

Respondents Report Continued Economic Softness

Non-Durable Goods Manufacturing Weakens

Analysis and report by Ross Harvison,
chair of the ISM-Houston Business Survey Committee

ross.harvison@intuitivum.com

713-702-1088

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

The Houston Purchasing Managers Index (H-PMI) fell from its November level of 44.9 to 43.3 in December. 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 40.5 in December, close to its November reading. The Production Index registered 30.5, down an additional 5.4 points. The Employment Index registered 34.4, falling 9.3 points. The Purchases Index registered 37.3, an increase of 2.3 points. The Prices Paid Index registered 39.4, an increase of 1.8 points. The Lead Times Index registered 32.1, falling 3.1 points. The Purchased Inventory Index registered 37.4, a decrease of 1.8 points. The Finished Goods Inventory Index registered 30.9, a decrease of 5.9 points.

Health Care continues to be the only sector of the economy showing significant strength. Construction and Non-Durable Goods Manufacturing continue to perform near neutral overall. Wholesale Trade, Durable Goods Manufacturing, and Oil and Gas exploration related industries showed significant weakness and are the industries that are causing the greatest concerns for the near term growth of the Houston economy.

INDICES AT A GLANCE

Index	Dec	Nov	Change	Track	Rate	Trend*
Houston PMI	43.3	44.9	-1.6	Contracting	Faster	12
Sales/New Orders	40.5	40.4	0.1	Falling	Same	5
Production	30.5	35.9	-5.4	Falling	Faster	5
Employment	34.4	43.7	-9.3	Falling	Faster	11
Purchases	37.3	35.0	2.3	Falling	Slower	12
Prices Paid	39.4	37.6	1.8	Falling	Slower	12
Lead Times	32.1	35.2	-3.1	Falling	Faster	11
Purchased Inventory	37.4	39.2	-1.8	Falling	Faster	13
Finished Goods Inventory	30.9	36.8	-5.9	Falling	Faster	12

* Months on current track



Commodities Reported Up in Price: Vaccines

Commodities Reported Down in Price: Crude oil and related products; metals; 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:

- We continue to look for ways to reduce costs, including additional staff reductions
- Prices paid for materials and services appear to be stabilizing
- Overall, respondents in this sector continue to report significant weakness

Construction:

- Respondents in this area report overall performance just above neutral again this month; sales continued to improve modestly; some respondents reported staff reductions

Manufacturing - Durable Goods:

- Low energy prices continue to make their mark on our economy
- Normal activity for this time of year
- Most respondents in this sector indicated that sales, production, and purchases weakened significantly; prices paid and lead times continued to fall; employment improved to neutral

Manufacturing - Non-Durable Goods:

- The fourth quarter is showing the typical weakness as customers shed end of year inventory in the chain
- We continue to right size our staff
- Most respondents in this area reported sales, production, employment, and finished goods inventories as down again this month

Wholesale Trade:

- Respondents in this sector continue to report significant weakness

Health Care:

- Healthcare is hiring qualified candidates; looking for a good contracts specialist
- This sector continues to report strength; employment and purchases rose again this month

ISM-Houston Business Report

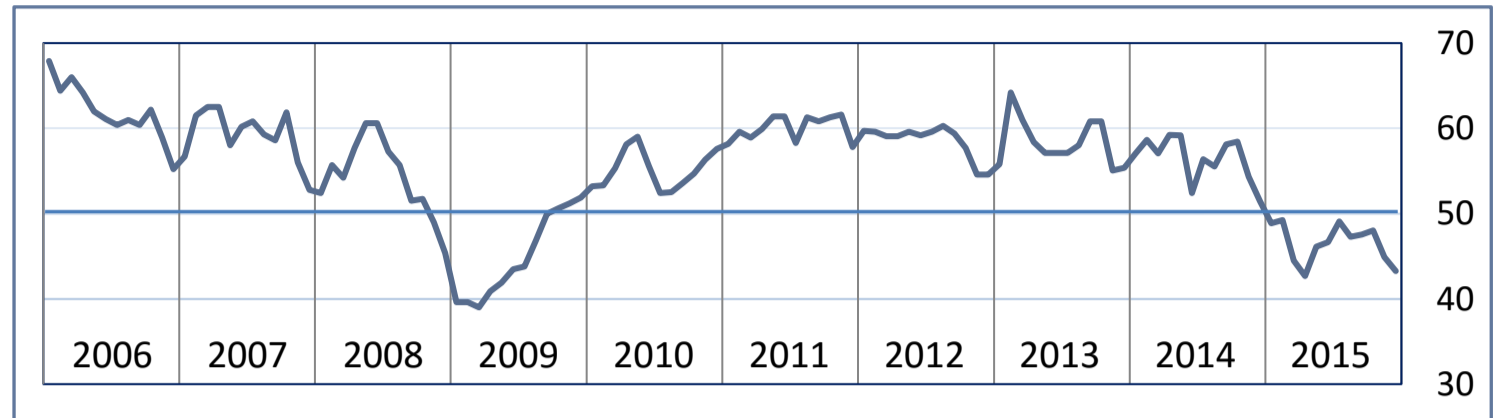


ISM—Houston, Inc.

