

Houston Purchasing Managers Index Sees Marginal Gain

Sales and Production Improve, but Remain Below Neutral

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 January for the thirteenth consecutive month.

The Houston Purchasing Managers Index (H-PMI) rose from its December level of 43.3 to 45.6 in January. 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 46.7 in January, up 6.2 points from its December reading. The Production Index registered 39.1, up 8.6 points. The Employment Index registered 33.4, marginally down 1.0 point. The Purchases Index registered 38.7, an increase of 1.4 points. The Prices Paid Index registered 40.2, an increase of 0.8 points. The Lead Times Index registered 36.7, rising 4.6 points. The Purchased Inventory Index registered 35.2, a decrease of 2.2 points. The Finished Goods Inventory Index registered 30.5, a moderate decrease of 0.4 points.

The Health Care sector continues to show significant strength. Construction and Non-Durable Goods Manufacturing remain near neutral overall. Wholesale Trade and Durable Goods Manufacturing improved their performance to just below neutral. Oil and Gas exploration related industries continue to cause the greatest concern for the near term growth of the Houston economy.

INDICES AT A GLANCE

Index	Jan	Dec	Change	Track	Rate	Trend*
Houston PMI	45.6	43.3	2.3	Contracting	Slower	13
Sales/New Orders	46.7	40.5	6.2	Falling	Slower	6
Production	39.1	30.5	8.6	Falling	Slower	6
Employment	33.4	34.4	-1.0	Falling	Faster	12
Purchases	38.7	37.3	1.4	Falling	Slower	13
Prices Paid	40.2	39.4	0.8	Falling	Slower	13
Lead Times	36.7	32.1	4.6	Falling	Slower	12
Purchased Inventory	35.2	37.4	-2.2	Falling	Faster	14
Finished Goods Inventory	30.5	30.9	-0.4	Falling	Faster	13

* Months on current track



Commodities Reported Up in Price: Skilled labor; precious metals for catalysts; vaccines

Commodities Reported Down in Price: Crude oil and related products; natural gas; ocean bulk freight; computers and components; office supplies

Commodities Reported in Short Supply: Custom pharmaceuticals

WHAT OUR RESPONDENTS ARE SAYING AND SUMMARIES BY SECTOR

Oil and Gas Exploration, and Key Support Services:

- The oil price decline is causing significant capital and now operating budget adjustments as the new price range of \$28 - \$30 is seen as more of a longer term forecast
- We don't see any indication that the downturn will end soon
- Overall, respondents in this sector continue to report significant weakness

Construction:

- Respondents in this area report overall performance somewhat below neutral; sales, employment, purchases and lead times are reported as down

Manufacturing - Durable Goods:

- We saw increased sales coming out of the holidays, but believe this to be related to recovery from the year end slow down more than an indication that business is booming
- As a company supporting the O&G drilling industry, January was a very difficult month with no positive change in sight; it is bringing back memories of the industry collapse in 1982; our concern is that this is going to drag down other segments of the economy
- Overall, respondents in this sector reported sales as moving up; production, purchases, and prices near neutral; lead times and inventories continue to fall

Manufacturing - Non-Durable Goods:

- Industry is destocking with customer demand slowing
- Petrochemical margins remain strong
- Respondents in this area reported improving sales, with production, employment, and finished goods inventories continuing to fall

Transportation and Utilities:

- Midstream operations continue to report weakness in most indices

Health Care:

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

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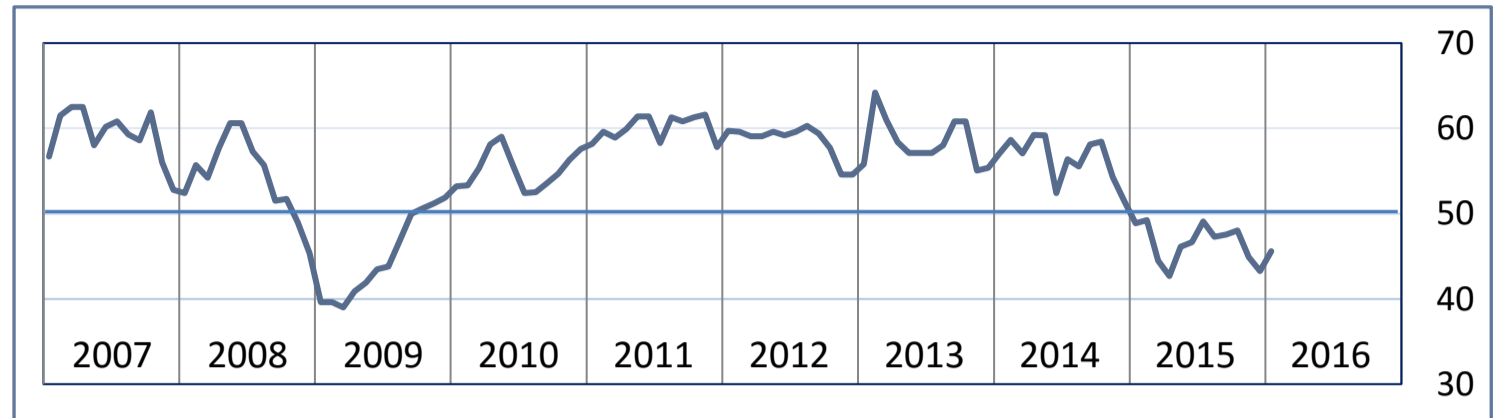


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January 2015

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.



