

Embargoed Until: September 7, 2017, 11:00 a.m. Eastern Daylight Time

Supplemental ISM *Report On Business*® Hurricane Harvey Report

FOR RELEASE: September 7, 2017

Contact: Kristina Cahill

Report On Business® Analyst

ISM®, ROB/Research Manager

Tempe, Arizona

[480-752-6276](tel:480-752-6276), Ext. 3015

E-mail: kcahill@instituteforsupplymanagement.org

ISM Addresses Potential Economic Impact of Hurricane Harvey.

TEMPE (September 7, 2017) – Hurricane Harvey has struck a significant blow to the Houston, Texas metro area, home to the sixth largest import terminal in the world, as well as all of the shipping lanes in the Gulf Coast area. Given the strong economic linkages between the gulf coast and the country as a whole, Harvey is a disaster that will impact the U.S. economy far beyond that of the gulf coast.

On Thursday, August 31, 2017, Institute for Supply Management® opened a special survey that asked members of the Manufacturing and Non-Manufacturing Business Survey Committees to assess as best they could how Harvey might impact six key business metrics and whether they may be impacted by shortages of input materials due to Harvey.

"Our hearts are with the individuals and businesses that have been affected by Hurricane Harvey. The human and corporate impact are significant. Indeed, the results of our ISM® *Report On Business*® Survey indicate ongoing

challenges for US companies with pricing, supplier deliveries, and certain commodities because of the storm. We are encouraged, however, by data indicating that the effect on production, new orders, and employment will be relatively minimal," said Thomas W. Derry, Chief Executive Officer of Institute for Supply Management®.

"As we continue to see the implications of Hurricane Harvey and prepare for Hurricane Irma, I hope that we can continue to come together as a community to support those in need."

The survey found that two-thirds (67 percent) of responding supply managers believe input materials pricing will be at least somewhat negatively impacted over the next three months with greater than one-quarter (27 percent) expecting prices to be negatively or very negatively impacted. Relatedly, a majority (56 percent) of respondents believe supplier deliveries will be at least somewhat negatively impacted over the next three months with nearly one-fifth (19 percent) expecting deliveries to be negatively or very negatively impacted.

The manufacturing PMI® and non-manufacturing NMI® summarize supply managers' reports as to how their organizations fared in the past month with regard to a set of key business metrics. For manufacturing, those metrics are new orders, production, employment, supplier deliveries, and inventories of input materials. For non-manufacturing, those metrics are new orders, business activity (the analog of production), employment, and supplier deliveries. The first section of the special survey asked members of the Manufacturing and Non-Manufacturing Business Survey Committees to assess as best they could how Harvey might impact those metrics over the next three months and six months. Additionally, both committees were asked about potential impact on input materials pricing and non-manufacturing committee members were also asked about inventories of input materials.

Broadly speaking, the six metrics organized by severity of impact into three groups. Prices of input materials and supplier deliveries of input materials, not surprisingly, comprised the group of metrics most likely to be negatively impacted by Harvey. Production, new orders, and inventories of input materials comprised the second group. Employment was the only metric in the third group of least impacted metrics. Notably, even though the clean-up

and rebuilding of the Texas coast is only in its earliest stages, more than 95 percent of respondents were consistently able to assess the impact of Harvey on these metrics. This very low level of uncertainty is unusual.

Most Impacted Metrics

Respondents expect that prices and speed of delivery will be most strongly impacted. Overall, 67 percent of respondents expect at least some negative impact to prices over the next three months with 27 percent of respondents expecting negative to very negative impacts. Even six months out, a majority (56 percent) expect at least some negative impact on prices. The manufacturing sub-sectors are more concerned than their non-manufacturing counterparts about negative price impacts three and six months out.

The findings with regard to supplier deliveries are similar, but less dramatic. Overall, 54 percent of respondents expect at least some negative impact to deliveries over the next three months with 19 percent expecting negative to very negative impacts. Six months out, a more than one-third (36 percent) expect at least some negative impact on prices. The manufacturing sub-sectors are notably more concerned than their non-manufacturing counterparts about slowed deliveries three and six months out.

Over the next three and six months, how do you think the damage of Harvey will impact your business with regard to ...

