

# ISM-Houston Business Report

## November 2019



ISM—Houston, Inc.

Analysis and report by **Ross Harvison, CPSM**  
 Chair of the ISM-Houston Business Survey Committee

(Houston, Texas) – According to Houston supply chain executives, goods producing industry activity in Houston contracted in November for the first time since August of 2017 when Hurricane Harvey impacted local operations. Excluding the slowdown caused by this hurricane, goods producing activity had expanded for 36 months. Construction, which had reported strong growth until this month, is no longer boosting the overall result for this industry group. Overall economic activity continued to expand at a very modest rate.

The November Houston Purchasing Managers Index registered **46.9**, down 4.2 points from October. The three underlying indicators that have the strongest direct correlation with economic activity (sales/new orders, employment, and lead times) all fell below neutral and are pointing to near term contraction. The sales/new orders index fell 11.3 points to 42.6. The employment index fell 2.3 points to 47.7. The lead times index fell 1.1 points to just below neutral at 49.9 points. The underlying indicator that has the largest inverse correlation, finished goods inventory, fell 2.8 points to 49.3.

The three-month forecast for the Houston PMI fell 2.1 points to 47.9. Weakening of the sales/new orders, production, prices paid, and lead times indices drove most of this reduction. These indices have a strong direct correlation with economic activity at the three-month forecast horizon.

On an industry specific basis, only health care reported as expanding. Oil & gas, durable goods manufacturing, transportation and utilities, and professional services reported as contracting. From a three-month forecast standpoint, no significant changes are expected in this assessment.

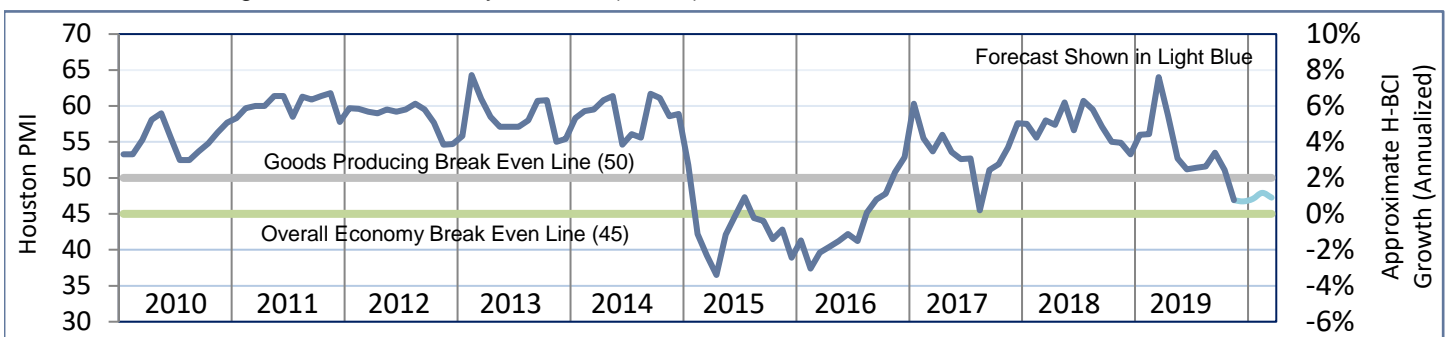
### Indices at a Glance

Index	Nov	Oct	Change	Track	Rate	Trend*
Houston PMI - Current	46.9	51.1	-4.2	Contracting	Fr. Expanding	1
Houston PMI - 3 Month Forecast	47.9	50.0	-2.1	Contracting	Fr. Neutral	1
Sales/New Orders	42.6	53.9	-11.3	Falling	Fr. Rising	1
Production	47.5	49.6	-2.1	Falling	Faster	2
Employment	47.7	50.0	-2.3	Falling	Fr. Neutral	1
Purchases	42.1	55.1	-13.0	Falling	Fr. Rising	1
Prices Paid	45.2	49.2	-4.0	Falling	Faster	7
Lead Times	49.9	51.0	-1.1	Falling	Fr. Rising	1
Purchased Inventory	52.4	53.6	-1.2	Rising	Slower	2
Finished Goods Inventory	49.3	52.1	-2.8	Falling	Fr. Rising	1
Overall Houston Economy				Expanding	Slower	40

