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ISM - HOUSTON BUSINESS REPORT

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Press Release

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by Ross Harvison

Trend Towards Contraction Continues at a Slower Pace

Leveling Out of Rig Counts and Oil Prices May Point to Stabilization

The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that our economy continued to show weakness this month, however the trend towards contraction is slowing. While six of the eight underlying indicators continue to predict potential contraction, the rate of potential contraction slowed considerable for five of these six indicators. The remaining two indicators continue to show support for economic expansion.

The Houston Purchasing Managers Index (H-PMI) rose from its April level of 42.7% to **46.1%** in May. The seasonally adjusted Finished Goods Inventory and Prices Paid Indices remained on the positive side, while all other indicators (Sales/New Orders, Production, Employment, Purchases, Lead Times, and Purchased Inventory) continue to point to possible contraction. However, while remaining below neutral, the Sales/New Orders, Employment, Purchases, Prices Paid, and Lead Times indices all rose more than 3 percentage points.

Continuing the trend since early in the year, 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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