

Houston Economy Continues to Improve Sales, Employment, and Lead Times Show Strong Growth

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(Houston, Texas) – According to greater Houston area supply chain executives, economic activity in the region expanded for the third consecutive month in January. Additionally, ISM-Houston's forecast indicates that the economy should continue to grow over the 3-4 month forecast horizon.

The January Houston Purchasing Managers Index registered 54.8, a modest increase from 54.5 last month. The three underlying indicators that have the strongest direct correlation with the Houston economy over a 3-4 month forecast horizon (Sales/New Orders, Employment, and Lead Times) all showed strong performance. The Sales/New Orders Index registered 60.1, a modest decrease of 0.8 points from its seasonally adjusted reading of 60.9 in December. The Employment Index registered 57.2, a 3.4 point drop from its seasonally adjusted reading of 60.6 in December. The Lead Times Index registered 57.5, a gain of 7.0 points from its seasonally adjusted reading of 50.5 in December, giving 14 consecutive months of slowing delivery times for purchased products. The underlying indicator that has the strongest inverse correlation with the Houston economy over the 3-4 month forecast horizon, Prices Paid, was unchanged from December, registering 59.3 in January, indicating strong economic activity at present. However, a Prices Paid Index at this level may constrain economic activity 3-4 months out.

On an industry specific basis, Transportation, Wholesale Trade, Non-durable Goods Manufacturing, EPC (Engineering, Procurement, and Construction), Health Care, and Professional Services are now strongly pointing to expansion. Durable Goods Manufacturing is indicating moderate expansion. Oil & Gas continues to show potential contraction.

INDICES AT A GLANCE

Index	Jan	Dec	Change	Track	Rate	Trend*
Houston PMI	54.8	54.5	0.3	Expanding	Faster	3
Sales/New Orders	60.1	60.9	-0.8	Rising	Slower	3
Production	53.4	57.3	-3.9	Rising	Slower	5
Employment	57.2	60.6	-3.4	Rising	Slower	5
Purchases	59.6	66.9	-7.3	Rising	Slower	4
Prices Paid	59.3	59.3	0.0	Rising	Unchanged	7
Lead Times	57.5	50.5	7.0	Rising	Faster	14
Purchased Inventory	49.8	50.0	-0.2	Falling	Fr. Neutral	1
Finished Goods Inventory	49.6	50.4	-0.8	Falling	Fr. Rising	1

* Months on current track



Commodities Reported Up in Price: Custom pharmaceuticals and vaccines; carbon and stainless steel products, fabricated structural steel, carbon steel and alloy pipe; ocean freight

Commodities Reported Down in Price: Heat exchangers; computers and components

Commodities Reported in Short Supply: IV bags, IV solutions, custom medical tubing; cyclohexane, methanol, EO and PO derivatives, and methyl isobutyl ketone

WHAT OUR RESPONDENTS ARE SAYING AND SUMMARIES BY SECTOR

Oil and Gas Exploration, and Key Support Services:

- We expected January product sales to oil and gas to be strong, but had an average month
- Overall, respondents in this sector reported modest contraction; the employment and purchases indices fell; the production, prices paid, and lead times indices were up

Engineering and Construction:

- Overall, respondents in this area reported further expansion; the new orders and employment indices indicated strong growth; purchases were down

Manufacturing - Durable Goods:

- This sector reported modest improvement again this month with sales, production, and purchases increasing; prices paid were higher

Manufacturing - Non-Durable Goods:

- A major plant turnaround is causing a temporary increase in employment
- Respondents in this area reported additional improvement; the production, sales, employment, and purchases indices were up; the finished goods inventory index was down

Transportation:

- Overall, respondents in this area reported significant strength; the sales, employment, and purchases indices all indicated strong growth

Wholesale Trade:

- Respondents in this area also reported significant strength; the sales, purchases, and lead times indices indicated expansion

Professional Services:

- We have seen an uptick in indirect and direct hiring; significantly more optimistic now
- Overall, respondents in this area reported continued improvement with the sales and employment indices reported as very strong

Health Care:

