

Production and Employment Improve

Sales Fall at a Slower Pace

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(Houston, Texas) – According to Houston area Supply Chain leaders, the Houston area economy contacted at a slower pace in October, nearly completing its recovery from the impacts of Hurricane Harvey. The Houston Purchasing Managers Index moved up 0.7 points from 48.6 in September to 49.3 in October.

Four underlying indicators are now pointing to near term economic expansion. The Production index moved up 2.5 points to 52.5. The Employment index improved an additional 3.7 points to 55.2. The Purchases index gained 4.8 points to 50.5, returning to indicating expansion after two months below neutral. The Lead Times index fell a modest 1.2 points to 53.3. These four indicators are directly correlated with economic activity.

The remaining four indicators are now pointing to a moderate potential for contraction near term. The Sales/New Orders index rose 0.9 points to 49.0, just below neutral. The Purchased Inventory index fell back below neutral to 48.9, after one month indicating potential expansion. These indicators are also directly correlated with economic activity. The Prices Paid index rose 0.3 points to 59.8, its fourth month above neutral. The Finished Goods Inventory index gained 7.0 points to 56.0, its first time above neutral in six months. These last two indicators are inversely correlated with economic activity.

On an industry specific basis, EPC (Engineering, Procurement, and Construct) joined Health Care in pointing to expansion near term. Oil & Gas continued to show potential contraction. All other sectors are reported near neutral.

INDICES AT A GLANCE

Index	Oct	Sep	Change	Track	Rate	Trend*
Houston PMI	49.3	48.6	0.7	Contracting	Slower	3
Sales/New Orders	49.0	48.1	0.9	Falling	Slower	3
Production	52.5	50.0	2.5	Rising	Faster	2
Employment	55.2	51.5	3.7	Rising	Faster	2
Purchases	50.5	45.7	4.8	Rising	Fr. Falling	1
Prices Paid	59.8	59.5	0.3	Rising	Faster	4
Lead Times	53.3	54.5	-1.2	Rising	Slower	11
Purchased Inventory	48.9	50.3	-1.4	Falling	Fr. Rising	1
Finished Goods Inventory	56.0	49.0	7.0	Rising	Fr. Falling	1

* Months on current track



Commodities Reported Up in Price: Fracking crews; vaccines; pumps and compressors; copper wire and cable; carbon steel and alloy pipe; ready mix concrete; fabricated structural steel; electrical equipment and transformers; ocean freight

Commodities Reported Down in Price: All carbon steel items; computers and computer components

Commodities Reported in Short Supply: Some IV solutions; HDPE pipe; N-Methyl-2-Pyrrolidone (NMP)

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 contraction; production and prices were up; employment, purchases, and inventories were down; lead times were flat

Engineering and Construction:

- Several large oil & gas projects in North America will see final investment decisions over the next 6-9 months

- Overall, respondents in this area reported modest expansion this month; sales/new orders were up; prices paid increased; employment and purchases continued to lag

Manufacturing - Durable Goods:

- Manufacturing for the Energy Industry has recovered somewhat, but we are waiting for a signal to see where it will go in the near future

- This sector reported strong production and sales this month; prices paid increased; lead times were down; all other indicators were flat

Manufacturing - Non-Durable Goods:

- Overall, respondents in this area reported near neutral for all indicators

Wholesale Trade:

- Plants coming back on stream from the Hurricanes in the Gulf of Mexico will help with availability of products and reduce the pricing

- Overall, respondents in this area reported near neutral; sales and purchases were down; lead times and finished goods inventories were up; prices paid increased

Professional Services:

- The people market continues to have a lot of qualified staff available for work

- Overall, respondents in this area reported most indicators as flat with last month

