

# Houston Economy Continues to Contract in October

## Sales/New Orders, Production and Purchases Indices Weaken

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(Houston, Texas) – Area Supply Chain leaders indicate that economic activity in Houston contracted in October for the tenth consecutive month.

The Houston Purchasing Managers Index (H-PMI) rose marginally from its September level of 47.6% to 48.0% in October. The seasonally adjusted Finished Goods Inventory and Prices Paid Indices, the only two indicators that are inversely correlated with economic activity, continue to predict economic expansion near term. All other indicators (Sales/New Orders, Production, Employment, Lead Times, Purchases, and Purchased Inventory) are showing continued contraction.

The Sales/New Orders Index registered 40.4% in October, a decrease of 6.8 percentage points from September. The Production Index registered 41.8%, down by 7.2 points. The Employment Index registered 41.1%, a modest increase of 1.2 points. The Purchases Index registered 30.7%, a decrease of 8.9 points. The Prices Paid Index registered 35.0%, an increase of 2.1 points. The Lead Time Index registered 35.9%, a decrease of 3.3 points. The Purchase Inventory Index registered 45.5%, an increase of 5.1 points. The Finished Goods Inventory Index registered 40.6%, an increase of 3.4 points.

Health Care continues to be the only sector of the economy showing significant strength. Construction, Durable Goods Manufacturing, Non-Durable Goods Manufacturing, Transportation and Utilities, Financial Services, and Professional Services are all near neutral overall. Wholesale Trade is marginally below neutral. Oil and Gas exploration related industries, including services firms with a high proportion of sales to this sector, continue to be the greatest concern for near term growth in the Houston economy.

### INDICES AT A GLANCE

Index	Oct	Sep	Change	Track	Rate	Trend*
Houston PMI	48.0	47.6	0.4	Contracting	Slower	10
Sales/New Orders	40.4	47.2	-6.8	Falling	Faster	3
Production	41.8	49.0	-7.2	Falling	Faster	3
Employment	41.1	39.9	1.2	Falling	Slower	9
Purchases	30.7	39.6	-8.9	Falling	Faster	10
Prices Paid	35.0	32.9	2.1	Falling	Slower	10
Lead Times	35.9	39.2	-3.3	Falling	Faster	9
Purchased Inventory	45.5	40.4	5.1	Falling	Slower	11
Finished Goods Inventory	40.6	37.2	3.4	Falling	Slower	10

\* Months on current track



**Commodities Reported Up in Price:** Pharmaceuticals and vaccines

**Commodities Reported Down in Price:** Steel; craft and unskilled labor; computers and components

**Commodities Reported in Short Supply:** Custom pharmaceuticals

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

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

- Capital and operating expense reductions continue in response to sustained low oil prices
- Staffing reductions continue
- Overall, respondents in this sector continue to report significant weakness

#### Construction:

- Respondents in this area report overall performance just above neutral; both purchased and finished goods inventories are increasing

#### Manufacturing - Durable Goods:

- Low energy prices are having a negative impact on our manufacturing as well as the Houston economy in general
- We continue to lose large customers
- Sales orders are few and far between

- Production was down this month due to maintenance problems, not slower business

- Most respondents in this sector indicated that the sales and production increases seen in this area last month were not sustained; the employment, purchases, prices paid, and lead times indices all fell

#### Manufacturing - Non-Durable Goods:

- Continued loosening in the market for goods and services
- Most respondents in this area reported sales, production, employment, and prices as down

#### Wholesale Trade:

- Most respondents in this sector report sales down this month from the neutral level reported last month; employment, purchases, and prices paid continue to fall

#### Health Care:

- This sector continues to report strength; employment and purchases rose again this month

