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June 20, 2010

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Texas Manufacturing Outlook Survey**September 2006**

Texas is important to the nation's manufacturing. The state produced \$133.5 billion worth of manufactured goods in 2005, 8.9 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.

Factory Activity Remains Strong

Manufacturing activity in Texas continues to expand, according to business executives responding to the Texas Manufacturing Outlook Survey. Current indicators for most company conditions were somewhat lower in September, continuing a cooling trend from very high levels earlier this year. Capital spending is up, and expectations for activity remain good.

Upward pressures remain on materials and finished goods price indexes, although they drifted lower in September. Respondents expect more price increases in the future.

Here are some highlights from the September survey:

- Indicators for general business conditions were up from the previous month.
- The capital spending index increased to the highest value reported since August 2004.
- Company business indicators remain positive, but most are lower than last month.
- Upward price pressures remain but have eased some. While still positive, the finished goods price index was the lowest since the series started in May 2004. The raw materials price index remains high, however, with 41 percent of firms reporting higher prices paid for their inputs. The wages and benefits index increased.
- The survey suggests continued price pressures in the future. The index for finished goods prices six months from now increased. The index for future wages and benefits was also up, with 57 percent of business leaders anticipating an increase. Most firms also expect increases in raw materials prices.
- The survey suggests manufacturers are optimistic about the outlook for future activity. Most firms anticipate increases in production, capacity utilization and volume of shipments.

Production, Capacity Utilization, Shipments and Capital Spending Continue in Expansion Mode

The majority of business leaders reported that [production](#), [capacity utilization](#) and [volume of shipments](#) continued to expand, but a smaller percentage reported increases than in August.

Twenty-four percent of respondents said [production](#) increased in September, down from the 45 percent who reported an increase last month. The percentage of firms reporting an increase in [capacity utilization](#) fell from 39 percent in August to 25 percent in September. Thirty percent said the [volume of shipments](#) increased compared with 41 percent reporting an increase last month.

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Texas Manufacturing Outlook Survey

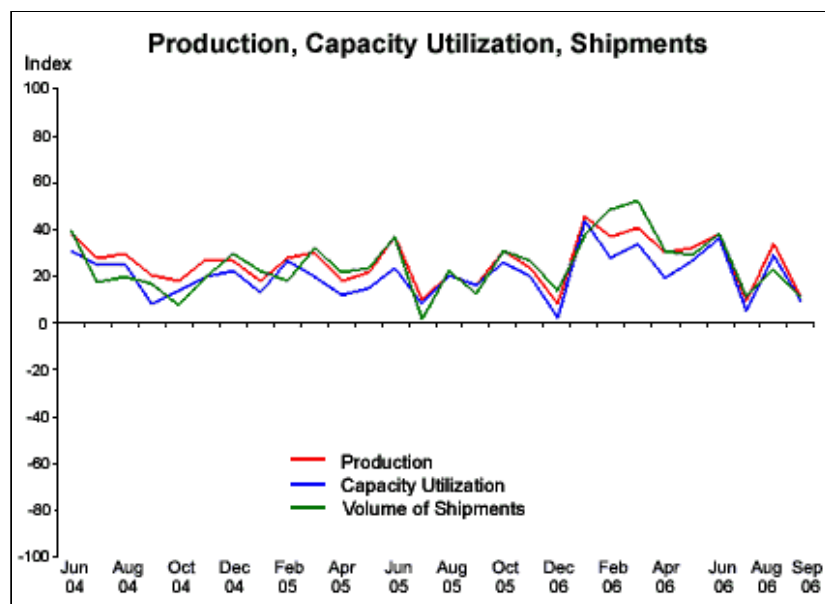
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Forty-four percent of responding firms expect production to increase six months from now. Fifty-two percent expect an increase in capacity utilization, pushing the future index up to 39.7. Forty-eight percent of business leaders expect the volume of shipments to rise in the future.

