

## Multi-Sector Growth Continues Oil & Gas Shows Improvement

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

The July Houston Purchasing Managers Index registered 62.0, up 6.5 points from 55.5 last month. The performance of the four underlying indicators that have the strongest correlation with current economic activity (Employment, Lead Times, Production, and Purchases) all rose during the month. The Employment Index registered a seasonally adjusted 62.9, up 7.6 points from June. The Lead Times Index rose 5.9 points to 60.4. The Production Index registered 54.6, up 2.9 points. The Purchases Index registered 57.6, up 4.8 points.

The three-month forecast for the Houston PMI registered 57.1, up 3.9 points from its June reading of 53.2. The primary drivers for this improvement were higher sales/new orders, production, employment, and purchases, which are all directly correlated with economic activity at all forecast horizons. 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, Oil & Gas joined Health Care, Professional Services, Wholesale Trade, and Mid-stream Operations reporting expansion. Durable goods manufacturing activities continued to weaken. 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. Oil & Gas and Non-Durable Goods Manufacturing are also expected to strengthen.

### INDICES AT A GLANCE

Index	Jul	Jun	Change	Track	Rate	Trend*
Houston PMI	62.0	55.5	6.5	Expanding	Slower	9
Sales/New Orders	62.5	61.6	0.9	Rising	Faster	9
Production	54.6	51.7	2.9	Rising	Slower	11
Employment	62.9	55.3	7.6	Rising	Slower	11
Purchases	57.6	52.8	4.8	Rising	Slower	10
Prices Paid	64.8	61.5	3.3	Rising	Slower	13
Lead Times	60.4	54.5	5.9	Rising	Slower	20
Purchased Inventory	46.6	46.7	-0.1	Falling	Faster	3
Finished Goods Inventory	54.0	49.3	4.7	Rising	Fr. Falling	1

\* Months on current track



**Commodities Reported Up in Price:** Bar stock, tubing, forgings, and castings; carbon, stainless, and higher alloy steel products; electrical bulk materials; software and software services

**Commodities Reported Down in Price:** None reported

**Commodities Reported in Short Supply:** Price competitive labor; lined pipe; valves

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

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

- Oil exploration activity is increasing; currently hiring for multiple roles in Houston
- Overall, respondents in this sector reported employment as increasing; all other indices near neutral

#### Engineering and Construction:

- Quotas and tariffs have created supply chain disruptions, and both direct and indirect price increases
- Work execution is steady since last month; proposal activity is up
- Overall, respondents in this sector reported increased sales/new orders and prices paid; purchased inventories were down; all other indices were near neutral

#### Manufacturing - Durable Goods:

- Imported materials have been affected by tariffs in some cases
- This sector reported modest growth this month; prices paid and finished goods inventoried were up; overall purchases were down; sales, production, and employment were flat

#### Manufacturing - Non-Durable Goods:

- Monitoring steel pricing and other tariff impacts carefully
- Beginning to hear about oil driving an uptick in the Houston labor market, not yet seeing an impacting
- Respondents in this area reported increased sales, production, purchases, prices, and lead times; employment and inventories were reported as lower

#### Mid-Stream Operations:

- Overall, respondents in this area reported increasing sales, production, purchases, prices, and lead times; all other indicators were reported near neutral

#### Wholesale Trade:

- Overall, respondents indicated that employment, prices paid, lead times, and finished goods inventories are increasing; sales have returned to neutral with all other indicators

#### Professional Services:

- Hiring activity for both direct and contingent labor continues to increase in the energy industry
- Overall, respondents in this area reported improvement in sales and employment; prices are rising

#### Health Care:

- Evaluating impact of change in tariffs, but it is too soon to know; anticipate new construction soon
- Growing in Houston and Austin
- This sector reported continued growth; sales, employment, purchases, prices and lead times were up

