

### Sales Grow at a Much Slower Pace

### Respondents Report Improving Employment

Analysis and report by Ross Harvison,  
chair of the ISM-Houston Business Survey Committee

rsharvison@gmail.com

713-702-1088

(Houston, Texas) – According to Houston area Supply Chain leaders, the Houston economy expanded again in June, marking nine months predicting growth. The Houston Purchasing Managers Index registered 51.8, down from its May reading of 54.1.

Volatility in all underlying indicators, except Sales/New Orders, was relatively low for the first time this year. Additionally, all underlying indicators except the Purchased Inventory (Raw Materials) index are pointing to expansion near term.

The Sales/New Orders index, while falling 6.8 points to 51.8 in June, completed its 11th month pointing to expansion. The Production, Employment, Purchases, and Lead Times indices reported their seventh month of expansion, registering 52.6, 53.1, 55.4, and 53.9 respectively. These five indicators are directly correlated with economic activity. The Finished Goods Inventory index and Prices Paid index both completed their second month pointing to expansion registering 49.6 and 49.5 respectively. Both of these indicators are inversely correlated with economic activity.

As noted above, the Purchased Inventory Index is still suggesting a contraction in economic activity over the near term, registering 43.2 this month, its 31st month below neutral. This indicator is also directly correlated with economic activity.

On an industry specific basis, manufacturing, transportation, wholesale trade, professional services, healthcare continued to expand at a modest pace. Engineering and construction contracted for the fourth month. All other sectors reported minimal month to month growth.

#### INDICES AT A GLANCE

Index	Jun	May	Change	Track	Rate	Trend*
Houston PMI	51.8	54.1	-2.3	Expanding	Slower	9
Sales/New Orders	51.9	58.7	-6.8	Rising	Slower	11
Production	52.6	52.1	0.5	Rising	Slower	7
Employment	53.1	50.8	2.3	Rising	Faster	7
Purchases	55.4	53.7	1.7	Rising	Faster	7
Prices Paid	49.5	49.2	0.3	Falling	Slower	2
Lead Times	53.9	52.5	1.4	Rising	Faster	7
Purchased Inventory	43.2	44.0	-0.8	Falling	Faster	31
Finished Goods Inventory	49.6	48.7	0.9	Falling	Slower	2

\* Months on current track



**Commodities Reported Up in Price:** Custom pharmaceuticals and vaccines; hydraulic hoses; alloy and carbon pipe, fabricated structural steel; transformers; inbound ocean freight

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

**Commodities Reported in Short Supply:** Custom pharmaceuticals

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

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

- Overall, respondents in this sector continue to report very modest expansion; production increased marginally; employment and purchases were down again this month

##### Engineering and Construction:

- We are seeing a near term indication of improvement, but it doesn't appear to be very strong  
- Overall, respondents in this area indicated contraction at a slower pace again this month

##### Manufacturing - Durable Goods:

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

##### Manufacturing - Non-Durable Goods:

- Respondents in this area reported modest further strengthening; employment and lead times increased, while prices were down

##### Wholesale Trade:

- Order entry has improved resulting in an increase in the backlog  
- Lead times are increasing with suppliers blaming the lack of willing workers  
- Overall, this sector continues to report good growth

##### Professional Services:

- Hiring increasing for field roles at oilfield services companies  
- Hiring for positions in oil & gas corporate offices remains flat  
- Respondents in this area reported modest additional strengthening

##### Health Care:

- Great opportunities in Health Care  
- We are in a very conservative spend environment; costs continue to be tightly controlled and budgeted funds for the new fiscal year have been further reduced  
- This sector reported moderate improvement again this month

