

### Health Care and Wholesale Trade Show Strength Oil & Gas Exploration Remains Weak

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

The Houston Purchasing Managers Index (H-PMI) fell from its March level of 45.9 to 44.2 in April. 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 48.0 in April, up 2.0 points from its March reading. The Production Index registered 46.4, up 8.4 points. The Employment Index registered 32.9, up 2.1 points. The Purchases Index registered 39.5, an increase of 6.1 points. The Prices Paid Index registered 46.3, an increase of 1.5 points. The Lead Times Index registered 35.0, falling a modest 1.0 points. The Purchased Inventory Index registered 37.8, an increase of 4.8 points. The Finished Goods Inventory Index registered 38.8, an increase of 5.3 points.

The Health care sector continued to show significant strength and wholesale trade remained strong during the month. Non-durable goods manufacturing stayed near neutral overall. Construction and durable goods manufacturing continued to point to contraction. Oil and gas exploration and related industries continue to contract.

#### INDICES AT A GLANCE

| Index                    | Apr  | Mar  | Change | Track       | Rate   | Trend* |
|--------------------------|------|------|--------|-------------|--------|--------|
| Houston PMI              | 44.2 | 45.9 | -1.7   | Contracting | Faster | 16     |
| Sales/New Orders         | 48.0 | 46.0 | 2.0    | Falling     | Slower | 9      |
| Production               | 46.4 | 38.0 | 8.4    | Falling     | Slower | 9      |
| Employment               | 32.9 | 30.8 | 2.1    | Falling     | Slower | 15     |
| Purchases                | 39.5 | 33.4 | 6.1    | Falling     | Slower | 16     |
| Prices Paid              | 46.3 | 44.8 | 1.5    | Falling     | Slower | 16     |
| Lead Times               | 35.0 | 36.0 | -1.0   | Falling     | Faster | 15     |
| Purchased Inventory      | 37.8 | 33.0 | 4.8    | Falling     | Slower | 17     |
| Finished Goods Inventory | 38.8 | 33.5 | 5.3    | Falling     | Slower | 16     |

\* Months on current track



**Commodities Reported Up in Price:** Crude oil; motor fuels; vaccines

**Commodities Reported Down in Price:** Steel products; construction equipment; 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:

- The Oil and Gas industry continues to be hurt by low prices and a declining rig count
- 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 were again reported as down by most respondents

##### Manufacturing - Durable Goods:

- We continue to see very low sales due to heavy dependence on oil & gas
- Overall, respondents in this sector report sales, production, employment, purchases, and lead times as down from last month

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

- Refinery sales are down as retail gasoline prices are creeping upwards due to higher oil prices and expected seasonal changes in demand
- Parent company impacts from the lower oil prices are now affecting downstream capital expenditures
- Respondents in this area report relatively flat sales, production, prices, and inventories compared to last month; employment, purchases, and lead times 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; prices and lead times moderated

##### Wholesale Trade:

- Overall, respondents in this sector report improving sales, employment, and purchases; some are report increasing pressure on prices paid

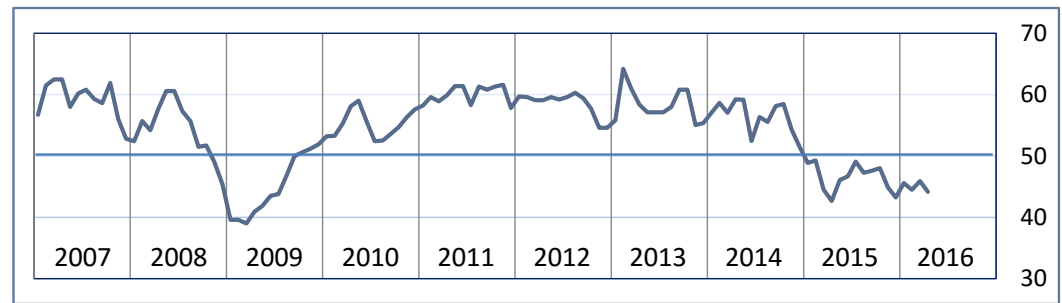
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## Business Report

### April 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.



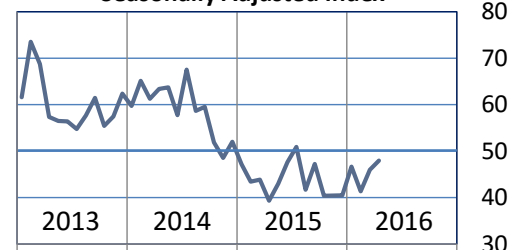
#### Trend of Underlying Indicators

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 |   |
|--------|----------|--------|---------|-----|-------|---|
| Nov-15 | 14       | 50     | 36      | -22 | 40.4  | Sales/new orders continued to contract this month with construction and oil & gas remaining well below neutral. |
| Dec-15 | 18       | 42     | 40      | -22 | 40.5  |   |
| Jan-16 | 27       | 39     | 34      | -7  | 46.7  | Durable goods sales rose back to above neutral. Wholesale trade continued to show strength.                     |
| Feb-16 | 23       | 39     | 38      | -15 | 41.3  |   |
| Mar-16 | 24       | 44     | 32      | -8  | 46.0  |   |
| Apr-16 | 33       | 31     | 36      | -2  | 48.0  |   |

