

Expansion Continues at a Slow Pace

Sales Increase for the Fourth Month

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(Houston, Texas) – Area Supply Chain leaders indicate that economic activity in Houston expanded for the second month during November.

The Houston Purchasing Managers Index (H-PMI) fell from its October level of 51.1 to 50.5 in November, only the second month above neutral since late 2014. The Sales/New Orders index pointed towards expansion for the fourth month in a row, while the Production index moved back to indicating contraction after only one month showing expansion. The Employment, Lead Times, and Purchased Goods Inventory indices, while still indicating a tendency towards contraction, are all approaching neutral for the first time in almost two years. The Purchases index continues to predict contraction near term. The Prices Paid index, one of only two indicators that are inversely correlated to economic activity, is near neutral. The remaining inverse indicator, Finished Goods Inventory, is now pointing to near term expansion.

The Sales/New Orders Index fell 5.1 points to 52.0. The Production Index fell 6.8 points to 47.6. The Employment Index rose from 45.0 to 48.9 points, its highest level since early last year. The Purchases Index rose 1.0 points to 46.4. The Prices Paid Index fell 3.5 points to 50.9. The Lead Times Index registered 49.9, up significantly from 41.0. The Purchased Inventory Index rose 6.7 points to 49.5. The Finished Goods Inventory Index fell from 54.8 to 42.7, confirming that producers are attempting to minimize year end inventories.

Durable goods manufacturing and wholesale trade are showing strong indications of near term expansion. Oil & gas, construction, and non-durable goods manufacturing are showing contraction. All other industries are indicating near neutral performance.

INDICES AT A GLANCE

Index	Nov	Oct	Change	Track	Rate	Trend*
Houston PMI	50.5	51.1	-0.6	Expanding	Slower	2
Sales/New Orders	52.0	57.1	-5.1	Rising	Slower	4
Production	47.6	54.4	-6.8	Falling	Fr. Rising	1
Employment	48.9	45.0	3.9	Falling	Slower	22
Purchases	46.4	45.4	1.0	Falling	Slower	3
Prices Paid	50.9	54.4	-3.5	Rising	Slower	2
Lead Times	49.9	41.0	8.9	Falling	Slower	22
Purchased Inventory	49.5	42.8	6.7	Falling	Slower	24
Finished Goods Inventory	42.7	54.8	-12.1	Falling	Fr. Rising	1

* Months on current track



Commodities Reported Up in Price: Structural, plate, and reinforcing steel; stainless steel pipe, valves, and fittings; custom pharmaceuticals

Commodities Reported Down in Price: Computers and components; office supplies

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

WHAT OUR RESPONDENTS ARE SAYING AND SUMMARIES BY SECTOR

Oil and Gas Exploration, and Key Support Services:

- We still need the oil & gas sector to pick back up
- The Energy Industry is coming back; all in the Houston will see improvement soon
- Overall, respondents in this sector returned to reporting contraction; sales and production were down; employment was down again; prices month over month were about the same

Engineering and Construction:

- Proposal activity has picked up, but most awards will be late 1st quarter 2017
- Respondents in this area continue to report weakness; new orders were down again during the month; employment, purchases, prices, and lead times continue to fall

Manufacturing - Durable Goods:

- This sector continues to report improvement; sales, production, employment, and purchases all increased; prices and lead times were stable

Manufacturing - Non-Durable Goods:

- Typical 4th quarter slowdown
- Respondents in this area report all underlying indices, except for inventories, as falling

Wholesale Trade:

- Our local market business has finally started to improve

Health Care:

- Hiring has accelerated due to our current expansion
- Experiencing an upturn in requests for new projects
- This sector continues to report modest expansion; employment, purchases, prices, and lead times were all reported near neutral

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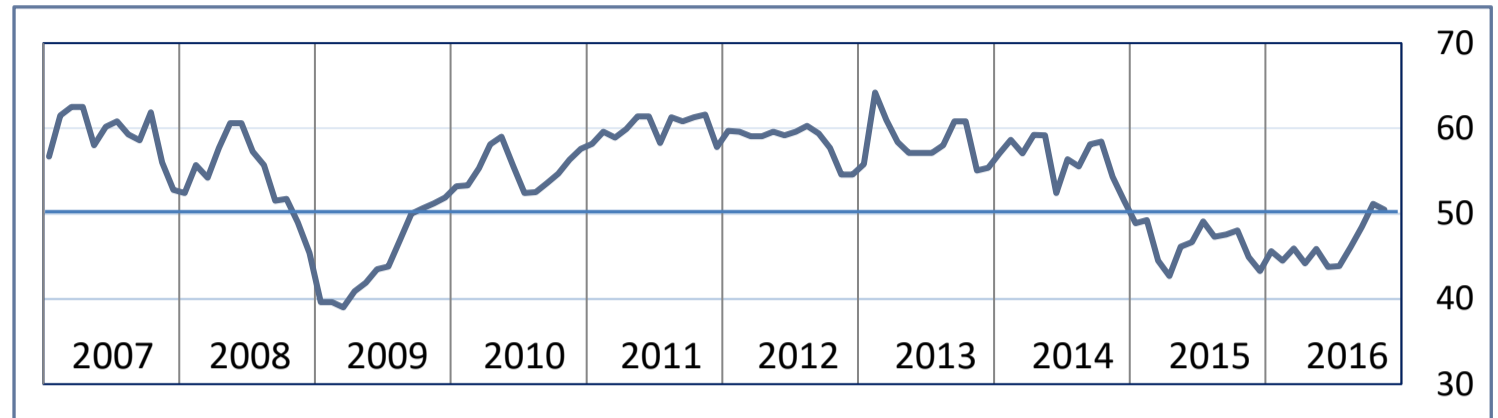


