

Houston Economy Strengthens

Employment Joins Sales and Production Showing Strong Growth

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(Houston, Texas) – According to Houston area Supply Chain leaders the Houston area economy will expand near term at a faster pace than previously forecast. The Houston Purchasing Managers Index moved up 1.7 points to a robust 54.5.

Six of the eight underlying indicators that make up the PMI are pointing to economic growth. The Employment index joined the Sales/New Orders, Production, and Purchases indices showing significant strength. The Employment index registered 60.6, Sales/New Orders came in at 60.9, Production ended at 57.3, and Purchases registered 66.9. The Lead Times and Purchased Inventories indices ended at or just above neutral registering at 50.5 and 50.0 respectively. These six indicators are directly related to economic activity.

The remaining two indicators, Prices Paid and Finished Goods Inventories, are now forecasting potential contraction near term registering 59.3 and 50.4 respectively. These indices are inversely correlated with economic activity.

On an industry specific basis, EPC (Engineering, Procurement, and Construction), Non-Durable Goods Manufacturing, Mid-Stream Operations, Professional Services, and Health Care are now strongly pointing to expansion. Durable Goods Manufacturing and Wholesale Trade are indicating moderate expansion, While oil prices continue to rise, Oil & Gas continues to show potential contraction.

INDICES AT A GLANCE

Index	Dec	Nov	Change	Track	Rate	Trend*
Houston PMI	54.5	52.8	1.7	Expanding	Faster	2
Sales/New Orders	60.9	58.3	2.6	Rising	Faster	2
Production	57.3	60.6	-3.3	Rising	Slower	4
Employment	60.6	52.1	8.5	Rising	Faster	4
Purchases	66.9	59.5	7.4	Rising	Faster	3
Prices Paid	59.3	59.7	-0.4	Rising	Slower	6
Lead Times	50.5	52.1	-1.6	Rising	Slower	13
Purchased Inventory	50.0	46.4	3.6	Neutral	Fr. Falling	1
Finished Goods Inventory	50.4	45.0	5.4	Rising	Fr. Falling	1

* Months on current track



Commodities Reported Up in Price: Pharmaceuticals; electrical equipment, cable, and motors; technical, complex, highly engineered equipment; professional services

Commodities Reported Down in Price: Engineering and construction labor; office supplies; computers; oil country tubular goods; some clinical and research supplies

Commodities Reported in Short Supply: Custom medical products manufactured in Puerto Rico; IV fluids

WHAT OUR RESPONDENTS ARE SAYING AND SUMMARIES BY SECTOR

Oil and Gas Exploration, and Key Support Services:

- Oil is going up; projects are being activated
- Production was impacted by unscheduled maintenance on the Forties Pipeline System
- Overall, respondents in this sector reported moderate growth; the employment and inventory indices showed contraction; the purchases and prices paid indices rose

Engineering and Construction:

- Overall, respondents in this area reported further expansion; the sales/new orders index showed significant strength for the third month

Manufacturing - Durable Goods:

- This sector reported modest improvement again this month

Manufacturing - Non-Durable Goods:

- Production and impacted raw material supply along US Gulf Coast still recovering
- December is unusually robust
- Overall, respondents in this area reported further improvement; the production, sales, and purchases indices were up; the purchased and finished goods inventory indices were down

Professional Services:

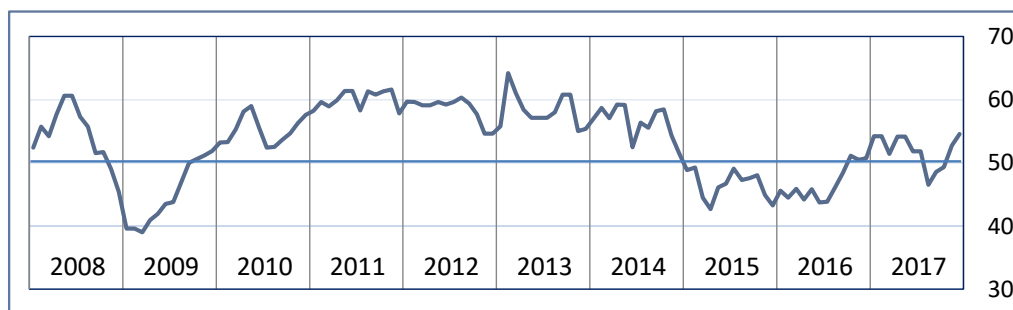
- Activity level in professional services sector was up in December at O&G companies, particularly within the oilfield services sub-sector
- Demand for craft labor in downstream and petrochemical sub-sectors remains strong
- People business in Houston still very tight with large labor pool and limited opportunities
- Clients have an optimistic voice about hiring either contractors or perm placements in the near future; the next 30 days will validate this voice
- Overall, respondents in this area reported the sales/new orders index as up again this month

