

Health Care Continues Expansion Most Other Sectors Report Near Neutral

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(Houston, Texas) – Area Supply Chain leaders indicate that economic activity in Houston contracted in September for the twenty-first consecutive month.

The Houston Purchasing Managers Index (H-PMI) rose from its August level of 46.1 to 48.5 in September, its highest level since mid-2015. The Sales/New Orders, Prices Paid, and Finished Goods Inventory indices are now pointing to expansion. The Purchases index returned to indicating near term contraction, along with the Production, Employment, Lead Times, and Purchased Goods Inventory indices.

The Sales/New Orders Index fell 3.5 points, staying above neutral at 53.7 for September. The Production Index fell from 49.4 points to 47.6, staying below neutral. The Employment Index rose 8.1 points to 43.0, its highest level since November of 2015. The Purchases Index fell 6.7 points to 48.4, returning to below neutral. The Prices Paid Index rose 1.1 points to 43.2. The Lead Times Index registered 41.3, falling 4.2 points. The Purchased Inventory Index rose to 46.3, an increase of an additional 2.4 points. The Finished Goods Inventory Index fell from 48.4 in August to 44.5.

Health care remained the strongest sector, reporting moderately above neutral. Durable goods manufacturing, non-durable goods manufacturing, oil & gas, transportation (including midstream operations), wholesale trade, and most services activities reported near neutral. Engineering and construction continued to report well below neutral results.

INDICES AT A GLANCE

Index	Sep	Aug	Change	Track	Rate	Trend*
Houston PMI	48.5	46.1	2.4	Contracting	Slower	21
Sales/New Orders	53.7	57.2	-3.5	Rising	Slower	2
Production	47.6	49.4	-1.8	Falling	Faster	14
Employment	43.0	34.9	8.1	Falling	Slower	20
Purchases	48.4	55.1	-6.7	Falling	Fr. Rising	1
Prices Paid	43.2	42.1	1.1	Falling	Slower	4
Lead Times	41.3	45.5	-4.2	Falling	Faster	20
Purchased Inventory	46.3	43.9	2.4	Falling	Slower	22
Finished Goods Inventory	44.5	48.4	-3.9	Falling	Faster	2

* Months on current track



Commodities Reported Up in Price: Ready mix concrete, copper and wire cable; base oils indexed to ethylene and crude oil; vaccines and custom pharmaceuticals

Commodities Reported Down in Price: Carbon and alloy pipe; pumps and compressors; heat exchangers; barium sulfate; office supplies and computers

Commodities Reported in Short Supply: Qualified nuclear suppliers; custom pharmaceuticals

WHAT OUR RESPONDENTS ARE SAYING AND SUMMARIES BY SECTOR

Oil and Gas Exploration, and Key Support Services:

- No price increases have occurred, but services suppliers are hinting at future increases; it feels like any uptick in oil prices or drilling activity will quickly put pressure on prices
- Frac service and rig companies are attempting to adjust rates
- Stock points, distribution hubs, and supplier inventories are extremely lean
- Service companies are signaling to their supplier base not to expect margin improvement in 2017 and that inflation cannot be passed on
- Supply chains are turning attention now to S&OP; winners will be companies that started the journey before the downturn
- Overall, respondents in this sector report that production continues to fall, while sales are increasing due to higher crude prices; employment continues to be a concern

Engineering and Construction:

- Respondents in this area report further reductions in new orders, employment, purchases, prices, and lead times

Manufacturing - Durable Goods:

- Overall, this sector continues to report increasing sales; production has not followed, but finished goods inventories have contracted during three of the last four months

Manufacturing - Non-Durable Goods:

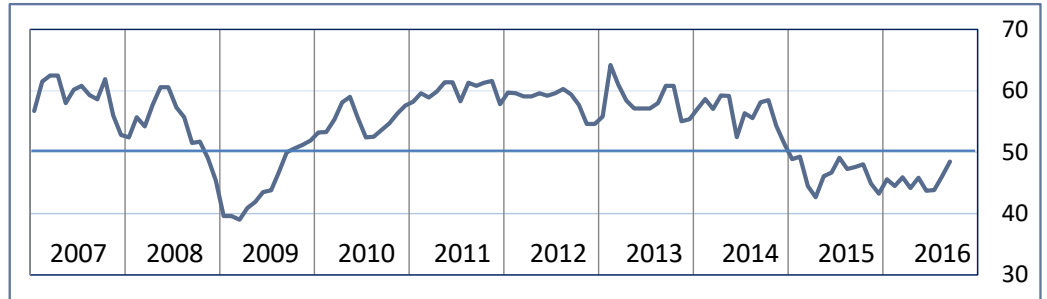
- Fixed and capital costs continue to be scrutinized
- Respondents in this area report sales as increasing for the 10th month in a row, while production has remained relatively flat, and finished goods inventories have contracted

Health Care:

- This sector continues to report modest expansion

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.



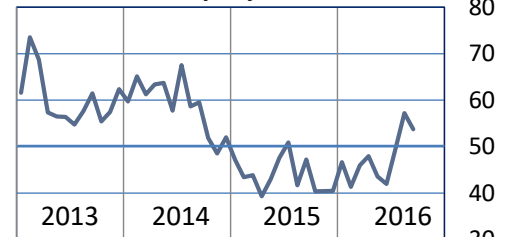
Trend of Underlying Indicators

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

	% Shift			Net	Index	Description
	Higher	Same	Lower			
Apr-16	33	31	36	-2	48.0	Sales rose with oil & gas, manufacturing, and wholesale trade reporting continued strength. Construction registered weakness in this indicator for the ninth month in a row. Midstream activities reported softening.
May-16	28	34	38	-10	43.6	
Jun-16	16	53	31	-16	42.0	
Jul-16	26	48	26	0	49.5	
Aug-16	23	71	6	17	57.2	
Sep-16	14	80	6	7	53.7	

