

Sales and Production Growth Moderate

Prices and Lead Times Increase

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(Houston, Texas) – According to Houston area Supply Chain leaders, the Houston area economy will continue to expand near term. The Houston Purchasing Managers Index registered 51.8, the same as its June reading. Six of the indexes underlying indicators are now pointing to expansion.

The Sales/New Orders index fell a modest 1.3 points to 50.6 in July, completed one year pointing to expansion. The Production, Employment, Purchases, and Lead Times indices reported their eighth month of expansion. The Production Index was down 0.9 points to 51.7. The Employment Index registered 50.9 points, down 2.2 from June. The Purchases Index was flat at 55.4 points. The Lead Times Index rose a strong 5.9 points to 59.8. These five indicators are directly correlated with economic activity. The last indicator that is directly correlated with expansion, the purchased inventory index, continues to suggest contraction near term registering 43.8 points this month, down modestly from June.

The Finished Goods Inventory index completed its third month pointing to expansion registering 48.3 points. This indicator is inversely correlated with economic activity. The other indicator that is inversely related to the economy, Prices Paid, returned to indicating potential contraction near term, registering 57.8 points, up 8.3 from June.

On an industry specific basis, manufacturing, transportation, wholesale trade, professional services, and health care continue to expand. Engineering and construction contracted for the fifth month. All other sectors reported minimal month to month change.

INDICES AT A GLANCE

Index	Jul	Jun	Change	Track	Rate	Trend*
Houston PMI	51.8	51.8	0.0	Expanding	Unchanged	10
Sales/New Orders	50.6	51.9	-1.3	Rising	Slower	12
Production	51.7	52.6	-0.9	Rising	Slower	8
Employment	50.9	53.1	-2.2	Rising	Slower	8
Purchases	55.4	55.4	0.0	Rising	Unchanged	8
Prices Paid	57.8	49.5	8.3	Rising	Fr. Falling	1
Lead Times	59.8	53.9	5.9	Rising	Faster	8
Purchased Inventory	43.8	43.2	0.6	Falling	Slower	32
Finished Goods Inventory	48.3	49.6	-1.3	Falling	Faster	3

* Months on current track



Commodities Reported Up in Price: Custom pharmaceuticals; stainless steel vessels; carbon and stainless pipe; contract maintenance labor

Commodities Reported Down in Price: Office supplies; computers and computer components

Commodities Reported in Short Supply: Qualified and experienced personnel for projects; Custom pharmaceuticals

WHAT OUR RESPONDENTS ARE SAYING AND SUMMARIES BY SECTOR

Oil and Gas Exploration, and Key Support Services:

- Overall, respondents in this sector are now reporting modest contraction; production increased while sales continue to fall due to low oil prices; employment and purchases were down again this month

Engineering and Construction:

- Overall, respondents in this area indicated further contraction this month; new orders, employment, and purchases continue to fall

Manufacturing - Durable Goods:

- This sector reported very modest expansion this month; employment was up while all other indicators were unchanged

Manufacturing - Non-Durable Goods:

- Respondents in this area reported limited improvement; lead times rose while employment fell

Professional Services:

- Demand for contract labor in the petrochemical and downstream sectors is strong; upstream demand is low; midstream is slightly up
- Clients are unwilling to deviate from their internal requirements; plenty of candidates available but finding the ones with the precise skills continues to be a challenge
- Respondents in this area reported modest additional strengthening with employment up

Health Care:

- Continue to examine processes for ways to improve outcomes and manage costs
- Great career opportunities in Health Care
- This sector reported strong improvement this month with increasing employment, purchases, and lead times