\* Number of months on current track

### Houston PMI Trend

Activity of goods producing industries in Houston contracted in November for the first time in over two years. Overall economic activity has grown for 40 months. HPMI readings over 50 generally indicate goods producing industry expansion; readings below 50 show contraction. An HPMI above 45 generally correlates with expansion of the Houston-The Woodlands-Sugar Land Business Cycle Index (H-BCI).



### Commodities Reported to have Notable Price Changes or to be in Short Supply

**Up in Price:** Transformers, turbines, pumps, heat exchangers, stainless steel pipe; rhodium for catalysts; propane, butane, isobutane; craft labor

**Down in Price:** Fabricated structural steel, copper wire and cable, carbon steel pipe; ocean freight; motor fuels, butadiene, ethylene oxide and propylene oxide derivatives

**In Short Supply:** Welders, IT cyber security professionals; corporate tax professionals

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### Sector Summaries

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

- Rig counts continue to fall
- *This sector continues to report moderate contraction; the sales and production indices were flat month over month; the purchases index joined the employment index showing contraction*

#### Engineering and Construction:

- Material and equipment prices and availability remained stable for the month
- The shortage of skilled labor (welders, fitters, electricians, etc.) continues to be a challenge
- *This sector reported near neutral after an extended period indicating strong expansion; the new orders, employment, and purchases indices fell to neutral while the lead times index dropped to below neutral*

#### Manufacturing - Durable Goods:

- Manufacturing for the oil and gas Industry continues to be weak and will continue to be weak until the rig count in the US and Canada increases
- *This sector weakened during the month with the sales, production, purchases, prices paid, and lead times indices being reported below neutral; employment was flat and finished goods inventories rose*

#### Manufacturing - Non-Durable Goods:

- Business seems to be slowing down
- Downward pressure on polymer prices moderated, but prices are still well below levels seen earlier in the year
- *This sector strengthened moderately to near neutral during the month; the sales, purchases, and prices paid indices showed weakness; the production, employment, and inventory indices reported near neutral; lead times continue to rise*

#### Transportation and Utilities (including mid-stream operations):

- *This sector reported weakness for the first time since early 2019; the sales, purchases, and lead times indices pointed to contraction; the employment index continued to point to expansion; the prices paid index fell to neutral*

#### Professional Services:

- We saw a mix of new business and cancelled or delayed initiatives with the net effect being no increase in business
- O&G companies continue to be extremely disciplined about hiring employees or contractors
- Layoffs in the O&G industry increased as companies right size for the start of 2020
- *This sector fell below neutral with significant reductions in the sales and employment indices*

#### Health Care:

- *This sector continues to report strength; the sales, employment, and purchases indices all reported above neutral again this month; all other indicators were near neutral*

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### Trend of Underlying Indicators

The Houston PMI is based on diffusion indices for eight underlying indicators. 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. Values above 50 for Sales/New Orders, Production, Employment, Prices Paid, and Lead Times generally point towards expansion and values below 50 signal contraction. Note that the Prices Paid Index may not follow this trend late in an economic expansion. The Inventory measures have an inverse correlation at most forecast horizons, meaning that values below 50 point to expansion and values above point to contraction. The Purchases index is inversely correlated with economic activity at the three-month forecast horizon.

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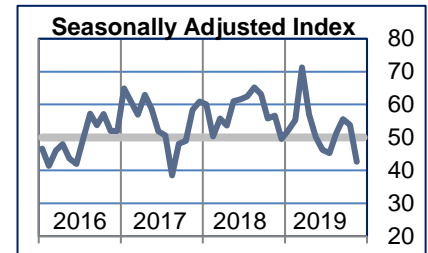
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### Sales/New Orders Index

The sales/new orders index fell

11.3 points to end well below neutral. Construction fell to neutral growth. Transportation and utilities, manufacturing, wholesale trade, and professional services all indicated falling sales.