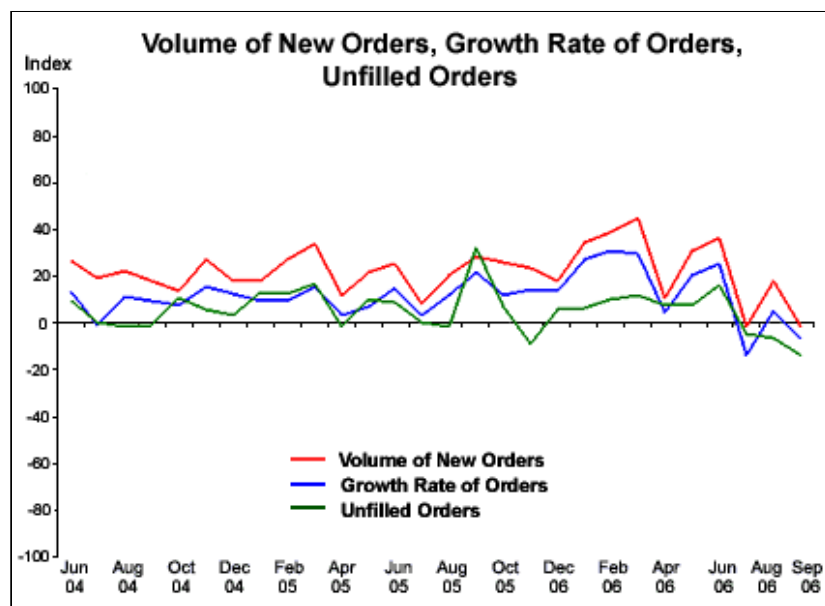
Thirty percent of respondents reported an increase in capital spending, pushing that index up from 20.9 to 25.4. The future capital expenditures index is 27. Thirty-eight percent of firms expect to increase capital spending six months from now, and only 11 percent plan to decrease spending.

Orders Dip

The three indexes for orders fell negative in September. The majority of respondents continue to report no change in these indicators, but—in a shift from last month—a larger percentage of business executives now report a decrease than an increase.

The index for [growth rate of orders](#) declined from 4.8 last month to -6.5 in September. Twenty-four percent of business executives indicated a decrease in September—the same percentage as last month—but firms reporting an increase dropped from 29 percent to 18 percent.

The index for [unfilled orders](#) fell from -6.5 to -14.3, the lowest reported level for the series. More respondents said there was a decrease in unfilled orders this month (24 percent) than last month (19 percent).

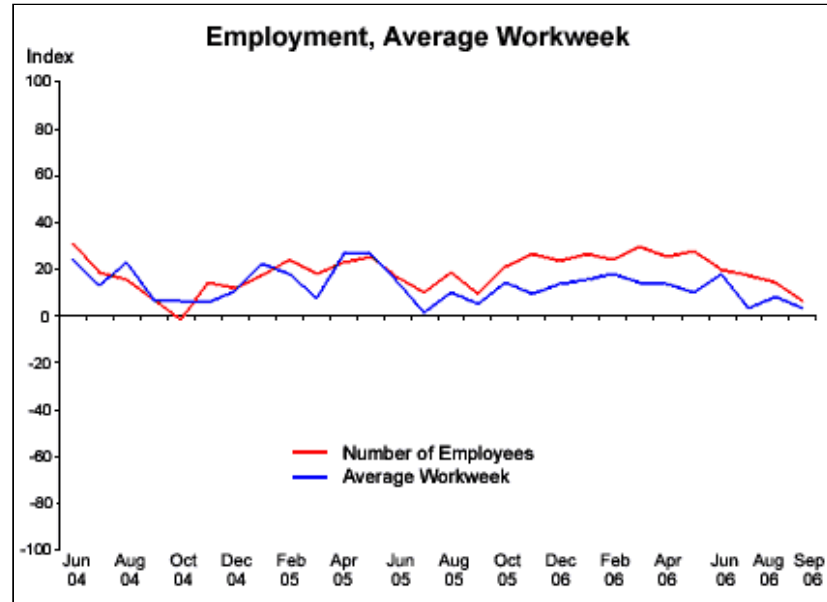


There was little change in the indicators for inventories. The index value for [finished goods](#) inventories was essentially unchanged (12.7 in September versus 12.9 in August). A slightly smaller percentage of firms reported an increase in [materials inventories](#), causing that index to decline slightly from 12.9 in August to 9.5 in September.

The index for [delivery time](#) fell negative. More than three-fourths of responding business executives reported no change in this indicator, but there was a slight increase in the percent of firms reporting a decline.

