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ISM - HOUSTON BUSINESS REPORT

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Press Release

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by Ross Harvison

Sales, Production and Prices Rebound

Inventories Show Potential Return to Norm Levels

The Houston area economy continued its 59 month expansion in July according to area supply professionals surveyed by the Houston affiliate of the Institute for Supply Management (ISM) for its latest ISM-Houston Business Report. Four of the eight underlying indicators are now pointing to strong growth near term. Two others, while weakening this month, continue to display growth. The remaining two show a potential for moderate contraction near term.

The Houston Purchasing Managers Index (H-PMI) rose to **56.4%** in July 2014. The results showed strong gains in Sales/New Orders, Production, and Prices. Additionally, Purchases for future production remained strong. Employment and Lead Times both lost ground, but remain positive. Potentially of greatest note is that Finished Goods Inventories, while still pointing to contraction near term, made a strong move towards the positive side.

The New Orders Index was up 20 points to 37, Production was up 12 to 16, and Prices was up 13 to 26. The Purchases Index was flat at 21. The Employment index was down 8 to 5 and Lead Times was also down 8 to 5. The Finished Goods Inventory Index fell 20 points to 5 and the Purchased Inventory index gained 1 to 5. Note that, as explained below, these underlying indicators are on a different scale than the H-PMI.

The Houston PMI indicates likely shifts in Production three or four months in advance. This indicator has a possible range of 0 to 100%. Readings over 50 generally indicate production expansion over the near term, while readings below 50 show coming contraction. This index is based on diffusion indices for eight underlying indicators: New Orders, Production, Employment, Purchases, Prices, Lead Times, Purchase Inventory and Finished Goods Inventory. The value of these indicators is simply the percentage of respondents who cite a positive shift from the previous month minus the percentage who cite a negative shift. Values above zero for the first six indicators point towards expansion and values below zero signal contraction. The two Inventory indicators are inversely correlated to economic activity, meaning that lower inventories point to expansion and higher inventories point to contraction.

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 greater Houston business community.

The ISM-Houston Business Report began in January 1995
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