

Houston PMI Stays Relatively Flat at 46.7%

Mid-Stream and Downstream Activities Improve

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The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates potential contraction in the Houston economy during the coming quarter, however, there continues to be strength in many areas within the economy. Six of the eight underlying indicators continue to show weakness with the rate of potential contraction slowing for four of these six indicators. The remaining two indicators continue to show support for economic expansion.

The Houston Purchasing Managers Index (H-PMI) rose modestly from its May level of 46.1% to 46.7% in June. 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, Production, Purchases, and Lead Times indices all rose more than 3 percentage points. The employment and Purchased Inventory indices were relatively unchanged.

Oil and Gas related industries, including those areas with a high proportion of sales to this sector, remained weak. Wholesale Trade also showed weakness. Construction, Financial Services, and Professional Services remained just above neutral. Health Care showed continued strength. The greatest strengthening was found in the mid-stream and down stream non-durable goods sectors where Sales, Production, and Purchases were noted as up by many of the respondents in this area.

INDICES AT A GLANCE

Index	Jun	May	Change	Track	Rate	Trend*
Houston PMI	46.7	46.1	0.6	Contracting	Slower	6
Sales/New Orders	47.6	43.0	4.6	Falling	Slower	6
Production	49.1	44.7	4.4	Falling	Slower	6
Employment	43.0	43.4	-0.4	Falling	Faster	5
Purchases	44.4	40.8	3.6	Falling	Slower	6
Prices Paid	46.4	35.6	10.8	Falling	Slower	6
Lead Times	37.0	33.7	3.3	Falling	Slower	5
Purchased Inventory	43.1	43.7	-0.6	Falling	Faster	7
Finished Goods Inventory	39.2	48.6	-9.4	Falling	Faster	6

* Months on current track



Commodities Reported Up in Price: Vaccines, highly skilled technical labor, and skilled crafts

Commodities Reported Down in Price: Computers and computer components

Commodities Reported in Short Supply: Custom pharmaceuticals and some skilled crafts

WHAT OUR RESPONDENTS ARE SAYING AND SUMMARIES BY SECTOR

Oil and Gas Exploration, and Key Support Services:

- Oil prices have improved from earlier in the year, but we need additional strengthening
- Rig counts have definitely leveled off; maybe we will see some recovery soon
- *Most respondents in this sector show weakness in all indicators with the exception of Prices and Finished Goods Inventory where applicable*

Transportation and Utilities:

- Respondents in this area indicate that activity is picking up

Manufacturing - Non-Durable Goods:

- *Respondents in this sector also indicate that activity is picking up*

Manufacturing - Durable Goods:

- Manufacturing for the oil and gas industry remains slow, less than half of last year's requirements.
- Many of our customers and have cut their prices 40 - 50% and we had no choice but to react accordingly
- Most of our suppliers recognize the need to share the pain
- *Most respondents in this sector reported activities relatively consistent with last month; Oil and Gas focused businesses continue to show weakness and others are near neutral*

Trade:

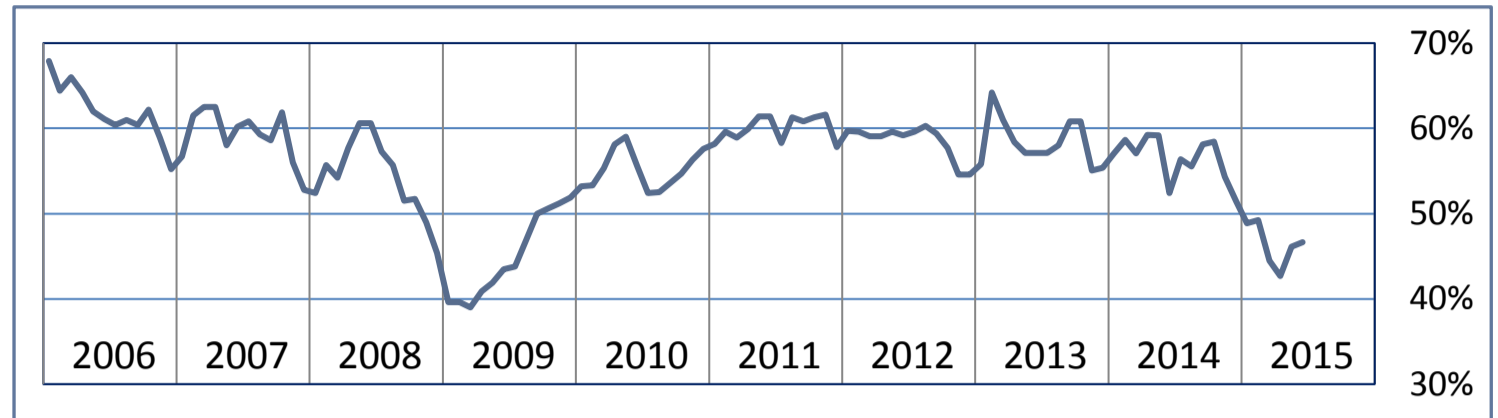
- *Respondents in this sector continue to report mixed results, but most are indicating continued weakness*

Health Care:

- Medical Industry is booming; we are hiring qualified candidates
- *As with last month, respondents in this sector reported Sales 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.



