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Texas Manufacturing Outlook Survey

June 30, 2008

Texas Manufacturing Weakens

Texas manufacturing activity weakened in June, according to the 108 business executives responding to the Texas Manufacturing Outlook Survey. Several indicators for current conditions declined from May levels and turned negative. Despite June's slowdown, more than a third of manufacturers responding to the survey expect increases in production and volume of new orders six months from now.

Indexes for [production](#) and [volume of shipments](#) dropped to zero, and some respondents noted that uncertainty in the national economy and rising energy costs were weighing on demand. Indicators for [capacity utilization](#), [volume of new orders](#), [material inventories](#) and [finished goods inventories](#) fell into negative territory, with more respondents reporting weaker readings than in May.

Sentiment on [general business activity](#) remained pessimistic. Thirty-four percent of respondents said the economy had worsened since last month, pushing the index down from -10.3 in May to -24.1 in June—its lowest reading since the survey's inception in 2004. The [company outlook](#) also weakened, dropping from 4.6 in May to -16.7 in June.

Price pressures on raw materials intensified. Seventy-five percent of producers reported increases in [raw materials prices](#) in June, compared with 69 percent in May. The number of respondents noting an increase in [finished goods prices](#) remained flat.

Expectations for manufacturing activity remained positive. The indexes for future [production](#), [capacity utilization](#) and [volume of shipments](#) improved slightly, with a larger share of respondents than in May expecting increases in these measures six months from now.

During the week of June 10–13, manufacturers were once again asked special questions about the impact of recent changes in credit conditions on their firm. Twenty-six percent have cut back on capital spending in response to recent financial market developments, an increase from April's 16 percent. Nearly a third of firms have reduced hiring, up from 13 percent in April. The overall percentage of firms reporting difficulty obtaining credit climbed from 8 percent in April to 21 percent in June. A larger share of firms sought credit in June than in April. Among those firms seeking credit, about a third reported difficulty in June, compared to 14 percent in April.

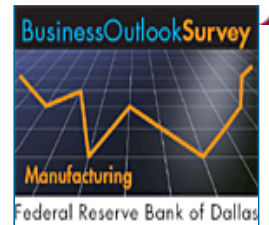
The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data for the latest survey were collected between June 17–25. Firms are asked whether output, employment, orders, prices and other indicators increased, decreased or remained unchanged over the previous month.

Survey responses are used to calculate an index for each question. Each index is calculated by subtracting the percentage reporting a decrease from the percentage reporting an increase. When all firms report that activity has increased, an index will register 100. An index will register -100 when all firms report a decrease. An index will be zero when the number of firms reporting an increase or decrease is equal.

—Next release: July 28

For additional perspective on the survey, see ["The Texas Manufacturing Outlook Survey: A Tool for Understanding the Economy"](#) and ["Made in Texas: The Natural Selection of Manufacturing."](#)

- Click on links in the table for greater details, including historical data.

**Current Report Links**

- Current report
- Summary of results/links to indexes

E-mail Alert

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Texas Manufacturing Outlook Survey

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- Empire State Manufacturing Survey (FRB New York)
- Survey of Tenth District Manufacturers (FRB Kansas City)

