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ISM - HOUSTON BUSINESS REPORT

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Press Release

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by Ross Harvison

New Orders, Production and Employment Indices Fall

Lower Finished Goods Levels and Prices Paid Keep Overall Index near Neutral

The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that our economy showed a moderate potential for contraction near term for the second month. Six of the eight underlying indicators are now predicting potential contraction, while the remaining two are showing strong support for economic expansion.

The Houston Purchasing Managers Index (H-PMI) rose modestly from 48.9% to **49.3%** in February. The seasonally adjusted Finished Goods Inventory and Prices Paid Indices continued to show a strong potential for expansion. All other indicators (Sales/New Orders, Production, Employment, Purchases, Lead Times, and Purchased Inventory) are now indicating possible contraction, with the Employment and Lead Times indices pointing to contraction for the first time in five years.

As with last month's results, our respondents indicated that not all Houston area industries are being negatively impacted by the fall in crude oil prices. The February responses confirmed that much of the current downturn has been driven by weakness in the Oil and Gas Exploration area along with its supporting industries. Sales/New Orders continued to be strong for Durable Goods Manufacturing unrelated to Oil and Gas, and to a lesser extent for Non-Durable Goods Manufacturing. Production, Employment, Purchases, Lead Times and Purchased Inventory are now down for almost all industries reporting.

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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