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Texas Manufacturing Outlook Survey

June 29, 2009

Texas Manufacturing Contraction Ebbs Further, Outlook Stays Positive

Declines in Texas factory activity moderated further in June, according to the business executives who responded to the Texas Manufacturing Outlook Survey.

Indexes for [production](#), [capacity utilization](#), [new orders](#) and [growth rate of orders](#) improved slightly from their May readings, but they remained negative, suggesting continued weakness. For the most part, the changes reflect fewer companies seeing declines in these measures, not more firms reporting increases.

Weak labor market conditions persisted. The [employee index](#) was virtually unchanged in June, and a fourth of those responding reported cut backs in work hours. [Wage](#) pressures remained minimal, with 85 percent of companies indicating no changes in current compensation and three-fourths expecting wages to hold steady six months from now.

Investment plans were still largely on hold as the uncertain economic climate continued to weigh on respondents. The index for [capital expenditures](#) remained negative both for the current period and for six months from now.

In June, there were fewer reports of price declines. Firms receiving lower [prices for their goods](#) outnumbered those receiving higher prices by a 4-to-1 margin, down from 11-to-1 in May. The share of manufacturers noting decreases in [raw material prices](#) dropped from 38 percent in May to 20 percent in June.

Respondents remained pessimistic about current economic conditions. The [general business activity index](#)—the survey's broadest measure of state manufacturing trends—was little changed in June. The index has been negative since July 2007.

Sentiment regarding business prospects remained positive. The future [general business activity index](#) dipped but stayed in positive territory for the second consecutive month, and 30 percent of manufacturers now expect business to firm up six months from now.

Assessments of future [production](#), [capacity utilization](#), [new orders](#) and [growth rate of orders](#) were little changed in June. The share of manufacturing executives expecting increases in these measures outnumbered those foreseeing decreases by more than 2-to-1.

During the week of June 2–5, manufacturers answered supplemental questions on the impact of credit availability on their businesses. The October survey included the same questions, providing an eight-month comparison.

The responses reveal that access to credit is still constrained, and some respondents noted that banks are “dragging their heels” when renegotiating or renewing lines of credit. The percentage of firms indicating that credit availability has affected their company's outlook or operations dropped from 42 percent in October to 36 percent in June, but it remains above the June 2008 level of 20 percent.

In response to the credit crunch, 49 percent have reduced capital spending, an increase from October's 37 percent. Sixty-four percent are either laying off workers or cutting back on hiring, up from 39 percent in October. The share of firms experiencing problems obtaining credit to finance ongoing activities ticked up from 23 percent in October to 29 percent in June. Among those firms facing hurdles seeking credit, 92 percent reported changes in terms, and 71 percent noted changes in loan volumes.

The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity. Data were collected June 16–24, and 99 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: July 27, 2009

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."](#)