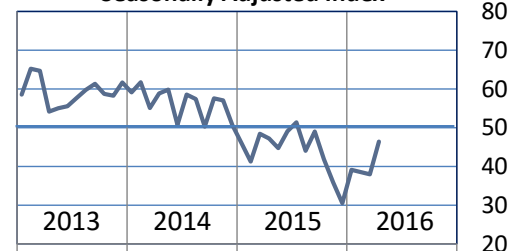
#### Seasonally Adjusted Index



#### Production

|        | % Higher | % Same | % Lower | Net | Index |   |
|--------|----------|--------|---------|-----|-------|---|
| Nov-15 | 6        | 61     | 33      | -28 | 35.9  | Production also continued to contract, but moved significantly towards neutral this month.                        |
| Dec-15 | 0        | 60     | 40      | -40 | 30.5  | Durable goods manufacturing production increased and non-durable goods manufacturing remained just above neutral. |
| Jan-16 | 9        | 61     | 30      | -20 | 39.1  |   |
| Feb-16 | 10       | 59     | 31      | -21 | 38.6  |   |
| Mar-16 | 8        | 60     | 32      | -24 | 38.0  |   |
| Apr-16 | 11       | 69     | 20      | -9  | 46.4  |   |

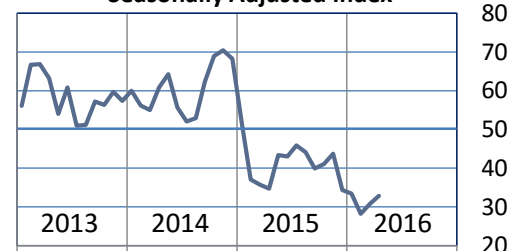
#### Seasonally Adjusted Index



#### Employment

|        | % Higher | % Same | % Lower | Net | Index |  |
|--------|----------|--------|---------|-----|-------|--|
| Nov-15 | 11       | 61     | 28      | -17 | 43.7  | Employment continued to contract with oil & gas, construction, and manufacturing reporting further reductions this month. Wholesale trade and health care saw staffing level increases again this month. |
| 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  |  |
| Apr-16 | 11       | 47     | 42      | -31 | 32.9  |  |

#### Seasonally Adjusted Index



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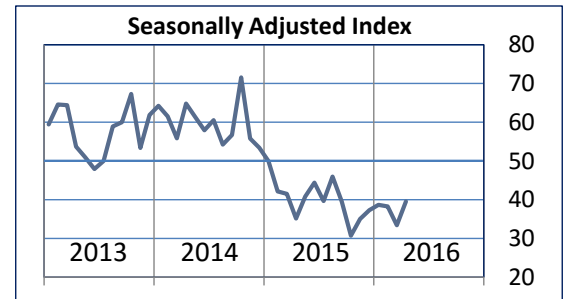
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### April 2016

#### Purchases

|        | % Higher | % Same | % Lower | Net | Index |
|--------|----------|--------|---------|-----|-------|
| 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  |
| Apr-16 | 29       | 20     | 51      | -22 | 39.5  |

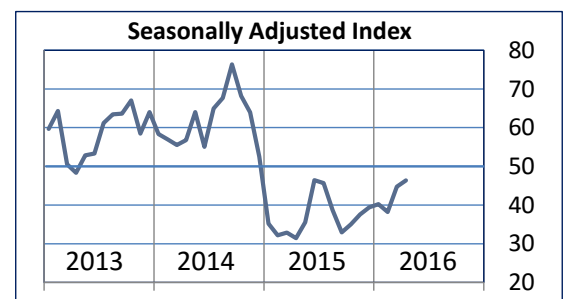
Purchases continued to contract in most sectors. Wholesale trade and health care were the only areas reporting growth in this indicator.



#### Prices Paid

|        | % Higher | % Same | % Lower | Net | Index |
|--------|----------|--------|---------|-----|-------|
| 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  |
| Apr-16 | 13       | 71     | 16      | -2  | 46.3  |

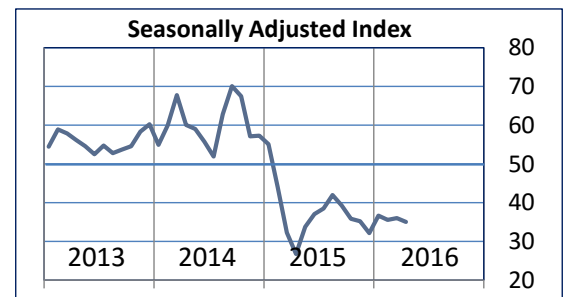
Price contraction slowed further with no sector indicating significant downward pressure. Wholesale trade reported price strengthening. Health care, manufacturing, and oil & gas came in near neutral.



#### Lead Times

|        | % Higher | % Same | % Lower | Net | Index |
|--------|----------|--------|---------|-----|-------|
| 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  |
| Apr-16 | 2        | 69     | 29      | -27 | 35.0  |

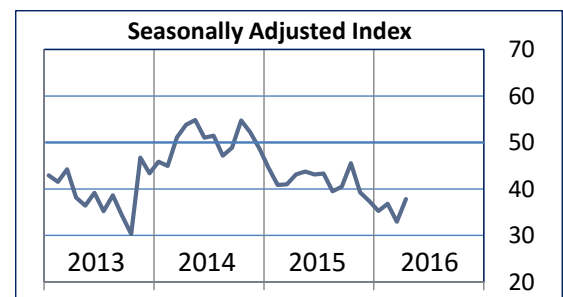
Lead times continued to contract strongly with no industry reporting significant increases in this indicator.



#### Purchased Inventory

|        | % Higher | % Same | % Lower | Net | Index |
|--------|----------|--------|---------|-----|-------|
| 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  |
| Apr-16 | 11       | 53     | 36      | -24 | 37.8  |

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 |
|--------|----------|--------|---------|-----|-------|
| 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  |
| Apr-16 | 11       | 58     | 31      | -20 | 38.8  |

Finished goods inventories contracted at a slower pace again this month. As with last month, only durable goods manufacturing report an overall increase in these inventories.

