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ISM - HOUSTON BUSINESS REPORT

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Press Release

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by Ross Harvison

Local Economy Shows Signs of Potential Slowing

Employment Remains Strong While Other Indicators Weaken

The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that our economy grew at a slower pace in November. Five of eight underlying indicators continue to predict expansion near term, one is neutral, and the other two point to potential contraction.

The Houston Purchasing Managers Index (H-PMI) fell to **54.3%** in November 2014. The Employment Index remained strong. Production, Purchases, Prices and Lead Times continue to point to expansion, but are growing at a slower pace. The Sales/New Orders Index moved from expansion to potential contraction for the first time in more than five years and the Finished Goods Inventory Index stayed on the contraction side. The Purchased Inventory Index move to neutral from potential contraction.

The Employment index fell marginally this month from 38 to 37, as did Production which was down from 15 to 13. Sales/New Orders fell from 3 points to minus 7, Purchases dropped from 38 to 10, Lead Times was down from 32 to 13, and Prices decreased from 35 to 27. Finished Goods Inventories moved up from 6 to 17 and Purchased Goods Inventory move down from 3 to neutral (0). 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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