# ISM-Houston

## Business Report

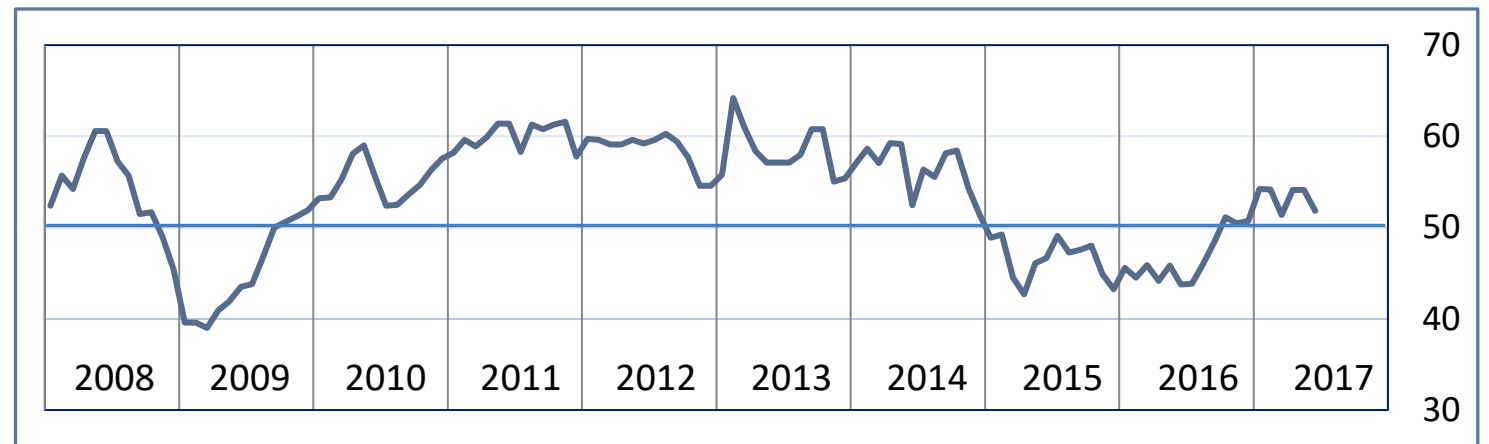


ISM—Houston, Inc.

### June 2017

#### 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.

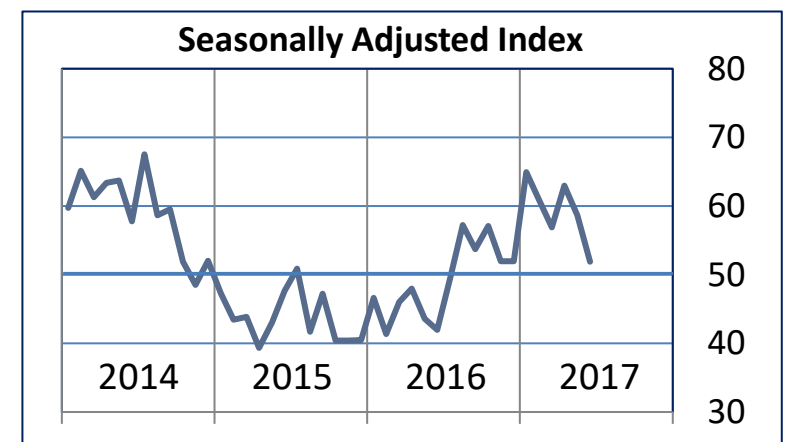


#### Trend of Underlying Indicators

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.

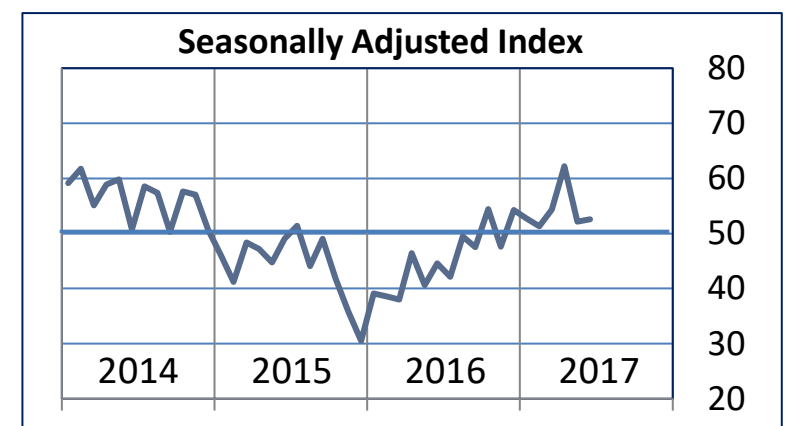
#### Sales/New Orders

	% Shift			Net	Index	Description
	Higher	Same	Lower			
Jan/17	35	60	5	30	64.9	The sales/new orders index fell to its lowest rate of expansion since late last year. Durable goods manufacturing and professional services reported continued strength, while all other sectors reported near neutral.
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	
Jun/17	13	78	9	4	51.9	