- This sector reported expansion again this month

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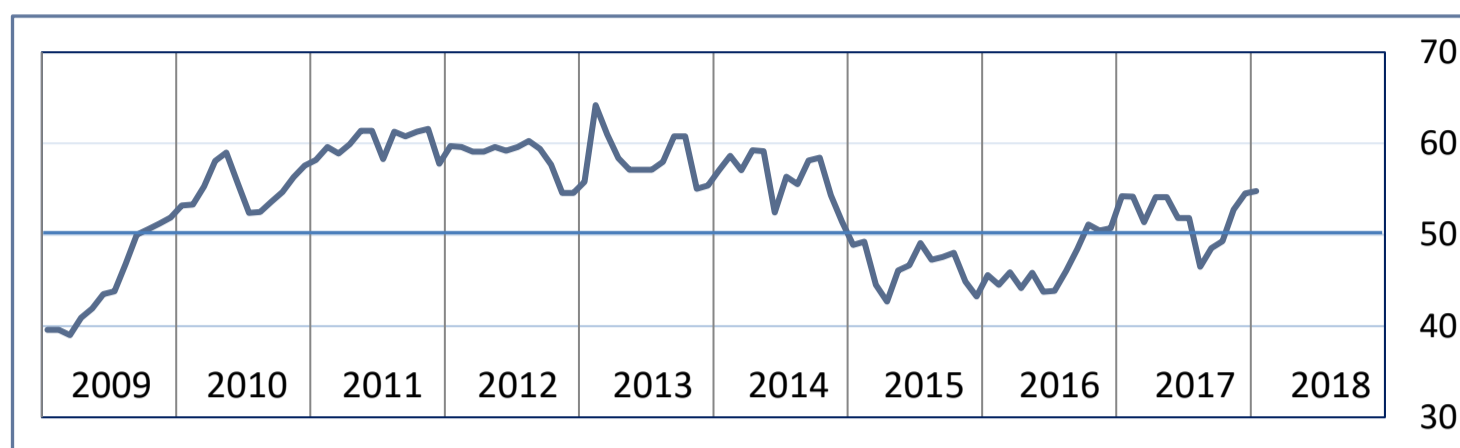


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Houston PMI Trend

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.

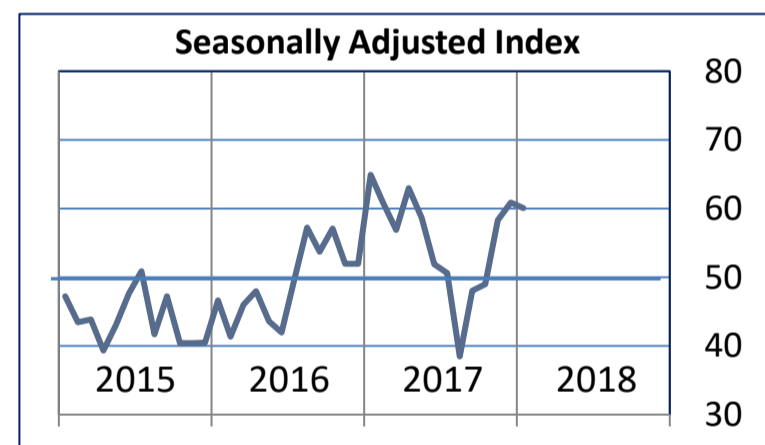


Trend of Underlying Indicators

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 X13 ARIMA forecast using the previous 15 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.