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June vs. May

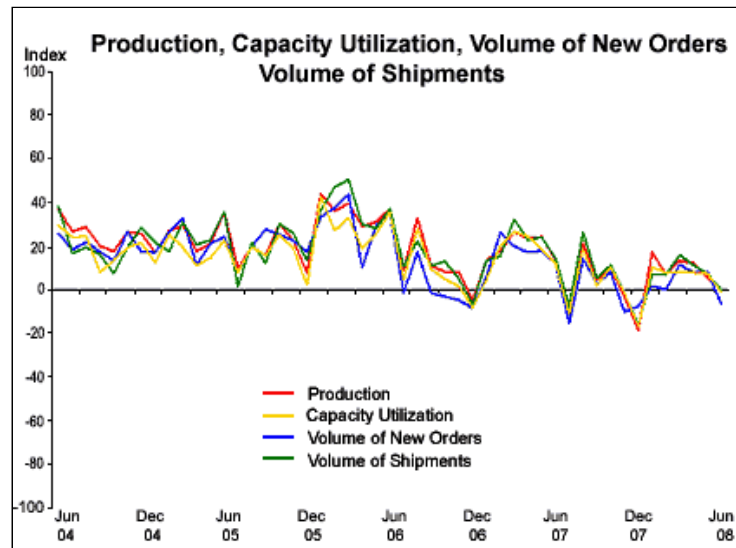
Six months from now

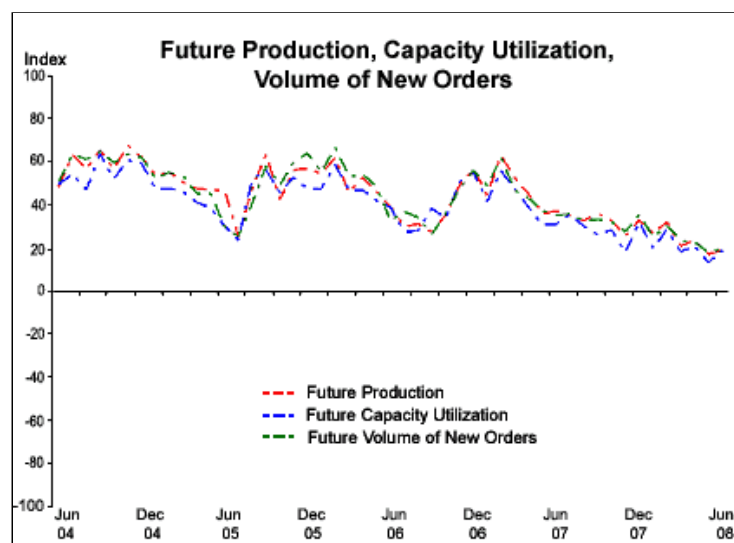
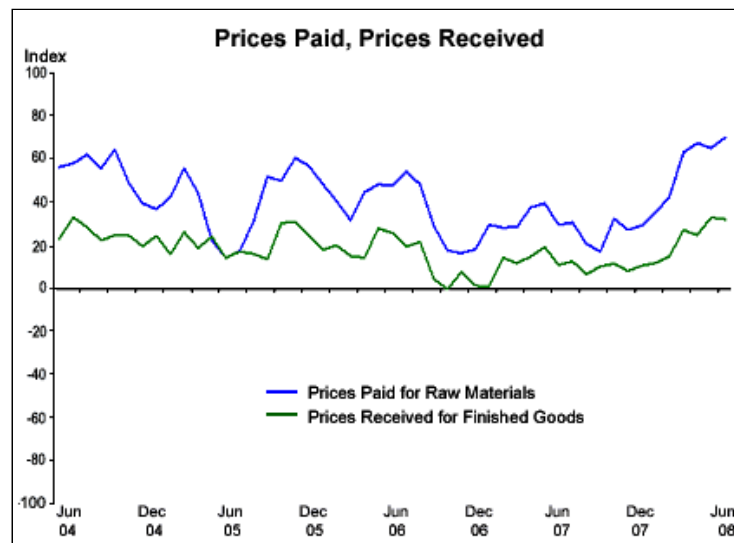
	June Index	% Increase	No Change	% Decrease	May Index	June Index	% Increase	No Change	% Decrease	May Index
Production	0.0	22.2	55.6	22.2	5.5	19.8	37.7	44.3	17.9	17.8

Capacity utilization	-0.9	20.4	58.3	21.3	7.4	19.6	34.6	50.5	15.0	14.0
Volume of new orders	-6.5	23.1	47.2	29.6	8.3	18.8	37.7	43.4	18.9	19.6
Growth rate of orders	-10.2	15.0	59.8	25.2	-1.8	9.4	29.0	51.4	19.6	11.2
Unfilled orders	-12.0	5.6	76.9	17.6	-8.4	-7.5	11.2	70.1	18.7	-2.9
Volume of shipments	0.0	24.1	51.9	24.1	7.4	20.6	37.4	45.8	16.8	18.6
Delivery time	3.7	7.4	88.9	3.7	-3.7	-5.6	8.4	77.6	14.0	-9.5
Materials inventories	-10.2	14.8	60.2	25.0	0.9	0.0	20.6	58.9	20.6	4.7
Finished goods inventories	-14.8	11.1	63.0	25.9	2.8	-10.3	11.2	67.3	21.5	-14.1
Prices paid for raw materials	72.2	75.0	22.2	2.8	67.3	65.5	72.0	21.5	6.5	58.0
Prices received for finished goods	33.4	38.0	57.4	4.6	34.2	43.9	48.6	46.7	4.7	38.7
Wages and benefits	23.4	26.2	71.0	2.8	24.0	36.4	38.3	59.8	1.9	38.7
Number of employees	-1.9	19.6	58.9	21.5	0.9	4.6	22.4	59.8	17.8	3.7
Average employee workweek	-8.4	14.0	63.6	22.4	-2.8	1.0	15.0	71.0	14.0	-1.9
Capital expenditures	-3.7	10.2	75.9	13.9	6.6	-2.8	18.7	59.8	21.5	10.5

General Business Conditions:

	June Index	% Improved	Remained the Same	% Worsened	May Index	June Index	% Improved	Remained the Same	% Worsened	May Index
How has the outlook for your company changed?	-16.7	8.3	66.7	25.0	4.6	-2.8	23.4	50.5	26.2	9.4
What is your evaluation of the level of general business activity?	-24.1	10.2	55.6	34.3	-10.3	-10.4	17.9	53.8	28.3	-5.6





Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Fiona Sigalla at Fiona.Sigalla@dal.frb.org.

Note

The Texas Manufacturing Outlook Survey has not been produced for a long enough time period to assess the appropriateness of seasonal adjustment. 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 if appropriate.

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