

Houston PMI Moves Back to Expansion Sales and Production Show Strength

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(Houston, Texas) – Area Supply Chain leaders indicate that economic activity in Houston expanded for the first time in almost two years.

The Houston Purchasing Managers Index (H-PMI) rose from its September level of 48.5 to 51.1 in October, its first time above the neutral level of 50 since December of 2014. The Sales/New Orders and Production indices moved strongly into the expansion range overcoming weakness in the other indicators. Employment, Purchases, Lead Times, and Inventories are pointing to contraction near term.

The Sales/New Orders Index rose 3.4 points to 57.1. The Production Index rose 6.8 points to 54.4. The Employment Index rose from 43.0 to 45.0 points, its highest level since late last year. The Purchases Index fell 3.0 points to 45.4. The Prices Paid Index rose 11.2 points to 54.4. The Lead Times Index registered 41.0, down modestly from 41.3. The Purchased Inventory Index fell to 42.8, a decrease of 3.5 points. The Finished Goods Inventory Index rose from 44.5 in September to 54.8.

Both oil & gas and durable goods manufacturing are now showing expansion after their considerable slow down of the last two years. Health care continues to show moderate strength. Construction remains weak. All other sectors are now reporting near neutral.

INDICES AT A GLANCE

Index	Oct	Sep	Change	Track	Rate	Trend*
Houston PMI	51.1	48.5	2.6	Expanding	Fr. Falling	1
Sales/New Orders	57.1	53.7	3.4	Rising	Faster	3
Production	54.4	47.6	6.8	Rising	Fr. Falling	1
Employment	45.0	43.0	2.0	Falling	Slower	21
Purchases	45.4	48.4	-3.0	Falling	Faster	2
Prices Paid	54.4	43.2	11.2	Rising	Fr. Falling	1
Lead Times	41.0	41.3	-0.3	Falling	Faster	21
Purchased Inventory	42.8	46.3	-3.5	Falling	Faster	23
Finished Goods Inventory	54.8	44.5	10.3	Rising	Fr. Falling	1

* Months on current track



Commodities Reported Up in Price: Some petrochemical feedstocks; electrical equipment including transformers; pressure pumping equipment and drilling rigs; vaccines

Commodities Reported Down in Price: Heat exchangers; pumps and compressors; computers and components

Commodities Reported in Short Supply: Pressure pumping services; custom pharmaceuticals

WHAT OUR RESPONDENTS ARE SAYING AND SUMMARIES BY SECTOR

Oil and Gas Exploration, and Key Support Services:

- With the oil price around \$50 some projects that were on hold are moving forward
- We have been hearing talk about price increases on the service side for several weeks and are now getting price increase requests
- Overall, respondents in this sector are now reporting expansion; sales continue to increase as a result of higher crude prices even though production is falling; employment has now stabilized

Engineering and Construction:

- Respondents in this area continue to report weakness; new orders are stabilizing while employment, purchases, prices, and lead times continue to fall

Manufacturing - Durable Goods:

- Overall, this sector is reporting significant improvement; production is increasing along with sales, production, purchases, and prices; lead times and purchased goods inventories are falling; finished goods inventories are stable

Manufacturing - Non-Durable Goods:

- Respondents in this area now report both increasing sales and production while employment, prices, and lead times continue to fall

Health Care:

- This sector continues to report modest expansion; employment continues to contract; prices and lead time are increasing

ISM-Houston Business Report

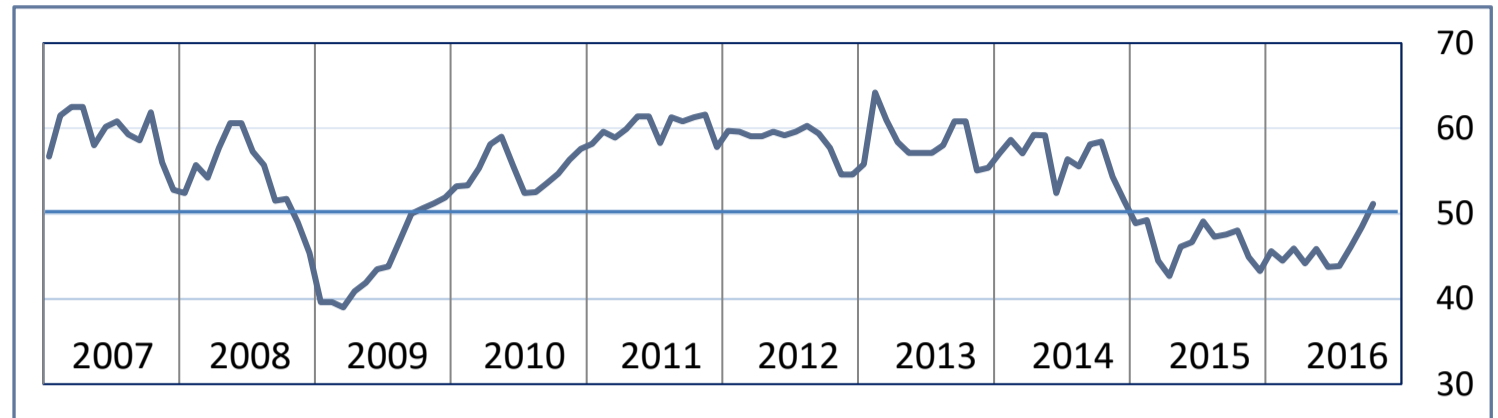


ISM—Houston, Inc.

