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ISM - HOUSTON BUSINESS REPORT

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Press Release

August 10, 2015

by Ross Harvison

Houston PMI Rises on Increasing Sales and Production

Oil and Gas Still Weak; Non-Durable Goods Manufacturing Strengthens

The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals continues to indicate slowing in the Houston economy during the coming quarter, however, fewer underlying indicators are now showing potential contraction. Two indicators moved above neutral for the first time since December, joining two others that have shown strength throughout the fall in crude prices. Four of the eight indicators continue to show weakness, but the rate of potential contraction is slowing for two of these indicators.

The Houston Purchasing Managers Index (H-PMI) rose just over two percentage points from its June level of 46.7% to **49.1%** in July. The seasonally adjusted Finished Goods Inventory and Prices Paid Indices remain on the positive side. Sales/New Orders and Production moved from indicating potential contraction to expansion. Employment, Lead Times, Purchases, and Purchased Inventory continue to point to possible contraction, with the rate slowing for Employment and Lead Times.

Oil and Gas related industries, including those areas with a high proportion of sales to this sector, remain weak. Trade also continues to show contraction near term. Construction, Financial Services, and Professional Services remain near or just above neutral. Consistent with the long term trend, Health Care continues at a strong level. Non-durable Goods Manufacturing shows continued strengthening on improving Sales and Production. Of concern in this sector is high finished goods inventories.

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.

The ISM-Houston Business Report began in January 1995
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