

## Trend Towards Contraction in the Oil Sector Continues

### Health Care, Construction, and Manufacturing Not Related to Energy Remain Strong

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The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that our economy showed a potential for contraction near term for the fourth month in a row. Continuing the trend seen during this period, six of the eight underlying indicators are predicting potential contraction, while the remaining two are showing support for economic expansion.

The Houston Purchasing Managers Index (H-PMI) fell from 44.5% to 42.7% in April. Readings below 50% generally indicate contraction near term. The seasonally adjusted Finished Goods Inventory and Prices Paid Indices continued to point to expansion, while all other indicators (Sales/New Orders, Production, Employment, Purchases, Lead Times, and Purchased Inventory) are pointing to possible contraction. Sales/New Orders, Purchases, and Lead Times all fell more than 4 percentage points.

Continuing the trend of the last quarter, Oil and Gas related industries, including those with a high proportion of sales to this sector, have been among the hardest hit by the fall in crude oil prices. Industries with limited sales to the Oil and Gas Exploration area continue to report neutral or better results. Health Care was strong again this month. Durable Goods Manufacturing unrelated to the energy sector, Non-Durable Goods Manufacturing, and Construction reported results that were relatively flat with last month, indicating a potential for moderate expansion in these areas.

#### INDICES AT A GLANCE

Index	Mar	Feb	Change	Track	Rate	Trend*
Houston PMI	42.7	44.5	-1.8	Contracting	Faster	4
Sales/New Orders	39.3	43.9	-4.6	Falling	Faster	4
Production	47.2	48.4	-1.2	Falling	Faster	4
Employment	34.7	35.8	-1.1	Falling	Faster	3
Purchases	35.1	41.5	-6.4	Falling	Faster	4
Prices Paid	31.4	32.9	-1.5	Falling	Faster	4
Lead Times	26.8	32.2	-5.4	Falling	Faster	3
Purchased Inventory	43.1	41.0	2.1	Falling	Slower	5
Finished Goods Inventory	43.1	45.6	-2.5	Falling	Faster	4

\* Months on current track



**Commodities Reported Up in Price:** Pharmaceuticals

**Commodities Reported Down in Price:** Computers and computer components

**Commodities Reported in Short Supply:** Qualified candidates for professional contract positions

#### WHAT OUR RESPONDENTS ARE SAYING AND SUMMARIES BY SECTOR

##### Oil and Gas Exploration, and Key Support Services:

- US and Texas rig counts are less than half of what they were at this time last year
- Oil prices are still hurting our business; we need to have companies drilling for oil and gas on both land and sea.
- Overall, the respondents in this sector reported a large portion of the underlying indices as pointing towards contraction; Prices and Finished Goods Inventory were reported as indicating potential expansion

##### Manufacturing - Durable Goods:

- Until we see increased in drilling, manufacturing for oil and gas is going to be slow
- Respondents in this sector with sales unrelated to Oil and Gas reported Sales marginally up; Production, Employment, Purchases, Inventories even with last month; Prices and Lead Times down
- Respondents in this sector that depend on Oil and Gas Exploration for a major portion of their sales reported Sales, Production, Employment, Purchases, and Lead Times as down with Prices stabilizing and Inventories increasing

##### Manufacturing - Non-Durable Goods:

- Respondents in this sector reported Sales as mixed; Production, Prices and Lead Times consistent with the previous month; Employment, Purchases and Inventories down

##### Construction:

- Respondents in this sector reported New Orders, Employment, and Purchases consistent with the previous month, with Prices and Lead Times falling

##### Health Care:

- Employment and purchasing are up due to continued expansion in the medical field
- Respondents in this area reported continued positive results

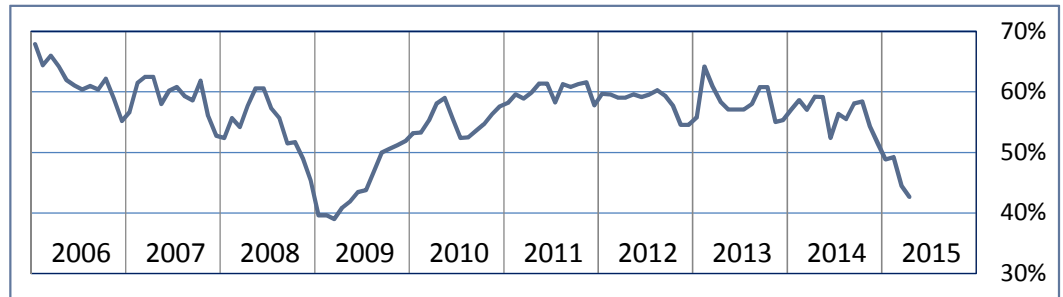
# ISM-Houston Business Report

April 2015



## Houston PMI Trend

The Houston PMI indicates likely shifts in production three or four months in advance. Readings over 50 percent generally indicate production expansion over the near term; readings below 50 percent show coming contraction.