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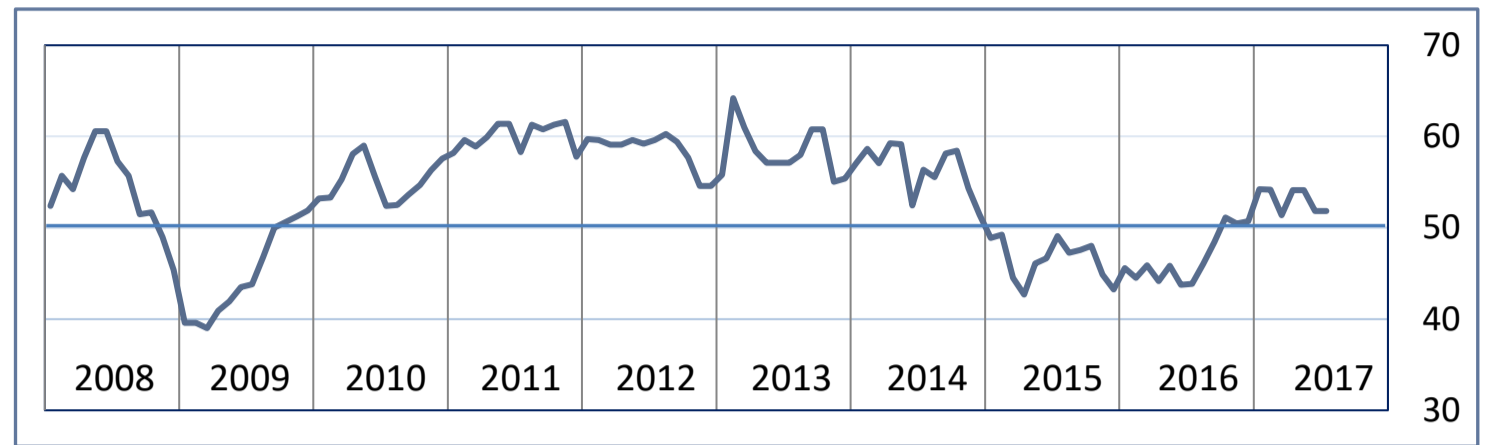


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Houston PMI Trend

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.

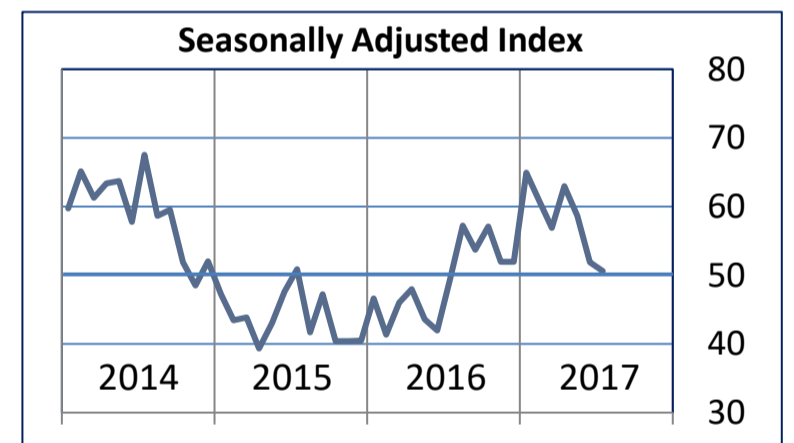


Trend of Underlying Indicators

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.

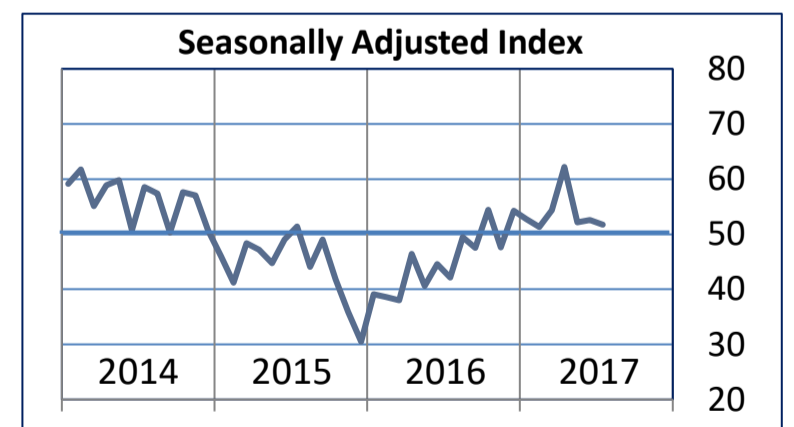
Sales/New Orders

	% Higher	% Same	% Lower	Net	Index	
Feb/17	30	66	4	25	60.8	The sales/new orders index fell close to neutral this month.
Mar/17	20	73	7	13	56.9	Professional services reported continued strength, while oil & gas and construction reported weakness. All other sectors reported near neutral.
Apr/17	29	70	1	28	63.0	
May/17	25	71	4	21	58.7	
Jun/17	13	78	9	4	51.9	
Jul/17	12	78	10	2	50.6	