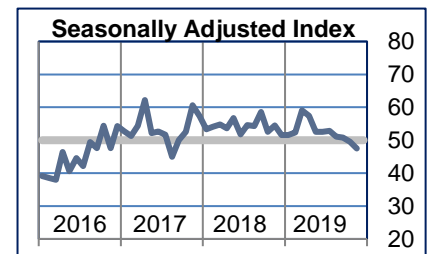
	Higher	Same	Lower	Net	Index
Jun/19	13%	68%	19%	-6%	46.2
Jul/19	14%	67%	19%	-5%	45.2
Aug/19	7%	90%	3%	4%	51.3
Sep/19	14%	84%	2%	12%	55.6
Oct/19	10%	87%	3%	7%	53.9
Nov/19	1%	80%	19%	-18%	42.6



### Production Index

The production index fell 2.1 points to end the month further below neutral. Durable goods manufacturing reported continued reductions in this index with all other industries ending near neutral.

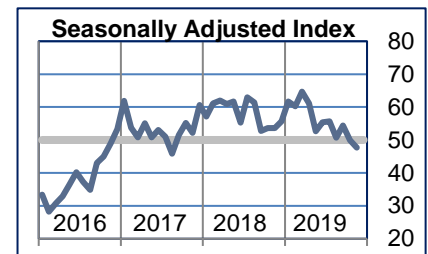
	Higher	Same	Lower	Net	Index
Jun/19	6%	93%	1%	5%	52.6
Jul/19	7%	91%	2%	5%	52.9
Aug/19	4%	95%	1%	3%	51.1
Sep/19	6%	90%	4%	2%	50.8
Oct/19	2%	97%	1%	1%	49.6
Nov/19	2%	93%	5%	-3%	47.5



### Employment Index

The employment index fell 2.3 points to end the month below neutral. Oil & gas and professional services reported weakness while transportation/utilities and health care reported strength.

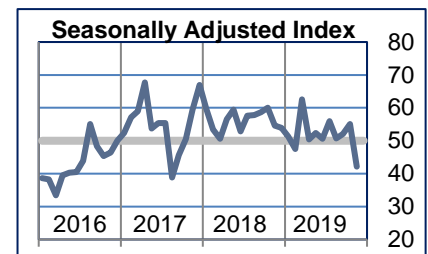
	Higher	Same	Lower	Net	Index
Jun/19	22%	72%	6%	16%	55.4
Jul/19	18%	74%	8%	10%	55.6
Aug/19	7%	86%	7%	0%	50.7
Sep/19	13%	84%	3%	10%	54.4
Oct/19	8%	85%	7%	1%	50.0
Nov/19	9%	79%	12%	-3%	47.7



### Purchases Index

The purchases index fell 13 points with weakness reported in oil & gas, manufacturing, and transportation and utilities. Health care was the only sector reporting strength in this index.

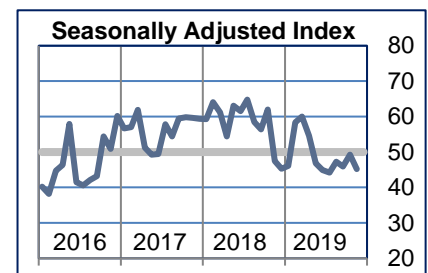
	Higher	Same	Lower	Net	Index
Jun/19	7%	90%	3%	4%	50.6
Jul/19	12%	86%	2%	10%	56.0
Aug/19	8%	89%	3%	5%	50.7
Sep/19	13%	84%	3%	10%	52.1
Oct/19	11%	88%	1%	10%	55.1
Nov/19	7%	72%	21%	-14%	42.1



### Prices Paid Index

The prices paid index fell 4.0 points to end further below neutral. Oil & gas and manufacturing reported prices as falling at a rapid pace. Construction reported prices as continuing to rise. All other sectors reported price as flat.