Prices of Input Materials

	3 Months			6 Months		
	Consolidated (Weighted)	Manufacturing	Non- Manufacturing	Consolidated (Weighted)	Manufacturing	Non- Manufacturing
Very Negative	3%	8%	2%	2%	4%	2%
Negative	24%	28%	23%	13%	18%	12%
Somewhat Negative	40%	36%	40%	41%	38%	42%
Neither	26%	24%	26%	37%	36%	38%
Somewhat Positive	1%	3%	1%	1%	3%	1%

Positive	2%	1%	2%	2%	0%	2%
Very Positive	1%	0%	1%	0%	0%	0%
Not sure	3%	3%	3%	3%	3%	3%

Over the next three and six months, how do you think the damage of Harvey will impact your business with regard to ...

Supplier Deliveries of Input Materials

	3 Months			6 Months		
	Consolidated (Weighted)	Manufacturing	Non- Manufacturing	Consolidated (Weighted)	Manufacturing	Non- Manufacturing
Very Negative	2%	5%	2%	1%	1%	1%
Negative	17%	24%	16%	4%	4%	4%
Somewhat Negative	37%	43%	36%	31%	39%	30%
Neither	39%	26%	41%	60%	51%	61%
Somewhat Positive	0%	0%	0%	0%	1%	0%
Positive	1%	1%	2%	1%	1%	1%
Very Positive	0%	0%	0%	0%	0%	0%
Not sure	3%	1%	3%	3%	3%	3%

Moderately Impacted Metrics

Respondents expect that production/business activity, new orders, and inventory level will be somewhat impacted by Harvey. For each of these metrics overall, three months out, a majority of respondents feel Harvey's impact will be neither positive nor negative. In the near-term, about one in five are concerned about somewhat negative impacts on these metrics, but only roughly one in ten foresee more negative impacts. Six months out, only a very small proportion of respondents are concerned about negative or very negative impacts. Because Texas is known for producing manufacturing inputs, it's not surprising that manufacturing sub-sectors are more concerned as compared to their non-manufacturing counterparts about negative impacts three and six months out.

Over the next three and six months, how do you think the damage of Harvey will impact your business with regard to ...

Production/Business Activity

	3 Months			6 Months		
	Consolidated (Weighted)	Manufacturing	Non- Manufacturing	Consolidated (Weighted)	Manufacturing	Non- Manufacturing
Very Negative	2%	1%	2%	1%	1%	2%
Negative	8%	7%	8%	0%	1%	0%
Somewhat Negative	22%	26%	21%	14%	12%	15%
Neither	55%	48%	57%	70%	64%	71%
Somewhat Positive	5%	7%	4%	8%	14%	7%
Positive	5%	5%	5%	4%	5%	3%
Very Positive	2%	4%	2%	1%	3%	1%
Not sure	2%	1%	2%	2%	2%	2%

Over the next three and six months, how do you think the damage of Harvey will impact your business with regard to ...

New Orders

	3 Months			6 Months		
	Consolidated (Weighted)	Manufacturing	Non- Manufacturing	Consolidated (Weighted)	Manufacturing	Non- Manufacturing
Very Negative	1%	0%	1%	1%	0%	1%
Negative	4%	2%	4%	0%	1%	0%
Somewhat Negative	18%	21%	18%	13%	11%	13%
Neither	59%	49%	60%	70%	57%	72%
Somewhat Positive	7%	12%	6%	10%	18%	9%
Positive	6%	6%	6%	3%	7%	2%

Very Positive	4%	6%	3%	1%	2%	1%
Not sure	3%	4%	2%	2%	3%	2%

Over the next three and six months, how do you think the damage of Harvey will impact your business with regard to ...

Inventories of Input Materials

	3 Months			6 Months		
	Consolidated (Weighted)	Manufacturing	Non- Manufacturing	Consolidated (Weighted)	Manufacturing	Non- Manufacturing
Very Negative	2%	3%	2%	1%	1%	2%
Negative	10%	17%	8%	3%	4%	3%
Somewhat Negative	20%	28%	19%	12%	17%	11%
Neither	65%	50%	67%	77%	74%	77%
Somewhat Positive	0%	1%	0%	2%	0%	2%
Positive	1%	0%	1%	0%	0%	0%
Very Positive	0%	1%	0%	0%	1%	0%
Not sure	3%	1%	3%	4%	3%	4%

Least Impacted Metrics

Employment is the key metric least likely to be negatively impacted by Harvey. More than 80 percent of respondents expect that employment will be neither positively, nor negatively impacted by Harvey. Interestingly, there are indications that employment in non-manufacturing sectors may be slightly more negatively impacted than manufacturing sub-sectors.

Over the next three and six months, how do you think the damage of Harvey will impact your business with regard to ...

