

# Oil & Gas and Manufacturing Strengthen

## Health Care Expansion Continues at a Slower Pace

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

The Houston Purchasing Managers Index (H-PMI) rose from its July level of 43.8 to 46.1 in August showing continued economic contraction at a somewhat slower pace. The Sales/New Orders, Purchases, and Finished Goods Inventory indices are now pointing to expansion along with the Prices Paid Index. The Production, Employment, Lead Times, and Purchased Goods Inventory indices continue to point to near term economic contraction.

The Sales/New Orders Index rose 7.7 points to above neutral at 57.2 for August. The Production Index also rose significantly from 42.1 points to 49.4, just below neutral. The Employment Index fell an additional 2.4 points to 34.9. The Purchases Index also registered above neutral, rising 11.2 points to 55.1. The Prices Paid Index rose 1.5 points to 42.1. The Lead Times Index registered 45.5, rising 10.5 points. The Purchased Inventory Index rose to 43.9, an increase of 6.5 points. The Finished Goods Inventory Index fell back below neutral from 55.1 in July to 48.4 in August.

Durable goods manufacturing, non-durable goods manufacturing, and Oil & Gas joined health care as sectors indicating that they are expanding, albeit at a relatively slow pace. Wholesale trade also improve it's overall performance to just below neutral. Construction continued to show contraction and transportation returned to contracting after showing expansion for one month.

### INDICES AT A GLANCE

Index	Aug	Jul	Change	Track	Rate	Trend*
Houston PMI	46.1	43.8	2.3	Contracting	Slower	20
Sales/New Orders	57.2	49.5	7.7	Rising	Fr. Falling	1
Production	49.4	42.1	7.3	Falling	Slower	13
Employment	34.9	37.3	-2.4	Falling	Faster	19
Purchases	55.1	43.9	11.2	Rising	Fr. Falling	1
Prices Paid	42.1	40.6	1.5	Falling	Slower	3
Lead Times	45.5	35.0	10.5	Falling	Slower	19
Purchased Inventory	43.9	37.4	6.5	Falling	Slower	21
Finished Goods Inventory	48.4	55.1	-6.7	Falling	Fr. Rising	1

\* Months on current track



**Commodities Reported Up in Price:** Electrical resistance welded pipe, stainless steel plate, copper based wire and cable; custom pharmaceuticals

**Commodities Reported Down in Price:** Alloy and carbon pipe, pumps and compressors; IT equipment, computers and components; office supplies

**Commodities Reported in Short Supply:** on-spec coil tubing units; fiber optic cable; custom pharmaceuticals and flu vaccine

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

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

- With the price of oil stabilizing just below \$50 some projects that were on hold are restarting
- Rigs continue to show a downward trend, although prices are beginning to settle and stabilize
- Watching availability of critical materials and services
- Price increases are being sought for materials and services; no confirmed acceptance yet
- Overall, respondents in this sector indicate that things are improving; sales are increasing; employment, purchases, prices paid, and lead times are now flat

#### Engineering and Construction:

- Respondents in this area report further weakness with new orders, employment, purchases, prices paid, and lead times continuing to contract

#### Manufacturing - Durable Goods:

- Although low, sales have stabilized in manufacturing for the oil and gas drilling industry
- Overall, this sector improved to near neutral; sales increased and finished goods inventories fell while production remained flat; employment, purchases, and prices paid reported near neutral

#### Manufacturing - Non-Durable Goods:

- Everything seems pretty stable
- We are being very selective on opex and capex decisions other than safety sensitive needs
- Respondents in this area reported some strengthening this month with sales increasing; production, purchases, lead times, and inventories were flat; employment and prices fell

#### Health Care:

- Hiring freeze due to budget constraints
- Vendor mergers and acquisitions continue at a steady pace; larger suppliers are buying out smaller firms; large corporations are purchasing medical and research providers
- This sector moved up marginally this month and continues to report just above neutral

