

Houston PMI Reverses Recent Improvements

Durable Goods Manufacturing and Wholesale Trade Results Deteriorate

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

The Houston Purchasing Managers Index (H-PMI) fell from its October level of 48.0% to 44.9% in November. 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 November, matching its October reading. The Production Index registered 35.9%, down an additional 5.9 points. The Employment Index registered 43.7%, an increase of 2.6 points. The Purchases Index registered 35.0%, an increase of 4.3 points. The Prices Paid Index registered 37.6%, an increase of 2.6 points. The Lead Times Index registered 35.2%, a modest decrease of 0.7 points. The Purchased Inventory Index registered 39.2%, a decrease of 6.3 points. The Finished Goods Inventory Index registered 36.8%, a decrease of 3.8 points.

Health Care continues to be the only sector of the economy showing significant strength. Construction continues to expand at a relatively low pace and Non-Durable Goods Manufacturing, Financial Services, and Professional Services continue to perform near neutral overall. Wholesale Trade and Durable Goods Manufacturing moved to below neutral in the latest results, potentially joining Oil and Gas exploration related industries as major concerns that could impact the near term growth of the Houston economy.

INDICES AT A GLANCE

Index	Nov	Oct	Change	Track	Rate	Trend*
Houston PMI	44.9	48.0	-3.1	Contracting	Faster	11
Sales/New Orders	40.4	40.4	0.0	Falling	Same	4
Production	35.9	41.8	-5.9	Falling	Faster	4
Employment	43.7	41.1	2.6	Falling	Slower	10
Purchases	35.0	30.7	4.3	Falling	Slower	11
Prices Paid	37.6	35.0	2.6	Falling	Slower	11
Lead Times	35.2	35.9	-0.7	Falling	Faster	10
Purchased Inventory	39.2	45.5	-6.3	Falling	Faster	12
Finished Goods Inventory	36.8	40.6	-3.8	Falling	Faster	11

* Months on current track



Commodities Reported Up in Price: Vaccines

Commodities Reported Down in Price: Metals; skilled 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:

- Our businesses continue to right-size in order to align with the prices of oil and gas, which are now expected to be at these levels for longer term
- Employment reductions are continuing
- We need a faster turn in the oil and gas sector
- Overall, respondents in this sector continue to report significant weakness

Construction:

- Respondents in this area continue to report overall performance just above neutral; sales showed an increase for the month

Manufacturing - Durable Goods:

- Manufacturing for Oil and Gas continues to slow down
- Inventories remain unchanged only because it is hard to find a valid sales order
- Most respondents in this sector indicated that sales, production, and purchases weakened significantly; prices paid and lead times continue to fall; employment improved to neutral

Manufacturing - Non-Durable Goods:

- We are seeing the typical fourth quarter seasonal softness
- Our production, operational requirements, and margins are unchanged from last month
- Employment reductions continue
- Most respondents in this area reported sales, production, employment, and prices as down again this month

Wholesale Trade:

- Respondents in this sector continue to report significant weakness

Health Care:

- Medical Industry is hiring good qualified applicants
- This sector continues to report strength; employment and purchases rose again this month

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November 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.



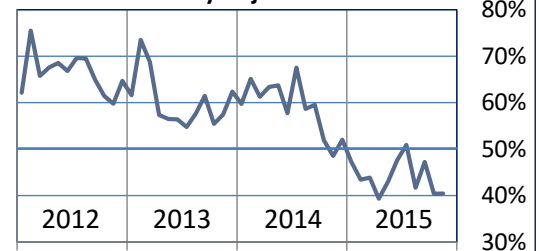
Trend of Underlying Indicators

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	
Jun-15	19	57	24	-5	47.6	Sales contracted again this month. Oil & Gas, midstream operations, durable goods manufacturing, and wholesale trade continue to show significant weakness in this area.
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	
Nov-15	14	50	36	-22	40.4	

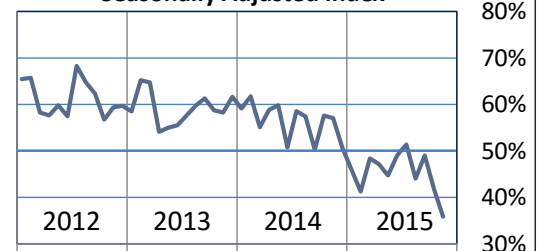
Seasonally Adjusted Index



Production

	% Higher	% Same	% Lower	Net	Index	
Jun-15	10	76	14	-5	49.1	Contraction in the production index accelerated this month with all sectors reporting down except construction.
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	
Nov-15	6	61	33	-28	35.9	