Employment

	3 Months			6 Months		
	Consolidated (Weighted)	Manufacturing	Non- Manufacturing	Consolidated (Weighted)	Manufacturing	Non- Manufacturing
Very Negative	1%	1%	1%	1%	0%	1%
Negative	4%	1%	5%	0%	0%	0%
Somewhat Negative	7%	2%	7%	3%	4%	3%
Neither	82%	89%	81%	89%	89%	89%
Somewhat Positive	1%	4%	1%	3%	4%	3%
Positive	3%	1%	3%	2%	1%	2%
Very Positive	0%	1%	0%	0%	1%	0%
Not sure	2%	1%	2%	2%	1%	2%

Commodities Potentially in Short Supply

Predictably, respondents expect that fuel and petrochemical feed stocks and derivatives could be in short supply three months out.

The following key commodities were most often mentioned as those that could potentially be in short supply over the next three months: Fuel; Plastic Resins; Chemicals; Electronic Components; Feedstocks, Chemicals (raw); Gasoline; Polypropylene; Resin Based Products; Building Materials; Electrical Components; LDPE; Plasticizer; Caustic Soda; Ethylene; HDPE; LLDPE; Methyl Methacrylate; Petroleum Based Products; and Isocyanate. Many more individual commodities were mentioned, but not frequently enough to list here.

With regard to industries which may be impacted by shortages, the following sectors mentioned the broadest number of commodities: Plastics & Rubber Products; Food, Beverage & Tobacco Products; Wholesale Trade; Machinery; Chemical Products; Transportation Equipment Manufacturing; Professional, Scientific, & Technical Services; Utilities; Apparel, Leather & Allied Products; Computer & Electronic Products; Furniture & Related

Products; Government; Construction; Paper Products; and Primary Metals. In all, 27 of the 36 industries reported potential commodity shortages.

Methodology

Data collection for this study began on Thursday, August 31, and concluded on Wednesday, September 6, 2017. Responses from all 18 manufacturing industries and 17 of 18 non-manufacturing industries were included in the above analysis. The “consolidated (weighted)” results are an average of the manufacturing and non-manufacturing results weighted 12% and 88%, respectively. This weighting was imposed so as to more accurately reflect the current composition of US GDP.

About This Report

The data presented herein is obtained from a survey of manufacturing and non-manufacturing supply executives based on information they have collected within their respective organizations. ISM[®] makes no representation, other than that stated within this release, regarding the individual company data collection procedures. The data should be compared to all other economic data sources when used in decision-making.

Data and Method of Presentation

The **Manufacturing and Non-Manufacturing ISM[®] Report On Business[®]** is based on data compiled from purchasing and supply executives nationwide. Membership of the Non-Manufacturing Business Survey Committee is diversified by NAICS, based on each industry’s contribution to gross domestic product (GDP). The Non-Manufacturing Business Survey Committee responses are divided into the following NAICS code categories: Agriculture, Forestry, Fishing & Hunting; Mining; Utilities; Construction; Wholesale Trade; Retail Trade; Transportation & Warehousing; Information; Finance & Insurance; Real Estate, Rental & Leasing; Professional, Scientific & Technical Services; Management of Companies & Support Services; Educational Services; Health Care & Social Assistance; Arts, Entertainment & Recreation; Accommodation & Food Services; Public Administration; and Other Services (services such as Equipment & Machinery Repairing; Promoting or Administering Religious Activities; Grantmaking; Advocacy; and Providing Dry-Cleaning & Laundry Services, Personal Care Services, Death

Care Services, Pet Care Services, Photofinishing Services, Temporary Parking Services, and Dating Services). Manufacturing Business Survey Committee responses are divided into the following NAICS code categories: Food, Beverage & Tobacco Products; Textile Mills; Apparel, Leather & Allied Products; Wood Products; Paper Products; Printing & Related Support Activities; Petroleum & Coal Products; Chemical Products; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliances & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous Manufacturing (products such as medical equipment and supplies, jewelry, sporting goods, toys and office supplies).

The **ISM[®] Report On Business[®]** surveys are sent out to Manufacturing and Non-Manufacturing Business Survey Committee respondents the first part of each month. Respondents are asked to **ONLY** report on information for the current month. ISM[®] receives survey responses throughout most of any given month, with the majority of respondents generally waiting until late in the month to submit responses in order to give the most accurate picture of current business activity. ISM[®] then compiles the report for release on the first and third business day of the following month.

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