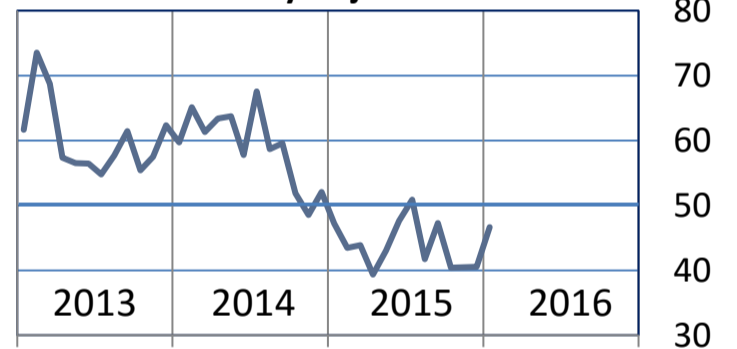
Trend of Underlying Indicators

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	
Aug-15	24	38	38	-14	41.7	Sales contracted at a slower pace in January with manufacturing returning to near neutral. Oil & Gas and midstream operations continued to show significant weakness.
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	
Jan-16	27	39	34	-7	46.7	

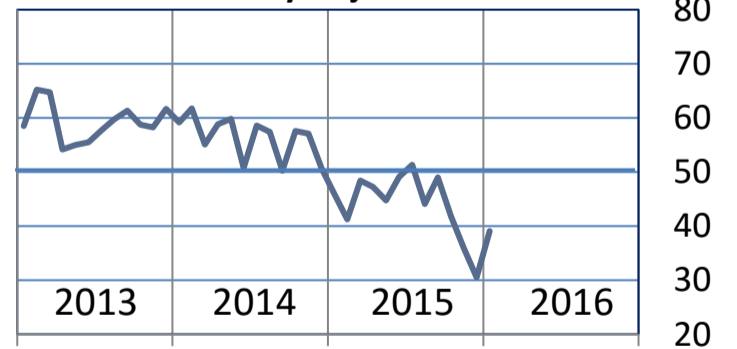
Seasonally Adjusted Index



Production

	% Higher	% Same	% Lower	Net	Index	
Aug-15	14	62	24	-10	44.0	Production also contracted at a slower pace with durable goods manufacturing improving to near neutral. Non-durable goods, O&G, and midstream operators noted continued weakness.
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	
Jan-16	9	61	30	-20	39.1	

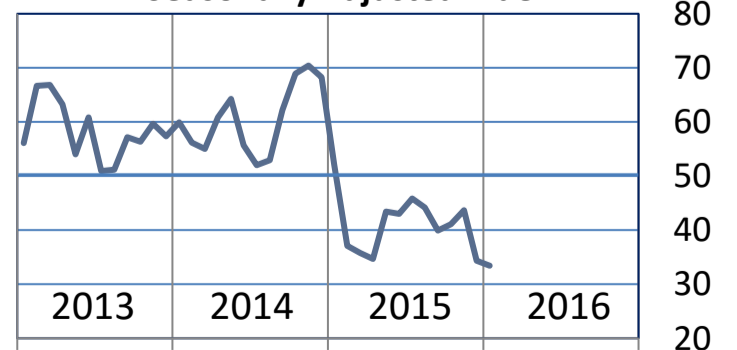
Seasonally Adjusted Index



Employment

	% Higher	% Same	% Lower	Net	Index	
Aug-15	24	43	33	-10	44.1	Additional employment losses were reported in manufacturing, O&G exploration, midstream operations, and wholesale trade. Health care continues to report employment growth.
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	
Jan-16	11	41	48	-36	33.4	

