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ISM - HOUSTON BUSINESS REPORT

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HOUSTON ECONOMY STEADY!

Lead Times, Purchased Inventory and Prices Paid were the Leading Indicators

The Institute for Supply Management –- Houston reported this month that the Houston Purchasing Managers Index PMI was **59.9** for April, 2011. Economic activity in the Houston area has been positive for the last nineteen consecutive months, but remained the same as last month. This is continues to be higher then the 2010 peak of 59.0 in May, 2010.

The PMI, which indicates likely shifts in Production volume three or four months in advance, now shows a signal that production is still trekking forward. 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 had five categories reporting improvement from March to April.

Lead Times were the outstanding indicator increasing 8 points to 33 PMI. This is the highest level Lead Times have been thru all of 2010. Purchased Inventory, a reverse indicator, fell from +5 to -3 PMI. A falling inventory shows demand over the production levels. Prices Paid continued to climb to 58 PMI. That is a sure indication of inflation in the manufacturing arena. 60% of our participants responded that prices increased from last month. Again this is the highest thru out 2010.

Production at 20 PMI, Employment at 20 PMI and Purchases at 20 PMI all remained the same from last month. Sales fell 3 points from 23 to 20 PMI compared to the high of 33 in February.

The latest Employment numbers indicate that our respondent's employment remained the same, with only 8% reducing in staff in April. This total number indicates employment is improving and is at the highest level for 2010 -11. **93%** of the respondents had the Same or Increased Employment levels. This remains to be good news for those looking for jobs at this time.

The Houston PMI has averaged **56.6** over the last twelve months. There has been an improvement in the PMI number of **34.9%** since March, 2009.

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 wider Houston business community.

Commodities in Short Supply:

Pharmaceuticals, Items in SHORT SUPPLY are being mitigated from allocation by submitting best effort forecasts for the next 90 – 180 days, Japanese parts (earthquake) such as toner cartridges, Forging, Casting, Rubber Chemicals, PTFE resins, Some raw material and Japanese products due to earthquake. Nothing new has been discovered in the last few weeks. All issues are on the table, Not experiencing any difficulties, yet, Electronic components due to Japan disaster.

Commodities UP in Price:

gasoline, pharmaceuticals and vaccines, coffee, All petroleum related materials e.g. plastic drum liners, 100 oil, 500 oil, 1200 oil, bright stock, other petro-chemicals, 12 HAS, Fuel, educational supplies, Forklift batteries, lubricants, Fuel / Transportation, Paperboard: both SUS and CCNB went up in April, Everything, PTFE resins, **:** Inflation is no longer ahead of us. It is here. This past month a gearbox supplier increased 11%, cylinder manufacturer 9% and Plating company 10%, Semiconductor and electromechanical components, Polyethylene resin and any products containing it, Actually pretty much everything is either up or notifications that they are going up, Oil per barrel and Gasoline prices, Labor rates, In general prices have gone up approximately 1-3%, Experiencing repercussions from Japan disaster in price increases in electronic components, GASOLINE!

Commodities DOWN in Price:
computers and components, aerosols (due to competitive bidding), None, Negotiated 3.55 reduction in passive components for 2011 calendar year.

WHAT OUR RESPONDENTS ARE SAYING ...

Healthcare
Purchasing of capital equipment has greatly increased due to our hospital expansion.

Electronics
OEMs have beaten the electronic suppliers up so much over the years that they must raise prices due to increases raw material, labor and logistics costs.

The earthquake in Japan is causing an increased burden on component materials from that small region.

We are spending a huge amount of time trying to get ahead of electronic supply issues due to the Japan disaster.

Oil & Gas {Mfg, Services, Contract Services}
Sales are very good with some backlog growing.

Big jump in quoting activities getting ready for a Refinery Expansion.

Things slowed just a bit this month but we expect it to pick up again in May.

A gradual pick up.

Good experienced O&G procurement personnel are in demand and hard to find.

Activity still robust in the O&G industry.

Manufacturing
Introduction of new software is expected to dramatically slow procurement processing until familiarity with the software improves.