December 2015

Houston PMI Trend

The Houston PMI indicates likely shifts in production three or four months in advance. Readings over 50 generally indicate production expansion over the near term; readings below 50 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 for the Sales/New Orders, Production, Employment, Purchases, Lead Times and Purchased Inventory indicators point towards expansion and values below 50 signal contraction. The Prices Paid and Finished Goods Inventory indicators are inversely correlated to economic activity, meaning that values below 50 point to expansion and values above point to contraction.

Sales/New Orders

	% Higher	% Same	% Lower	Net	Index	
Jul-15	23	56	21	2	50.9	Sales contracted again this month. Non-durable goods manufacturing joined Oil & Gas, midstream, durable goods, and wholesale trade in showing significant weakness in this area.
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	
Dec-15	18	42	40	-22	40.5	

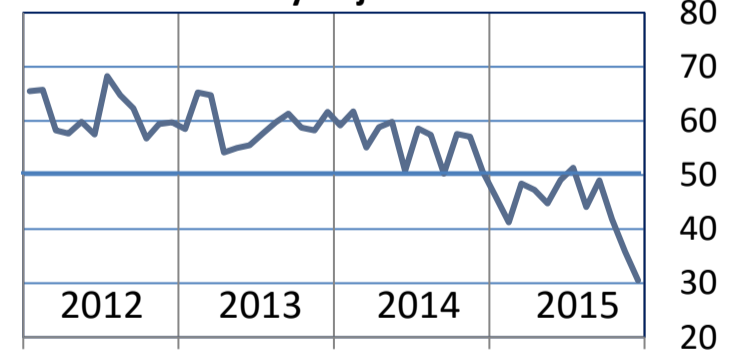
Seasonally Adjusted Index



Production

	% Higher	% Same	% Lower	Net	Index	
Jul-15	14	74	12	2	51.4	Contraction in the production index accelerated for the third month with most sectors reporting significantly down for the month.
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	
Dec-15	0	60	40	-40	30.5	

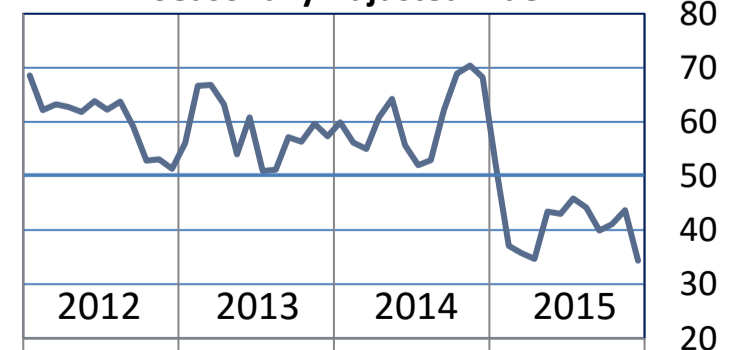
Seasonally Adjusted Index



Employment

	% Higher	% Same	% Lower	Net	Index	
Jul-15	19	54	27	-8	45.9	Additional job losses were reported in oil & gas exploration, manufacturing, and wholesale trade. Health care continues to report employment growth.
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	
Dec-15	7	51	42	-35	34.4	

Seasonally Adjusted Index



ISM-Houston Business Report

December 2015

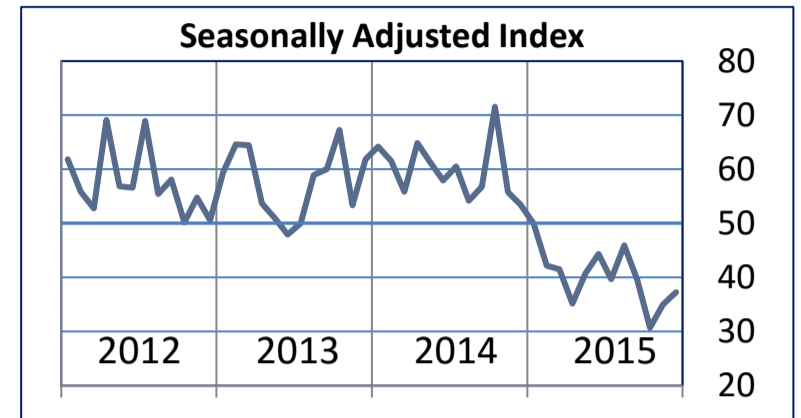


ISM—Houston, Inc.