ISM—Houston, Inc.

November 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

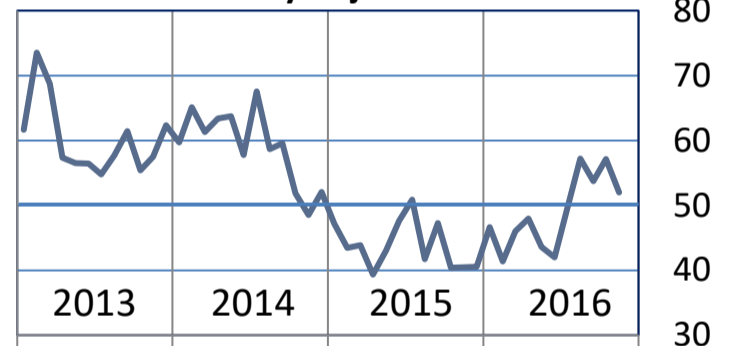
The Houston PMI is based on diffusion indices for eight underlying indicators as shown below. The net value of each of these indicators is simply the percentage of respondents who cite a positive shift from the previous month minus the percentage who cite a negative shift. The diffusion index is calculated 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
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
Oct/16	28	56	16	12	57.1
Nov/16	15	70	15	0	52.0

Sales rose at a slower pace this month with durable goods manufacturing continuing to report significant improvements. Oil & gas and non-durable goods sales fell at a modest pace.

Seasonally Adjusted Index

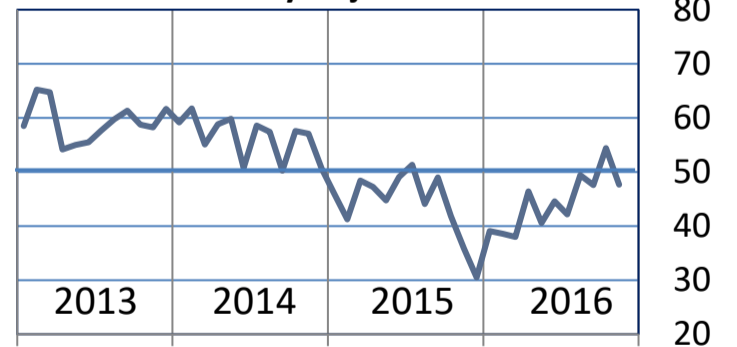


Production

	% Higher	% Same	% Lower	Net	Index
Jun/16	2	85	13	-11	44.6
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
Nov/16	2	91	7	-5	47.6

Production returned to contracting overall with only durable goods manufacturing reporting improvement. Oil & gas and non-durable goods manufacturing reported declines in production.

Seasonally Adjusted Index

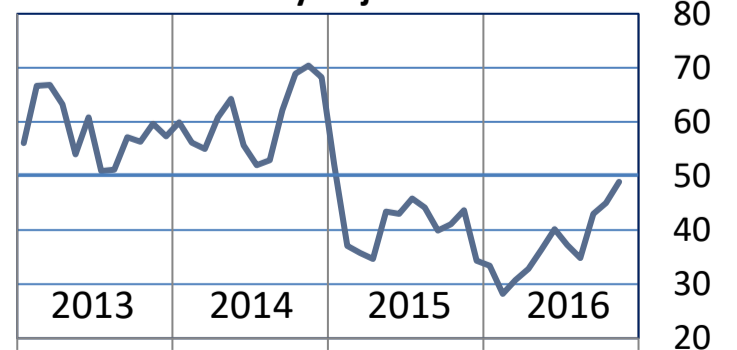


Employment

	% Higher	% Same	% Lower	Net	Index
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
Oct/16	12	64	24	-12	45.0
Nov/16	8	78	14	-6	48.9

Employment was reported as falling again this month, but this index is now approaching neutral. Construction, non-durable goods manufacturing, and oil & gas reported further reductions.