# ISM-Houston

## Business Report

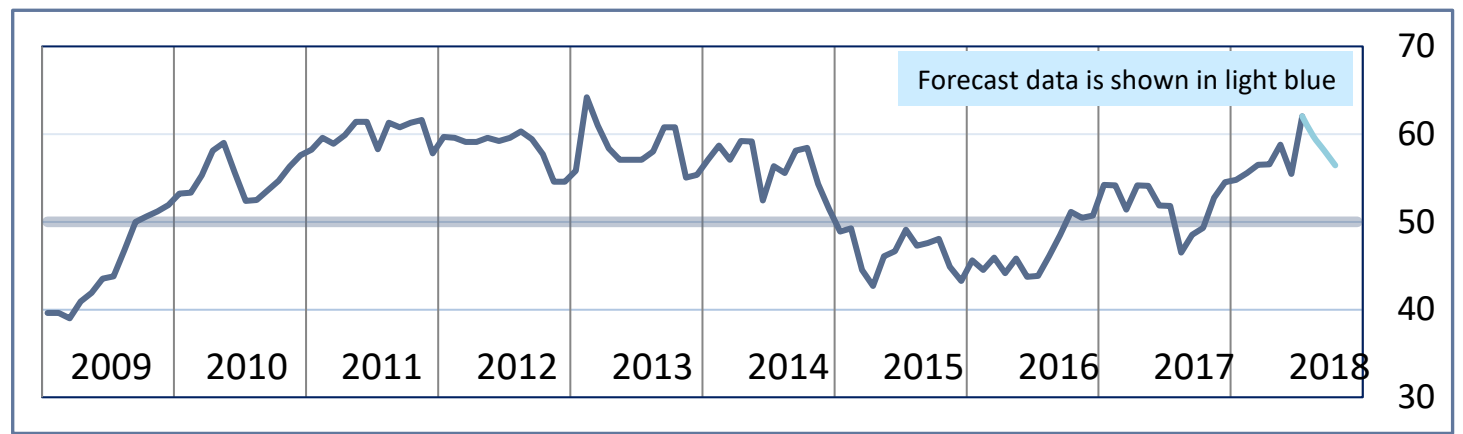


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### July 2018

#### 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.

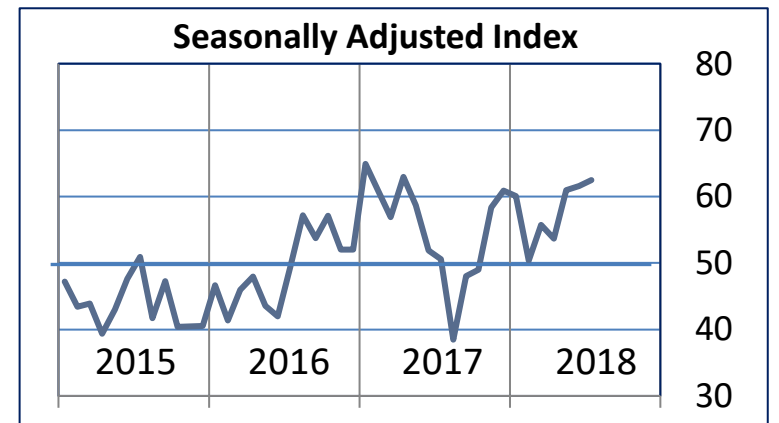


#### Trend of Underlying Indicators

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.

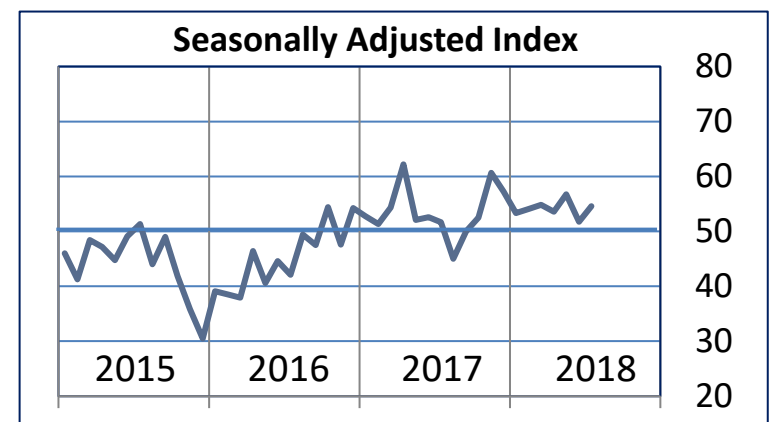
#### Sales/New Orders

	% Higher	% Same	% Lower	Net	Index	
Feb/18	15	73	12	3	50.3	The sales/new orders index rose modestly again this month. Mid-stream operations, professional services, EPC firms, non-durable goods manufacturing, and health care reported strength in this indicator.
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	
Jul/18	28	71	1	27	62.5	



