

# Trend Towards Contraction Continues at a Slower Pace

## Leveling Out of Rig Counts and Oil Prices May Point to Stabilization

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The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that our economy continued to show weakness this month, however the trend towards contraction is slowing. While six of the eight underlying indicators continue to predict potential contraction, the rate of potential contraction slowed considerable for five of these six indicators. The remaining two indicators continue to show support for economic expansion.

The Houston Purchasing Managers Index (H-PMI) rose from its April level of 42.7% to 46.1% in May. Readings below 50% generally indicate contraction near term. The seasonally adjusted Finished Goods Inventory and Prices Paid Indices remained on the positive side, while all other indicators (Sales/New Orders, Production, Employment, Purchases, Lead Times, and Purchased Inventory) continue to point to possible contraction. However, while remaining below neutral, the Sales/New Orders, Employment, Purchases, Prices Paid, and Lead Times indices all rose more than 3 percentage points.

Continuing the trend since early in the year, 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	May	Apr	Change	Track	Rate	Trend*
Houston PMI	46.1	42.7	3.4	Contracting	Slower	5
Sales/New Orders	43.0	39.3	3.7	Falling	Slower	5
Production	44.7	47.2	-2.5	Falling	Faster	5
Employment	43.4	34.7	8.7	Falling	Slower	4
Purchases	40.8	35.1	5.7	Falling	Slower	5
Prices Paid	35.6	31.4	4.2	Falling	Slower	5
Lead Times	33.7	26.8	6.9	Falling	Slower	4
Purchased Inventory	43.7	43.1	0.6	Falling	Slower	6
Finished Goods Inventory	48.6	43.1	5.5	Falling	Slower	5

\* Months on current track



**Commodities Reported Up in Price:** Pharmaceuticals

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

**Commodities Reported in Short Supply:** Pharmaceuticals and IV solutions

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

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

- US and Texas rig counts appear to be stabilizing at about half of last year's numbers
- Oil prices have improved from earlier in the year, but we need additional strengthening
- Most respondents in this sector continue to show weakness in nearly all indicators with only the Prices and Finished Goods Inventory indicators pointing to potential expansion

#### Manufacturing - Non-Durable Goods:

- Most respondents in this sector reported activities relatively consistent with last month

#### Manufacturing - Durable Goods:

- Oil and Gas Manufacturing has stabilized at less than 50% of what it was at the beginning of the year; we now need to see an increase in demand for drilling products to get any relief for this industry
- We're holding on, but we are seeing signs of a potential slow down in the near future
- Respondents in this sector reported Sales/New Orders, Production, Employment and Inventories as flat; Purchases, Prices Paid, and Lead Times continue to fall

#### Trade:

- Respondents in this sector reported mixed results this month with some indicating strengthening while others continue to show weakening

#### Construction:

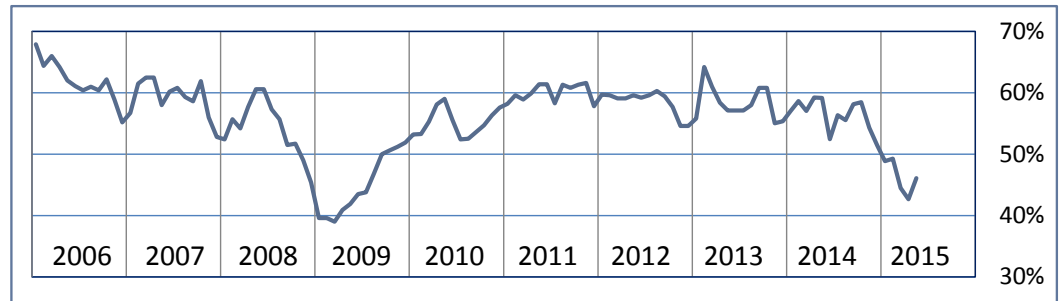
- As with last month, respondents in this sector reported New Orders, Employment, and Purchases consistent with the previous period, with Prices and Lead Times falling

#### Health Care:

- Continuing expansion activities
- Respondents in this sector reported Employment and Purchases as up, with Prices Paid and Lead Times leveling out

### 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

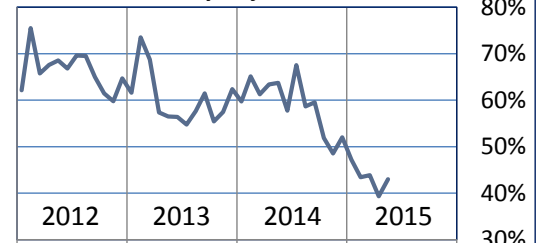
The Houston PMI is based on diffusion indices for eight underlying indicators as shown below. The net value of each of these indicators is simply the percentage of respondents who cite a positive shift from the previous month minus the percentage who cite a negative shift. The diffusion index is calculated 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
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
May-15	14	60	26	-12	43.0

The seasonally adjusted New Orders Index gained almost 4 percentage points this month to a seasonally adjusted 43.0%.

