

## Slower Expansion Anticipated Over the Next Quarter

### Sales and Employment Growth Continue at a Strong Pace

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(Houston, Texas) – According to Houston supply chain executives, economic activity in the region expanded in June for the eighth consecutive month. The near-term outlook points to continued growth.

The June Houston Purchasing Managers Index registered 55.5, down 3.3 points from 58.8 last month. The performance of the four underlying indicators that have the strongest correlation with current economic activity (Employment, Lead Times, Production, and Purchases), while continuing to point to expansion, all fell during the month. The Employment Index registered a seasonally adjusted 55.3, down 6.4 points from May. The Lead Times Index fell 7.5 points to 54.5. The Production Index registered 51.7, down 5.1 points. The Purchases Index registered 52.8, down 6.6 points.

The three-month forecast for the Houston PMI registered 53.2, down 3.6 points from its May reading of 56.8. The primary drivers for this deterioration were lower production, employment, and purchased inventories, which are all directly correlated with economic activity at all forecast horizons. The continued high sales/new orders index prevented the forecast PMI from falling further. High prices paid continue to have a negative impact on this forecast as prices have an inverse correlation with economic activity at the 3-4 month horizon.

On an industry specific basis, Health Care, Professional Services, Wholesale Trade, and Mid-stream Operations continue to expand. EPC and durable goods manufacturing activities weakened. All other sectors are near neutral. From a three-month forecast standpoint, Health Care, Mid-stream Operations, Wholesale Trade, and Professional Services are expected to show continued healthy growth. EPC firms show further weakness.

#### INDICES AT A GLANCE

Index	Jun	May	Change	Track	Rate	Trend*
Houston PMI	55.5	58.8	-3.3	Expanding	Slower	8
Sales/New Orders	61.6	61.0	0.6	Rising	Faster	8
Production	51.7	56.8	-5.1	Rising	Slower	10
Employment	55.3	61.7	-6.4	Rising	Slower	10
Purchases	52.8	59.4	-6.6	Rising	Slower	9
Prices Paid	61.5	63.1	-1.6	Rising	Slower	12
Lead Times	54.5	62.0	-7.5	Rising	Slower	19
Purchased Inventory	46.7	48.2	-1.5	Falling	Faster	2
Finished Goods Inventory	49.3	49.6	-0.3	Falling	Faster	3

\* Months on current track



**Commodities Reported Up in Price:** Carbon, stainless, and higher alloy steel products; heat exchangers; crude oil and motor fuels; professional and craft labor; software

**Commodities Reported Down in Price:** Aluminum products

**Commodities Reported in Short Supply:** Skilled construction and qualified craft labor; general labor in oilfield services; commercial drivers; fleet vehicles; operating room supplies

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

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

- Even though oil is up, we are still concentrating on cutting costs as much as possible
- Overall, respondents in this sector reported all indices near neutral again this month

##### Engineering and Construction:

- Capital projects still slow but seeing trend toward more activity in coming months
- There is still a high uncertainty regarding the tariffs in the industry
- Overall, respondents in this sector reported stable sales/new orders, employment, and lead times. Purchases and purchased goods inventory levels were down. Prices were higher overall.

##### Manufacturing - Durable Goods:

- Month of June was average, sales look promising for later this year
- This sector reported growth again this month with sales, production, prices paid, and lead times up; employment was down; inventories were stable overall

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

- Respondents in this area reported increased sales, employment, prices paid, and lead times; production and inventories were reported as lower

##### Mid-Stream Operations:

- Overall, respondents in this area reported continued strength; sales, production, purchases, prices, and lead times increased again; employment remained stable

##### Wholesale Trade:

- Overall, respondents indicated sales, employment, purchases, and prices as increasing; all other indices were near neutral

##### Professional Services:

- Hiring in all sectors of the energy industry continues to increase, particularly in oilfield services
- Seeing some positive activity in terms of investment in offshore drilling projects
- Overall, respondents in this area reported further improvement in sales and employment; purchases and prices were noted as rising

##### Health Care:

- Where possible, we have begun to compound medications in our pharmacy to reduce costs
- This sector reported continued growth; employment, purchases, prices and lead times were all up