Health Care:

- Job opportunities for qualified candidates are available in HealthCare
- This sector reported relatively robust expansion this 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.

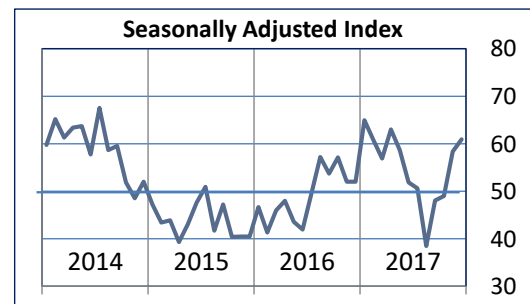


Trend of Underlying Indicators

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.

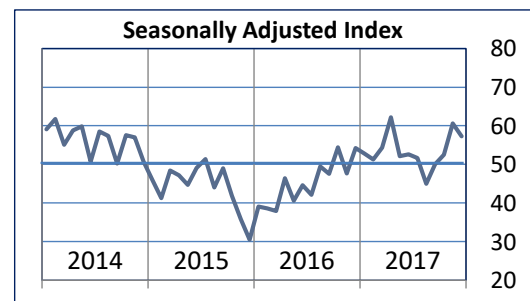
Sales/New Orders

	% Higher	% Same	% Lower	Net	Index	
Jul/17	12	78	10	2	50.6	The sales/new orders index rose marginally with EPC, non-durable goods manufacturing, mid-stream, and professional services firms reporting additional strength. All other sectors reported near neutral.
Aug/17	2	74	24	-21	38.5	
Sep/17	20	56	24	-4	48.1	
Oct/17	4	89	7	-3	49.0	
Nov/17	21	70	9	12	58.3	
Dec/17	24	69	7	18	60.9	



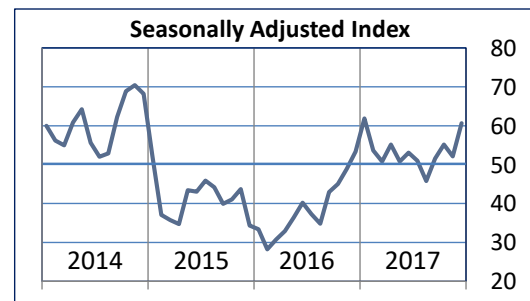
Production

	% Higher	% Same	% Lower	Net	Index	
Jul/17	5	92	3	2	51.7	The production index remained strong. Non-durable goods manufacturing and mid-stream operations showed additional gains. All other sectors reported as unchanged overall.
Aug/17	2	87	11	-8	45.0	
Sep/17	20	61	19	1	50.0	
Oct/17	5	94	1	5	52.5	
Nov/17	21	78	1	20	60.6	
Dec/17	17	79	4	13	57.3	



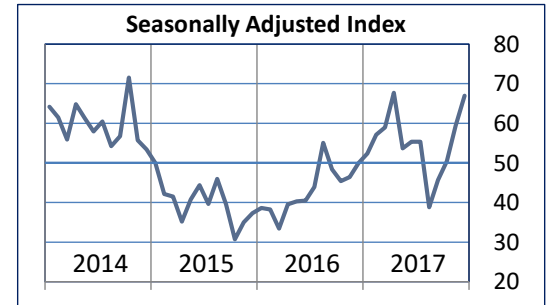
Employment

	% Higher	% Same	% Lower	Net	Index	
Jul/17	15	72	13	2	50.9	The employment index rose significantly with mid-stream, wholesale trade, and health care reporting strong improvement. Most other sectors reported as unchanged.
Aug/17	12	70	18	-6	45.8	
Sep/17	26	52	22	4	51.5	
Oct/17	17	77	6	11	55.2	
Nov/17	19	63	18	1	52.1	
Dec/17	23	69	8	15	60.6	



