

ISM - HOUSTON BUSINESS REPORT

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HOUSTON ECONOMY MOVES UP!

Purchased Inventories was the Leading Indicator

The Institute for Supply Management (ISM) — Houston reported this month that the Houston Purchasing Managers Index PMI was **61.3** for October, 2011. Economic activity in the Houston area has been positive for the last twenty-four consecutive months and experienced a slight 0.5 increase from last month. The PMI continues above 60 for the fifth month in 2011.

The PMI, which indicates likely shifts in Production volume three or four months in advance and is showing that production is still advancing. 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 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 with five of the eight categories reported an improvement from September to October.

The Purchased Inventory (a reverse indicator) was the leading category for October. Purchased Inventory fell from +8 to -10 PMI points. This reading is the highest level for Purchased Inventory for 2011.

Sales, Production, Lead times and Finished Goods Inventory all rose 3 PMI points for the month.

Employment sank 10 more points to 10 PMI, after a

2011 high of 33 in August. Sales moved back up to 33 while Production was 28, the second highest reading for 2011. Lead times at 13 are rising apparently due in some part to the Japan earthquake and more recent flooding in Thailand. Although not large increases from last month these readings are still good indications for future positive economic activity in the Houston area.

33% of our participants responded that prices increased from last month and only 10% had prices decline. This is the lowest point for 2011, but still higher than all of 2010. Inflation is definitely evident in the responses, but slowing.

The latest Employment numbers indicate that only 25% of our respondent's had increased employment, with 15% reducing staff in October. This total number indicates employment is leveling. **85%** 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 averaged **59.7** over the last twelve months. There has been an improvement in the PMI number of **36.4%** 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:

Pharmaceuticals, Forging, Casting, Rubber Chemicals, No items were in SHORT SUPPLY this reporting period, Fluoropolymer resins, TIME!!!, All is reasonably available, Hard drives are going to be an issue with floods in Thailand for all manufacturers. That pipeline for drives comes primarily from that region. Custom assembled materials from Asia.

Commodities UP in Price:

Specialty drugs, ERP software, paper, benzoic acid, material containing antimony, copper, wolf bane, silver bullets, human blood.... Happy Halloween!, All is stable, Barite (chemical used in drilling mud), Some metals and quoted fabricated metal assemblies.

Commodities DOWN in Price:

computers and components, gasoline, copper flake, Group One base oils, and other petroleum based products, some aerosols, TiO₂, silicone fluids and steel pails, Not much.

WHAT OUR RESPONDENTS ARE SAYING ...

Healthcare

Opportunities in the Medical field are still available.

Electronics

Very hard to forecast. Seems like everyone is waiting for the economy to get better / confirm we are not going to double dip into a second recession.

Financial

Regulatory uncertainty continues to stifle business expansion and is beginning to inflict damaging long-term effects.

Laptop and MFP production has rebounded from Japan earthquake

Oil & Gas {Mfg, Services, Contract Services}

Lead times are going up for key machine shops and raw material.

Had two good sales months back to back. Future looks good through year end. Delivery on raw material is causing problems in our machine shop production

Optimism in O&G industry still high going into 4th quarter through 1st quarter

Qtr. 1 and Qtr. 2 normal sales, Qtr 3 double and Qtr. 4 already double plus 50%. It is going to be a very Merry Christmas. We are implementation over time to work down the backlog.

Manufacturing

We are having a good year.

Miscellaneous

Overwhelmed! Back to working weekends!

Production still experiencing difficulty keeping up with increased Sales.

Inventory Control still experiencing excessive inventory discrepancies as Production continues to clear backlog.

Shortages are less common as material continues to arrive in support of Production's push to reduce the Sales' backlog.

Re-Balanced bench stock levels are improving production's capabilities.

Looking at several methods to enhance Plant's capacity.

Responses remain light this month. It appears to be due to reduced staff and more so increased work loads.

PMI Index Summary Table

October, 2011

	UP	SAME	DOWN	N/A
Sales	50%	30%	10%	10%
Production	38%	40%	10%	13%
Employment	25%	60%	15%	0%
Purchases	43%	50%	8%	0%
Prices Paid (Major Purchases)	33%	58%	10%	0%
Lead Times (from Sellers)	25%	63%	13%	0%
Purchased Inventory	15%	40%	25%	20%
Finished Goods Inventory	10%	43%	28%	20%

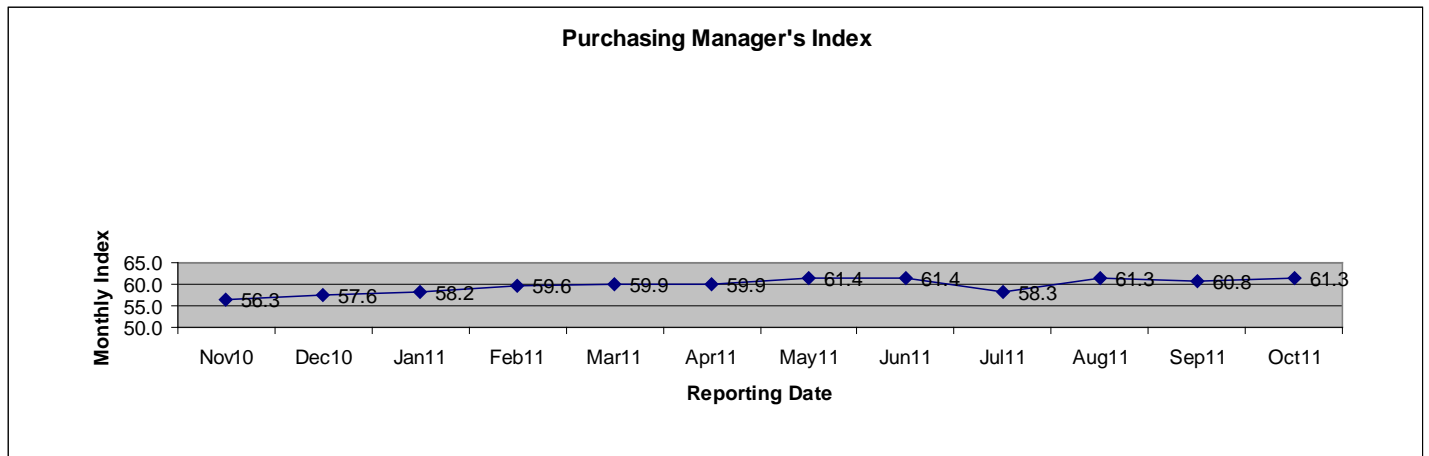
Index 2011 (9 months)

FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
33	23	20	30	35	33	35	30	33
30	20	20	18	15	23	30	25	28
15	20	20	20	28	23	33	20	10
25	20	20	30	25	20	43	38	35
38	53	58	45	45	23	30	25	23
23	25	33	25	23	5	10	10	13
15	5	-3	3	5	8	13	8	-10
-3	-10	-3	-20	-15	-3	-3	-23	-25

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

	Nov10	Dec10	Jan11	Feb11	Mar11	Apr11	May11	Jun11	Jul11	Aug11	Sep11	Oct11
Composite PMI	56.3	57.6	58.2	59.6	59.9	59.9	61.4	61.4	58.3	61.3	60.8	61.3

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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