

### Non-Durable Goods Manufacturing and Trade Strengthen Health Care Continues at a Strong Pace

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

The Houston Purchasing Managers Index (H-PMI) rose from its February level of 44.5 to 45.9 in March. 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) continue to point towards contraction.

The Sales/New Orders Index registered 46.0 in March, up 4.7 points from its February reading. The Production Index registered 38.0, down 0.6 points. The Employment Index registered 30.8, up 2.6 points. The Purchases Index registered 33.4, a decrease of 4.9 points. The Prices Paid Index registered 44.8, an increase of 6.6 points. The Lead Times Index registered 36.0, rising a modest 0.5 points. The Purchased Inventory Index registered 33.0, a decrease of 3.8 points. The Finished Goods Inventory Index registered 33.5, an increase of 3.6 points from its all time low of 29.9 in February.

The Health Care sector continues to show significant strength. Non-Durable Goods Manufacturing and Wholesale Trade moved from neutral to expanding in March. Construction has fallen from neutral to contracting over the last quarter, as has Durable Goods Manufacturing. Oil and Gas exploration and related industries improved marginally from significant contraction, but continue to cause the greatest concern for the near term growth of the Houston economy.

#### INDICES AT A GLANCE

Index	Mar	Feb	Change	Track	Rate	Trend*
Houston PMI	45.9	44.5	1.4	Contracting	Slower	15
Sales/New Orders	46.0	41.3	4.7	Falling	Slower	8
Production	38.0	38.6	-0.6	Falling	Faster	8
Employment	30.8	28.2	2.6	Falling	Slower	14
Purchases	33.4	38.3	-4.9	Falling	Faster	15
Prices Paid	44.8	38.2	6.6	Falling	Slower	15
Lead Times	36.0	35.5	0.5	Falling	Slower	14
Purchased Inventory	33.0	36.8	-3.8	Falling	Faster	16
Finished Goods Inventory	33.5	29.9	3.6	Falling	Slower	15

\* Months on current track



**Commodities Reported Up in Price:** Precious metals for catalysts; skilled labor; natural gas; vaccines

**Commodities Reported Down in Price:** Steel plate, pipe, and structural tubing; construction equipment; equipment rentals; computers and components

**Commodities Reported in Short Supply:** Custom pharmaceuticals; replacement parts for aging hardware

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

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

- Low oil prices continue to hit our sector negatively; we continue working on cost cutting
- Rig counts in Texas are expected to be below 200 in April; U.S. totals may fall below 400
- Overall, respondents in this sector continue to report significant weakness

##### Construction:

- Respondents in this area report further weakening; sales, employment, purchases, prices, and lead times are reported as down by most respondents

##### Manufacturing - Durable Goods:

- As a part of the Oil and Gas Manufacturing Industry, our sales have dropped to less than 25% of previous levels
- Overall, respondents in this sector reported employment down significantly from last month; sales, production, purchases, and lead times also continue to contract

##### Manufacturing - Non-Durable Goods:

- Refining and petrochemical margins are still good; cost cutting efforts continue
- Although existing projects are being worked, deferments are being experienced
- Skilled labor is still competitive, but no longer in critical short supply
- Prices for precious metals for catalysts appear to be stabilizing after rising earlier in the year
- Respondents in this area reported increased sales and production; finished product inventories are very low; employment, purchases, and prices paid continue to decline

##### Health Care:

- The Medical Industry is hiring qualified candidates
- This sector continues to report strength; employment and purchases rose again this month as did prices and lead times

##### Wholesale Trade:

- New order entry improved significantly the last half of March
- Overall, respondents in this sector report improving sales, employment, and purchases

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## Business Report

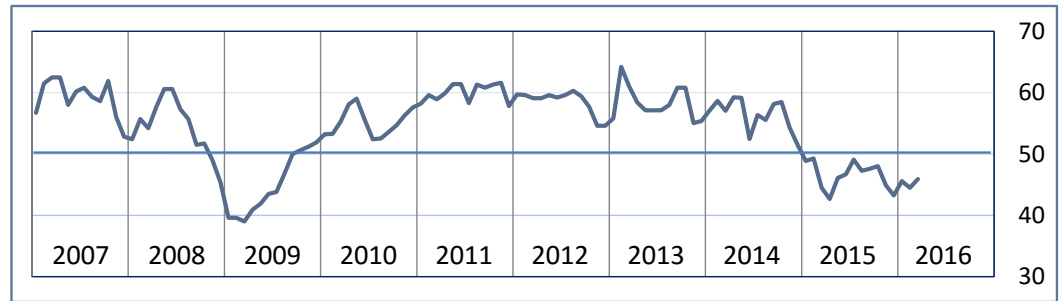


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### March 2016

#### 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.



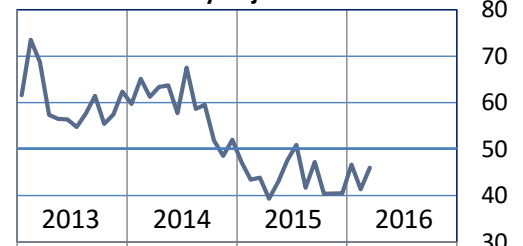
#### Trend of Underlying Indicators

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	
Oct-15	13	52	35	-22	40.4	Sales/new orders continued to contract this month with oil & gas and construction remaining well below neutral. Durable goods fell below neutral. Non-durable goods manufacturing and wholesale trade strengthened.
Nov-15	14	50	36	-22	40.4	
Dec-15	18	42	40	-22	40.5	
Jan-16	27	39	34	-7	46.7	
Feb-16	23	39	38	-15	41.3	
Mar-16	24	44	32	-8	46.0	

