporting an increase in prices in July.

The index for prices paid for raw materials six months from now also drifted lower and is below the index for the current month. However, this index also remains quite high, with 48 percent of respondents expecting an increase in raw materials prices six months from now. Thirty-nine percent expect no change in raw materials prices and 13 percent expect a decrease.



There was little change in the [finished goods prices](#) index, which rose slightly from 20.3 in July to 22.6 in August. Seventy-one percent of responding firms reported no change in finished goods prices, but 26 percent reported an increase. Only 3 percent said finished goods prices declined in August.

The index value for finished goods prices six months from now fell lower than the current value, down from 33.4 in July to 14.8 in August. Sixty percent expect no change in finished goods prices six months from now, and 28 percent expect an increase.

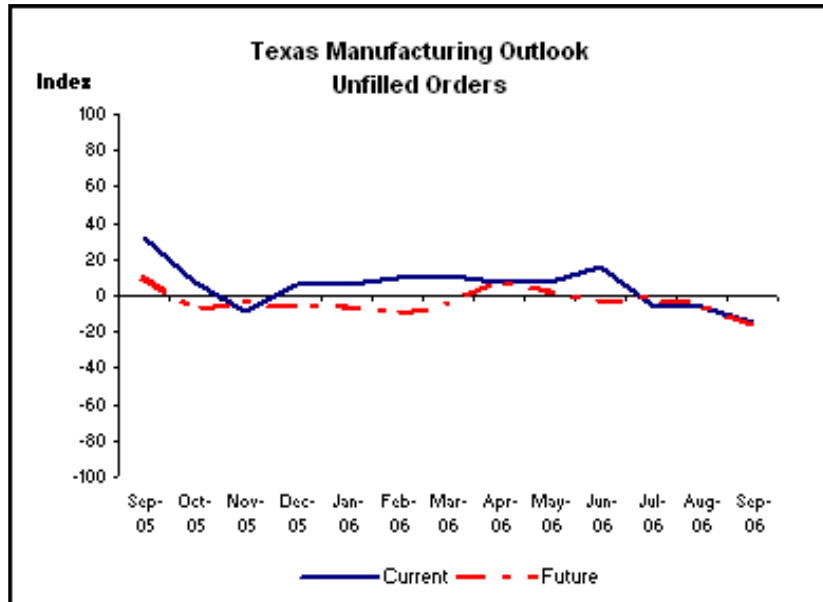


The index value for [number of employees](#) fell from 17.2 last month to 14.5 in August. The [wages and benefits index](#) was also lower, down from 34.4 in July to 22.6 in August. The majority of firms reported no change in either of these indicators. Twenty-six percent of respondents reported an increase in wages and benefits in August. However, the index value for wages and benefits six months from now was up, from 39.7 in July to 41.7 in August. Forty-two percent of business executives expect an increase in wages and benefits six months from now. No firms reported that they expected wages and benefits to decrease.

General Business Activity and Company Outlook Up Slightly

The August index for [company outlook](#) increased to 11.3 from 3.2 in July. Most respondents (60 percent) report no change in company outlook, but there was an increase in the percentage of business leaders reporting an improved outlook (26 percent).

The index for company outlook six months from now rose from 11 in July to 17.8 in August. Thirty-four percent of responding business executives say their company outlook for six months from now has improved; 16 percent report that it has worsened.



The August index value for level of [general business activity](#) (6.5) was virtually identical to the index value in July (6.3). There was, however, an increase in the percentage of firms reporting no change in the level of general business activity (68 percent).

The index value for the level of general business activity six months from now is only slightly higher than in the current period (8.2). Sixty percent report that they expect the level of general business activity to be about the same. Twenty-five percent of respondents expect an improvement in the level of general business activity six months from now. Sixteen percent of business executives expect activity to worsen six months from now, down from 27 percent in July who expected activity to worsen six months down the road.

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

Note

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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