

Sales Remain Strong Employment Moves to Neutral

Analysis and report by Ross Harvison,
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(Houston, Texas) – According to Houston area Supply Chain leaders, economic activity in Houston expanded for the eighth month in May. The Houston Purchasing Managers Index registered 54.1, unchanged from its April reading.

Only one underlying indicator is pointing to contraction near term. The Purchased Inventory (Raw Materials) index completed its 30th month indicating contraction, registering 44.0. This indicator is directly correlated with economic activity.

Six other underlying indicators are now pointing towards expansion over the 3-4 month forecast horizon. The Sales/New Orders index completed 10 months pointing to expansion, registering 58.7 in May. The Production, Employment, Purchases, and Lead Times indices reported their sixth month of expansion, registering 52.1, 50.8, 53.7, and 52.5 respectively. All of these indicators are directly correlated with economic activity. The Finished Goods Inventory index joined these five indicators pointing to expansion when it moved from 51.2 in April to 48.7 in May. This indicator is inversely correlated with economic activity.

The last underlying indicator, Prices Paid, is normally inversely correlated with economy. However, as it has for the last two quarters, it can show a direct correlation during the early stages of a recovery. It returned to below neutral this month registering 49.2, potentially showing that it is returning to its normal inverse correlation.

On an industry specific basis, manufacturing, transportation, wholesale trade, professional services, healthcare are expanding. Engineering and construction contracted for the third month. All other sectors reported minimal month to month change.

INDICES AT A GLANCE

Index	May	Apr	Change	Track	Rate	Trend*
Houston PMI	54.1	54.1	0.0	Expanding	Unchanged	8
Sales/New Orders	58.7	63.0	-4.3	Rising	Slower	10
Production	52.1	62.2	-10.1	Rising	Slower	6
Employment	50.8	55.1	-4.3	Rising	Slower	6
Purchases	53.7	67.7	-14.0	Rising	Slower	6
Prices Paid	49.2	51.3	-2.1	Falling	Fr. Rising	1
Lead Times	52.5	50.6	1.9	Rising	Faster	6
Purchased Inventory	44.0	48.5	-4.5	Falling	Faster	30
Finished Goods Inventory	48.7	51.2	-2.5	Falling	Fr. Rising	1

* Months on current track



Commodities Reported Up in Price: Vaccines; oil country tubular goods; alloy and carbon pipe, fabricated structural steel; electrical equipment; inbound ocean freight

Commodities Reported Down in Price: Computers and components; butadiene and C4 raffinates

Commodities Reported in Short Supply: Custom pharmaceuticals

WHAT OUR RESPONDENTS ARE SAYING AND SUMMARIES BY SECTOR

Oil and Gas Exploration, and Key Support Services:

- Still unsure if we are out of a down-turn or not
- Overall, respondents in this sector reported expansion at a much slower pace; sales, production, prices, and lead times were flat; employment and purchases were down

Engineering and Construction:

- Overall, respondents in this area indicated contraction at a somewhat slower pace than last month; new orders, employment, and prices were neutral; purchases and lead times fell

Manufacturing - Durable Goods:

- This sector returned to expanding this month; sales, production, employment, lead times, and inventories were up, prices were unchanged

Manufacturing - Non-Durable Goods:

- Respondents in this area reported additional strengthening; sales, purchases, and lead times increased; employment and prices fell

Wholesale Trade:

- Our business in Texas has suffered as a result of the oil activity slowdown, but is now increasing from the low levels of the past 18 months
- Overall, this sector reported strong growth during the month; sales and purchases were up; all other indicators were near neutral

Professional Services:

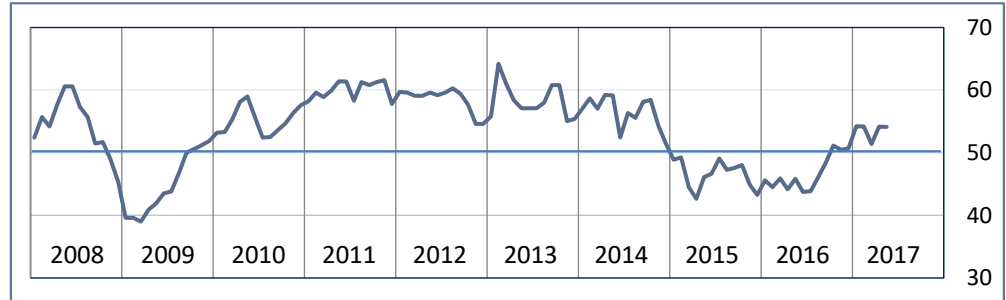
- Seeing an increase in hiring in the oilfield services sector, primarily in field engineering and field labor positions
- Respondents in this area reported additional strengthening; contract staffing and direct hire services reported employment as up again this month