	Higher	Same	Lower	Net	Index
Jun/19	8%	76%	16%	-8%	44.9
Jul/19	6%	75%	19%	-13%	44.2
Aug/19	3%	89%	8%	-5%	47.3
Sep/19	1%	92%	7%	-6%	45.9
Oct/19	6%	88%	6%	0%	49.2
Nov/19	2%	85%	13%	-11%	45.2



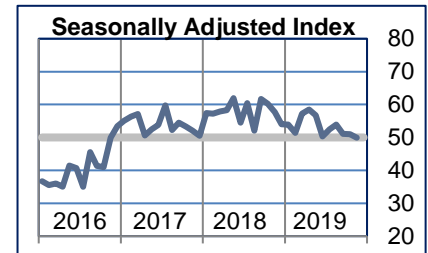
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### Lead Times Index

The lead times index fell 1.1 points to just below neutral. Construction, durable goods manufacturing, and transportation and utilities reported lead times as falling, Oil & gas and nondurable goods manufacturing reported this index as rising.

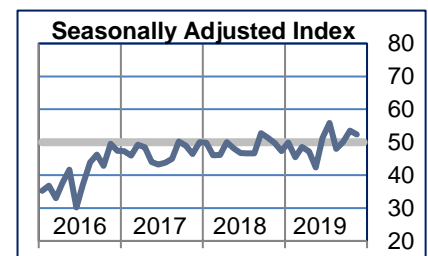
	Higher	Same	Lower	Net	Index
Jun/19	2%	97%	1%	1%	50.3
Jul/19	6%	93%	1%	5%	52.5
Aug/19	15%	81%	4%	11%	53.9
Sep/19	5%	94%	1%	4%	51.1
Oct/19	6%	89%	5%	1%	51.0
Nov/19	5%	89%	6%	-1%	49.9



### Purchased Inventory Index

The purchased inventory index fell 1.2 points with all sectors reporting near neutral.

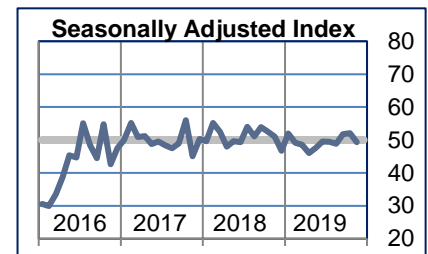
	Higher	Same	Lower	Net	Index
Jun/19	5%	93%	2%	3%	51.3
Jul/19	14%	85%	1%	13%	55.9
Aug/19	5%	87%	8%	-3%	48.0
Sep/19	1%	95%	4%	-3%	50.0
Oct/19	2%	96%	2%	0%	53.6
Nov/19	4%	94%	2%	2%	52.4



### Finished Goods Inventory Index

The finished goods inventory index fell 2.8 points to end the month just below neutral. Durable goods manufacturing reported these inventories as rising. All other industries reported this index near or modestly below neutral.

	Higher	Same	Lower	Net	Index
Jun/19	2%	96%	2%	0%	49.6
Jul/19	1%	97%	2%	-1%	49.4
Aug/19	4%	91%	5%	-1%	48.8
Sep/19	2%	97%	1%	1%	51.8
Oct/19	1%	98%	1%	0%	52.1
Nov/19	2%	97%	1%	1%	49.3



### Houston PMI Calculation Methods

The Houston Purchasing Managers Index provides a measure of current economic activity in the greater Houston area and a forecast of likely shifts in activity over a three-month forecast horizon. The current and forecast HPMI indices are based on diffusion indices for the eight underlying indicators noted in this report. The respondents to the survey report the direction of each these activities as up, the same, or down in comparison to the previous month. An index for each area is calculated by subtracting the percentage of respondents that sight a negative shift from the percentage that sight a positive shift. The HPMI is calculated by applying optimal regression factors to each of these underlying indicators with the result being converted to a 0 to 100 scale. Readings over 50 generally indicate manufacturing expansion; readings below 50 show contraction. An HPMI above 45 generally correlates with expansion of the Houston-The Woodlands-Sugar Land Business Cycle Index (H-BCI).

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