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ISM - HOUSTON BUSINESS REPORT

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HOUSTON ECONOMY SLIPS 0.5 PMI!

Finished Goods and Purchased Inventories were the Leading Indicators

The Institute for Supply Management (ISM) — Houston reported this month that the Houston Purchasing Managers Index PMI was **60.8** for September, 2011. Economic activity in the Houston area has been positive for the last twenty-three consecutive months and has experienced a slight 0.5 pull back from last month. The PMI remained above 60 again after one month below in that range in 2011.

The PMI, which indicates likely shifts in Production volume three or four months in advance, indicates 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 only two of the eight categories reported an improvement from August to September.

The two reverse indicators Finished Goods and Purchased Inventory were the leading indicators for September. Finished Goods Inventory decreased 20 PMI points to -23 for September. Production Inventory fell from 13 to 8 PMI points. The read for the Finished Goods Inventory was the highest level for 2011. Lead Times was the ONLY category that remained the same for the period, which was at 10 in September after strong readings in 2011 until July.

Employment sank 13 points to 20 PMI, after a 2011 high of 33 in August. Purchases at 38 PMI fell 5 points for September, while Sales also dropped 5 points to 30. Production and Prices Paid both weakened 5 PMI points to 30 from last month. Although not positive from last month these readings are still good indications for future production.

35% of our participants responded that prices increased from last month and only 13% had prices decline. This is the second 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 our respondent's employment increased 30%, with only 10% reducing staff in September. This total number indicates employment is improving. **90%** 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 **59.1** over the last twelve months. There has been an improvement in the PMI number of **35.8%** 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, SHORT SUPPLY include commercial truck drivers. The shortage adds to the transportation segment's lead time, Hydraulic Cylinders, Not experiencing any difficulties, PBC lead times expanding due to loss of material sourced in Japan earth quake and nuclear exposed areas, specifically special glue for PBC.

Commodities UP in Price:

Pharmaceuticals (off contract) specialty drugs, Always dealing with copper and steel prices, UP side during August include Boric Acid, Lithium Hydroxide, and Tallicin 3400 (wetting agent), Airfare and hotel (travel), graphic design services, Tires, Barite used in drilling mud.

Commodities DOWN in Price:

Computers & Components, gasoline, DOWN side include copper flake, base oils, and other petroleum based products, Fuel (Diesel), Auto gasoline: \$2.99/Gal.

WHAT OUR RESPONDENTS ARE SAYING ...

Healthcare

For those laid off, check job openings in the Medical Industry.

Electronics

Out sourced contractors experiencing more component shortages due basically to increased forecasts and orders not forecasted.

Seeing some corollary shortages in electronic PCB's due to the Japan earth quake and nuclear exposure to production areas.

Oil & Gas {Mfg, Services, Contract Services}

Expecting a lot of drilling activity in 2012.

Manufacturing

New Sales Orders this month! All is good.

Miscellaneous

Fourth Quarter Forecast: Continuation of strong/steady year.

BOOMING! Production having difficulty keeping up with increased Sales. Inventory Control is experiencing more raw material inventory discrepancies as Production attempts to clear backlog. Unanticipated shortages created by Production's push to reduce Sales' backlog and raw material discrepancies are causing multiple change orders for additional deliveries of material, Forecasted Purchasing continues to improve delivery and shorten lead times for bench stock. The lessons learned in raw materials forecasting are being adopted for finished goods.

Responses remain very light this month. It appears to be due to time off, vendor visits, reduced staff and more so increased work loads.

PMI Index Summary Table

September, 2011

	UP	SAME	DOWN	N/A
Sales	43%	35%	13%	10%
Production	30%	53%	5%	13%
Employment	30%	60%	10%	0%
Purchases	43%	53%	5%	0%
Prices Paid (Major Purchases)	35%	55%	10%	0%
Lead Times (from Sellers)	23%	65%	13%	0%
Purchased Inventory	25%	40%	18%	18%
Finished Goods Inventory	13%	35%	35%	18%

Index 2011 (9 months)

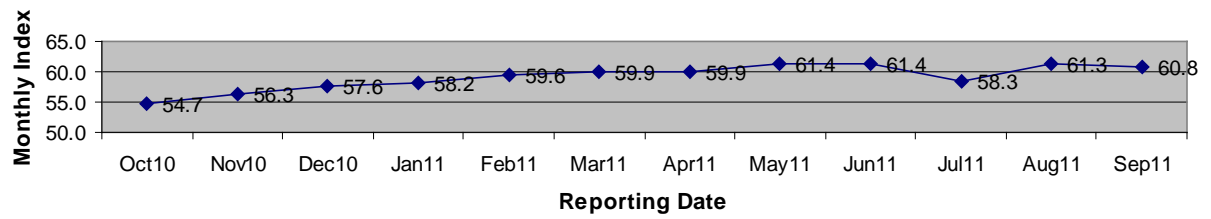
JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
32	33	23	20	30	35	33	35	30
37	30	20	20	18	15	23	30	25
5	15	20	20	20	28	23	33	20
24	25	20	20	30	25	20	43	38
39	38	53	58	45	45	23	30	25
17	23	25	33	25	23	5	10	10
20	15	5	-3	3	5	8	13	8
5	-3	-10	-3	-20	-15	-3	-3	-23

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

	Oct10	Nov10	Dec10	Jan11	Feb11	Mar11	Apr11	May11	Jun11	Jul11	Aug11	Sep11
Composite PMI	54.7	56.3	57.6	58.2	59.6	59.9	59.9	61.4	61.4	58.3	61.3	60.8

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

Purchasing Manager's Index



The ISM-Houston Business Report began publication in January, 1995.

Subscriptions to the report are available through ISM-Houston, Inc.

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