October 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.



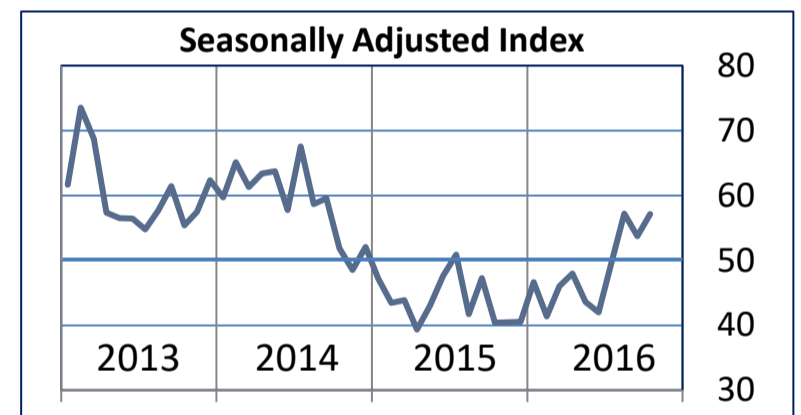
Trend of Underlying Indicators

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	
May/16	28	34	38	-10	43.6	Sales rose with oil & gas and manufacturing reporting significant improvements.
Jun/16	16	53	31	-16	42.0	
Jul/16	26	48	26	0	49.5	Construction reported near neutral for the first time this year.
Aug/16	23	71	6	17	57.2	Midstream activities reported further softening.
Sep/16	14	80	6	7	53.7	
Oct/16	28	56	16	12	57.1	

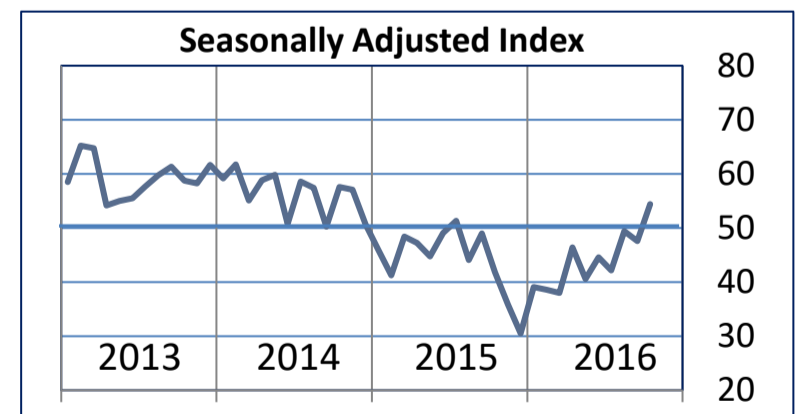
Seasonally Adjusted Index



Production

	% Higher	% Same	% Lower	Net	Index	
May/16	8	66	26	-18	40.6	Production strengthened with manufacturing reporting significant improvement, while construction returned to neutral.
Jun/16	2	85	13	-11	44.6	Most other areas also reported near neutral.
Jul/16	1	81	18	-17	42.1	
Aug/16	3	94	3	0	49.4	
Sep/16	0	96	4	-4	47.6	
Oct/16	16	76	8	8	54.4	

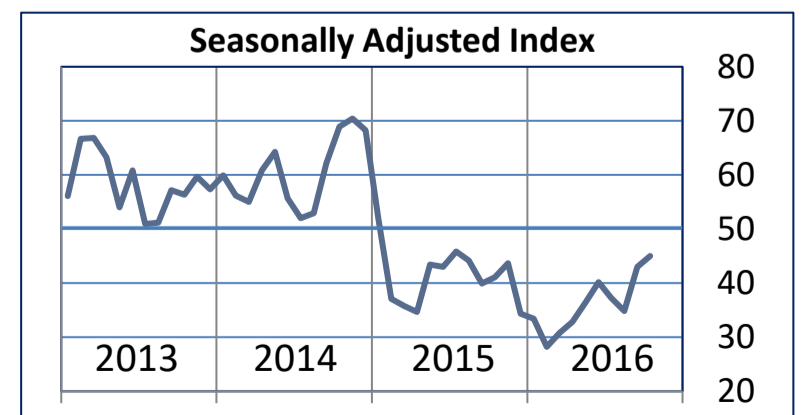
Seasonally Adjusted Index



Employment

	% Higher	% Same	% Lower	Net	Index	
May/16	10	54	36	-26	36.4	Employment fell at a slower pace with construction and health care registering additional reductions.
Jun/16	13	57	30	-17	40.2	Most other industries reported stable staffing levels.
Jul/16	14	47	39	-25	37.3	
Aug/16	3	66	31	-28	34.9	
Sep/16	4	79	17	-13	43.0	
Oct/16	12	64	24	-12	45.0	