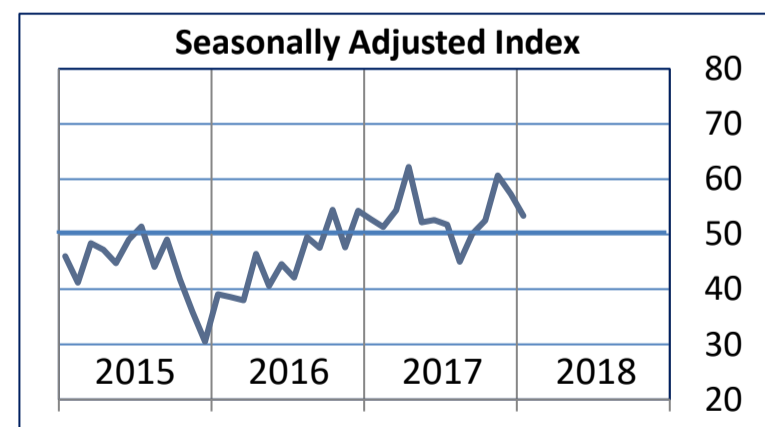
Sales/New Orders

	% Higher	% Same	% Lower	Net	Index	
Aug/17	2	74	24	-21	38.5	The sales/new orders index has forecast significant expansion for three months. EPC, wholesale trade, transportation, manufacturing, and professional services firms all reported strong growth in this index.
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	
Jan/18	35	56	9	27	60.1	



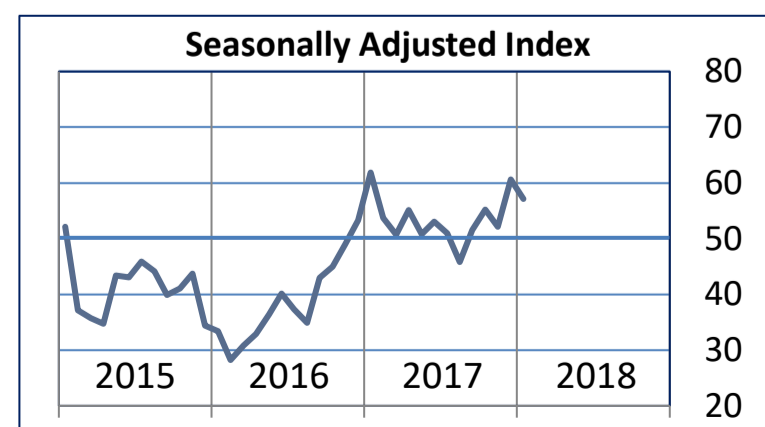
Production

	% Higher	% Same	% Lower	Net	Index	
Aug/17	2	87	11	-8	45.0	The production index, while falling almost 4 points, continued to point to good growth. Oil & gas and manufacturing showed significant strength. All other sectors reported near neutral.
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	
Jan/18	7	92	1	7	53.4	



Employment

	% Higher	% Same	% Lower	Net	Index	
Aug/17	12	70	18	-6	45.8	The employment index continues to further near term expansion. EPC firms, non-durable goods manufacturing, transportation, health care, and professional services reported significant growth.
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	
Jan/18	29	62	9	20	57.2	



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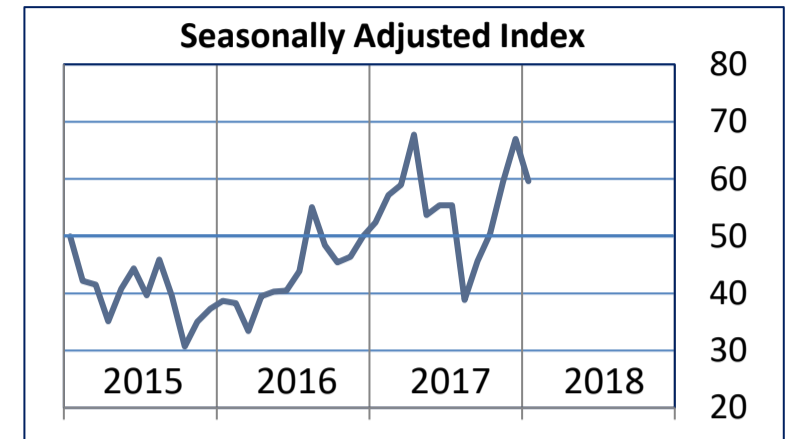
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Purchases

	% Higher	% Same	% Lower	Net	Index
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
Jan/18	30	63	7	23	59.6

