

ISM-Houston Business Report

November 2024



Analysis and report by **James Rosemond and Ross Harvison, CPSM**
ISM-Houston Business Survey Committee

Houston PMI at 53.2 (up 4.0 points)

Sales/New Orders Expanding
Production Expanding
Employment Expanding
Prices Paid Expanding
Lead Times Contracting
Finished Goods Inventories Contracting

(Houston, Texas) – According to Houston area supply chain executives, economic activity in Houston showed mixed results in November, with the manufacturing sector indicating contraction and the non-manufacturing sector indicating moderate expansion. The overall economy expanded for the 54th straight month.

The Houston Purchasing Managers Index increased 4.0 points to 53.2. Sales/new orders, employment and lead time are the top three indicators with a strong positive correlation with the Houston economy. This month, two of the three indexes expanded with one contracting. Employment flipped from contraction to expansion, increasing 7.3 points to 50.7 points. Sales/new orders continued multi month expansion. Sales/new orders rose 2.7 points to finish at 59.8 points. The third indicator (lead times) contracted at a slower rate than October, rising 1.0 point to finish at 49.6 points. The finished goods inventory index, the underlying indicator that has the strongest inverse correlation with economic activity, decreased 0.2 points to 49.1.

The Houston Manufacturing PMI increased 1.4 points to 49.1 points, continuing to stabilize after the considerable drop-off in September. The nonmanufacturing PMI increased 4.5 points to 54.0 points.

On an industry specific basis: Construction, retail trade and professional and business services reported strong expansion. Oil and gas extraction and nondurable goods manufacturing reported significant contraction.

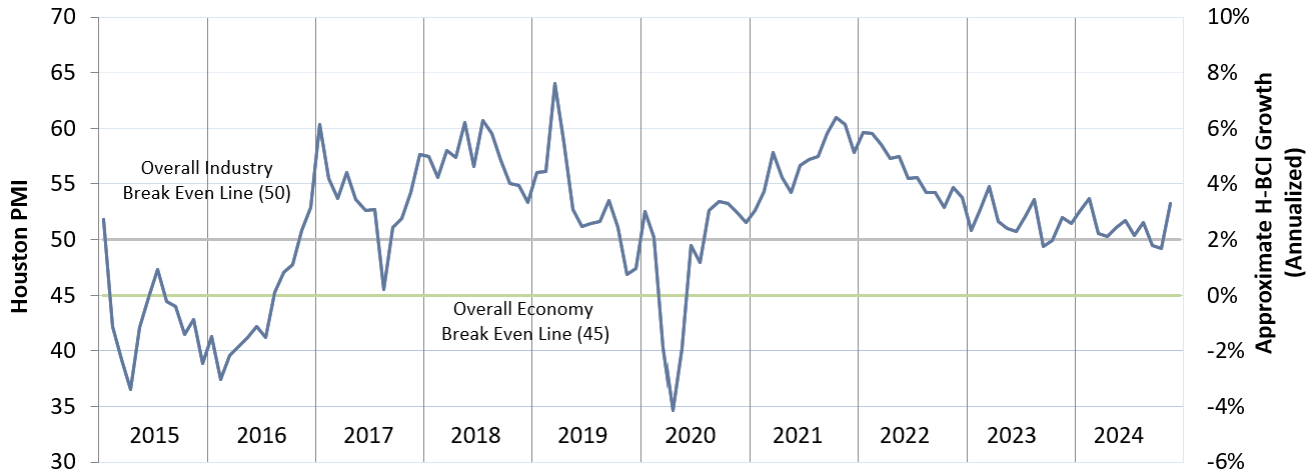
Houston PMI Trend

Index	Nov	Oct	Change	Track	Rate	Trend*
Houston Overall PMI	53.2	49.2	4.0	Expanding	Fr. Cont.	1
Houston Manufacturing PMI	49.1	47.7	1.4	Contracting	Slower	3
Houston Non-Manufacturing PMI	54.0	49.5	4.5	Expanding	Fr. Cont.	1
Sales/New Orders	59.8	57.1	2.7	Rising	Faster	4
Production	56.1	51.5	4.6	Rising	Faster	4
Employment	50.7	43.4	7.3	Rising	Fr. Falling	1
Purchases	50.7	50.3	0.4	Rising	Faster	11
Prices Paid	51.6	48.3	3.3	Rising	Fr. Falling	1
Lead Times	49.6	48.6	1.0	Falling	Slower	2
Purchased Inventory	48.8	48.6	0.2	Falling	Slower	2
Finished Goods Inventory	49.1	49.3	-0.2	Falling	Faster	2
Overall Houston Economy				Expanding	Faster	54

* Number of months on current track

Indices at a Glance

(Houston PMI readings over 50 generally indicate that respondents see their activities as expanding. An HPMI above 45 normally correlates with expansion of the Houston-The Woodlands-Sugar Land Business Cycle Index (H-BCI).