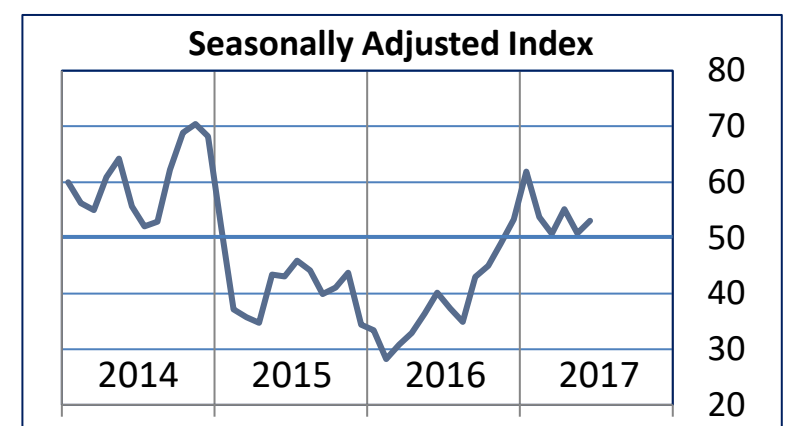
#### Production

	% Shift			Net	Index	Description
	Higher	Same	Lower			
Jan/17	8	92	0	8	52.8	The production index continues to indicate modest expansion. Durable goods manufacturing and oil & gas reported strengthening, while all other sectors reported production levels as unchanged.
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	
Jun/17	5	93	2	4	52.6	



#### Employment

	% Shift			Net	Index	Description
	Higher	Same	Lower			
Jan/17	29	59	12	17	61.9	The employment index strengthened modestly. Manufacturing, wholesale trade, and health care showed gains. Oil & gas and supporting industries reported additional reductions.
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	
Jun/17	15	81	4	11	53.1	



# ISM-Houston

## Business Report

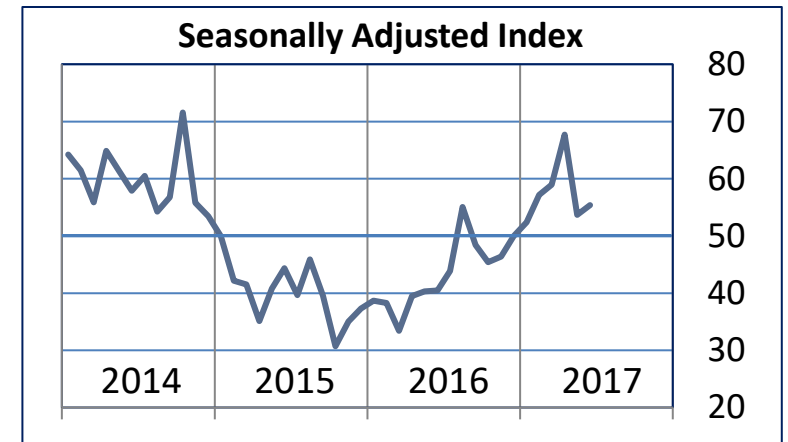


ISM—Houston, Inc.

