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ISM - HOUSTON BUSINESS REPORT

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Houston Economy Continues to Roll

Production, Employment and Purchases Grow at a Faster Pace

The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that Houston's economy, having completed 62 weeks of continuous growth, is now expanding at a very strong pace. Six of the eight underlying indicators are predicting expansion near term. The remaining two are showing a moderate potential for contraction.

The Houston Purchasing Managers Index (H-PMI) rose to **58.5%** in October 2014. The Employment, Purchases, Prices and Lead Times indices all indicate robust expansion near term. The Sales/New Orders and Production indices, while not as strong as these four indices, are also pointing to expansion. Only the Purchased Inventory and Finished Goods Inventory indices are pointing to a possible contraction.

The Employment index rose this month from 27 to 38, as did the Purchases index which was up from 18 to 38. The Production index recovered from last month's drop, rising from neutral to 15 points. The Prices and Lead Times indices both fell, but remained strong at 35 and 32 respectively. Sales/New Orders also fell, ending down 15 to 3. The Purchased Inventory index rose 8 points to end at plus 3, returning the index to predicting contraction near term. The Finished Goods Inventory Index rose 1 point to 6. 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.

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