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## ISM - HOUSTON BUSINESS REPORT

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### Press Release

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by Ross Harvison

## Economy Remains Strong - Some Mixed Signals

### Production Shows Potential Slowing While Employment Improves

The Houston area economy reaching its 61<sup>th</sup> month of continuous growth in September according to area supply professionals surveyed by the Houston affiliate of the Institute for Supply Management (ISM) for its latest ISM-Houston Business Report. Six of the eight underlying indicators are predicting expansion near term. The remaining two are either neutral or showing a moderate potential for contraction.

The Houston Purchasing Managers Index (H-PMI) rose to **58.1%** in August 2014. The Sales/New Orders, Employment, Purchases, Prices, Lead Times, and Purchased Inventory indices all continue to point to expansion near term. The Production Index fell to neutral this month and the Finished Goods Inventory index continued to point to possible contraction.

The Employment index was up considerably from 10 to 27, as was the Prices index, which moved from 33 to 50, and Lead Times, which rose 12 to 41. Purchases was also up, rising 8 points to 18. New Orders fell modestly from 19 points to 18. Production fell significantly from 14 to 0, marking its first time near the contraction threshold in more than five years. The Purchased Inventory index was flat at minus 5 and the Finished Goods Inventory Index fell 9 points 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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