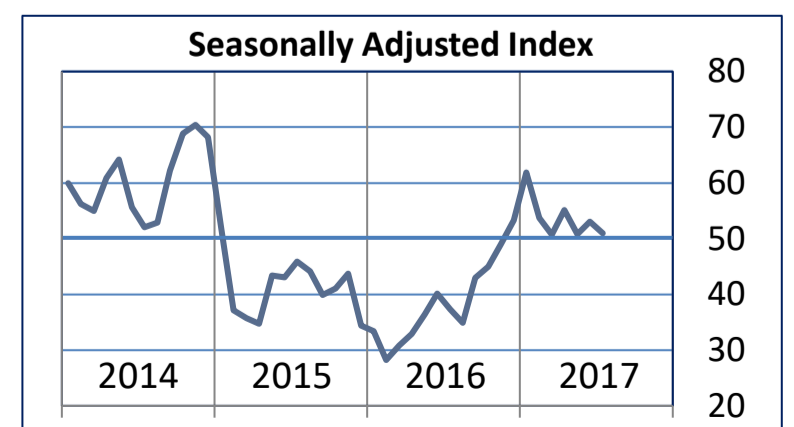
Production

	% Higher	% Same	% Lower	Net	Index	
Feb/17	9	90	1	7	51.3	The production index showed modest expansion. Professional services and oil & gas reported strength, while non-durable goods manufacturing production fell. All other sectors reported production as unchanged.
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	
Jul/17	5	92	3	2	51.7	



Employment

	% Higher	% Same	% Lower	Net	Index	
Feb/17	20	68	12	7	53.7	The employment index stayed above neutral. Non-durable goods manufacturing, wholesale trade, and health care improved, while oil & gas and construction reported additional reductions.
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	
Jul/17	15	72	13	2	50.9	



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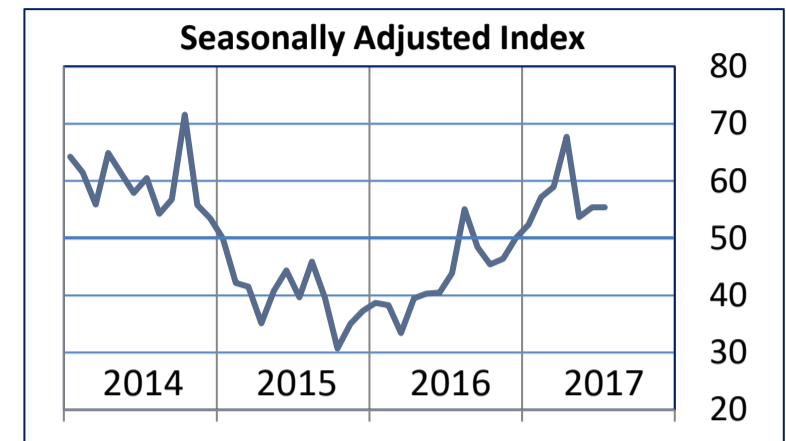
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Purchases

	% Higher	% Same	% Lower	Net	Index
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
Jul/17	16	73	11	5	55.4