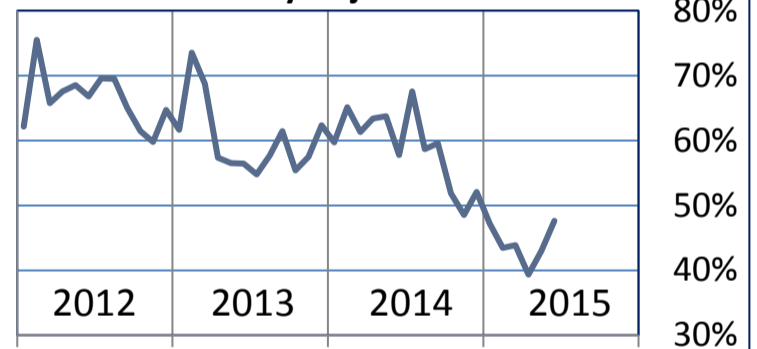
Trend of Underlying Indicators

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	
Jan-15	30	34	36	-6	47.2	The seasonally adjusted New Orders Index gained almost 5 percentage points this month to a seasonally adjusted 47.6%, its highest point since December.
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	
Jun-15	19	57	24	-5	47.6	

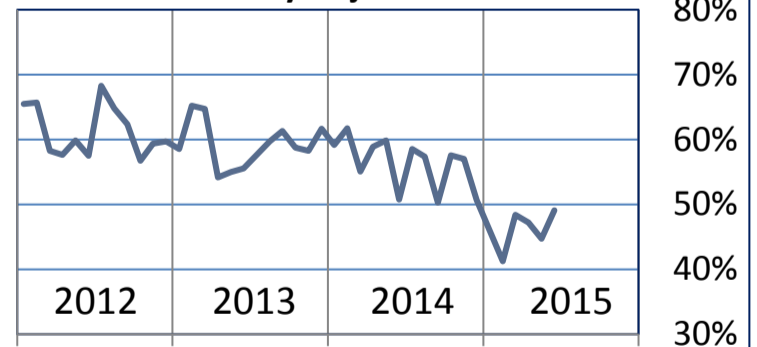
Seasonally Adjusted Index



Production

	% Higher	% Same	% Lower	Net	Index	
Jan-15	21	53	26	-6	46.0	The Houston Production Index gained more than 4 points this month to a seasonally adjusted 49.1%, also the highest level since December.
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	
Jun-15	10	76	14	-5	49.1	

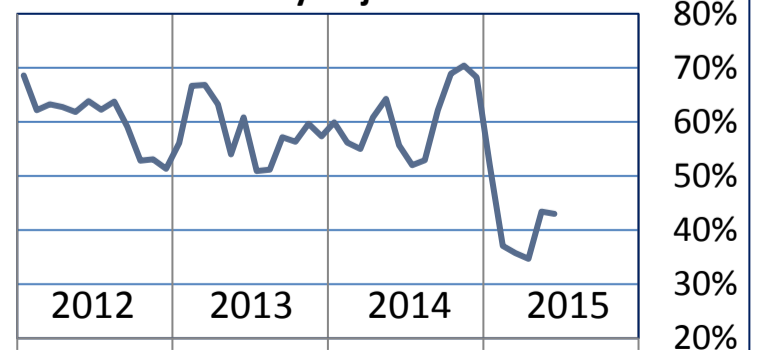
Seasonally Adjusted Index



Employment

	% Higher	% Same	% Lower	Net	Index	
Jan-15	21	56	23	-2	52.1	The seasonally adjusted Houston Employment Index remained relatively flat at 43.0%.
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	
Jun-15	24	43	33	-10	43.0	