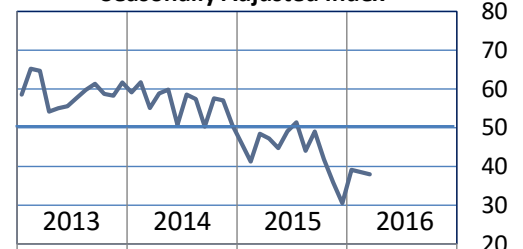
#### Seasonally Adjusted Index



#### Production

	% Higher	% Same	% Lower	Net	Index	
Oct-15	9	65	26	-17	41.8	Production also continued to contract. Non-durable goods manufacturing showed some strengthening, while durable goods weakened further. Oil & gas continues to show significant weakness in this index.
Nov-15	6	61	33	-28	35.9	
Dec-15	0	60	40	-40	30.5	
Jan-16	9	61	30	-20	39.1	
Feb-16	10	59	31	-21	38.6	
Mar-16	8	60	32	-24	38.0	

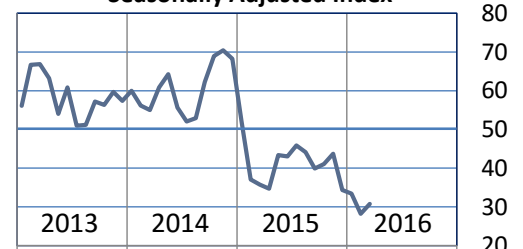
#### Seasonally Adjusted Index



#### Employment

	% Higher	% Same	% Lower	Net	Index	
Oct-15	11	56	33	-22	41.1	Employment continues to contract with oil & gas, construction, and manufacturing reporting further reductions this month. Wholesale trade and health care reported staffing level increases.
Nov-15	11	61	28	-17	43.7	
Dec-15	7	51	42	-35	34.4	
Jan-16	11	41	48	-36	33.4	
Feb-16	13	31	56	-44	28.2	
Mar-16	16	30	54	-38	30.8	

#### Seasonally Adjusted Index



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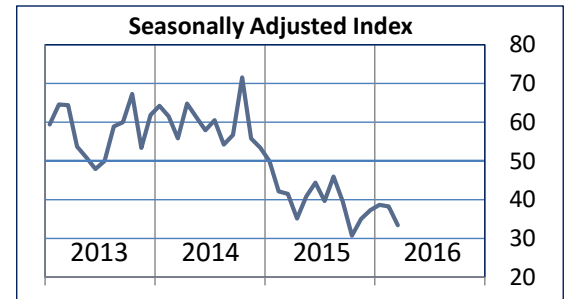
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### March 2016

#### Purchases

	% Higher	% Same	% Lower	Net	Index
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
Feb-16	31	15	54	-23	38.3
Mar-16	30	8	62	-32	33.4

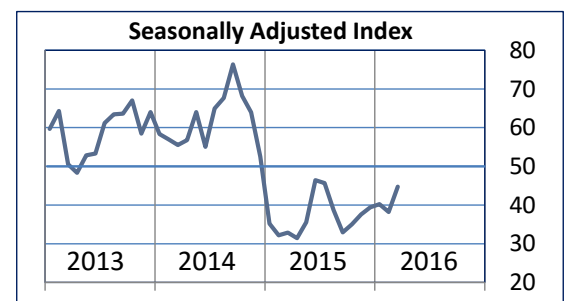
Purchases continued to contract this month. Wholesale trade joined health care this month as the only sectors reporting growth in this area.



#### Prices Paid

	% Higher	% Same	% Lower	Net	Index
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
Feb-16	5	67	28	-23	38.2
Mar-16	11	70	19	-8	44.8

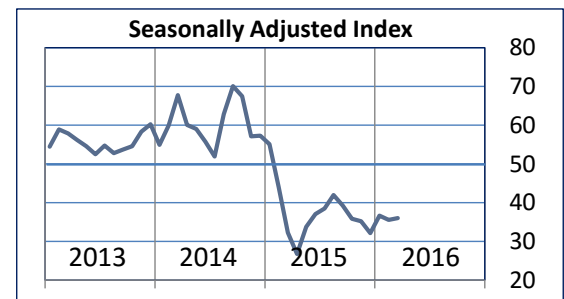
Price contraction slowed this month with only non-durable goods manufacturing reporting significant downward pressure. All other sectors, including oil & gas, reported prices changes near or just above neutral.



#### Lead Times

	% Higher	% Same	% Lower	Net	Index
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
Feb-16	5	62	33	-28	35.5
Mar-16	5	63	32	-27	36.0

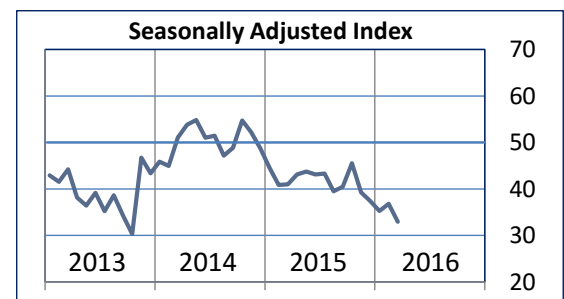
Lead times continued to contract in March. Only wholesale trade and health care reported increases in this indicator this month.



#### Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
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
Feb-16	8	61	31	-23	36.8
Mar-16	8	51	41	-32	33.0

Purchased inventories continued to contract with all industries reporting feed stock inventory movements as the same as or down from last month.



#### Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
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
Feb-16	10	41	49	-38	29.9
Mar-16	11	46	43	-32	33.5

Finished goods inventories contracted at a slower pace this month. Only durable goods manufacturing report an overall increase in these inventories.