# ISM-Houston

## Business Report

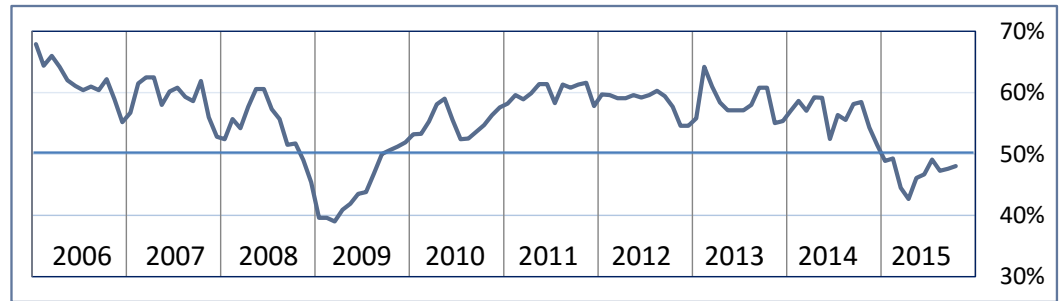


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### October 2015

#### 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.



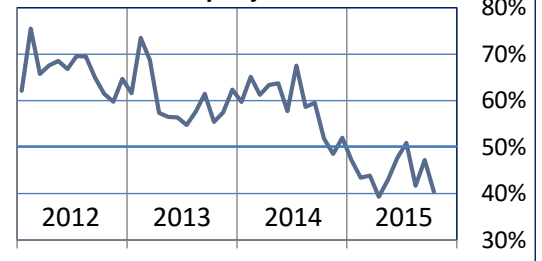
#### Trend of Underlying Indicators

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	
May-15	14	60	26	-12	43.0	Sales contracted again this month. Health care remained strong. Durable goods manufacturing lost most of the gains that helped push this overall index to near neutral last month.
Jun-15	19	57	24	-5	47.6	
Jul-15	23	56	21	2	50.9	
Aug-15	24	38	38	-14	41.7	
Sep-15	25	45	30	-5	47.2	
Oct-15	13	52	35	-22	40.4	

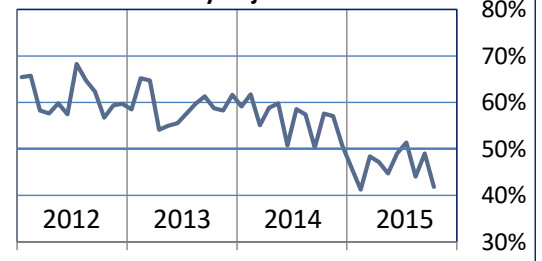
#### Seasonally Adjusted Index



#### Production

	% Higher	% Same	% Lower	Net	Index	
May-15	5	78	17	-12	44.7	Production continued to contract this month with additional weakness noted in non-durable goods manufacturing. Durable goods lost ground, but remained above neutral for the month.
Jun-15	10	76	14	-5	49.1	
Jul-15	14	74	12	2	51.4	
Aug-15	14	62	24	-10	44.0	
Sep-15	15	70	15	0	49.0	
Oct-15	9	65	26	-17	41.8	

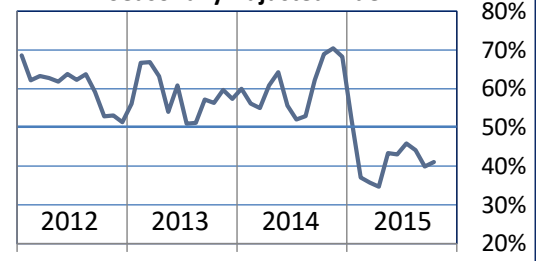
#### Seasonally Adjusted Index



#### Employment

	% Higher	% Same	% Lower	Net	Index	
May-15	19	50	31	-12	43.4	Employment continued to contract with additional job losses reported by O&G exploration, wholesale trade, and non-durable goods manufacturing.
Jun-15	24	43	33	-10	43.0	
Jul-15	19	54	27	-8	45.9	
Aug-15	24	43	33	-10	44.1	
Sep-15	15	50	35	-20	39.9	
Oct-15	11	56	33	-22	41.1	

#### Seasonally Adjusted Index



# ISM-Houston

## Business Report



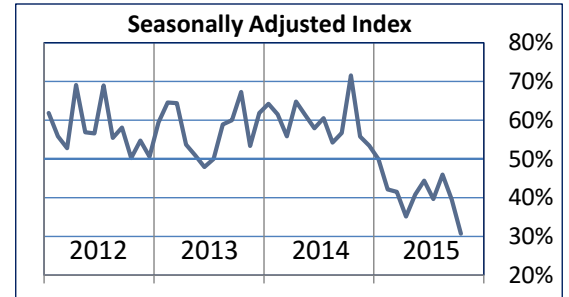
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### October 2015

