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June 20, 2010

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Texas Manufacturing Outlook Survey**December 29, 2008****Declines Deepen in Texas Manufacturing Activity**

Texas factory activity deteriorated further in December, according to business executives responding to the Texas Manufacturing Outlook Survey. Nearly all indexes of current activity remained negative, and several dropped to record lows. The six-month outlook remained uncertain and weak, and a majority of respondents noted a decline in planned capital expenditures for 2009.

Coincident with the faltering national economy, the index for [level of business activity](#) remained negative, and more than 60 percent of the respondents reported worsening conditions. The [company outlook](#) index dropped to its lowest level since the survey's inception in June 2004.

Indexes for [production](#), [growth rate of orders](#) and [volume of shipments](#) retreated further into negative territory, reflecting sluggish demand. The [volume of new orders](#) and [capacity utilization](#) indexes fell precipitously as the number of respondents reporting declines in these measures exceeded those reporting increases by more than five-to-one.

Labor markets weakened further. Thirty-one percent of manufacturers reported staff reductions, and 38 percent indicated declines in work hours.

Cost pressures continued to moderate. Both the [prices paid for raw materials](#) and [prices received for finished goods](#) indexes fell for the sixth consecutive month, registering record lows.

Expectations for future price pressures were subdued. Manufacturers were twice as likely to anticipate declines rather than increases in finished goods prices over the next six months.

Assessments of future activity remained generally pessimistic, suggesting that manufacturers expected their operations to contract further. Although indexes for future [production](#), [capacity utilization](#), [volume of new orders](#) and [volume of shipments](#) improved slightly, they're still close to record lows.

During the week of Dec. 3–5, manufacturers were asked special questions about their capital spending plans for 2009 relative to actual spending in 2008. Sixty-five percent reported reductions in their capital budgets for next year, while 14 percent anticipated spending increases.

The results are markedly more pessimistic than the last time these questions were asked. In October 2007, only 29 percent of respondents had reported declines in their planned capital spending and 37 percent had indicated increases.

Respondents were also asked to report which factors affected their planned capital expenditures for 2009. Nearly three-fourths cited slow sales growth, while 43 percent said low capacity utilization had deterred them from investing in new plant and equipment. Limited need to replace capital goods (38 percent), deteriorating cash flow position (26 percent), limited need to replace IT equipment (25 percent) and rising cost and lack of availability of credit (17 percent) were cited as other key factors influencing the decision to reduce capital spending.

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 Dec. 16–23, and 109 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 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.

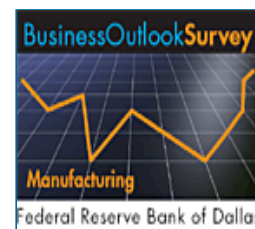
—Next release: January 26, 2009

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

December vs. November

Six months from now

	Dec Index	% Increase	No Change	% Decrease	Nov Index	Dec Index	% Increase	No Change	% Decrease	Nov Index
Production	-33.0	11.0	45.0	44.0	-21.0	0.0	31.5	37.0	31.5	-6.1