Commodities Reported to have Notable Price Changes or to be in Short Supply

Up in Price: Professional services, Industrial gases, natural gas process chemicals, feedstock, catalyst, electrical gear and components, transformers, elastomers, switchgear, compressors, lumber, imported goods, ocean container freight

Down in Price: Propylene, polypropylene resins, proppant, gasoline, oil country tubular goods (OCTG), steel products, nickel, palladium nickel, logistics services, break bulk freight, trucking

In Short Supply: Technical labor, crude oil, glycols, PFA components, electronics, electrical gear, electrical components, generators, transformers, switchgear, compressors

‡ reported as up or down by different respondents

What Our Respondents Are Saying

Oil and Gas Exploration, and Key Support Services:

- Q4 is showing an increase in sales compared to Q1-3
- Client intelligence has indicated that the path forward for the Energy Industry is brighter after the election results in November. We don't anticipate a "flood" of new or adding to existing business, but we do think the future is brighter now than 5 months ago.
- Continued slow market dynamics
- *This sector's performance improved significantly over October; however, it still contracted. Sales expanded and production saw a sharp expansion as well. Employment only saw a marginal increase versus October and still contracted. Lead times contracted slower but were still far from expanding and full goods inventory fell into contraction.*

Construction:

- Despite a more favorable regulatory future for energy under the incoming US administration, exploration for oil and gas will continue to be met with capital discipline rather than "drill baby drill".
- *This sector indicated strong growth for the month of November. With seven of the eight indexes indicating expansion. Only prices indicated slight contraction.*

What Our Respondents Are Saying (Continued)

Durable Goods Manufacturing:

- We continue to have to let people go because of low bookings.
- Steady to improving
- PVC, PE, and PP resin prices remained near recent lows
- The newly elected administration in the US is expected to implement additional tariffs and duties. Trading nations are expected to enact retaliatory measures. Global commodity markets will be impacted significantly.
- Commodity pricing has been relatively stable during this calendar year in light of continuing high inflation. The potential for tariff increases on goods manufactured by suppliers internationally could impact our cost of goods sold in the upcoming calendar year. New policies regarding Oil & Gas exploration and production could impact demand for our manufactured oilfield equipment in the coming year as well.
- *Durable goods saw expansion in November; driven by strong sales. Employment and lead times also saw expansion. Only the purchasing index saw a dramatic swing from expansion to strong contraction.*

Non-durable Goods Manufacturing:

- Natural gas prices have risen rapidly in late November and early December as a result of lower than expected U.S. inventories
- Olefins cracker feedstock prices remain low
- Prices for precious metals for catalysts (gold, silver, and palladium) remained stable
- *This sector moderately contracted in November; sales saw moderate expansion; however, employment is weak, continuing to contract month over month. The full goods inventory went from contraction to expansion.*

Professional and Business Services:

- *We are in the People business both for Direct Hire and Professional Contract Services (Hourly bill). We do not see any change in people availability even though the opportunities have picked up a bit since the election in November*
- *Prices for both Direct Hire and Professional Contract Hourly Services have remained steady*
- *This sector's performance indicated moderate expansion. The sales and employment indexes indicated strong expansion. Only the price index indicated slight contraction.*

Retail Trade:

- *This sector's performance indicated strong expansion for the month of November. The sales and employment indexes indicated strong expansion. Only the price index indicated slight contraction.*

Transportation and Warehousing:

- *This sector's performance indicated moderate expansion for the month of November. The sales index indicated strong expansion, which was accompanied by strong production and prices. The sector saw contraction in employment and full goods inventory.*