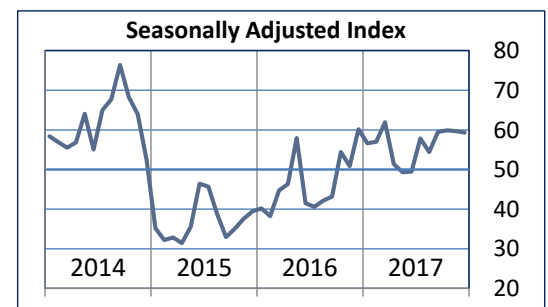
Purchases

	% Higher	% Same	% Lower	Net	Index	
Jul/17	16	73	11	5	55.4	The purchases index rose further with oil & gas, non-durable goods, mid-stream, wholesale trade, and health care reporting large increases. EPC firms reported purchases as lower. All other industries reported near neutral.
Aug/17	6	68	26	-20	38.8	
Sep/17	21	55	24	-3	45.7	
Oct/17	8	82	10	-3	50.5	
Nov/17	28	61	11	17	59.5	
Dec/17	32	64	4	27	66.9	



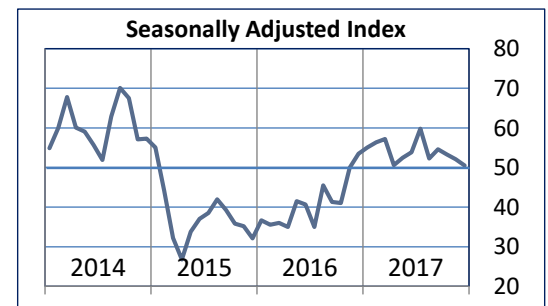
Prices Paid

	% Higher	% Same	% Lower	Net	Index	
Jul/17	12	86	2	10	57.8	The prices paid index showed continued pricing strength. Oil & gas, EPC, non-durable goods, and wholesale trade reported the highest number of increases. All other sectors came in flat month over month.
Aug/17	9	89	2	7	54.4	
Sep/17	32	53	15	17	59.5	
Oct/17	19	80	1	19	59.8	
Nov/17	19	80	1	18	59.7	
Dec/17	18	81	1	18	59.3	



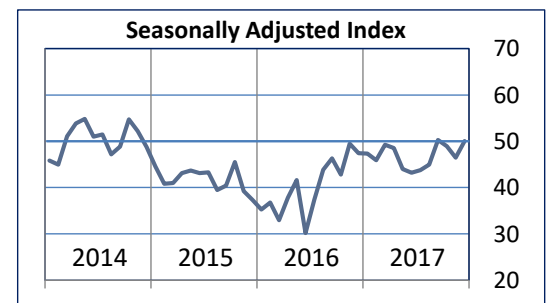
Lead Times

	% Higher	% Same	% Lower	Net	Index	
Jul/17	23	75	2	21	59.8	The lead times index fell to near neutral with all sectors reporting flat month over month.
Aug/17	5	93	2	2	52.3	
Sep/17	21	64	15	6	54.5	
Oct/17	6	93	1	5	53.3	
Nov/17	4	95	1	3	52.1	
Dec/17	1	98	1	0	50.5	



Purchased Inventory

	% Higher	% Same	% Lower	Net	Index	
Jul/17	0	89	11	-11	43.8	The purchased goods inventory index returned to neutral this month, aided by seasonal adjustment. Health care saw purchased inventory rise. Non-durable goods manufacturing reported falling inventories.
Aug/17	2	87	11	-8	44.9	
Sep/17	15	64	21	-6	50.3	
Oct/17	1	90	9	-8	48.9	
Nov/17	4	81	15	-11	46.4	
Dec/17	3	89	8	-5	50.0	



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index	
Jul/17	5	87	8	-3	48.3	The finished goods inventory index rose to near neutral with wholesale trade showing the greatest increase. Non-durable goods manufacturing reported falling finished inventories.
Aug/17	2	90	8	-6	47.5	
Sep/17	16	62	22	-6	49.0	
Oct/17	8	87	5	3	56.0	
Nov/17	2	87	11	-9	45.0	
Dec/17	10	83	7	4	50.4	