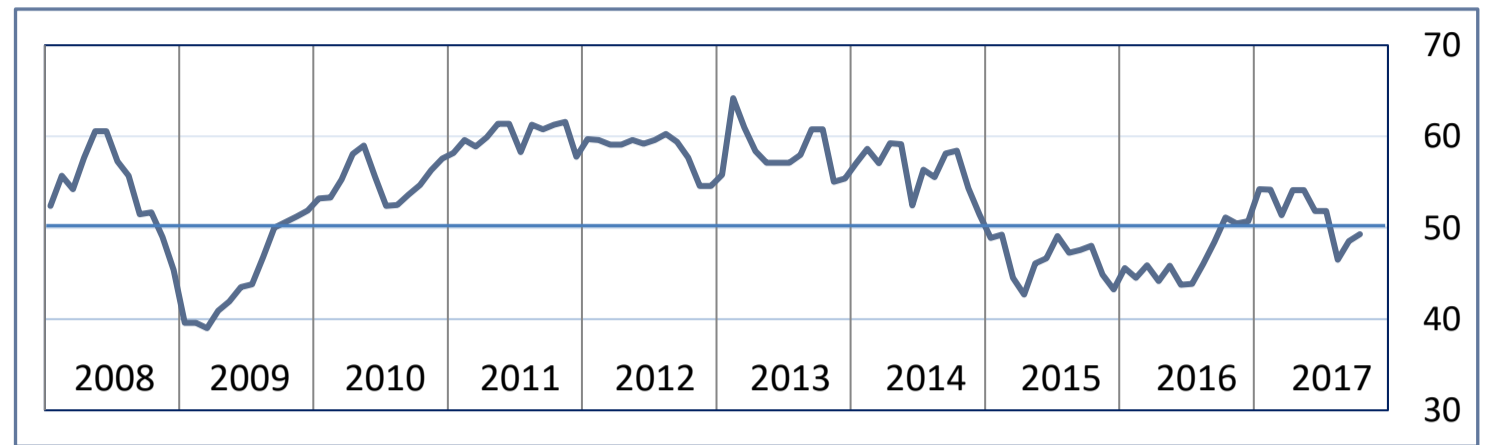
Health Care:

- We continue to increase our level of hiring

- This sector reported additional strengthening this month with employment, purchases, and lead times all increasing; prices paid also increased

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.

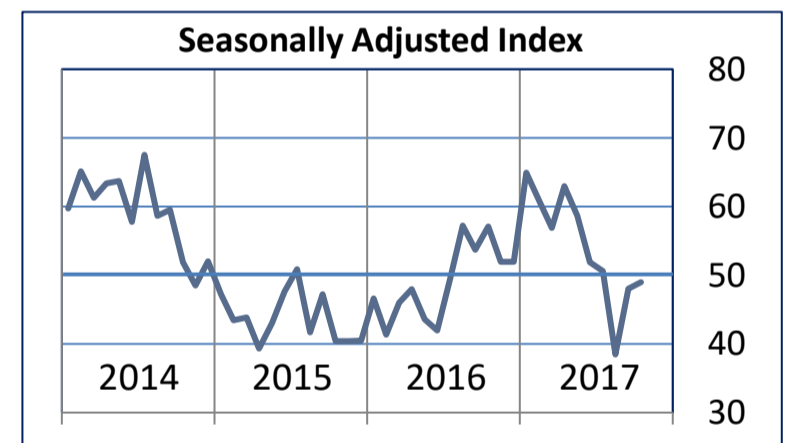


Trend of Underlying Indicators

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.

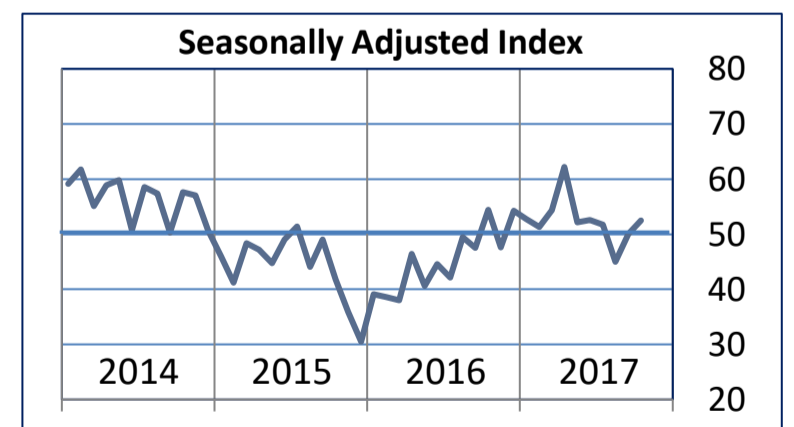
Sales/New Orders

	% Higher	% Same	% Lower	Net	Index	
May/17	25	71	4	21	58.7	The sales/new orders index improved modestly. Durable goods manufacturing continued to show strength. EPC firms indicated increasing sales for the first time this year. All other sectors reported near neutral.
Jun/17	13	78	9	4	51.9	
Jul/17	12	78	10	2	50.6	
Aug/17	2	74	24	-21	38.5	
Sep/17	20	56	24	-4	48.1	
Oct/17	4	89	7	-3	49.0	