Trend of Underlying Indicators

The Houston PMI is based on diffusion indices for eight underlying indicators. The net value of each indicator is simply the percentage of respondents who cite a positive shift from the previous month minus the percentage who cite a negative shift. The diffusion index is calculated based on the percent of respondents reporting higher results plus one-half of those responding the same with seasonal adjustments to the Sales/New Orders, Production, Employment, and Prices Paid indices based on an X13 ARIMA forecast. Values above 50 for Sales/New Orders, Production, Employment, Prices Paid, and Lead Times generally point towards expansion and values below 50 signal contraction. Note that the Prices Paid Index may not follow this trend late in an economic expansion. The Inventory measures have an inverse correlation at most forecast horizons, meaning that values below 50 point to expansion and values above

ISM-Houston Business Report

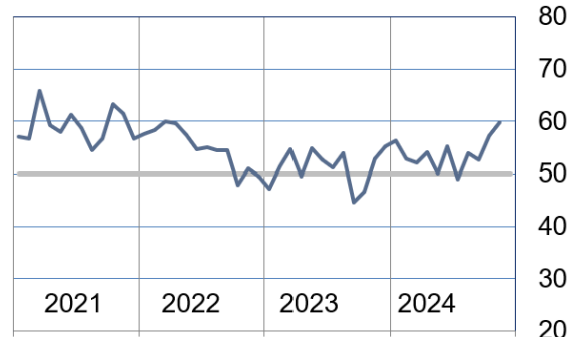
November 2024



Sales/New Orders Index (Seasonally Adjusted)

The sales/new orders index indicated strong expansion in November. Both the manufacturing and nonmanufacturing sectors saw expansion at faster rates than October.

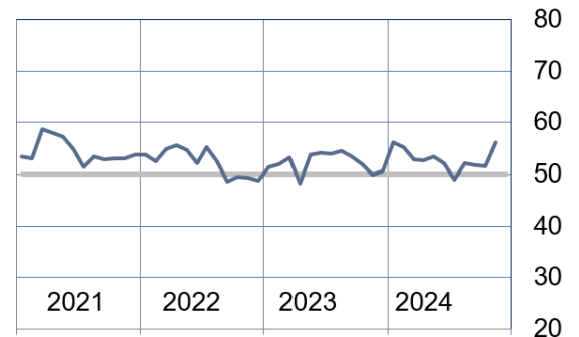
	Higher	Same	Lower	Net	Index
Jun/24	10%	87%	3%	7%	55.1
Jul/24	5%	89%	6%	-1%	49.0
Aug/24	10%	85%	5%	5%	54.0
Sep/24	11%	82%	7%	4%	52.6
Oct/24	18%	74%	8%	10%	57.1
Nov/24	19%	74%	7%	12%	59.8



Production Index (Seasonally Adjusted)

The production index saw good expansion in November. Both manufacturing and nonmanufacturing expanded at roughly the same rate. Nonmanufacturing saw strong month over month expansion.

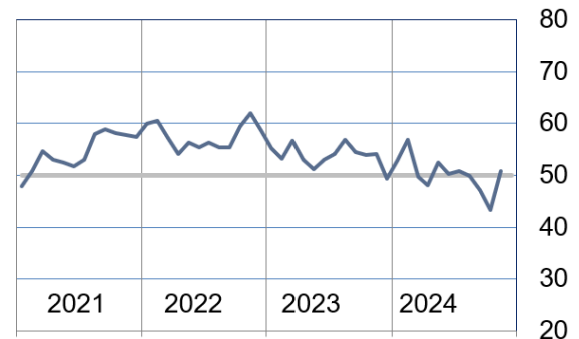
	Higher	Same	Lower	Net	Index
Jun/24	10%	85%	5%	5%	52.0
Jul/24	5%	89%	6%	-1%	48.9
Aug/24	9%	87%	4%	5%	52.0
Sep/24	8%	87%	5%	3%	51.6
Oct/24	8%	89%	3%	5%	51.5
Nov/24	14%	80%	6%	8%	56.1



Employment Index (Seasonally Adjusted)

The employment index moved just into expansion. It was helped by moderate nonmanufacturing expansion. Manufacturing contracted month over month but at a slower rate.