Seasonally Adjusted Index



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Business Report

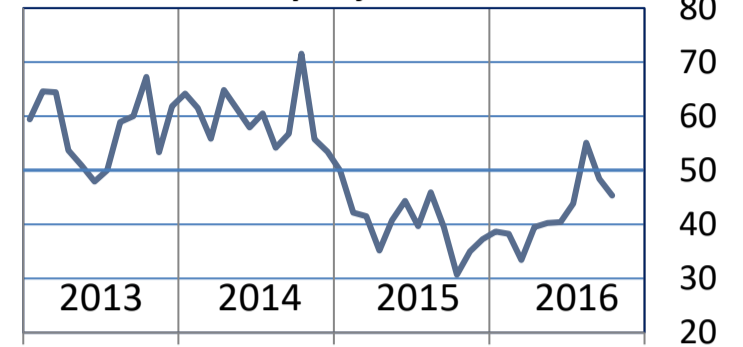
October 2016

Purchases

	% Higher	% Same	% Lower	Net	Index
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
Oct/16	20	52	28	-8	45.4

Purchases contracted at a faster pace with construction and non-durable goods manufacturing showing additional weakness. Durable goods manufacturing and health care were the strongest sectors.

Seasonally Adjusted Index

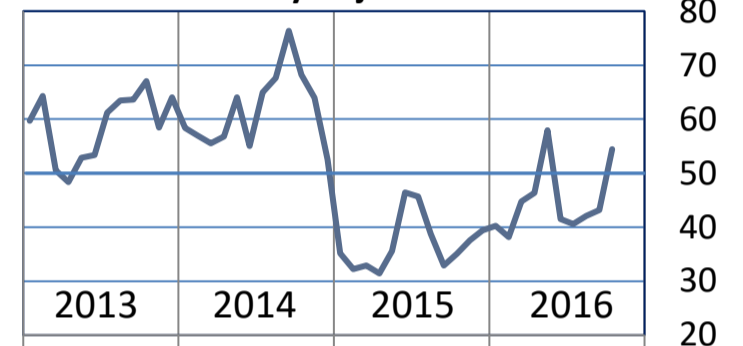


Prices Paid

	% Higher	% Same	% Lower	Net	Index
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
Oct/16	20	68	12	8	54.4

Prices paid rose for the first time since May, with oil & gas, durable goods manufacturing, wholesale trade, and health care reporting increases. Construction and non-durable goods manufacturing registered price reductions.

Seasonally Adjusted Index

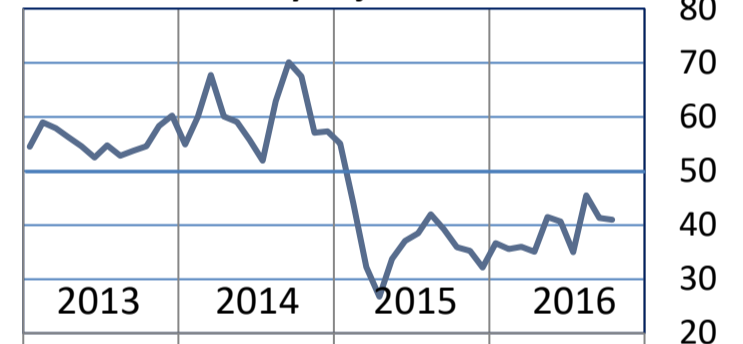


Lead Times

	% Higher	% Same	% Lower	Net	Index
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
Oct/16	8	64	28	-20	41.0

Lead times fell for the twenty-first month. Construction, transportation, and manufacturing reported lead times as down, while health care reported lead times increases.

Seasonally Adjusted Index

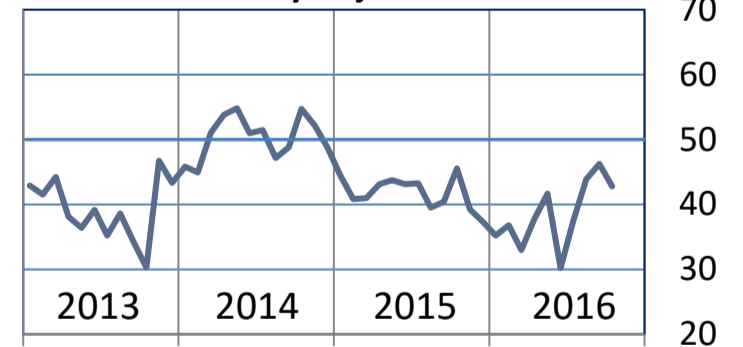


Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
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
Oct/16	4	68	28	-24	42.8

Purchased goods inventories fell for the twenty-third month. Manufacturing and transportation reported as down. All other sectors reported as near neutral.

Seasonally Adjusted Index



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
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
Oct/16	12	72	16	-4	54.8

Finished goods inventories expanded for the month, with wholesale trade reporting the largest increases.

Seasonally Adjusted Index