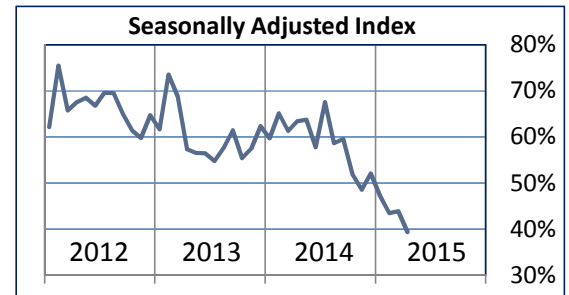
## Trend of Underlying Indicators

The Houston PMI is based on diffusion indices for eight underlying indicators as shown below. The net value of each of these indicators is simply the percentage of respondents who cite a positive shift from the previous month minus the percentage who cite a negative shift. The diffusion index is calculated based on the percent of respondents reporting higher results plus one-half of those responding the same with a seasonal adjustment based on an X12 ARIMA forecast using the previous 12 years data. Seasonally adjusted values above 50 percent for the Sales/New Orders, Production, Employment, Purchases, Lead Times and Purchased Inventory indicators point towards expansion and values below 50 percent signal contraction. The Prices Paid and Finished Goods Inventory indicators are inversely correlated to economic activity, meaning that values below 50 percent point to expansion and values above point to contraction.

### Sales/New Orders

	% Higher	% Same	% Lower	Net	Index
Nov-14	27	40	33	-7	48.5
Dec-14	25	48	27	-3	52.0
Jan-15	30	34	36	-6	47.2
Feb-15	31	28	41	-10	43.4
Mar-15	28	31	41	-13	43.9
Apr-15	21	38	41	-21	39.3

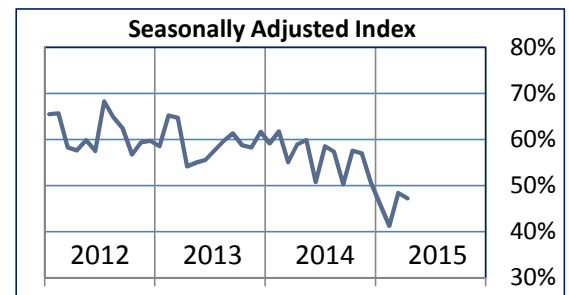
The seasonally adjusted New Orders Index fell to 39.3% this month, its fourth month below neutral.



### Production

	% Higher	% Same	% Lower	Net	Index
Nov-14	27	60	13	13	57.0
Dec-14	18	60	22	-4	50.7
Jan-15	21	53	26	-6	46.0
Feb-15	15	57	28	-13	41.2
Mar-15	15	64	21	-5	48.4
Apr-15	12	67	21	-9	47.2

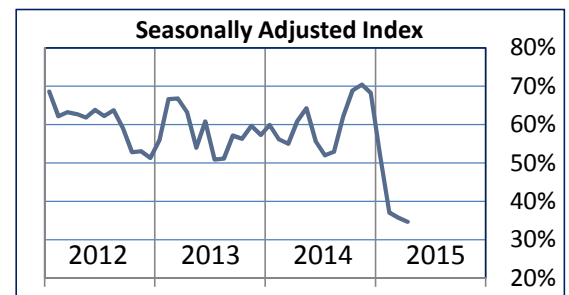
The Houston Production Index fell marginally to 47.2% this month.



### Employment

	% Higher	% Same	% Lower	Net	Index
Nov-14	43	50	7	37	70.4
Dec-14	38	52	10	29	68.2
Jan-15	21	56	23	-2	52.1
Feb-15	10	54	36	-26	37.1
Mar-15	10	54	36	-26	35.8
Apr-15	15	44	41	-26	34.7

The seasonally adjusted Houston Employment Index also fell marginally reaching 34.7%.