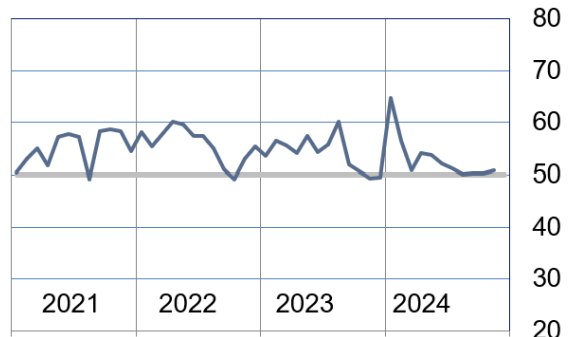
	Higher	Same	Lower	Net	Index
Jun/24	9%	86%	5%	4%	50.2
Jul/24	9%	83%	8%	1%	50.8
Aug/24	5%	86%	9%	-4%	49.9
Sep/24	4%	87%	9%	-5%	47.2
Oct/24	4%	80%	16%	-12%	43.4
Nov/24	8%	85%	7%	1%	50.7



Purchases Index (Not Seasonally Adjusted)

The purchases index expanded at a faster rate in November vs October. The improvement was driven by the nonmanufacturing sector flipping from contracting to expanding. The manufacturing index contracted slightly.

	Higher	Same	Lower	Net	Index
Jun/24	10%	85%	5%	5%	52.1
Jul/24	11%	81%	8%	3%	51.2
Aug/24	8%	84%	8%	0%	50.1
Sep/24	7%	86%	7%	0%	50.3
Oct/24	9%	83%	8%	1%	50.3
Nov/24	9%	84%	7%	2%	50.7



ISM-Houston Business Report

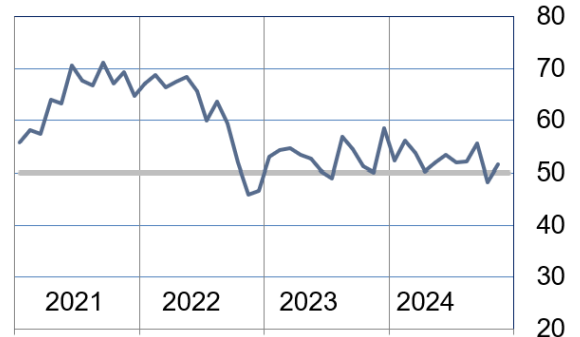
November 2024



Prices Paid Index (Seasonally Adjusted)

The prices paid index expanded slightly in November. The manufacturing sector saw strong expansion while the non-manufacturing sector saw slight contraction. Last month, both contracted.

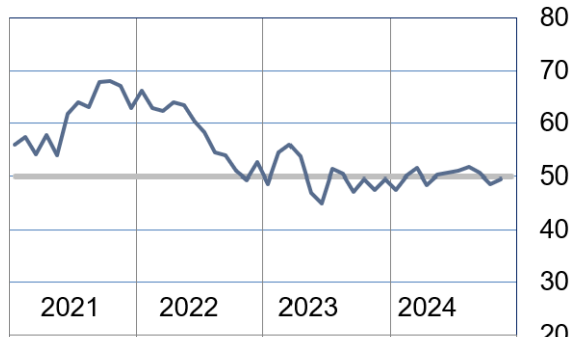
	Higher	Same	Lower	Net	Index
Jun/24	5%	91%	4%	1%	53.3
Jul/24	10%	86%	4%	6%	52.0
Aug/24	9%	85%	6%	3%	52.2
Sep/24	12%	86%	2%	10%	55.6
Oct/24	3%	95%	2%	1%	48.3
Nov/24	9%	87%	4%	5%	51.6



Lead Times Index (Not Seasonally Adjusted)

The lead times index contracted for November. The manufacturing sector expanded at a slightly faster rate than October while the nonmanufacturing sector contracted at a slower rate than October.

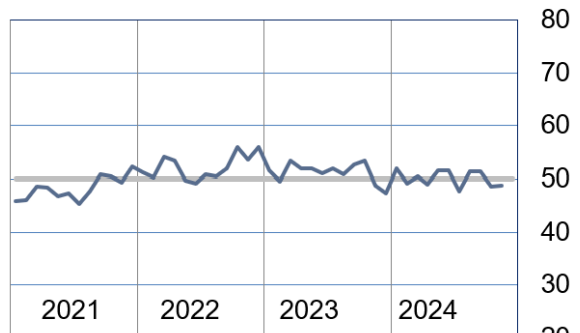
	Higher	Same	Lower	Net	Index
Jun/24	5%	91%	4%	1%	50.6
Jul/24	4%	94%	2%	2%	50.9
Aug/24	8%	88%	4%	4%	51.7
Sep/24	4%	93%	3%	1%	50.6
Oct/24	2%	93%	5%	-3%	48.6
Nov/24	3%	93%	4%	-1%	49.6



Purchased Inventory Index (Not Seasonally Adjusted)

The purchased inventory index contracted in November. The nonmanufacturing sector was just below neutral while the manufacturing sector contracted at a slower rate than October.