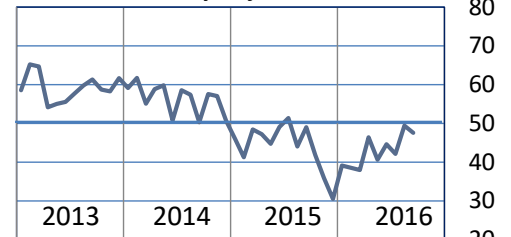
Seasonally Adjusted Index



Production

	% Shift			Net	Index	Description
	Higher	Same	Lower			
Apr-16	11	69	20	-9	46.4	Production was reported as relatively stable in all areas except oil & gas, which reported some weakening from last month.
May-16	8	66	26	-18	40.6	
Jun-16	2	85	13	-11	44.6	
Jul-16	1	81	18	-17	42.1	Increased crude prices offset these production decreases for oil & gas sales.
Aug-16	3	94	3	0	49.4	
Sep-16	0	96	4	-4	47.6	

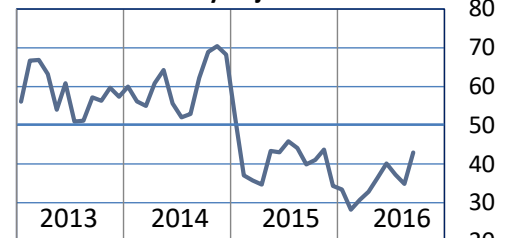
Seasonally Adjusted Index



Employment

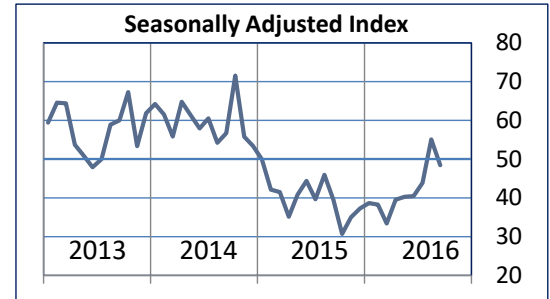
	% Shift			Net	Index	Description
	Higher	Same	Lower			
Apr-16	11	47	42	-31	32.9	Employment fell at a slower pace. Durable goods manufacturing and services companies reported near neutral. Oil & gas related companies, non-durable goods, construction, and healthcare reported further reductions.
May-16	10	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	
Sep-16	4	79	17	-13	43.0	

Seasonally Adjusted Index



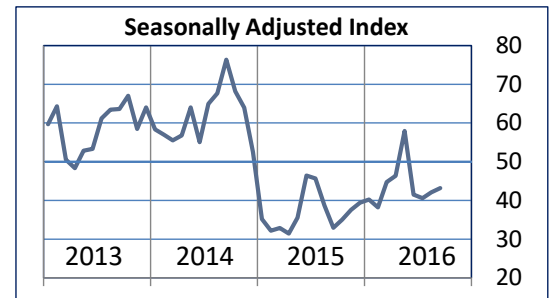
Purchases

	% Higher	% Same	% Lower	Net	Index	
Apr-16	29	20	51	-22	39.5	Purchases returned to contraction after showing expansion in August. Wholesale trade and health care were the strongest sectors. Construction and non-durable goods manufacturing were the weakest.
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	
Sep-16	13	77	10	2	48.4	



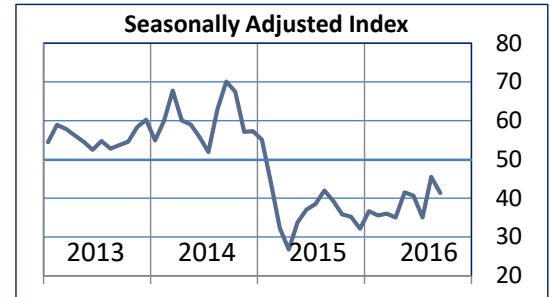
Prices Paid

	% Higher	% Same	% Lower	Net	Index	
Apr-16	13	71	16	-2	46.3	Prices paid continued to fall with construction, non-durable goods manufacturing, transportation, and wholesale trade reporting significant contraction in this indicator. Oil & gas and durable goods reported near neutral.
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	
Sep-16	0	85	15	-15	43.2	



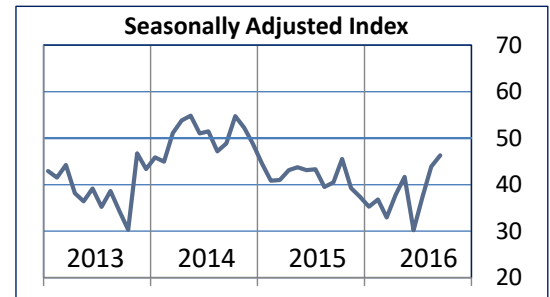
Lead Times

	% Higher	% Same	% Lower	Net	Index	
Apr-16	2	69	29	-27	35.0	Lead times fell for the twentieth month. Construction, oil & gas, transportation, manufacturing and wholesale trade reported lead times a down. No sector reported increased lead times.
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	
Sep-16	0	81	19	-19	41.3	



Purchased Inventory

	% Higher	% Same	% Lower	Net	Index	
Apr-16	11	53	36	-24	37.8	Purchased goods inventories fell at a slower pace. Construction, manufacturing, and transportation all reported as down. All other sectors reported as near neutral.
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	
Sep-16	0	88	12	-12	46.3	



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index	
Apr-16	11	58	31	-20	38.8	Finished goods inventories continued falling with oil & gas, midstream operations, and manufacturing reporting moderate reductions. All other sectors reported near neutral.
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	
Sep-16	4	79	17	-13	44.5	