# ISM-Houston

## Business Report

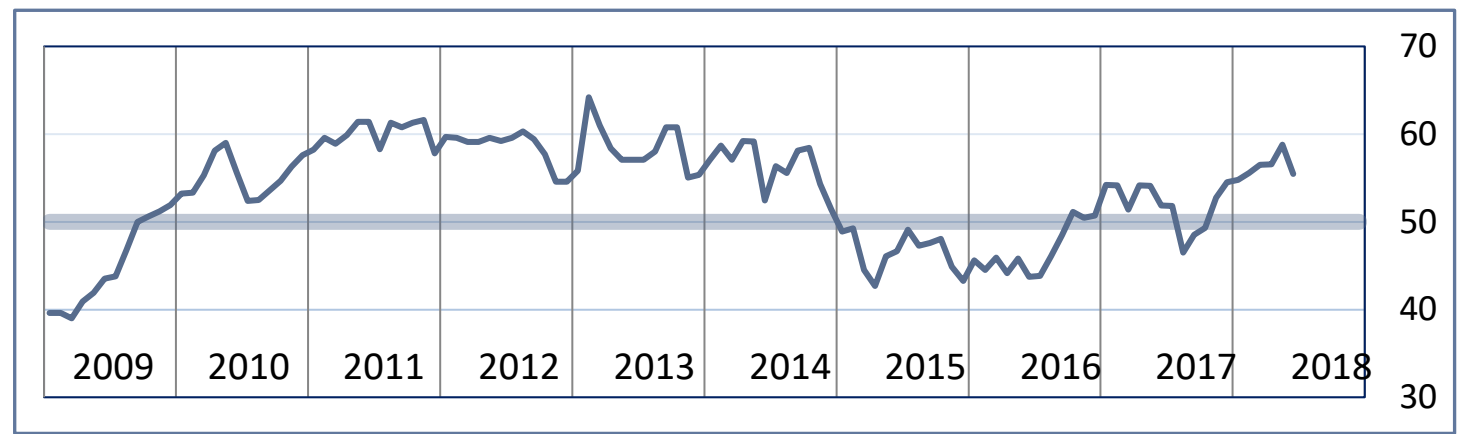


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### June 2018

#### Houston PMI Trend

The Houston PMI provides a measure of current economic activity in the greater Houston area and a forecast of likely shifts in activity over a four month forecast horizon. Readings over 50 generally indicate expansion; readings below 50 show contraction.

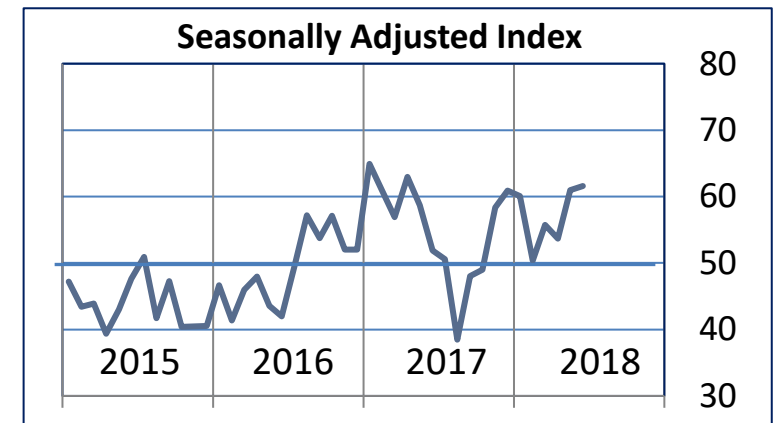


#### Trend of Underlying Indicators

The Houston PMI is based on diffusion indices for eight underlying indicators as shown below. The net value of each indicator 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. Seasonally adjusted values above 50 for the Sales/New Orders, Production, Employment, Purchases, Lead Times and Purchased Inventory indicators generally point towards expansion over the next three to four months and values below 50 signal contraction. The Prices Paid and Finished Goods Inventory indicators are inversely correlated with forecast economic activity, meaning that values below 50 point to expansion and values above point to contraction.

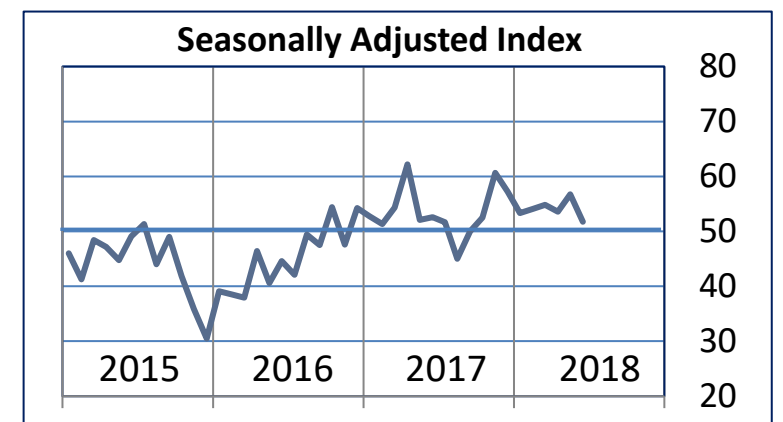
#### Sales/New Orders

	% Higher	% Same	% Lower	Net	Index	
Jan/18	35	56	9	26	60.1	The sales/new orders index rose marginally this month.
Feb/18	15	73	12	3	50.3	Manufacturing, mid-stream operations, wholesale trade, professional services, and health care reported additional sales increases.
Mar/18	19	75	6	13	55.7	
Apr/18	18	78	4	14	53.7	
May/18	29	68	3	26	61.0	
Jun/18	20	79	1	19	61.6	



