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ISM - HOUSTON BUSINESS REPORT

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HOUSTON ECONOMY COOLS DOWN!

Purchases and Prices were the Leading Indicators.

The Institute for Supply Management (ISM) –- Houston reported this month that the Houston Purchasing Managers Index PMI was **57.8** for December, 2011. This is a 3.8 point pull back from November operations. Economic activity in the Houston area has been positive for the last twenty-six consecutive months, but experienced a decrease from last month. The PMI fell below 60 to start 2012.

The PMI, which indicates likely shifts in Production volume three or four months in advance and is showing that Production is advancing for the=is period. The PMI has a possible range of 0 to 100. Reading's over 50 indicate production gains over the near term; readings below 50 show coming contraction.

The Houston PMI is based on diffusion indexes for the eight indicators. (A diffusion index is simply the percentage of respondents reporting increases from the previous month less the percentage reporting declines.) The Houston PMI which is based on eight components. Six of the eight categories fell from November to December, while one was the same and only one rose.

Employment stayed positive again increasing 5 points to 23 PMI. The leading decliners for December were Purchases at 10 fell 23 points and Prices Paid at 7 declining by 21. Production changed from 35 to 23 PMI points and Sales went from 33 to 27. All of the latest readings are some of the lowest for 2011.

Both of the reverse indicators also contributed to the over all fall in the total PMI for December. Finished Goods Inventory declined 10.5 points to -7 and Purchased Inventory fell 3 points to 0 PMI.
The Prices Paid extreme change appears to be related to the recent Euro defaults / bailouts in Europe and the hint of inflation.

There was a 22% reduction of our participants responded that prices increased from last month and only 7% had prices decline. This is the lowest point for 2011. Inflation has apparently slowed is evident in this months responses.

The latest Employment numbers indicate that 27% of our respondent's had increased employment, with only 3% reducing staff in October. This total number indicates employment is leveling. **97%** of the respondents had Increased or the Same Employment levels. This remains to be good news for those looking for employment in Houston.

The Houston PMI has increased to an average of **60.1** over the last twelve months. There has been an improvement in the PMI number of **32.5%** since March, 2009 the low point for recent times.

The Institute for Supply Management - Houston has published the Houston Purchasing Managers Index monthly since January, 1995 as a service to its members and the greater Houston business community.

Commodities in Short Supply:
Specialty Pharmaceuticals, TIME!!!, Forging, Casting, Rubber Chemicals, PTFE's (Teflon), Manufacturing / fabrication capacity increasing costs and lead times, Adequate trucking and transportation for oilfield, Hard Drives, Good welders.

Commodities UP in Price:
Prices have been pretty stationary over this period, Boric acid, but are minor, Drilling rig rates creeping up; Labor costs is the culprit, Prices are inching up slightly (1-2%) due to manufactures increases in raw materials, Import transportation prices.

Commodities DOWN in Price:
Computers and components, gasoline, Plastic pails / lids, base oils, castor oils and derivatives like Stearic acid and 12-HSA, calcium carbonate. Gasoline showed some minor decreases, Imported castings.

WHAT OUR RESPONDENTS ARE SAYING ...

Healthcare
Purchasing is winding down as we get closer to opening our new maternity facility. There are still job opportunities.

Employment, equipment and supplies may see a very slight increase for 2012 but nothing dramatic

Electronics
Outsource Manufacturing / fabrication capacity driving increased cost and lead times. Duo-sourcing necessary to meet future increased demands.

Oil & Gas {Mfg, Services, Contract Services}
Finished December with good sales for a short month. Future looks good through our year end which is February.

Expecting the busiest 2012 on the drilling side that I've seen in a long time.

2011 was almost double recent normal sales.

Domestic drilling on steep rise.

Manufacturing
2011 was a record year for us and 2012 is starting with a two month backlog.