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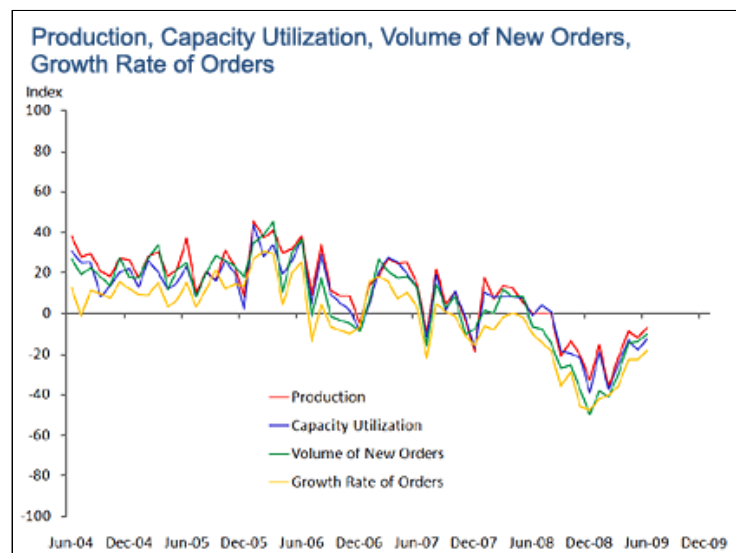
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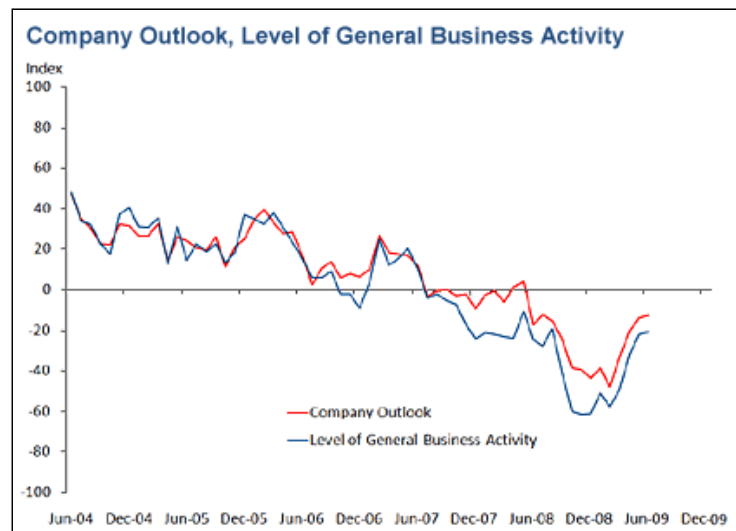
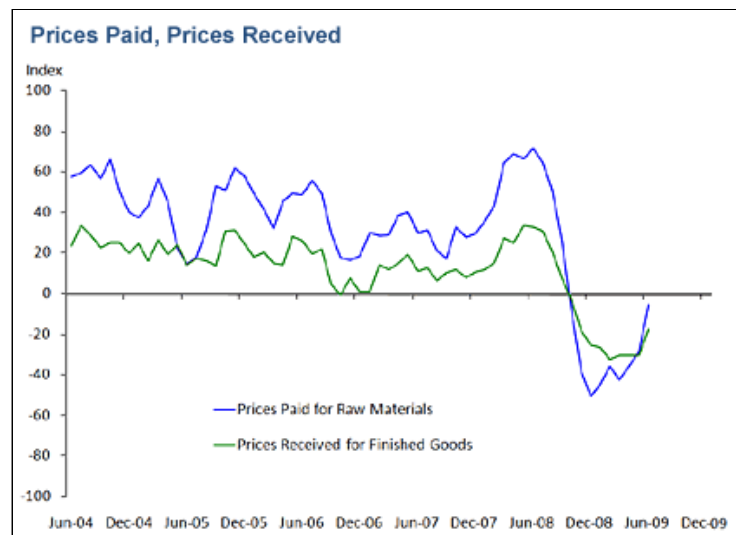
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— Click on links in the table for greater details, including historical data.

	June vs. May					Six months from now				
	June Index	% Increase	No Change	% Decrease	May Index	June Index	% Increase	No Change	% Decrease	May Index
Production	-7.0	16.2	60.6	23.2	-12.0	20.6	38.1	44.3	17.5	19.2
Capacity utilization	-12.2	14.3	59.2	26.5	-18.0	19.6	36.1	47.4	16.5	17.2
Volume of new orders	-10.1	21.2	47.5	31.3	-14.0	27.1	41.7	43.8	14.6	29.3
Growth rate of orders	-18.1	15.2	51.5	33.3	-23.0	23.0	36.5	50.0	13.5	20.2
Unfilled orders	-17.2	9.1	64.6	26.3	-21.0	-1.1	13.5	71.9	14.6	-2.1
Volume of shipments	-14.1	15.2	55.6	29.3	-14.0	19.6	39.2	41.2	19.6	26.3
Delivery time	-15.2	4.0	76.8	19.2	-20.0	-7.2	4.1	84.5	11.3	-10.1
Materials inventories	-27.2	7.1	58.6	34.3	-26.0	-12.3	12.4	62.9	24.7	-10.1
Finished goods inventories	-17.2	11.1	60.6	28.3	-29.0	-14.4	10.3	64.9	24.7	-10.1
Prices paid for raw materials	-5.1	15.3	64.3	20.4	-28.0	17.5	30.9	55.7	13.4	5.0
Prices received for finished goods	-17.1	6.1	70.7	23.2	-30.0	-1.0	12.4	74.2	13.4	-8.1
Wages and benefits	3.0	9.1	84.8	6.1	-6.0	10.3	17.5	75.3	7.2	8.0
Number of employees	-25.2	8.1	58.6	33.3	-27.0	-4.1	19.6	56.7	23.7	-10.1
Average employee workweek	-15.3	9.2	66.3	24.5	-23.2	3.1	23.7	55.7	20.6	3.0
Capital expenditures	-18.4	7.1	67.3	25.5	-17.1	-10.4	10.4	68.8	20.8	-16.7

	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?	-12.1	16.2	55.6	28.3	-13.1	8.2	29.6	49.0	21.4	7.1
What is your evaluation of the level of general business activity?	-20.4	9.2	61.2	29.6	-21.5	5.1	27.8	49.5	22.7	10.3





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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