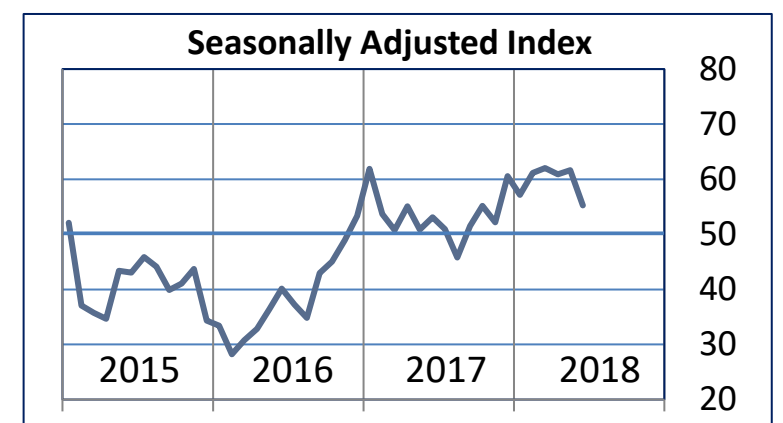
#### Production

	% Higher	% Same	% Lower	Net	Index	
Jan/18	7	92	1	6	53.4	The production index fell, but remained above neutral. Mid-stream operations and durable goods manufacturing improved further. Non-durable goods manufacturing reported lower overall.
Feb/18	9	88	3	6	54.1	
Mar/18	8	91	1	7	54.8	
Apr/18	16	81	3	13	53.6	
May/18	14	83	3	11	56.8	
Jun/18	8	88	4	4	51.7	



#### Employment

	% Higher	% Same	% Lower	Net	Index	
Jan/18	29	62	9	20	57.2	The employment index also fell this month while remaining above neutral. Health care, professional services, wholesale trade, and non-durable goods manufacturing all reported higher employment.
Feb/18	20	78	2	18	61.1	
Mar/18	22	76	2	20	62.0	
Apr/18	29	67	4	25	60.9	
May/18	25	73	2	23	61.7	
Jun/18	19	77	4	15	55.3	



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## Business Report



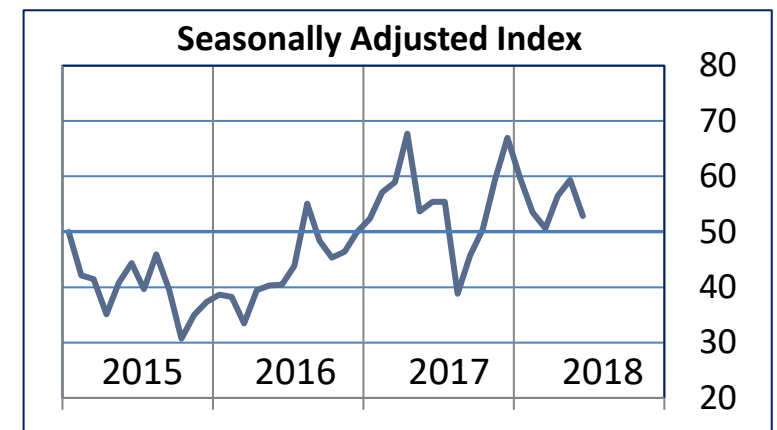
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### June 2018

#### Purchases

	% Higher	% Same	% Lower	Net	Index
Jan/18	30	63	7	23	59.6
Feb/18	18	74	8	10	53.5
Mar/18	18	70	12	6	50.6
Apr/18	22	69	9	13	56.5
May/18	20	75	5	15	59.4
Jun/18	14	78	8	6	52.8

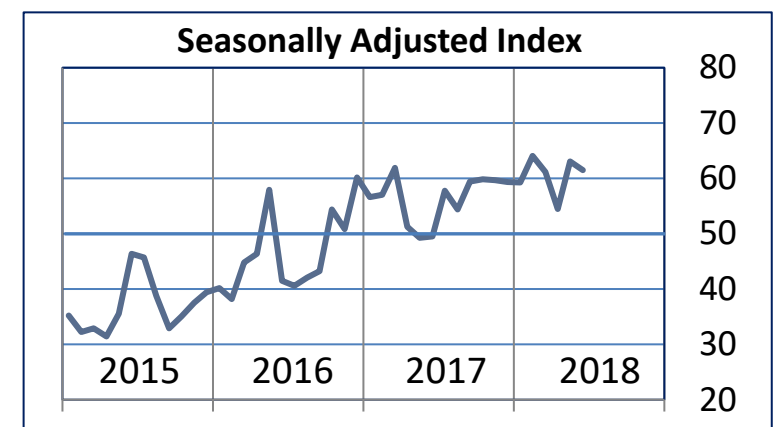
The purchases index fell this month. Mid-stream operations and health care reported greater purchases. EPC firms indicated purchases were lower than the previous month.