Purchases

	% Higher	% Same	% Lower	Net	Index
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
Dec-15	22	27	51	-29	37.3

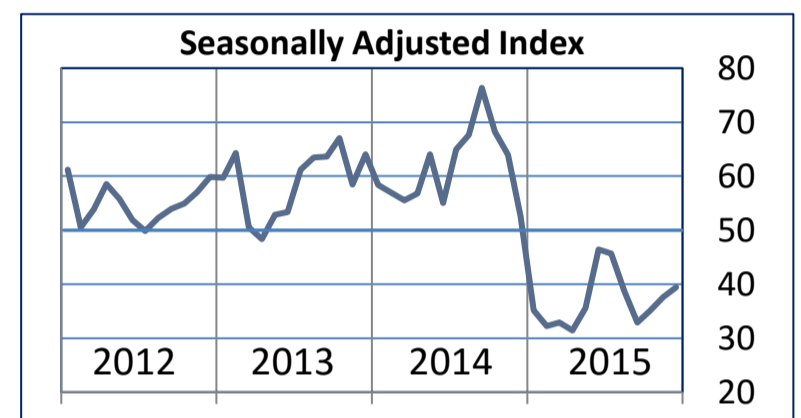
Purchases contracted at a slower pace in November. Health care reported strength again this month, while O&G and durable goods manufacturing continued to show weakness.



Prices Paid

	% Higher	% Same	% Lower	Net	Index
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
Dec-15	7	64	29	-22	39.4

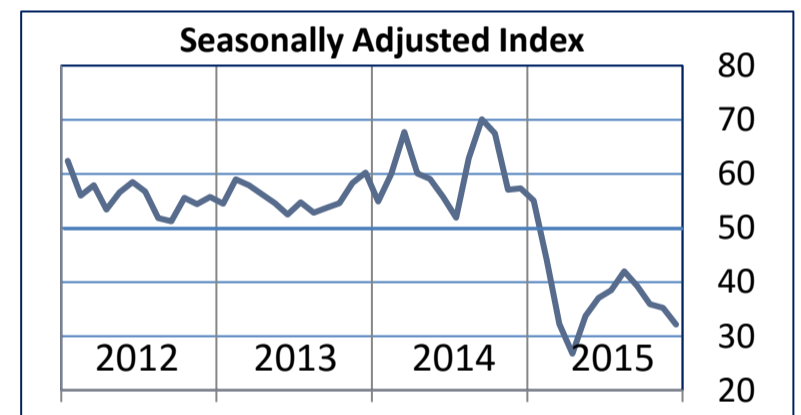
Most industries showed price contraction this month with the most downward movement reported by construction, durable goods manufacturing, and wholesale trade.



Lead Times

	% Higher	% Same	% Lower	Net	Index
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
Dec-15	0	64	36	-36	32.1

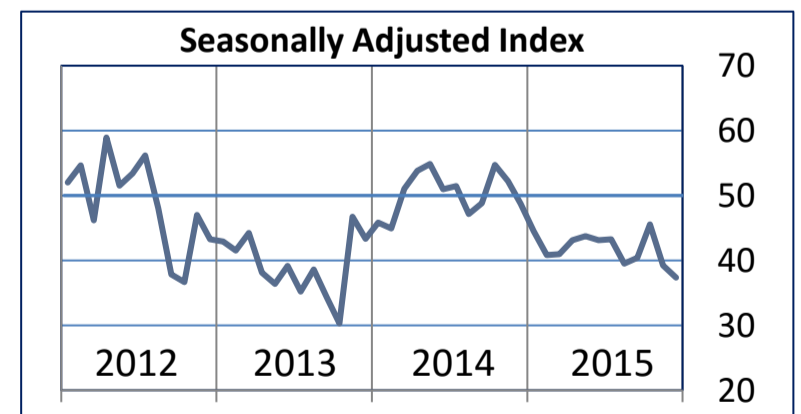
Lead times fell again this month with all industries reporting shorter lead times for materials purchases.



Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
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
Dec-15	4	63	33	-29	37.4

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



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
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
Dec-15	0	64	36	-36	30.9

Finished goods inventories also continued to fall. No industry reported an overall increases.