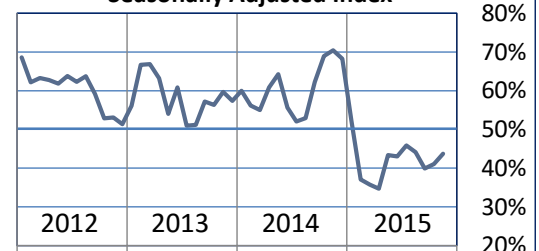
Seasonally Adjusted Index



Employment

	% Higher	% Same	% Lower	Net	Index	
Jun-15	24	43	33	-10	43.0	Employment continued to contract with additional job losses reported in Oil & Gas exploration, midstream operations, and non-durable goods manufacturing.
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	
Nov-15	11	61	28	-17	43.7	

Seasonally Adjusted Index



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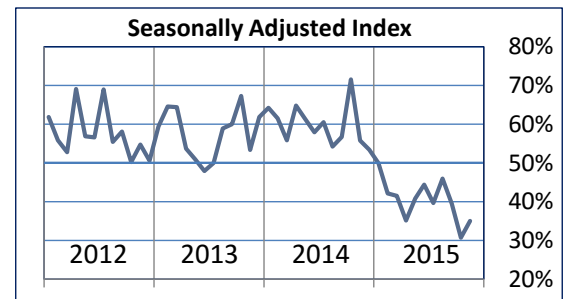
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Purchases

	% Higher	% Same	% Lower	Net	Index
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
Nov-15	17	36	47	-31	35.0

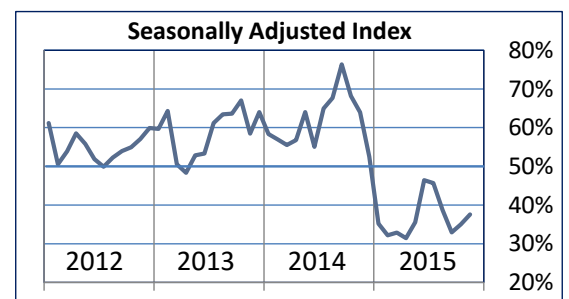
Purchases contracted at a slower pace in November. Health care and financial services reported strength, while O&G and durable goods manufacturing continued to show weakness.



Prices Paid

	% Higher	% Same	% Lower	Net	Index
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
Nov-15	3	69	28	-25	37.6

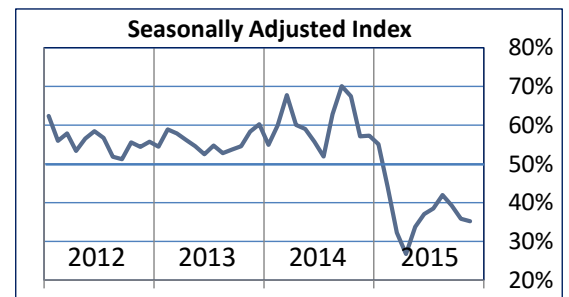
Most industries showed purchased price contraction again this month with significant downward movement reported by durable good manufacturers.



Lead Times

	% Higher	% Same	% Lower	Net	Index
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
Nov-15	0	69	31	-31	35.2

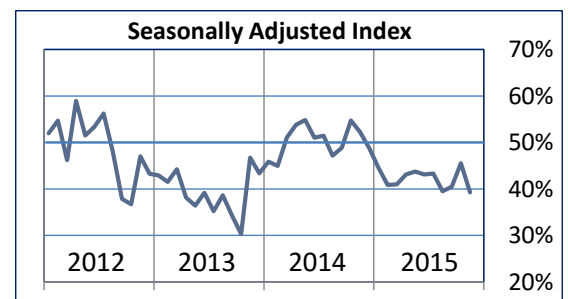
Lead times fell again this month with O&G, midstream, construction, and durable goods manufacturing showing further contraction in this indicator.



Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
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
Nov-15	3	72	25	-22	39.2

Purchased inventories continue to fall with non-durable goods manufacturing and midstream operators reporting the highest rate of reduction.



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
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
Nov-15	3	72	25	-22	36.8

Finished goods inventories also continued to fall with no industry reporting overall increases. Our respondents continue to reduce working capital through inventory reductions.