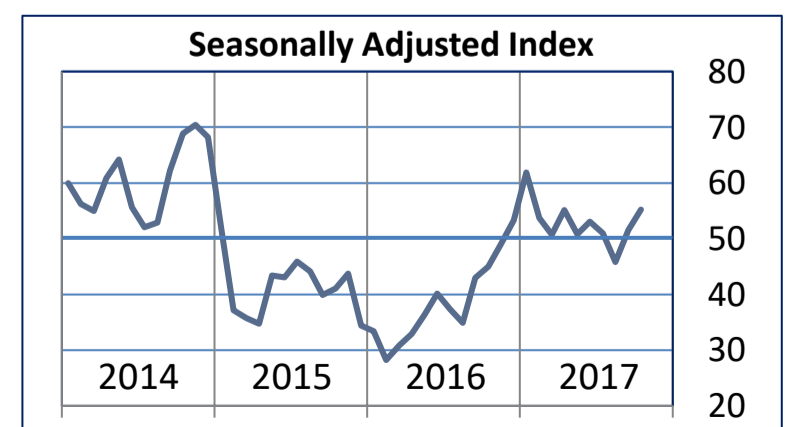
Production

	% Higher	% Same	% Lower	Net	Index	
May/17	6	92	2	4	52.1	The production index improved further this month. Oil & gas and durable goods manufacturing continued to show production increases. Non-durable goods returned to neutral after falling for several months.
Jun/17	5	93	2	4	52.6	
Jul/17	5	92	3	2	51.7	
Aug/17	2	87	11	-8	45.0	
Sep/17	20	61	19	1	50.0	
Oct/17	5	94	1	5	52.5	



Employment

	% Higher	% Same	% Lower	Net	Index	
May/17	14	76	10	4	50.8	The employment index showed further strengthening, with health care and financial services reporting increases. EPC firms and oil & gas services reported staff reductions.
Jun/17	15	81	4	11	53.1	
Jul/17	15	72	13	2	50.9	
Aug/17	12	70	18	-6	45.8	
Sep/17	26	52	22	4	51.5	
Oct/17	17	77	6	11	55.2	



ISM-Houston

Business Report



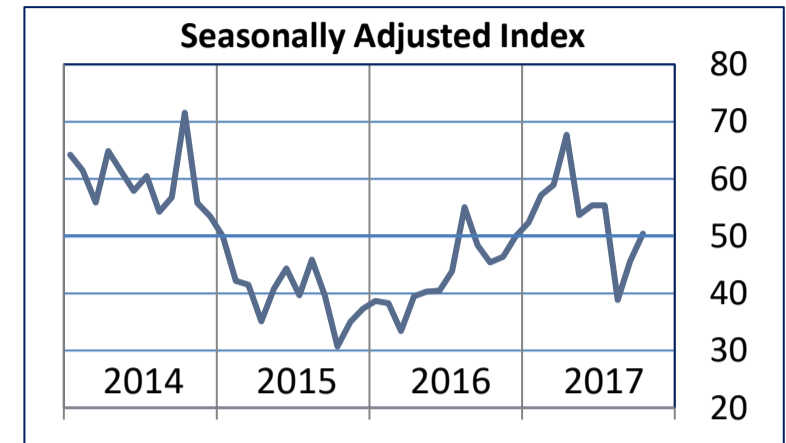
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October 2017

Purchases

	% Higher	% Same	% Lower	Net	Index
May/17	20	65	15	5	53.7
Jun/17	17	75	8	9	55.4
Jul/17	16	73	11	5	55.4
Aug/17	6	68	26	-20	38.8
Sep/17	21	55	24	-3	45.7
Oct/17	8	82	10	-3	50.5

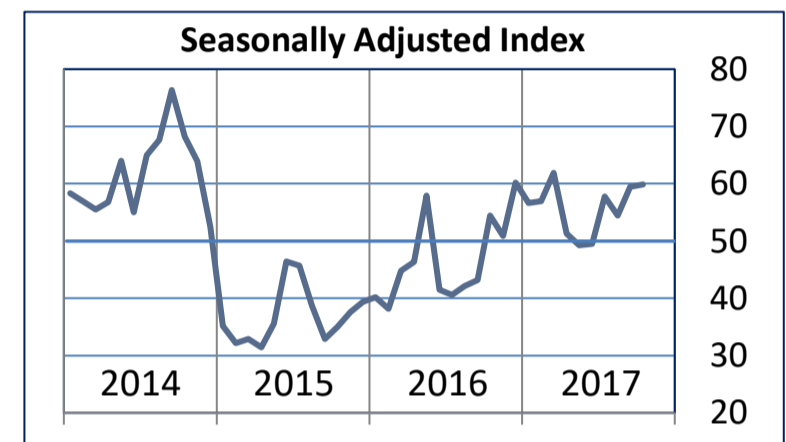
The purchases index rose significantly and is now showing marginal growth. Health care reported the largest increase in purchases. Most other sectors reported near neutral.