Slow for 2011 End and 2012 Start

Miscellaneous
Sales continue to beat expectations. We should have a strong year with no indications of slow down. Still in pursuit of outsourcing some packaging functions to augment Production.

Responses are at all time low this month. Since responses are voluntary it may be due to available resources at this time of the year.

PMI Index Summary Table

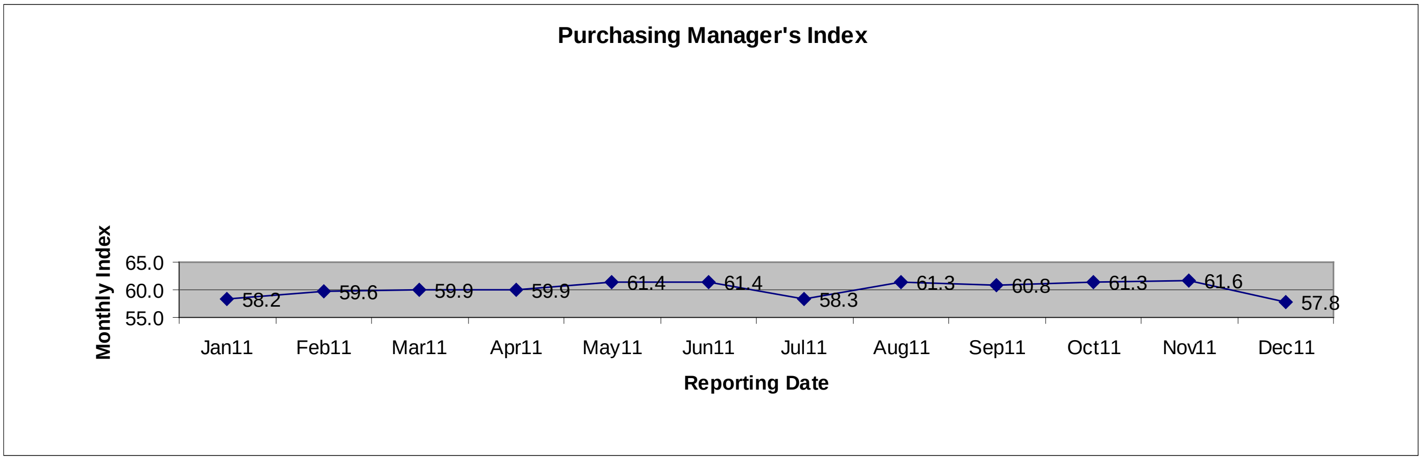
December, 2011 / **Index 2011 (9 months)**

	UP	SAME	DOWN	N/A	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Sales	43%	27%	17%	13%	20	30	35	33	35	30	33	33	27
Production	33%	40%	10%	17%	20	18	15	23	30	25	28	35	23
Employment	27%	70%	3%	0%	20	20	28	23	33	20	10	18	23
Purchases	33%	43%	23%	0%	20	30	25	20	43	38	35	33	10
Prices Paid (Major Purchases)	13%	80%	7%	0%	58	45	45	23	30	25	23	28	7
Lead Times (from Sellers)	20%	70%	10%	0%	33	25	23	5	10	10	13	10	10
Purchased Inventory	20%	40%	20%	20%	-3	3	5	8	13	8	-10	-3	0
Finished Goods Inventory	10%	53%	17%	20%	-3	-20	-15	-3	-3	-23	-25	-18	-7

Note: Each monthly index was calculated by subtracting the "DOWN" percentage from the "UP" percentage. The indices are not seasonally adjusted.

	Jan11	Feb11	Mar11	Apr11	May11	Jun11	Jul11	Aug11	Sep11	Oct11	Nov11	Dec11
Composite PMI	58.2	59.6	59.9	59.9	61.4	61.4	58.3	61.3	60.8	61.3	61.6	57.8

A reading above 50 indicates that the Houston economy is generally expanding; a reading below 50 indicates that it is generally contracting.



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