Seasonally Adjusted Index



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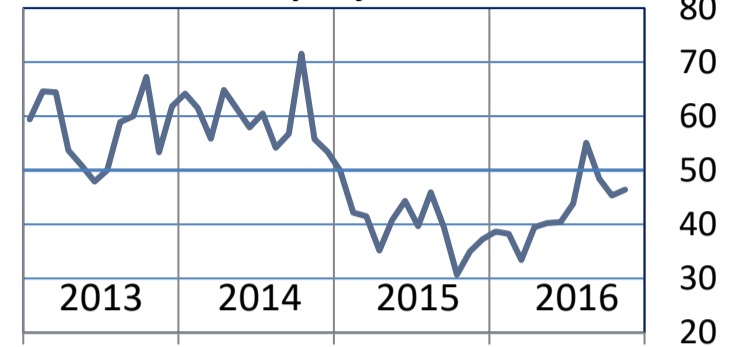


Purchases

	% Higher	% Same	% Lower	Net	Index
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
Nov/16	12	68	20	-8	46.4

Purchases continued to contract with construction and non-durable goods manufacturing reporting further weakness. Durable goods manufacturing was the strongest sector.

Seasonally Adjusted Index

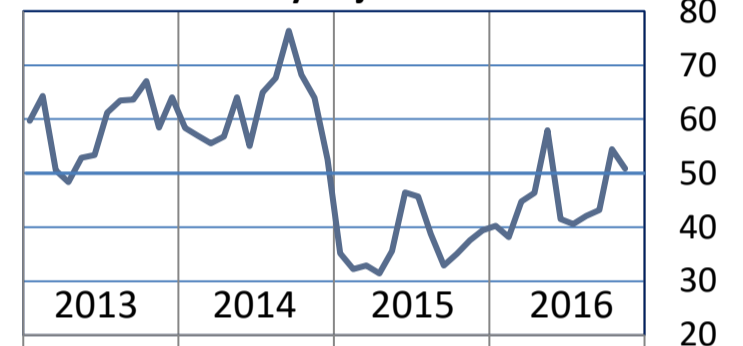


Prices Paid

	% Higher	% Same	% Lower	Net	Index
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
Nov/16	11	80	9	1	50.9

Prices paid continued to rise at a moderate pace. Wholesale trade and oil & gas reported price increases, while construction and non-durable goods manufacturing reported prices as down.

Seasonally Adjusted Index

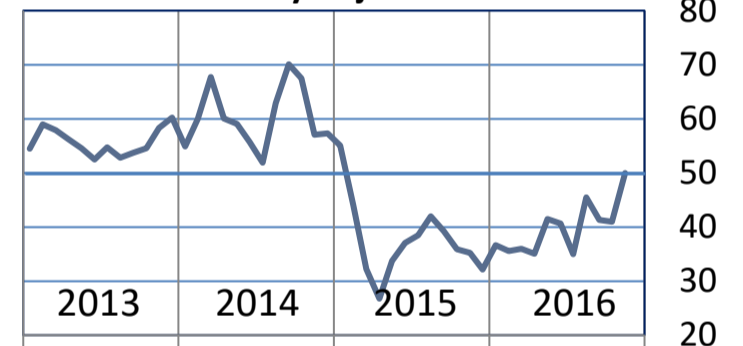


Lead Times

	% Higher	% Same	% Lower	Net	Index
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
Nov/16	8	83	9	-1	49.9

Lead times improved to neutral during the month, oil & gas and wholesale trade reporting increased lead times. Construction and manufacturing reported further reductions.

Seasonally Adjusted Index

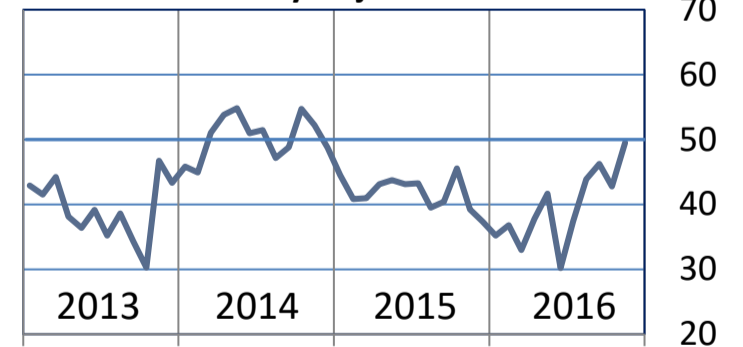


Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
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
Nov/16	1	94	5	-4	49.5

Purchased goods inventories fell at a significantly lower pace with most industries reporting near neutral.

Seasonally Adjusted Index



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
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
Nov/16	1	86	13	-12	42.7

Finished goods inventories fell with only durable goods manufacturing reporting increased finished goods inventories.

Seasonally Adjusted Index