# ISM-Houston

## Business Report

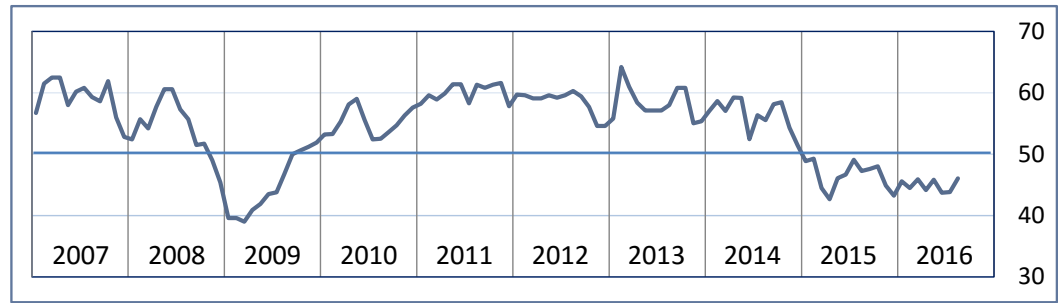


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### August 2016

#### Houston PMI Trend

The Houston PMI indicates likely shifts in economic activity three or four months in advance. Readings over 50 generally indicate expansion over the near term; readings below 50 show coming contraction.



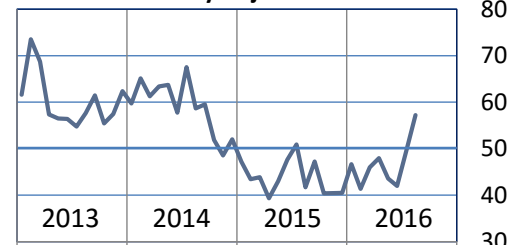
#### Trend of Underlying Indicators

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	
Mar-16	24	44	32	-8	46.0	Sales moved from contracting to expanding with oil & gas, manufacturing, and wholesale trade all indicating robust growth.
Apr-16	33	31	36	-2	48.0	
May-16	28	34	38	-10	43.6	Construction reported continued contraction and transportation reported near neutral.
Jun-16	16	53	31	-16	42.0	
Jul-16	26	48	26	0	49.5	
Aug-16	23	71	6	17	57.2	

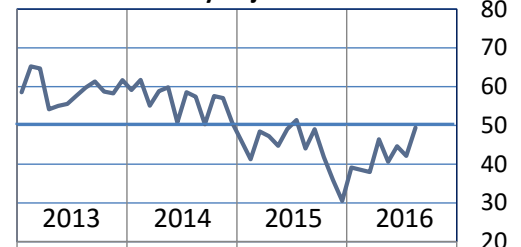
#### Seasonally Adjusted Index



#### Production

	% Higher	% Same	% Lower	Net	Index	
Mar-16	8	60	32	-24	38.0	Production continued to show contraction, but moved considerably closer to neutral with all sectors reporting middle-of-the-road performance overall.
Apr-16	11	69	20	-9	46.4	
May-16	8	66	26	-18	40.6	
Jun-16	2	85	13	-11	44.6	
Jul-16	1	81	18	-17	42.1	
Aug-16	3	94	3	0	49.4	

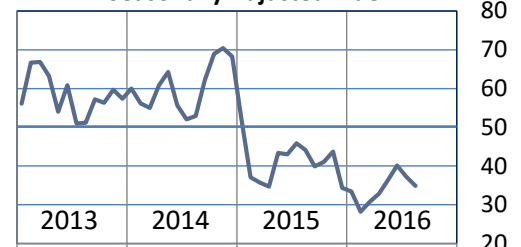
#### Seasonally Adjusted Index



#### Employment

	% Higher	% Same	% Lower	Net	Index	
Mar-16	16	30	54	-38	30.8	Employment contracted at a faster pace. Oil & gas, durable goods manufacturing, and services companies reported near neutral. Non-durable goods manufacturing and construction reported further reductions.
Apr-16	11	47	42	-31	32.9	
May-16	10	54	36	-26	36.4	
Jun-16	13	57	30	-17	40.2	
Jul-16	14	47	39	-25	37.3	
Aug-16	3	66	31	-28	34.9	