On-Hand raw material stocks are increasing for two reasons: replacement costs are rising and improvement in delivery cycles is allowing bench stock to be used in lieu of safety stocks. These increases must be monitored closely to avoid tying up too much capital in raw material.

Sales continue to show marked improvement over the previous period last year.

PMI Index Summary Table

April, 2011

	UP	SAME	DOWN	N/A
Sales	40%	30%	20%	10%
Production	33%	43%	13%	13%
Employment	28%	65%	8%	0%
Purchases	33%	55%	13%	0%
Prices Paid (Major Purchases)	60%	38%	3%	0%
Lead Times (from Sellers)	40%	53%	8%	0%
Purchased Inventory	15%	48%	18%	20%
Finished Goods Inventory	15%	48%	18%	20%

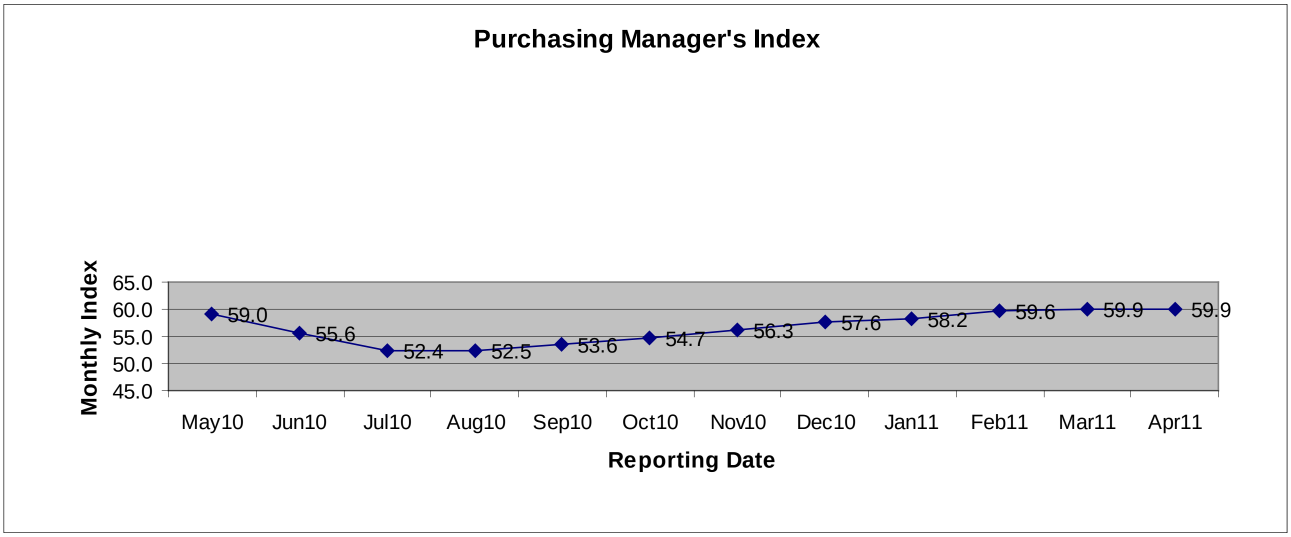
Index 2010 - 2011 (9 months)

	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR
Sales	16	16	21	28	27	32	33	23	20
Production	9	19	21	30	27	37	30	20	20
Employment	-9	-2	-2	5	10	5	15	20	20
Purchases	19	26	21	30	22	24	25	20	20
Prices Paid (Major Purchases)	-2	5	7	9	12	39	38	53	58
Lead Times (from Sellers)	19	12	12	5	15	17	23	25	33
Purchased Inventory	7	2	-5	5	2	20	15	5	-3
Finished Goods Inventory	0	9	5	7	-5	5	-3	-10	-3

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

	May10	Jun10	Jul10	Aug10	Sep10	Oct10	Nov10	Dec10	Jan11	Feb11	Mar11	Apr11
Composite PMI	59.0	55.6	52.4	52.5	53.6	54.7	56.3	57.6	58.2	59.6	59.9	59.9

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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