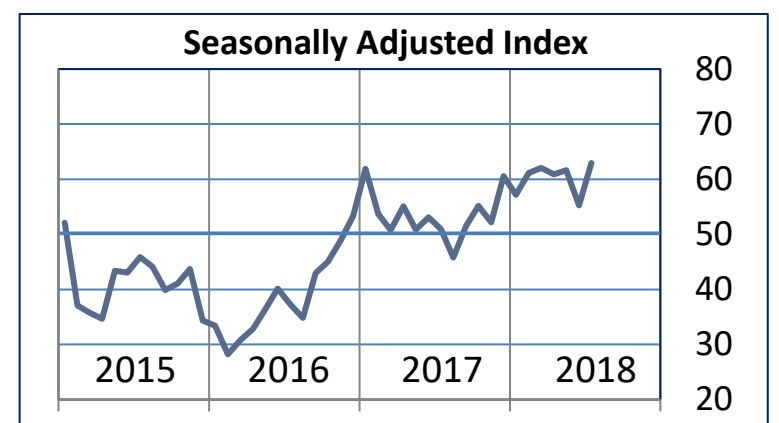
#### Production

	% Higher	% Same	% Lower	Net	Index	
Feb/18	9	88	3	6	54.1	The production index rose this month with mid-stream operations and non-durable goods manufacturing reporting considerable strength. No sector reported as down.
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	
Jul/18	11	88	1	10	54.6	



#### Employment

	% Higher	% Same	% Lower	Net	Index	
Feb/18	20	78	2	18	61.1	The employment index returned to the high levels seen earlier this year. Oil & gas joined health care, professional services, and wholesale trade in reporting this indicator as higher.
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	
Jul/18	29	66	5	24	62.9	



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## Business Report

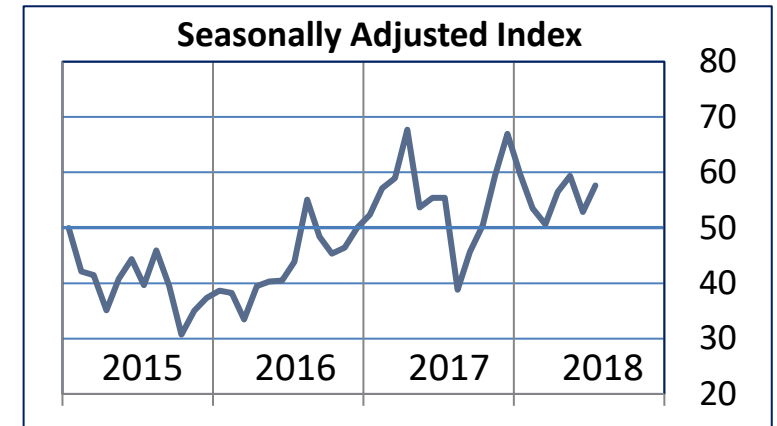


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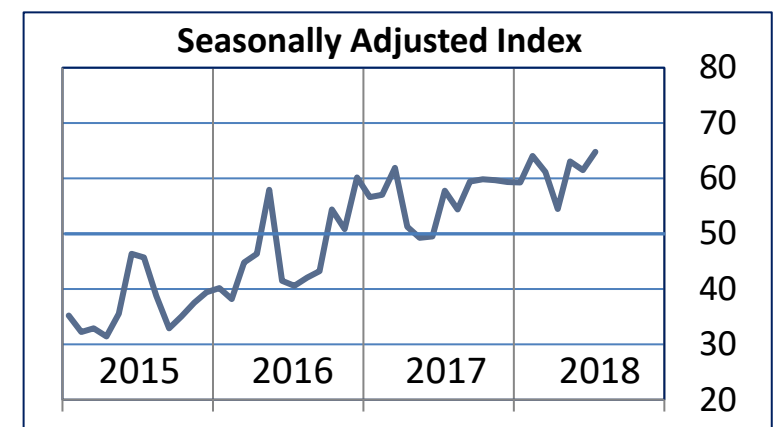
#### Purchases