#### Seasonally Adjusted Index



# ISM-Houston

## Business Report

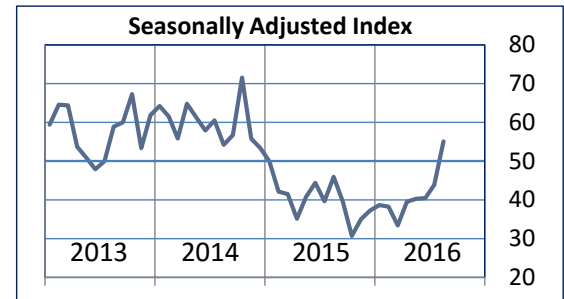


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## August 2016

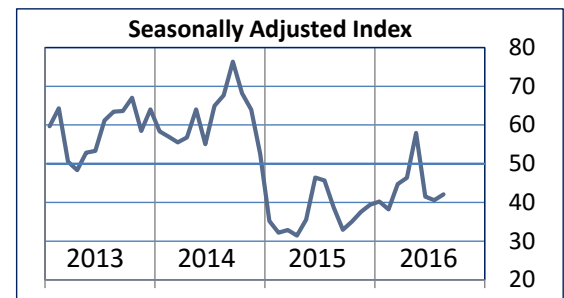
### Purchases

	% Higher	% Same	% Lower	Net	Index	
Mar-16	30	8	62	-32	33.4	Purchases expanded for the first time since late 2014 with significant strength in healthcare, transportation, and wholesale trade. Oil & gas, manufacturing, and services reported near neutral.
Apr-16	29	20	51	-22	39.5	
May-16	18	44	38	-21	40.3	
Jun-16	19	43	38	-19	40.4	
Jul-16	26	32	42	-15	43.9	
Aug-16	23	67	10	13	55.1	



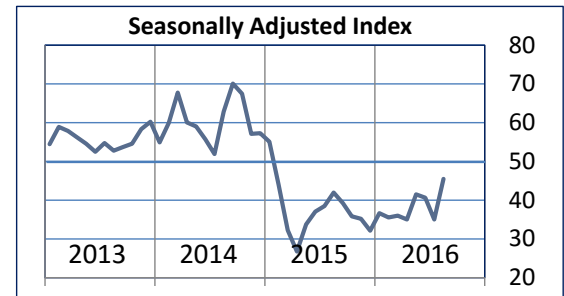
### Prices Paid

	% Higher	% Same	% Lower	Net	Index	
Mar-16	11	70	19	-8	44.8	Prices paid continued to fall with construction, non-durable goods manufacturing, transportation, wholesale trade, and health care reporting significant contraction in this indicator. Oil & gas reported near neutral.
Apr-16	13	71	16	-2	46.3	
May-16	26	66	8	18	57.9	
Jun-16	8	67	25	-17	41.5	
Jul-16	11	56	33	-22	40.6	
Aug-16	4	75	21	-17	42.1	



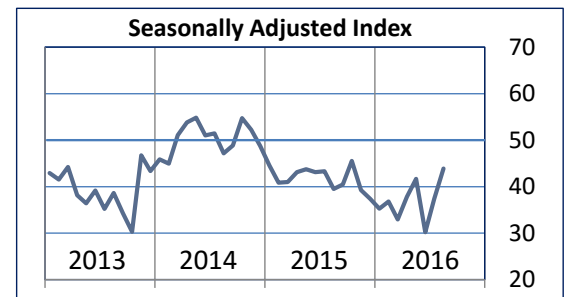
### Lead Times

	% Higher	% Same	% Lower	Net	Index	
Mar-16	5	63	32	-27	36.0	Lead times fell at a slower pace. Construction, transportation, and durable goods manufacturing reported further reductions. Health care, oil & gas, and non-durable goods manufacturing reported near neutral.
Apr-16	2	69	29	-27	35.0	
May-16	3	79	18	-15	41.5	
Jun-16	2	79	19	-17	40.6	
Jul-16	1	68	31	-29	35.0	
Aug-16	4	83	13	-10	45.5	



### Purchased Inventory

	% Higher	% Same	% Lower	Net	Index	
Mar-16	8	51	41	-32	33.0	Purchased goods inventories contracted at a slower pace. Construction, durable goods manufacturing, transportation, and wholesale trade all reported as down. All other sectors reported as neutral or slightly up.
Apr-16	11	53	36	-24	37.8	
May-16	10	67	23	-13	41.7	
Jun-16	2	59	39	-38	30.2	
Jul-16	6	65	29	-24	37.4	
Aug-16	1	87	12	-11	43.9	



### Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index	
Mar-16	11	46	43	-32	33.5	Finished goods inventories returned to contracting with oil & gas and durable goods manufacturing reporting moderate reductions. All other sectors reported near neutral.
Apr-16	11	58	31	-20	38.8	
May-16	8	74	18	-10	45.3	
Jun-16	6	75	19	-13	44.6	
Jul-16	22	65	13	10	55.1	
Aug-16	5	86	9	-5	48.4	

