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ISM - HOUSTON BUSINESS REPORT

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Press Release

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by Ross Harvison

Trend Towards Contraction in the Oil Sector Continues

Health Care, Construction, and Manufacturing Not Related to Energy Remain Strong

The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that our economy showed a potential for contraction near term for the fourth month in a row. Continuing the trend seen during this period, six of the eight underlying indicators are predicting potential contraction, while the remaining two are showing support for economic expansion.

The Houston Purchasing Managers Index (H-PMI) fell from 44.5% to **42.7%** in April. The seasonally adjusted Finished Goods Inventory and Prices Paid Indices continued to point to expansion, while all other indicators (Sales/New Orders, Production, Employment, Purchases, Lead Times, and Purchased Inventory) are pointing to possible contraction. Sales/New Orders, Purchases, and Lead Times all fell more than 4 percentage points.

Continuing the trend of the last quarter, Oil and Gas related industries, including those with a high proportion of sales to this sector, have been among the hardest hit by the fall in crude oil prices. Industries with limited sales to the Oil and Gas Exploration area continue to report neutral or better results. Health Care was strong again this month. Durable Goods Manufacturing unrelated to the energy sector, Non-Durable Goods Manufacturing, and Construction reported results that were relatively flat with last month, indicating a potential for moderate expansion in these areas.

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.

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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