Labor Market Growth Continues

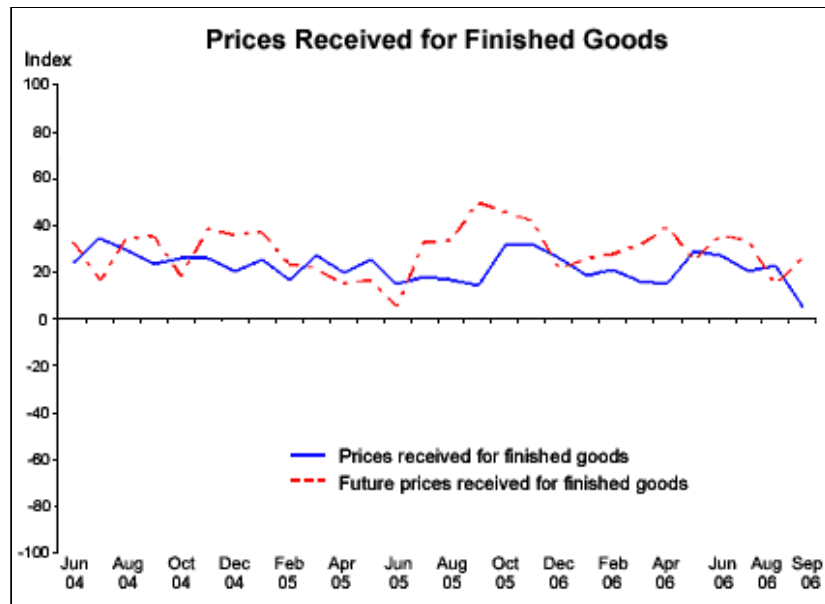
Index values for [number of employees](#) and [average employee workweek](#) remained positive but drifted lower. Nineteen percent of firms reported a gain in the number of employees in September, and 13 percent said the average employee workweek had increased. The majority of firms reported no change in these indicators.



The index for average workweek six months from now declined from 6.6 to 3.2. The index for the future number of employees was essentially unchanged at 28.6. Thirty-seven percent of firms expect an increase in the number of employees six months from now.

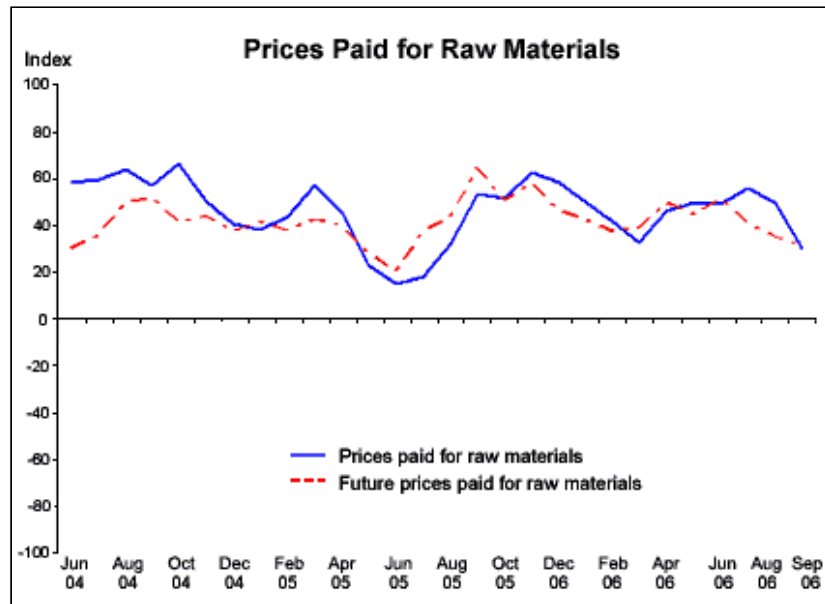
Upward Price Pressures Continue

The September index for [finished goods prices](#) was 4.9. Ten percent of business executives said finished goods prices increased, and 5 percent reported a decrease. The future index for finished goods prices rose from 14.8 to 25.8, with 36 percent of firms expecting prices to increase six months from now.