	% Higher	% Same	% Lower	Net	Index	
Feb/18	18	74	8	10	53.5	The purchases index rose. Health care, mid-stream operations, and non-durable goods manufacturing reported higher purchases. Durable goods indicated purchases where lower than the previous month.
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	
Jul/18	17	78	5	12	57.6	



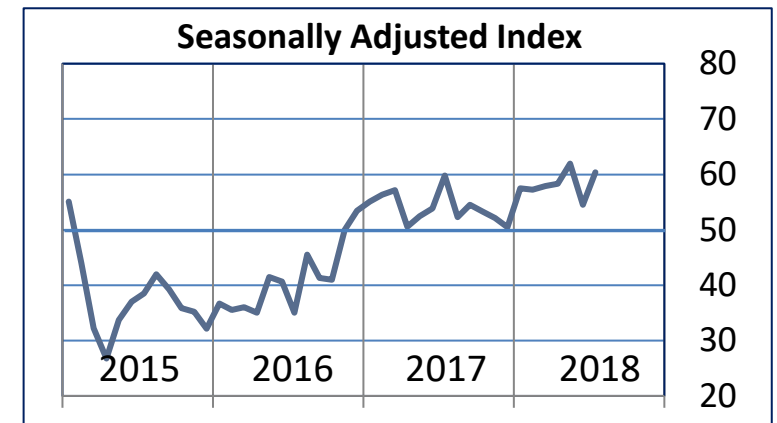
#### Prices Paid

	% Higher	% Same	% Lower	Net	Index	
Feb/18	24	75	1	23	64.1	The prices paid index rose again this month. Mid-stream operations, construction, manufacturing, wholesale trade, professional services, and health care all reported higher prices.
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	
Jul/18	32	67	1	31	64.8	



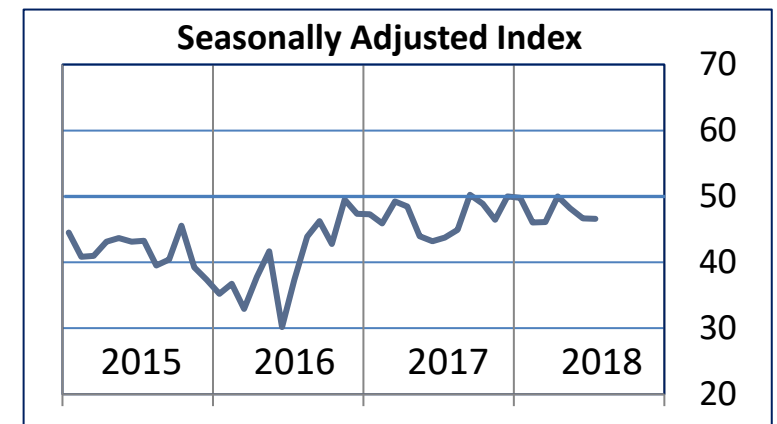
#### Lead Times

	% Higher	% Same	% Lower	Net	Index	
Feb/18	17	82	1	16	57.2	The lead times index rose substantially. Mid-stream operations, wholesale trade, and health care all reported increases in this index. No sector reported lower lead times overall.
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	
Jul/18	20	77	3	17	60.4	



#### Purchased Inventory

	% Higher	% Same	% Lower	Net	Index	
Feb/18	2	90	8	-6	46.1	The purchased goods inventory index fell marginally. Manufacturing and EPC firms reported sizable reductions again this month. All other sectors reported near neutral overall.
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	
Jul/18	1	90	9	-8	46.6	



#### Finished Goods Inventory

	% Higher	% Same	% Lower	Net	Index	
Feb/18	11	86	3	8	55.2	The finished goods inventory index rose above neutral. Durable goods manufacturing and wholesale trade reported increases. Non-durable goods manufacturing reported decreases.
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	
Jul/18	13	82	5	8	54.0	