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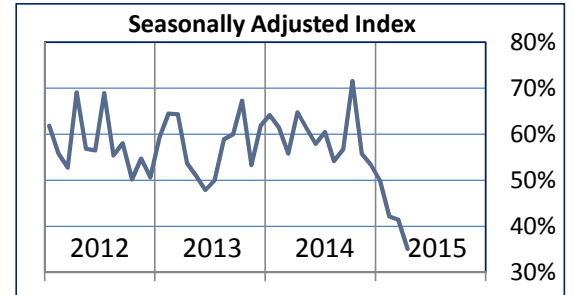
## April 2015



### Purchases

	% Higher	% Same	% Lower	Net	Index
Nov-14	33	44	23	10	55.8
Dec-14	32	34	34	-3	53.4
Jan-15	38	28	34	4	49.9
Feb-15	28	31	41	-13	42.2
Mar-15	21	41	38	-18	41.5
Apr-15	18	32	50	-32	35.1

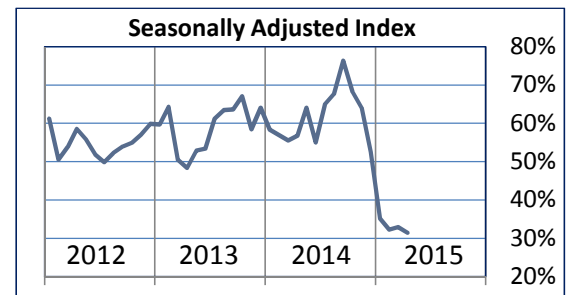
The seasonally adjusted Houston Purchases Index fell more than 6% to 35.1%.



### Prices Paid

	% Higher	% Same	% Lower	Net	Index
Nov-14	30	67	3	27	63.9
Dec-14	15	69	16	-1	52.5
Jan-15	4	66	30	-26	35.2
Feb-15	3	59	38	-36	32.2
Mar-15	5	57	38	-33	32.9
Apr-15	6	56	38	-32	31.4

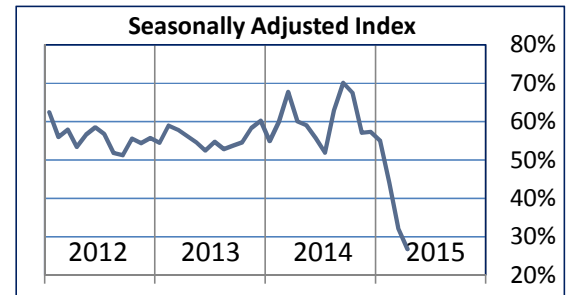
The Prices Paid Index fell modestly to 31.4%. As this index is a reverse indicator of economic activity, this low level continues to buoy the overall index.



### Lead Times

	% Higher	% Same	% Lower	Net	Index
Nov-14	17	80	3	13	57.1
Dec-14	19	73	8	11	57.3
Jan-15	19	70	11	8	55.1
Feb-15	15	59	26	-10	44.1
Mar-15	8	51	41	-33	32.2
Apr-15	3	50	47	-44	26.8

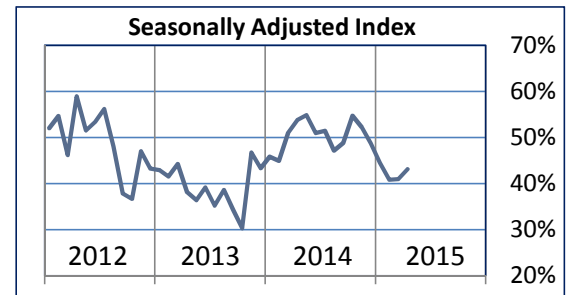
The Houston Lead Times Index fell an additional 5 points this month to 26.8%.



### Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
Nov-14	20	60	20	0	52.2
Dec-14	11	67	22	-11	48.7
Jan-15	11	74	15	-4	44.5
Feb-15	10	67	23	-13	40.9
Mar-15	10	64	26	-15	41.0
Apr-15	12	62	26	-15	43.1

The seasonally adjusted Houston Purchased Inventory Index rose just over 2 points to 43.1%.



### Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
Nov-14	27	63	10	17	57.6
Dec-14	27	59	14	14	56.9
Jan-15	21	51	28	-8	41.7
Feb-15	21	48	31	-10	43.2
Mar-15	18	56	26	-8	45.6
Apr-15	18	53	29	-12	43.1

The Houston Finished Goods Inventory Index was fell modestly this month to 43.1%.