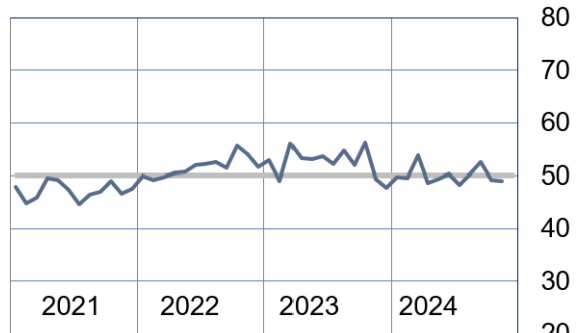
	Higher	Same	Lower	Net	Index
Jun/24	5%	93%	2%	3%	51.5
Jul/24	2%	91%	7%	-5%	47.8
Aug/24	7%	89%	4%	3%	51.4
Sep/24	7%	89%	4%	3%	51.4
Oct/24	4%	89%	7%	-3%	48.6
Nov/24	2%	94%	4%	-2%	48.8



Finished Goods Inventory Index (Not Seasonally Adjusted)

The finished goods inventory index contracted in November. The nonmanufacturing sector was just below neutral, versus neutral in October. The manufacturing sector was neutral for November.

	Higher	Same	Lower	Net	Index
Jun/24	4%	92%	4%	0%	50.3
Jul/24	2%	93%	5%	-3%	48.3
Aug/24	5%	91%	4%	1%	50.3
Sep/24	7%	91%	2%	5%	52.6
Oct/24	4%	91%	5%	-1%	49.3
Nov/24	3%	93%	4%	-1%	49.1



Houston PMI Calculation Methods

The Houston Purchasing Managers Index has been included as an integral part of the ISM-Houston Business Report since the Houston chapter of the Institute for Supply Management started publication of this document in January 1995. The report and index are published monthly as the primary deliverables from a survey of Houston area Supply Chain leaders regarding the status of key activities believed to provide insight into the strength of the economy. The respondents come from diverse organizations including construction, energy, engineering, health care, durable and non-durable goods manufacturing, financial and business services, wholesale and retail trade, and utilities related companies.

The Houston Purchasing Managers Index is determined from diffusion indices of the eight indicators of economic activity covered by the ISM-Houston Business Survey and Report. These underlying indicators are sales or new orders, production, employment, purchases, prices paid for major purchases, lead times from sellers, purchased materials inventory (raw materials and supplies), and finished goods inventories. The respondents to the survey report the direction of each these activities as either up, the same or down in comparison to the previous month. An index for each of these areas is then calculated by subtracting the percentage of respondents that sight a negative shift from the percentage that sight a positive shift. For indicators that are positively correlated with economic growth, this results in an underlying index that points to expansion when it is above zero. Indicators that are negatively correlated with growth point to expansion when they are below zero.

The final Houston PMI is calculated by applying optimal regression factors to each of the eight underlying indicators noted above. These regression factors are determined using standard regression techniques comparing these underlying indicators to the Houston-The Woodlands-Sugar Land Business Cycle Index (Houston BCI), which is reported on a monthly basis by the Federal Reserve Bank of Dallas. This top-level index is converted to a 0 to 100 scale to match that of the national Purchasing Managers Index® (PMI®) which is published monthly by the Institute for Supply Management® (ISM®). Readings over 50 for the HPMI generally indicate manufacturing expansion in the Houston in the near term and readings below 50 show coming manufacturing contraction.

It is important to note that the manufacturing breakeven HPMI does not equate to the breakeven point for the overall Houston economy. ISM-Houston periodically reviews the capability of its correlations and adjusts the regression factors when appropriate. The most recent revision occurred as a result of a review undertaken during the third quarter of 2018, which determined that changes in the Houston economy over the last decade have shifted the intercept of the correlation, causing a neutral Houston PMI to no longer align with a neutral Houston BCI. A Houston PMI of 45 points now equates to a neutral Houston economy as measured by the Houston BCI. A similar offset between the National PMI and the National economy has existed for some time.

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