Health Care:

- This sector showed improvement this month with employment and purchases reported significantly higher than last month

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.

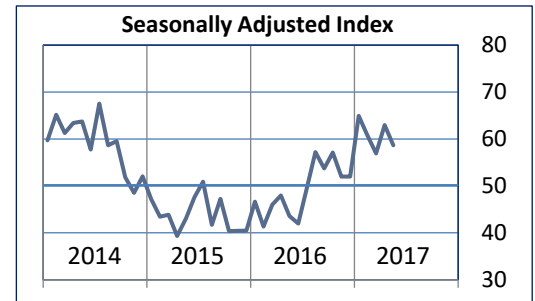


Trend of Underlying Indicators

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.

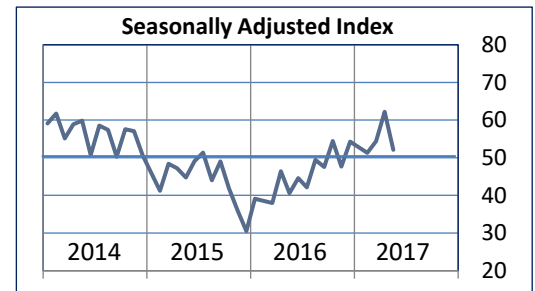
Sales/New Orders

	% Diffusion Index			Net	Index	Description
	Higher	Same	Lower			
Dec/16	12	75	13	-1	52.0	The sales/new orders index grew at slower pace. Durable goods manufacturing joined non-durable goods manufacturing, wholesale trade, and professional services reporting strength. All other sectors reported near neutral.
Jan/17	35	60	5	30	64.9	
Feb/17	30	66	4	25	60.8	
Mar/17	20	73	7	13	56.9	
Apr/17	29	70	1	28	63.0	
May/17	25	71	4	21	58.7	



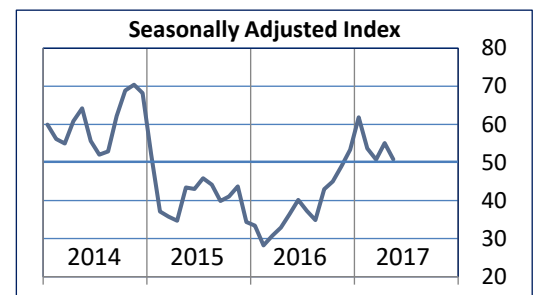
Production

	% Diffusion Index			Net	Index	Description
	Higher	Same	Lower			
Dec/16	5	95	0	5	54.3	The production index, while continuing to point to expansion, fell significantly. Durable goods manufacturing was the only sector reporting strength. All other sectors reported production levels as unchanged.
Jan/17	8	92	0	8	52.8	
Feb/17	9	90	1	7	51.3	
Mar/17	9	89	2	7	54.4	
Apr/17	23	75	2	21	62.2	
May/17	6	92	2	4	52.1	



Employment

	% Diffusion Index			Net	Index	Description
	Higher	Same	Lower			
Dec/16	13	75	12	1	53.3	The employment index came in just above neutral. Durable goods manufacturing, professional services, and healthcare showed gains. Non-durable goods manufacturing and oil & gas reported additional reductions.
Jan/17	29	59	12	17	61.9	
Feb/17	20	68	12	7	53.7	
Mar/17	17	70	13	4	50.8	
Apr/17	23	70	7	16	55.1	
May/17	14	76	10	4	50.8	



ISM-Houston

Business Report



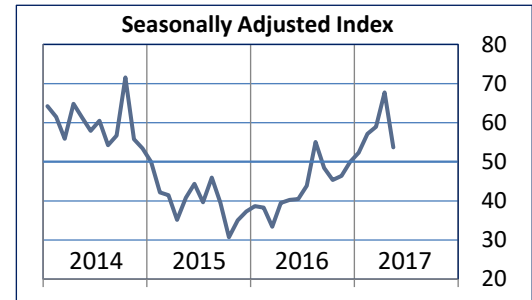
ISM—Houston, Inc.