### June 2017

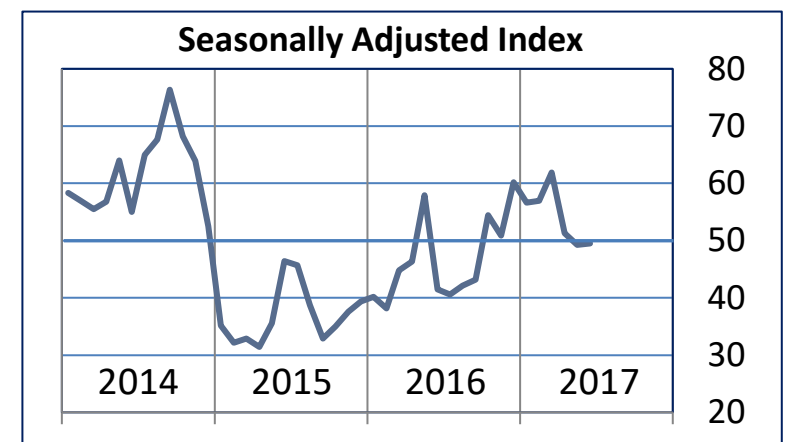
#### Purchases

	% Higher	% Same	% Lower	Net	Index	
Jan/17	20	68	12	8	52.3	The purchases index rose modestly. Durable goods manufacturing, wholesale trade, and health care reported additional strengthening, while EPC firms and oil & gas reported further weakness.
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	
Jun/17	17	75	8	9	55.4	



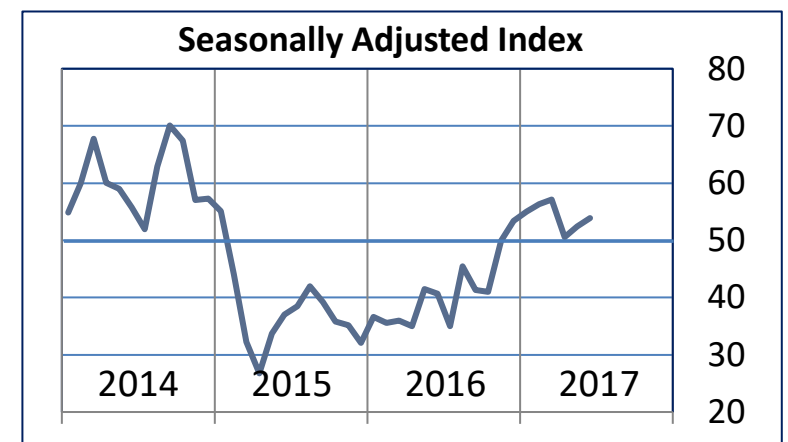
#### Prices Paid

	% Higher	% Same	% Lower	Net	Index	
Jan/17	17	83	0	17	56.6	The prices paid index remained slightly below neutral. Wholesale trade reported higher prices. All other industries registered near neutral.
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	
Jun/17	5	87	8	-2	49.5	



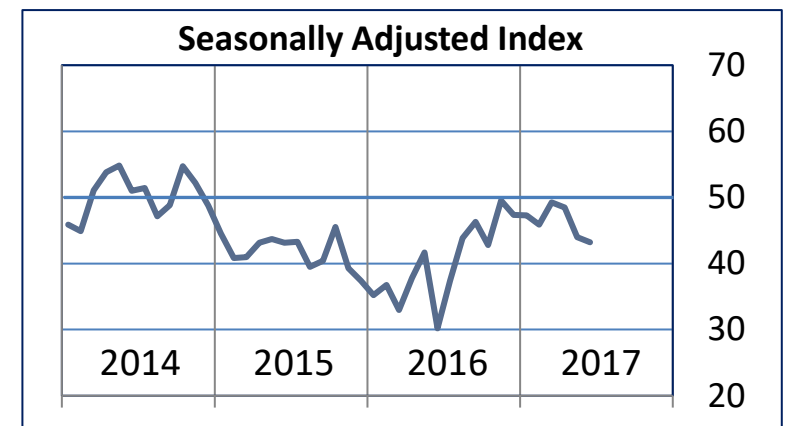
#### Lead Times

	% Higher	% Same	% Lower	Net	Index	
Jan/17	7	93	0	7	55.1	The lead times index rose marginally. Wholesale trade joined manufacturing and transportation reporting much higher lead times, while construction once again noted significantly lower lead times.
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	
Jun/17	12	86	2	10	53.9	



#### Purchased Inventory

	% Higher	% Same	% Lower	Net	Index	
Jan/17	6	89	5	1	47.3	The purchased goods inventory index was relatively flat, continuing to show inventory reductions. EPC firms and durable goods manufacturing reported decreases. All other sectors reported near neutral.
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	
Jun/17	2	86	12	-10	43.2	



#### Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index	
Jan/17	11	87	2	10	50.1	The finished goods inventory index remained just below neutral. All sectors are now reporting these inventories at or slightly below neutral on a month over month basis.
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	
Jun/17	5	86	9	-3	49.6	