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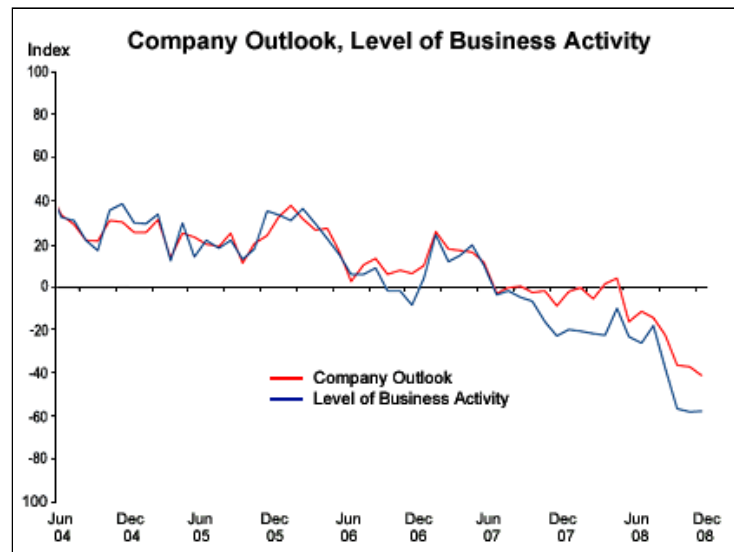
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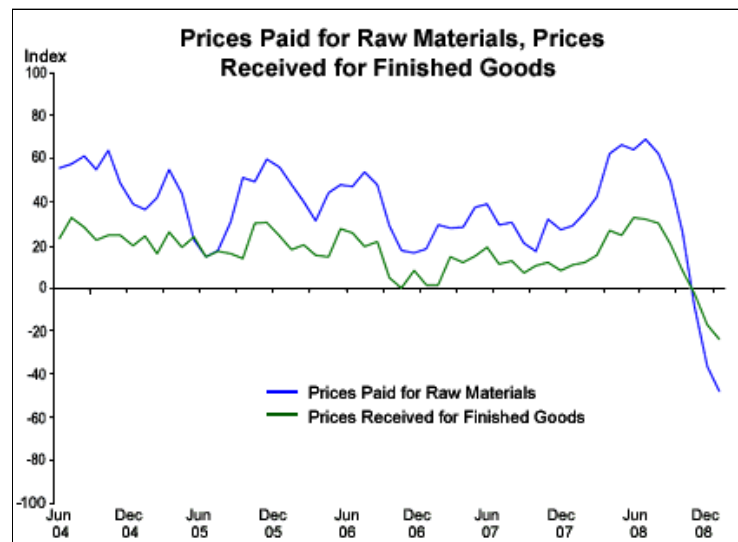
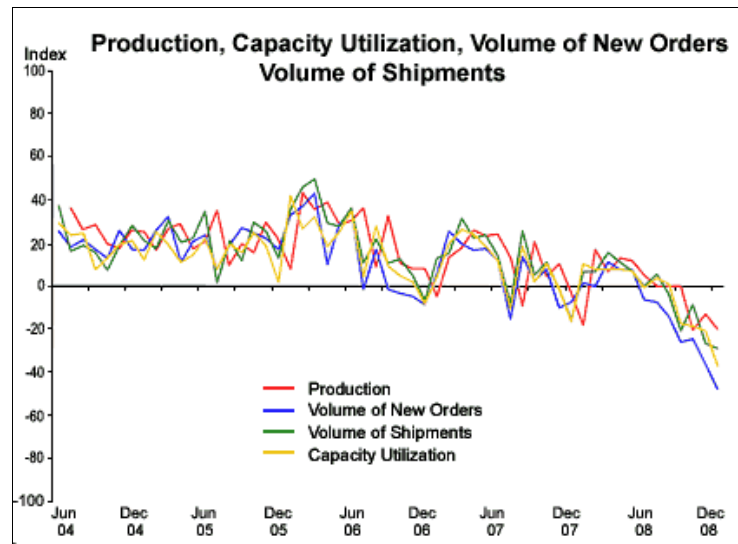
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Capacity utilization	-38.9	7.4	46.3	46.3	-22.0	0.9	32.4	36.1	31.5	-7.2
Volume of new orders	-50.0	11.1	27.8	61.1	-38.0	0.0	33.3	33.3	33.3	-5.1
Growth rate of orders	-47.7	10.1	32.1	57.8	-46.0	-5.6	28.0	38.3	33.6	-9.2
Unfilled orders	-32.1	7.3	53.2	39.4	-33.0	-19.5	7.4	65.7	26.9	-13.2
Volume of shipments	-30.3	15.6	38.5	45.9	-28.0	-1.8	30.6	37.0	32.4	-6.1
Delivery time	-16.8	7.5	68.2	24.3	-15.0	-17.8	5.6	71.0	23.4	-12.3
Materials inventories	-17.4	15.6	51.4	33.0	-29.0	-25.0	13.0	49.1	38.0	-31.7
Finished goods inventories	-21.1	14.7	49.5	35.8	-23.5	-23.2	12.0	52.8	35.2	-25.2
Prices paid for raw materials	-50.0	4.6	40.7	54.6	-38.0	-16.6	24.1	35.2	40.7	-19.6
Prices received for finished goods	-25.0	4.6	65.7	29.6	-18.0	-18.8	17.0	47.2	35.8	-10.2
Wages and benefits	0.9	11.9	77.1	11.0	5.0	21.3	29.6	62.0	8.3	28.6
Number of employees	-24.8	6.4	62.4	31.2	-23.0	-17.7	17.8	46.7	35.5	-7.1
Average employee workweek	-33.9	3.7	58.7	37.6	-26.2	-4.7	18.9	57.5	23.6	-13.2
Capital expenditures	-24.8	4.6	66.1	29.4	-16.1	-22.4	11.2	55.1	33.6	-16.3

General Business Conditions:

	Dec Index	% Improved	Remained the Same	% Worsened	Nov Index	Dec Index	% Improved	Remained the Same	% Worsened	Nov Index
How has the outlook for your company changed?	-43.1	8.3	40.4	51.4	-38.7	-27.7	20.4	31.5	48.1	-29.0
What is your evaluation of the level of general business activity?	-60.6	1.8	35.8	62.4	-61.0	-37.1	15.7	31.5	52.8	-47.0





Questions regarding the Texas Manufacturing Outlook Survey can be addressed to Laila Assanie at laila.assanie@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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