

NAPM - HOUSTON BUSINESS REPORT

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HOUSTON ECONOMY STILL GROWING

EMPLOYMENT TAKES SIGNIFICANT HIKE

FINISHED GOODS INVENTORIES CATCHING UP

April's Purchasing Manager's Index (PMI) of 64.2 indicates Houston's economic growth to be in its 40th month. A PMI over 60 indicates strong economic growth. Houston's PMI has been over 60 twenty five of the twenty eight months since January 2004, and over 64 all of 2006.

This month's Sales component of the PMI echoes again Houston's vigorous economy with 68 percent of the survey participants reporting higher sales for the month of April than the previous month.

The PMI Production and Employment figures are also strong indicators of Houston's robust economic health. The percentage of purchasing professionals reporting these in the "up" category were 52 and 48 percent respectively. Employment had a significant increase in growth factoring 40% higher in April as opposed to March.

Prices Paid for Goods and Services and Purchases remained steady with 80% of those surveyed reporting the components either "up" or "same" compared to March.

Another very strong component this month is Lead Times for Goods with an index of 56 for April. Lead Times continuing to extend indicate raw materials and parts continue in short supply.

Another component that increased significantly is Purchased Goods Inventory with an index of 20, indicating manufacturers are beginning to build inventories to stay ahead of the current high demand for products and expect record sales to continue. Interestingly the Purchased Goods Inventory spiked nearly this high exactly one year ago when in April 2005 the index was 17. The normal index for this element hovers closer to zero.

Items in Short Supply: Memory processors, lead-free semiconductors, castings, forgings, rigs, inland barge and land rigs, gasoline, vaccine, valves, steel, switches, hydraulic valves and actuators, hydraulic cylinders, (valve) seals and packing.

Prices on the UP Side: Wax, freight costs and fuel surcharges, hard drives, various lead-free electronic components, energy, metal, petroleum-based products, engineered products and fabrications, machine work, bronze, marine equipment, tugs, barges, gasoline, diesel fuel, fasteners, acrylic tube, titanium bar, copper parts, PVC parts, surcharges on all raw stock and energy, rubber goods, castings, forgings.

Prices on the DOWN Side: Plasticizer, DINP, homopolymer, polyethylene resins, calcium carbonate, MRO materials, computers and components.

COMMENTS FROM SURVEY PARTICIPANTS

“Rig count drives our business to new records in sales.”

“Customer orders are still coming in at a strong rate.”

“Concerned that energy costs in third and fourth quarters and hurricanes in the Gulf could cause us to loose the gains made in the first four months of the year.”

“Sales are good; (where this is a) normal slow period for our industry.”

“This is the time of year for a slow down in our business; hoping to ramp up soon.”

“Seems (the trend is) upper management pushing middle management to perform more tasks with fewer people, however the direction provided is less than sufficient to do the job.”

“We are overflowing with orders. Looking to buy more equipment and that will require more skilled help, which is hard to find.”

“First quarter results are outstanding. Corporate folks are happy. Business continues to outstrip our capacity to produce. That’s a good problem, but it does create tension internally and with our customers.”

“We are hiring new people and management is creating new marketing and sales plans. Two of our factories that have been running at 65 to 85% capacity are now at 100% and are (scheduled) at capacity until 2008.”

“After completing two record-breaking years our back log is the highest in our history.”

“Staff shortages are causing delays in OCTG inspections. Immigration and naturalization authorities (INS) have raided some inspections yards looking for illegal worker.”

April 2006

Index 2005/2006 (9 months)

	UP	SAME	DOWN	N/A	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR
Sales	68%	20%	08%	04%	+46	+45	+26	+50	+44	+59	+47	+55	+60
Production	52%	20%	12%	16%	+31	+31	+17	+39	+35	+63	+33	+50	+40
Employment	48%	36%	08%	08%	+34	+27	+20	+14	+17	+30	+33	+29	+40
Purchases	44%	36%	16%	04%	+38	+35	+23	+39	+35	+53	+33	+46	+28
Prices Paid (Major Purchases)	40%	40%	12%	08%	+22	+42	+62	+55	+41	+40	+40	+46	+28
Lead Times (from Sellers)	60%	32%	04%	04%	+45	+38	+37	+34	+38	+37	+33	+42	+56
Purchased Inventory	28%	24%	16%	32%	+17	+11	+15	+00	+00	+16	+06	+25	12
Finished Goods Inventory	32%	28%	12%	28%	00	+10	+06	+00	-02	-6	-10	-4	20

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

NAPM - Houston	05/05	06/05	07/05	08/05	09/05	10/05	11/05	12/05	01/06	02/06	03/06	04/06
Composite PMI	62.9	61.0	63.7	62.9	62.1	59.2	63.9	62.5	67.9	64.4	66.0	64.2

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