#### Purchases

	% Higher	% Same	% Lower	Net	Index
May-15	17	45	38	-21	40.8
Jun-15	19	48	33	-14	44.4
Jul-15	19	36	45	-26	39.6
Aug-15	29	38	33	-5	45.9
Sep-15	30	25	45	-15	39.6
Oct-15	17	31	52	-35	30.7

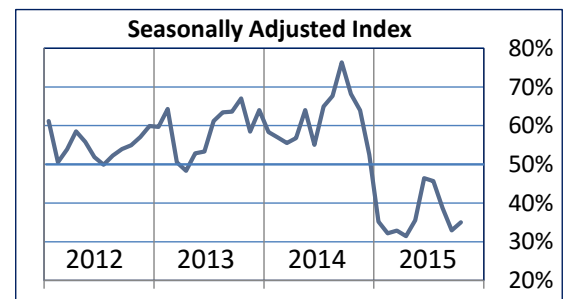
Contraction in the purchases index accelerated in October. Health care showed strength, while O&G, durable goods manufacturing, and wholesale trade were weak.



#### Prices Paid

	% Higher	% Same	% Lower	Net	Index
May-15	5	62	33	-29	35.6
Jun-15	19	52	29	-10	46.4
Jul-15	10	66	24	-14	45.7
Aug-15	5	66	29	-24	38.7
Sep-15	0	65	35	-35	32.9
Oct-15	0	70	30	-30	35.0

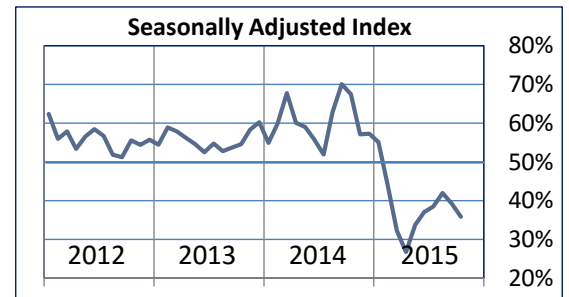
Most industries showed purchased price contraction again this month with significant downward movement reported by durable good manufacturers.



#### Lead Times

	% Higher	% Same	% Lower	Net	Index
May-15	5	59	36	-31	33.7
Jun-15	5	66	29	-24	37.0
Jul-15	7	64	29	-22	38.5
Aug-15	0	81	19	-19	42.0
Sep-15	0	75	25	-25	39.2
Oct-15	0	70	30	-30	35.9

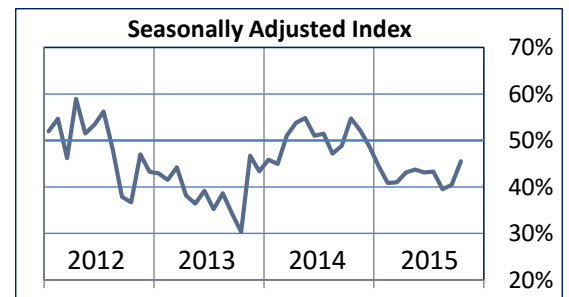
Lead times fell again this month, with O&G, durable goods manufacturing, and transportation continuing to show significant contraction in this indicator.



#### Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
May-15	10	71	19	-10	43.7
Jun-15	5	81	14	-10	43.1
Jul-15	6	76	18	-12	43.3
Aug-15	10	61	29	-19	39.5
Sep-15	5	65	30	-25	40.4
Oct-15	2	72	26	-24	45.5

Purchased inventory fell at a slower pace this month. Construction and non-durable goods manufacturing reported increasing purchased inventories.



#### Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
May-15	14	67	19	-5	48.6
Jun-15	5	66	29	-24	39.2
Jul-15	6	66	28	-22	38.7
Aug-15	5	71	24	-19	40.6
Sep-15	5	60	35	-30	37.2
Oct-15	4	59	37	-33	40.6

Finished goods inventories also fell at a slower pace in October. Construction and transportation/utilities reported increasing inventories overall.

