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ISM - HOUSTON BUSINESS REPORT

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Press Release

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by Ross Harvison

Potential Slowdown Due to Falling Crude Prices?

Finished Goods Inventories, Lead Times and Prices Paid Show Strength

The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that our economy is now showing a potential for contraction near term. While four of eight underlying indicators are now predicting expansion near term, the other half are showing a potential for economic contraction.

The Houston Purchasing Managers Index (H-PMI™) fell from 51.5% to **48.9%** in January. The seasonally adjusted Finished Goods Inventory and Prices Paid Indices moved sharply towards expansion, while the Lead Times Index continued to indicate growth near term. The Employment Index, while staying positive, moved down significantly from its late 2014 highs. The Sales/New Orders, Production, and Purchased Inventory Indices all moved from showing expansion to potential contraction during the month. The Purchases Index also moved marginally into the contraction range.

Of significant note in this month's numbers, not all Houston area industries are being negatively impacted by the fall in crude oil prices. While the overall Sales/New Orders, Production, and Purchases Indices fell below 50% this month, much of this downturn was driven by weakness in the Oil and Gas Exploration area along with its supporting industries. Sales/New Orders, Production and Purchases increased for Utilities, Durable Goods Manufacturing unrelated to Oil and Gas, and to a lesser extent for Non-Durable Goods Manufacturing. While not as strong, the Lead Times Index showed a similar correlation for the same industries.

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: Sales/New Orders, Production, Employment, Purchases, Prices Paid, Lead Times, Purchase Inventory, and Finished Goods Inventory.

Note that ISM-Houston has changed the calculation method used to determine the H-PMI™. This change was made to improve the accuracy of the H-PMI™ as a forecast tool for the Houston economy. See the ISM-Houston Business Report for additional details.

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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