

NAPM - HOUSTON BUSINESS REPORT

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HOUSTON ECONOMY STEADY AND STRONG

EMPLOYMENT ON THE RISE

ALONG WITH PRICES AND LEADTIMES

The August Purchasing Managers Index (PMI) of 61.0 continues to reflect a very healthy overall economic climate for Houston. February 2004 began the trend of the PMI holding above 60, and it has only dipped below 60 three times since.

Employment growth showed strong in August with thirty-nine percent of the reporting firms hiring new employees and only four percent stating reductions in their manpower. Fifty-seven percent of survey respondents reported no change in their employment levels.

August Sales were up compared to July's, according to forty-six percent of survey participants, and forty-three percent of those reporting said Sales were equal to the previous month. Sales indices for the past three summer months are down considerably from the first five months of the year.

Production, the third top-rated component of the PMI, was up according to those responding, but at a significantly slower rate of growth than in recent months. The Production index fell to 7 from 27 in July, and from the 2006 average of 37.7.

Forty-three percent of the survey contributors experienced higher prices in August for major equipment. Conversely, zero percent of those responding reported lower prices.

Long lead times continue, reflected by the fact that only seven percent of those participating reported them as shorter than in July, whereas ninety-three percent of the responses sat as longer or the same. Coupled with the lower production and inventory levels reported this month by the Houston area supply management professionals, companies can expect sales to be adversely affected if these trends continue.

Items in Short Supply: Electronic components, 24", 30", and 36" OD welded-seam line pipe, plant services, marine equipment, barge rigs, land rigs, valves, stainless steel ring gaskets, bar stock, PVDF plastic resin, bearings, tires, machine shop availability.

Prices on the UP Side: Copper, motors, pump parts, skid painting, machining of plastic and metal parts, stainless steel, monel, 18"-24" A106B carbon steel tubular goods, hydraulic cylinders, capital equipment, OCTG tubing and casing, all marine equipment and rig rates, freight costs, transportation services, fuel surcharges, plasticizer, stabilizer, calcium carbonate, all stainless steel products, lubricants, metal, plastics, foam, labor costs, copper wire and cable, machine/fabricated parts, paper, semiconductors, polyethylene resins.

Prices on the DOWN Side: Personal computers, office equipment, some electronics.

COMMENTS FROM SURVEY PARTICIPANTS

"It is interesting to see the money spent within the energy industry. The profits are flowing down to individuals which is driving up real estate prices, labor costs, and the like."

"Competition for qualified people is fierce!"

"Inquiries / quotations are still strong, but one segment of our business has softened. Suppliers continue to report they are busy and have good backlogs."

"All customers are saying four more years of this."

"Our inventory is high and we are reducing it."

"Everyone seems to be running three to four weeks behind on delivery. We are working some people seven days a week."

"Outlook is good for domestic oil and gas exploration and production for the balance of this year."

"Diesel fuel and electricity costs are reducing operating profits."

"Our business continues to be very strong."

"Availability of marine equipment continues to be tight, but there seems to be a slight improvement on ability to locate tugs and barges. Barge rigs and land rigs continue to be locked up for months."

"While I'm glad to see business pick up, we could use a little better organization of our projects and planning to be able to implement into the schedule without so much disruption."

"These are fun times."

"Lead times for commodity electronic components are increasing due to labor shortage."

"Most of our major raw materials appear headed for another round of (price) increases. In addition, our freight costs are increasing for less service. Conversations with our suppliers eventually end up with a discussion regarding the rail service, or lack thereof. Now everyone knows what it is like to deal with an unregulated monopoly."

"September price increases for stainless steel products will (bring the cost) a full 50% (higher) compared to 2005."

"We are expanding our weld shop, bay areas, and break room, building new warehouses, remodeling offices, and leasing more office space. (These are) major capital expansions to hold all new people and machines. Lots of new CNC machines purchased."

"Lead times are extending on manufactured parts."

"Operating at capacity. If we had more equipment, and personnel to man it, we could put it all to work today. Significant lead times for new construction."

"Another good month for sales. Expect (increased sales to) continue through at least the end of this year."

"All steel related products continue to trend up and have longer deliveries."

"Very slow for several months."

August 2006

Index 2005/2006 (9 months)

	UP	SAME	DOWN	N/A	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
Sales	46%	43%	11%	00%	+44	+59	+47	+55	+60	+55	+37	+20	+35
Production	25%	36%	18%	21%	+35	+63	+33	+50	+40	+29	+22	+27	+07
Employment	39%	57%	04%	00%	+17	+30	+33	+29	+40	+29	+18	+27	+35
Purchases	39%	50%	07%	04%	+35	+53	+33	+46	+28	+29	+33	+40	+32
Prices Paid (Major Purchases)	43%	46%	00%	11%	+41	+40	+40	+46	+28	+48	+52	+33	+43
Lead Times (from Sellers)	39%	54%	07%	00%	+38	+37	+33	+42	+56	+52	+59	+40	+32
Purchased Inventory	32%	11%	29%	28%	+00	+16	+06	+25	12	+30	+25	+23	+04
Finished Goods Inventory	21%	39%	25%	14%	-02	-6	-10	-4	20	+18	+03	-06	-04

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

NAPM – Houston	09/05	10/05	11/05	12/05	01/06	02/06	03/06	04/06	05/06	06/06	07/06	08/06
Composite PMI	62.1	59.2	63.9	62.5	67.9	64.4	66.0	64.2	62.0	61.1	60.4	61.0

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