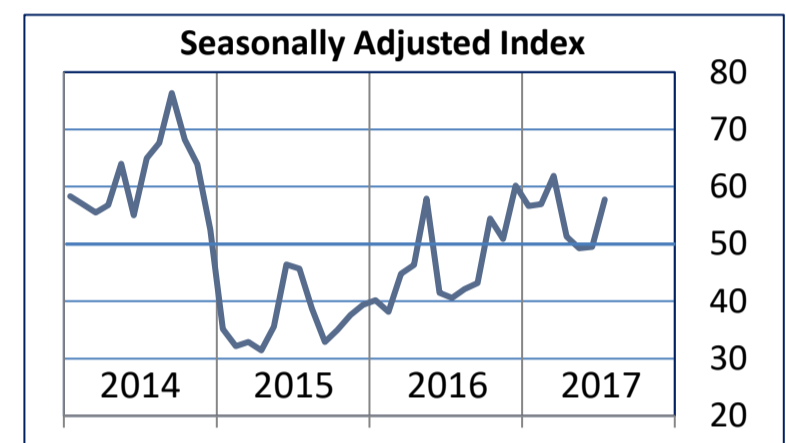
The purchases index continued to indicate growth. Health care continued to strengthen. EPC firms and oil & gas showed further weakness.



Prices Paid

	% Higher	% Same	% Lower	Net	Index
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
Jul/17	12	86	2	10	57.8

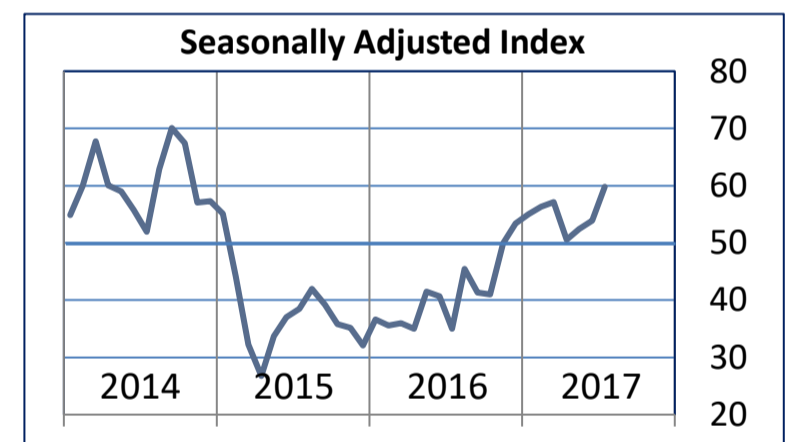
Most industries reported higher prices for the month with health care indicating the highest increase. Professional services reported below neutral. All other industries registered near unchanged.



Lead Times

	% Higher	% Same	% Lower	Net	Index
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
Jul/17	23	75	2	21	59.8

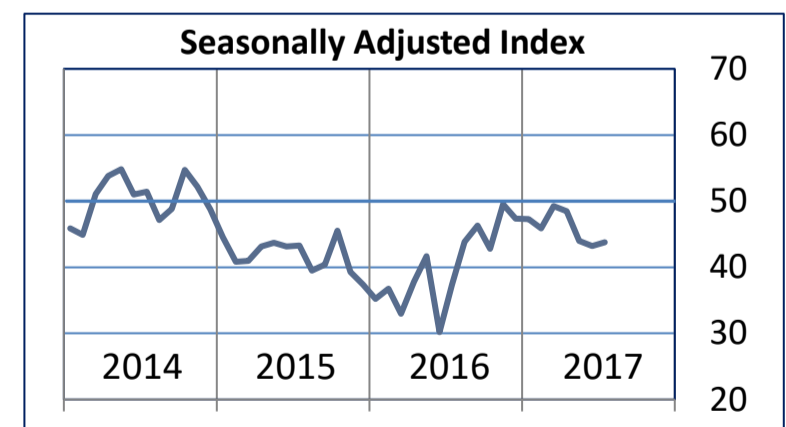
Lead times continue to increase with oil & gas, non-durable goods manufacturing, transportation, and health care reporting the largest number of increases. No sector reported an overall reduction in lead times.



Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
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
Jul/17	0	89	11	-11	43.8

The purchased goods inventory index came in near last month, continuing to show inventory reductions. EPC firms and durable goods manufacturing reported further decreases. All other sectors reported near neutral.



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
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
Jul/17	5	87	8	-3	48.3

The finished goods inventory index remained just below neutral for the third month. All sectors continue to report these inventories at or slightly below the previous month numbers.