Seasonally Adjusted Index



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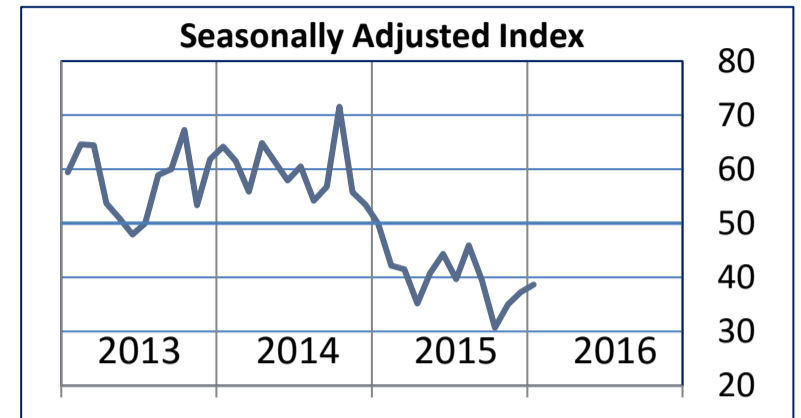


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Purchases

	% Higher	% Same	% Lower	Net	Index
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
Jan-16	30	20	50	-20	38.7

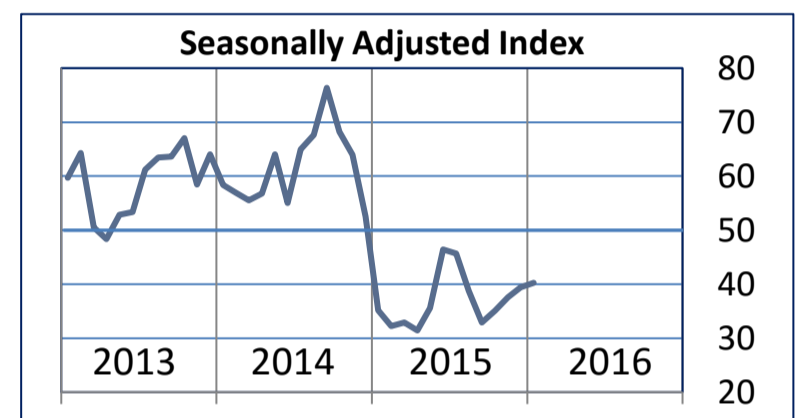
Purchases continued to contract with health care being the only sector reporting strength. O&G and midstream operations showed continued weakness.



Prices Paid

	% Higher	% Same	% Lower	Net	Index
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
Jan-16	7	68	25	-18	40.2

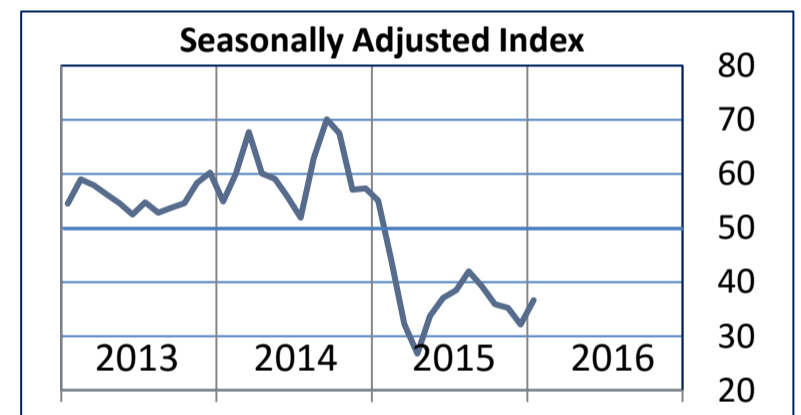
Most industries reported price contraction again this month with O&G, construction, midstream operations, and wholesale trade showing the most weakness.



Lead Times

	% Higher	% Same	% Lower	Net	Index
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
Jan-16	0	70	30	-30	36.7

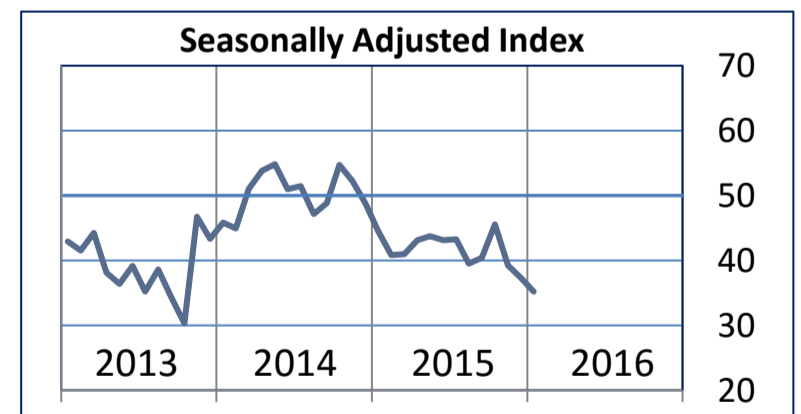
Lead times fell again this month with all industries reporting shorter lead times for materials purchases.



Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
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
Jan-16	5	65	30	-25	35.2

Purchased inventories continue to fall with O&G and manufacturing reporting the highest rates of reduction.



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
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
Jan-16	9	48	43	-34	30.5

Finished goods inventories also continued to fall.