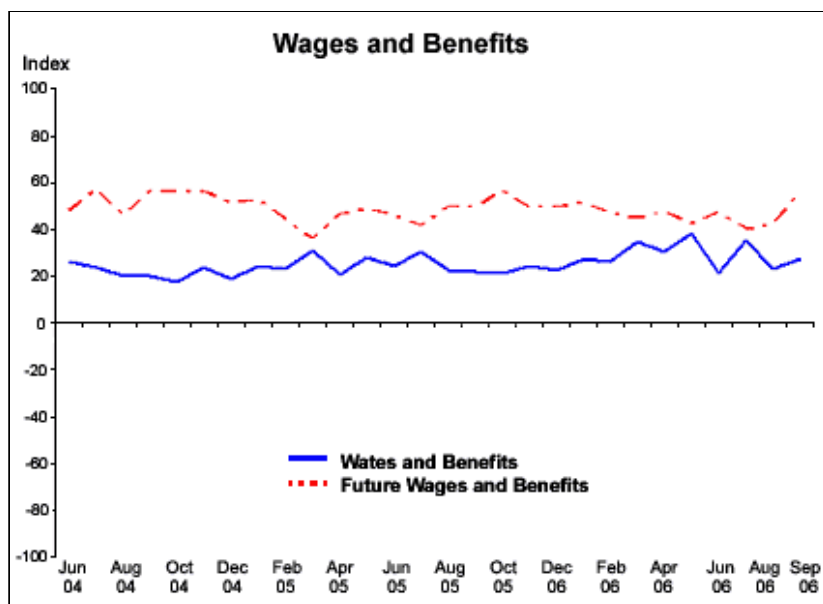


The index for [raw materials prices](#) remains high at 30.2 in September. Most business executives (48 percent) reported no change in materials prices since last month, but 41 percent reported an increase.

Most firms expect increases in future raw materials prices, although the percentage was slightly smaller in September, causing that index to decline from 35.5 to 31.7.



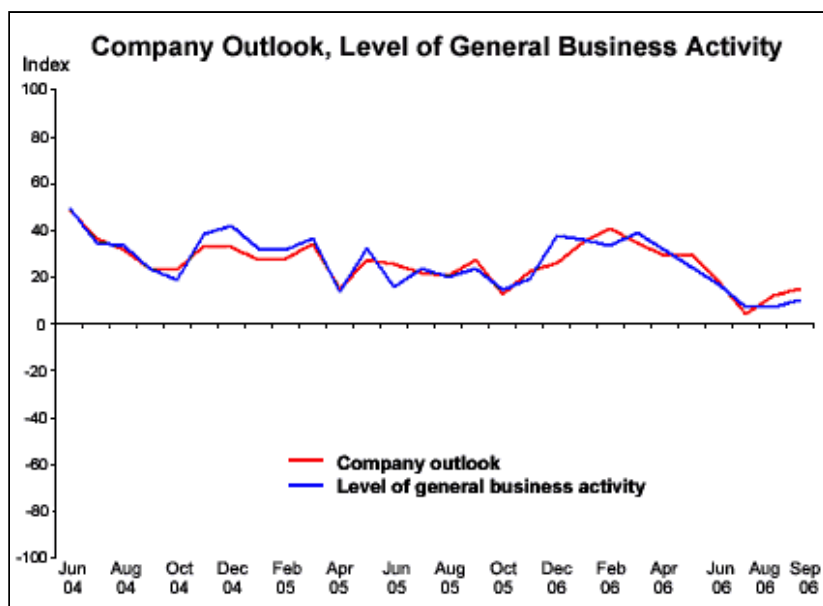
The [wages and benefits](#) index rose from 22.6 to 27. Twenty-seven percent of business executives said wages and benefits had increased in September. The index value for future wages and benefits jumped from 41.7 to 55.5.



General Business Activity and Company Outlook Continue to Rebound

The September index for [company outlook](#) increased to 14.3. Most respondents (67 percent) report no change in company outlook. There was a decrease in the percentage of business leaders reporting their outlook had worsened (down from 15 percent in August to 10 percent in September), and a slightly smaller percentage of firms reported an improved outlook (from 26 percent last month to 24 percent in September.)

The index for future company outlook increased from 17.8 in August to 24.2 in September. Thirty-nine percent of business executives reported an improved company outlook six months from now. Fifteen percent said it has worsened.



The September index value for [level of general business activity](#) strengthened from 6.5 to 9.7. The index value for the future level of general business activity (9.9) was up slightly from last month.

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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