Seasonally Adjusted Index

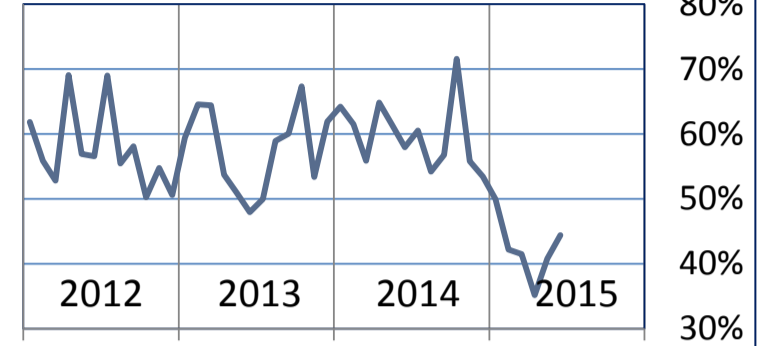


Purchases

	% Higher	% Same	% Lower	Net	Index
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
Jun-15	19	48	33	-14	44.4

The seasonally adjusted Houston Purchases Index gained almost 4 points this month ending at 44.4%.

Seasonally Adjusted Index

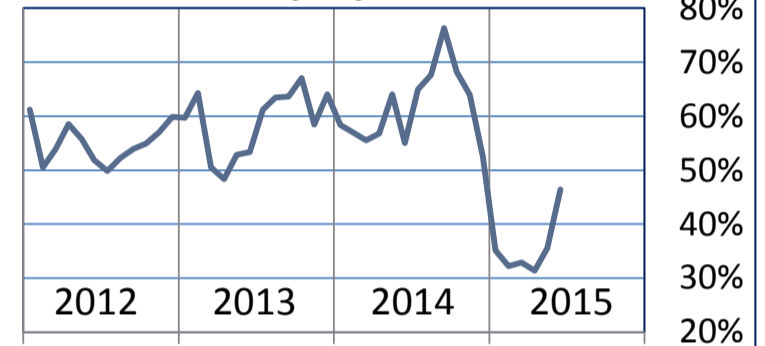


Prices Paid

	% Higher	% Same	% Lower	Net	Index
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
Jun-15	19	52	29	-10	46.4

The seasonally adjusted Prices Paid Index rose significantly to 46.4% this month.

Seasonally Adjusted Index

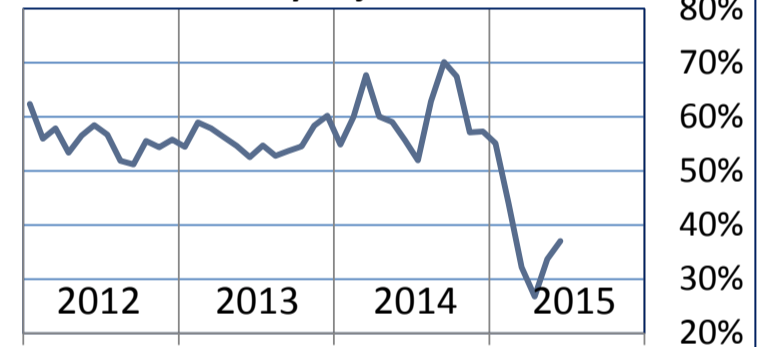


Lead Times

	% Higher	% Same	% Lower	Net	Index
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
Jun-15	5	66	29	-24	37.0

The Houston Lead Times Index gained another 3 points this month to end at a seasonally adjusted 37.0%.

Seasonally Adjusted Index

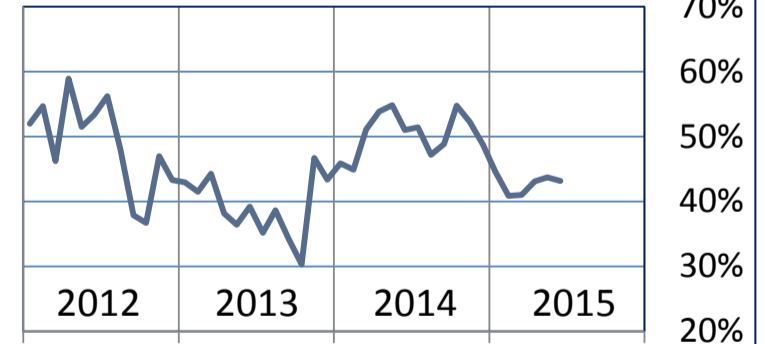


Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
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
Jun-15	5	81	14	-10	43.1

The seasonally adjusted Houston Purchased Inventory Index fell marginally to 43.1%.

Seasonally Adjusted Index



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
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
Jun-15	5	66	29	-24	39.2

The Houston Finished Goods Inventory Index gained fell just over 9 percentage points this month to seasonally adjusted 39.2%.

Seasonally Adjusted Index

