

NAPM - HOUSTON BUSINESS REPORT

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Press Release

June, 2009
By Skip Kasdorf

HOUSTON PMI INDEX UP

Most Indexes Unchanged While Sales Decline

The Houston Purchasing Managers Index, a leading indicator of regional production, edged upward to **41.9** in May, marking two consecutive months of modest improvement from the record low of **39.0** in March. The PMI, which indicates likely shifts in production volume three or four months in advance, continues to signal production declines, but perhaps at a decelerating pace.

The PMI has a possible range of 0 to 100. Readings over 50 indicates production gains over the near term; readings below 50, coming contraction. May is the Houston PMI's seventh consecutive month in negative territory.

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 largest change among the eight components in May was in Sales, which declined sharply after two months of improvement, falling from -13 to -30. All other components either improved in May or remained nearly unchanged from April.

Production has been stagnant since the beginning of the year, ranging between -18 and -21. Employment improved 10 points to -33 after falling from 0 last October to -48 in March. Purchases edged upward to -35, little different from April's -38. Prices Paid (for major purchases), which fell consistently from 13 last October to a deeply depressed -48 in April, turned up to -43 in May.

Purchased Inventory and Finished Goods Inventory, the two components of the PMI for which declines represent *good* news, both improved to -25 in May from -15 and -18 respectively in April. Given the relatively small upward movement of the Houston PMI in May, it's not surprising that "no change" dominated responses on most components. Only for Purchases, where 25 percent of respondents reported increases and 60 percent reported decreases, and on Finished Goods Inventory, where 15 percent saw increases and 40 percent saw decreases, did the number of respondents reporting "no change" represent a decided minority.

The Houston PMI has fallen sharply over the past 11 months. In May and June last year, it posted readings above 60, a level that represents an extremely positive outlook for regional production. Before turning negative last November, the Houston PMI posted 58 consecutive months of positive readings that averaged a robust 59.1. For the past seven months, in contrast, the Houston PMI has averaged 42.2.

It bears emphasis that the recent "improvements" on PMI components still leave it in negative territory, indicating likely further slowing in production. The rate at which regional performance declines should taper, but Houston still hasn't reached a bottom.

The National Association of Purchasing Management-Houston has published the Houston Purchasing Managers Index monthly since January, 1995 as a service to its members and the wider Houston business community.

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Commodities in Short Supply:

Coast is clear at the moment until the next Swine Flu breakout, Customers, Lead Times are out, Demand / Supply * Supply / Demand, Demand is Down / Supply is Down * Need to allow for longer Lead times. Items that had a few weeks lead time are not Just sitting on the shelf; connectors, semiconductors, various Electro Mechanical parts., none, None, Lead times are starting to increase since capacity has been decreased and inventory has been depleted. Capacity is reduced due to layoffs / equipment mothballed,

Commodities UP in Price:

Vaccines, Gasoline, Oil, gasoline, Paint & coatings, Prices are expected to rise after production reaches capacity. Capacity is reduced due to layoffs / equipment mothballed.

Commodities DOWN in Price:

Capital purchases due to economy, What we charge our customers, Steel, PVF, Copper, housing, Copper is still low as well as steel, Steel fabrications, machined parts, Steel tugging and plate have been reduced by the economy, Paperboard continues to decline as well as linerboard, Lubricants, Labor rates.

WHAT OUR RESPONDENTS ARE SAYING ...

Healthcare

We are slowly beginning to fill vacant positions.

Oil & Gas {Mfg, Services, Contract Services}

Consider lowering your prices by increasing the size of orders to a single supplier. This can be done by increasing quantities or by combining several commodities or types of equipment, thereby increasing the overall volume and the total dollars being offered to a single supplier.

We are still living off of back log from last year. Gas drilling is still down. Large motors and generators are still strong.

Some sales activity, but mostly for off shore.

Miscellaneous Distribution

Inventory has been consumed and there is little product in the pipeline. Customers are starting to reorder but slowly. Capacity has been reduced due to layoffs & equipment mothballed therefore prices will hold steady and lead times will increase.

Manufacturing

Bookings for May were good for us, but that won't translate into work for the shop for several months as the orders have to work their way through engineering. With oil prices moving up, we are seeing more positive activity from our customer base. The next two to three months are going to be difficult to meet plan, however. A major push was made to get price concessions from our suppliers, which has proven to be moderately successful, and other actions are being taken to reduce operating costs.

We continue to shop out assets in our consolidation. Sales are down but the future looks good.

We are finally getting our inventory in line with the reduced level of sales. This year our business is down 33% from last year to date.

PMI Index Summary Table

May, 2009

Index 2008 - 2009 (9 months)

	UP	SAME	DOWN	N/A
Sales	13%	43%	43%	3%
Production	8%	50%	25%	18%
Employment	5%	58%	38%	0%
Purchases	25%	15%	60%	0%
Prices Paid (Major Purchases)	5%	48%	48%	0%
Lead Times (from Sellers)	10%	48%	43%	0%
Purchased Inventory	10%	45%	35%	10%
Finished Goods Inventory	15%	35%	40%	10%

SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY
5	5	-10	-27	-34	-40	-28	-13	-30
-5	0	-3	-27	-21	-20	-18	-20	-18
0	0	-15	-19	-39	-38	-48	-43	-33
-3	-13	-3	-16	-39	-30	-43	-38	-35
26	13	8	-11	-32	-38	-40	-48	-43
32	0	-3	-11	-29	-38	-43	-33	-33
3	0	-15	-30	-13	-20	-20	-15	-25
8	-15	-8	-22	-13	-15	-13	-18	-25

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

	Jun08	Jul08	Aug08	Sept08	Oct08	Nov08	Dec08	Jan09	Feb09	Mar09	Apr09	May09
Composite PMI	60.6	57.3	55.7	51.5	51.7	49.0	45.4	39.6	39.6	39.0	40.9	41.9

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