May 2017

Purchases

	% Higher	% Same	% Lower	Net	Index
Dec/16	11	71	18	-7	50.0
Jan/17	20	68	12	8	52.3
Feb/17	24	69	7	17	57.2
Mar/17	28	62	10	18	59.0
Apr/17	36	60	4	32	67.7
May/17	20	65	15	5	53.7

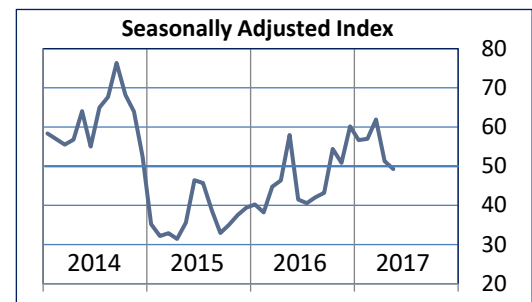
The purchases index fell during the month. Durable goods manufacturing, mid-stream operations, wholesale trade, and healthcare continued to show strength. Oil & gas and construction reported weakness.



Prices Paid

	% Higher	% Same	% Lower	Net	Index
Dec/16	16	84	0	16	60.2
Jan/17	17	83	0	17	56.6
Feb/17	19	77	4	14	57.0
Mar/17	28	70	2	26	61.9
Apr/17	11	87	2	9	51.3
May/17	3	94	3	0	49.2

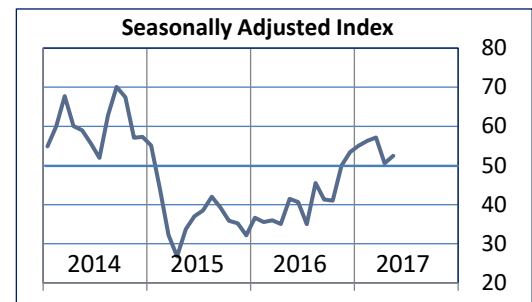
The prices paid index fell below neutral for the first time this year. Healthcare reported price increases and Non-durable goods manufacturing reported reductions. All other sectors reported near neutral.



Lead Times

	% Higher	% Same	% Lower	Net	Index
Dec/16	12	81	7	5	53.4
Jan/17	7	93	0	7	55.1
Feb/17	16	83	1	14	56.3
Mar/17	19	79	2	17	57.2
Apr/17	8	90	2	6	50.6
May/17	9	89	2	7	52.5

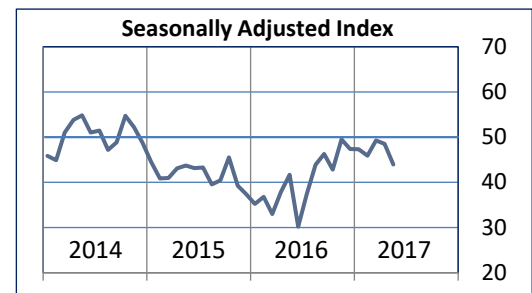
The lead times rose marginally. Manufacturing and transportation reported a high level of increases in this index, while construction continued to see lead times fall.



Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
Dec/16	0	88	12	-12	47.4
Jan/17	6	89	5	1	47.3
Feb/17	4	89	7	-3	45.9
Mar/17	6	89	5	1	49.3
Apr/17	2	92	6	-4	48.5
May/17	1	90	9	-9	44.0

The purchased goods inventory index fell during the month. Durable goods manufacturing reported increases in this index while non-durable goods reported reductions. All other sectors reported near neutral.



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
Dec/16	6	85	9	-4	47.5
Jan/17	11	87	2	10	50.1
Feb/17	15	84	1	14	55.2
Mar/17	6	91	3	3	50.9
Apr/17	10	85	5	5	51.2
May/17	5	86	9	-4	48.7

The finished goods inventory index fell just below neutral with nearly all sectors reporting similar levels month over month.