#### Seasonally Adjusted Index

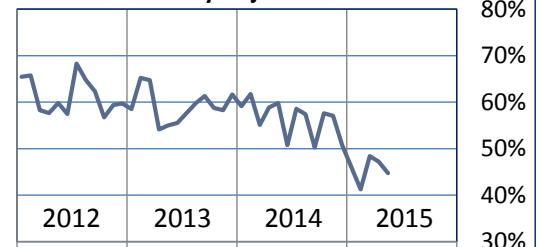


#### Production

	% Higher	% Same	% Lower	Net	Index
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
May-15	5	78	17	-12	44.7

The Houston Production Index fell again this month to a seasonally adjusted 44.7%.

#### Seasonally Adjusted Index

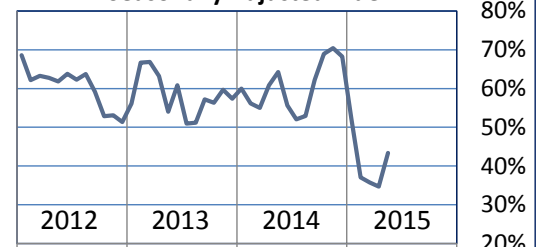


#### Employment

	% Higher	% Same	% Lower	Net	Index
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
May-15	19	50	31	-12	43.4

The seasonally adjusted Houston Employment Index gained almost 9 points this month ending at 43.4%.

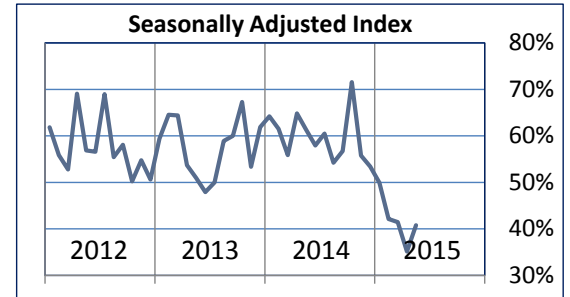
#### Seasonally Adjusted Index



### Purchases

	% Higher	% Same	% Lower	Net	Index
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
May-15	17	45	38	-21	40.8

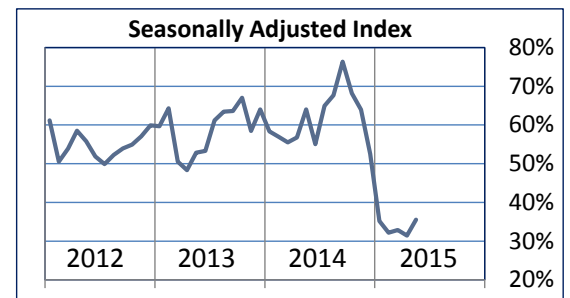
The seasonally adjusted Houston Purchases Index gained almost 6 points this month ending at 40.8%.



### Prices Paid

	% Higher	% Same	% Lower	Net	Index
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
May-15	5	62	33	-29	35.6

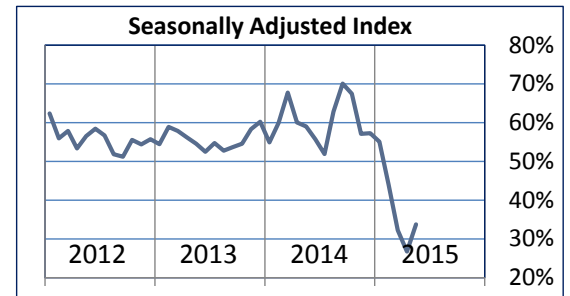
The seasonally adjusted Prices Paid Index rose to 35.6% this month. As this index is a reverse indicator of economic activity, this low level continues to buoy the overall index.



### Lead Times

	% Higher	% Same	% Lower	Net	Index
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
May-15	5	59	36	-31	33.7

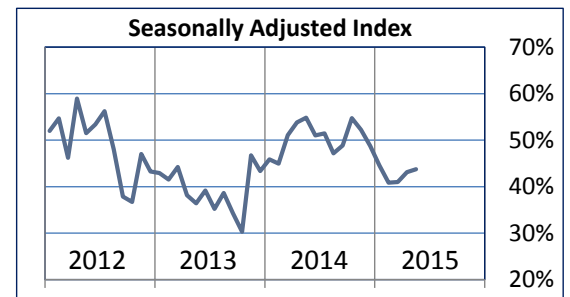
The Houston Lead Times Index gained 7 points this month to end at a seasonally adjusted 33.7%.



### Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
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
May-15	10	71	19	-10	43.7

The seasonally adjusted Houston Purchased Inventory Index rose marginally to 43.7%.



### Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
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
May-15	14	67	19	-5	48.6

The Houston Finished Goods Inventory Index gained over 5 percentage points this month to seasonally adjusted 48.6%.