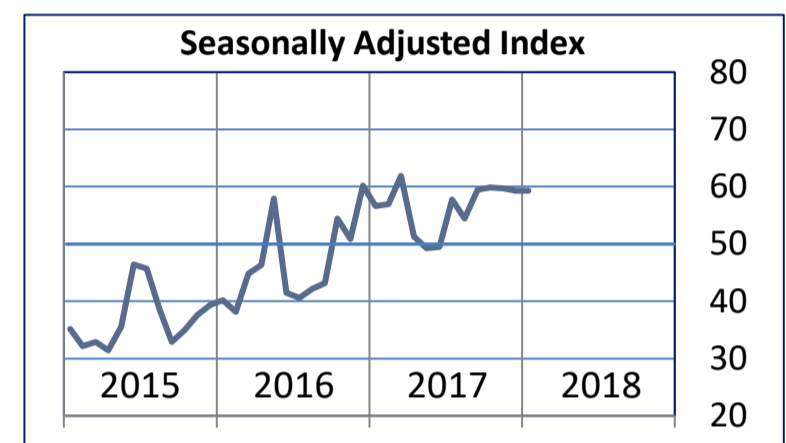
The purchases index continues to show strong growth with health care, manufacturing, wholesale trade, and transportation reporting higher levels of purchasing. Oil & gas and EPC reported purchases as lower.



Prices Paid

	% Higher	% Same	% Lower	Net	Index
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
Jan/18	20	79	1	19	59.3

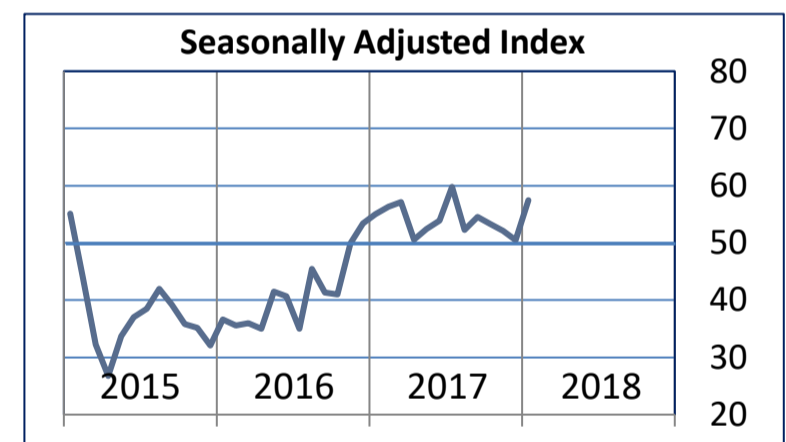
The prices paid index showed continued strength. Oil & gas, EPC, non-durable goods, health care, and wholesale trade reported a high number of price increases. Other sectors were flat month over month.



Lead Times

	% Higher	% Same	% Lower	Net	Index
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
Jan/18	16	83	1	16	57.5

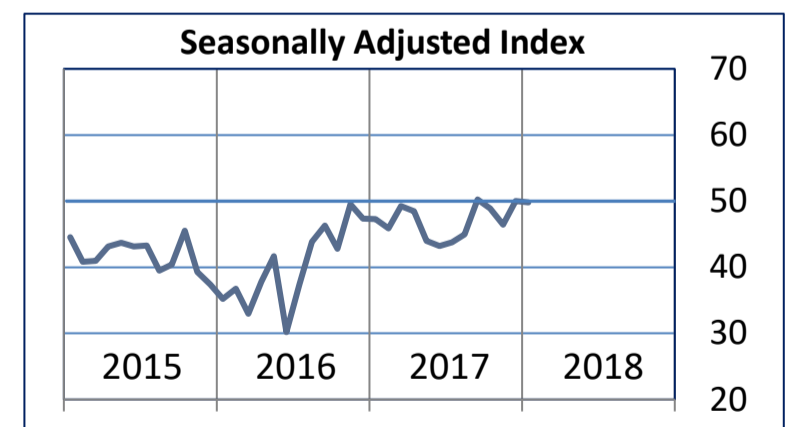
The lead times index rebounded significantly, registering its highest level since last summer. Oil & gas, wholesale trade, and health care reported the greatest number of increases.



Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
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
Jan/18	8	88	4	4	49.8

The purchased goods inventory index continues to run very close to neutral. Only wholesale trade and health care reported increases in this measure.



Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
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
Jan/18	6	85	9	-2	49.6

The finished goods inventory index also stayed close to neutral. Only wholesale trade showed an overall increase. Non-durable goods manufacturing reported further reductions in these inventories.