Prices Paid

	% Higher	% Same	% Lower	Net	Index
May/17	3	94	3	0	49.2
Jun/17	5	87	8	-2	49.5
Jul/17	12	86	2	10	57.8
Aug/17	9	89	2	7	54.4
Sep/17	32	53	15	17	59.5
Oct/17	19	80	1	19	59.8

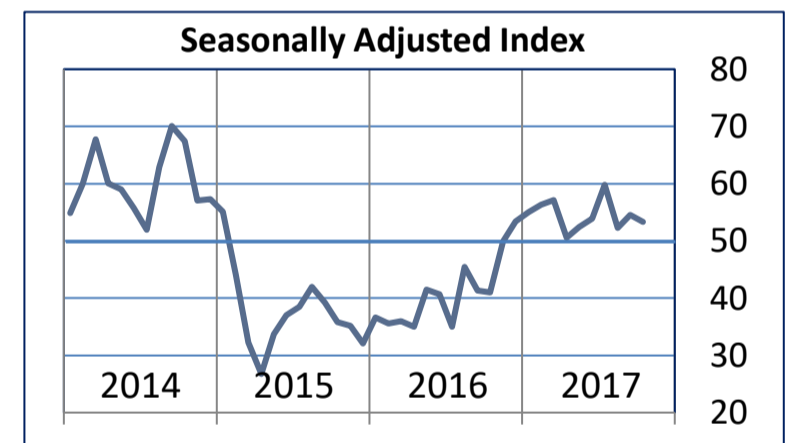
The prices paid index increased further, with construction, oil & gas, manufacturing, and health care reporting prices as up again this month. As with last month, no sector reported prices as falling.



Lead Times

	% Higher	% Same	% Lower	Net	Index
May/17	9	89	2	7	52.5
Jun/17	12	86	2	10	53.9
Jul/17	23	75	2	21	59.8
Aug/17	5	93	2	2	52.3
Sep/17	21	64	15	6	54.5
Oct/17	6	93	1	5	53.3

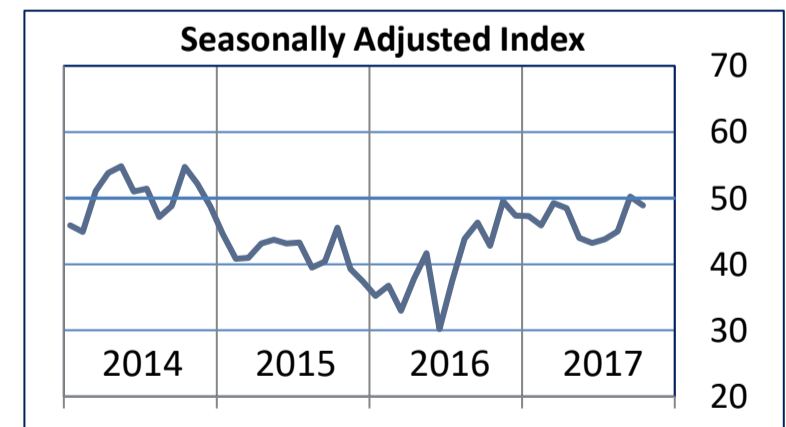
Lead times continued to increase this month. Health care and wholesale trade reported increases, while durable goods manufacturing reported reductions overall. All other sectors reported near neutral.



Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
May/17	1	90	9	-9	44.0
Jun/17	2	86	12	-10	43.2
Jul/17	0	89	11	-11	43.8
Aug/17	2	87	11	-8	44.9
Sep/17	15	64	21	-6	50.3
Oct/17	1	90	9	-8	48.9

The purchased goods inventory index showed moderate contraction during the month, with most sectors reporting near neutral.



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
May/17	5	86	9	-4	48.7
Jun/17	5	86	9	-3	49.6
Jul/17	5	87	8	-3	48.3
Aug/17	2	90	8	-6	47.5
Sep/17	16	62	22	-6	49.0
Oct/17	8	87	5	3	56.0

The finished goods inventory index rose significantly, primarily due to seasonal adjustment factors. October did not experience the normal trend of reduced product inventories.