#### Prices Paid

	% Higher	% Same	% Lower	Net	Index
Jan/18	20	79	1	19	59.3
Feb/18	24	75	1	23	64.1
Mar/18	24	75	1	23	61.2
Apr/18	21	68	11	10	54.5
May/18	27	69	4	23	63.1
Jun/18	17	82	1	16	61.5

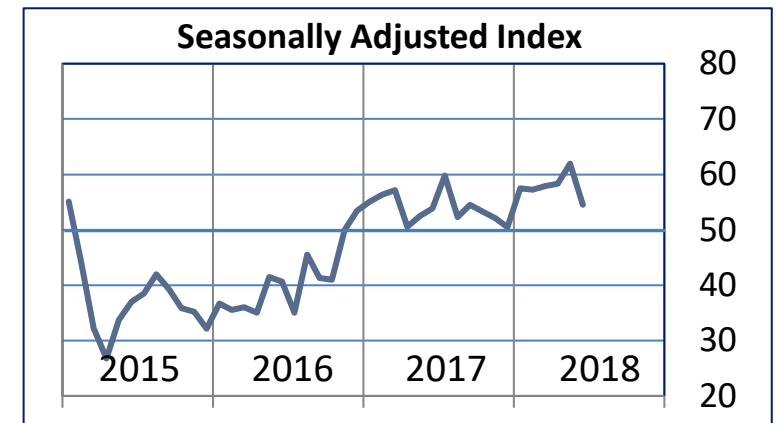
The prices paid index stayed high this month. Construction, manufacturing, mid-stream operations, wholesale trade, and health care all reported higher prices. No industry reported prices as lower overall.



#### Lead Times

	% Higher	% Same	% Lower	Net	Index
Jan/18	16	83	1	15	57.5
Feb/18	17	82	1	16	57.2
Mar/18	18	81	1	17	57.9
Apr/18	17	80	3	14	58.3
May/18	24	75	1	23	62.0
Jun/18	11	88	1	10	54.5

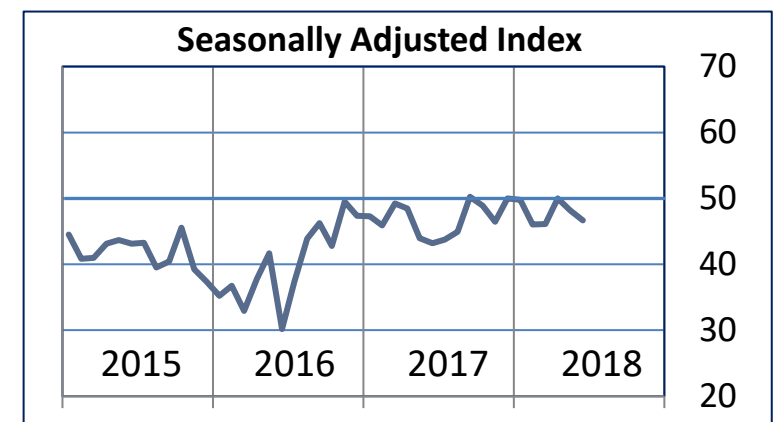
The lead times index also softened, but still showed that delivery times continue to rise. Manufacturing, mid-stream operations, wholesale trade, and health care all reported increases in this index.



#### Purchased Inventory

	% Higher	% Same	% Lower	Net	Index
Jan/18	8	88	4	4	49.8
Feb/18	2	90	8	-6	46.1
Mar/18	1	91	8	-7	46.1
Apr/18	6	89	5	1	50.0
May/18	4	92	4	0	48.2
Jun/18	2	89	9	-7	46.7

The purchased goods inventory index fell marginally in June. Non-durable goods manufacturing and EPC firms reported sizable reductions. All other sectors reported near neutral overall.



#### Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index
Jan/18	6	85	9	-3	49.6
Feb/18	11	86	3	8	55.2
Mar/18	9	86	5	4	52.5
Apr/18	2	93	5	-3	48.0
May/18	7	86	7	0	49.6
Jun/18	4	91	5	-1	49.3

The finished goods inventory index continued below neutral this month. Non-durable goods manufacturing reported decreases while all other sectors reported this index near neutral.

