

Sales, Production and Prices Rebound

Inventories Show Potential Return to Normal Levels

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The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that Houston's economy showed strengthening in July. Four of the eight underlying indicators are now pointing to strong growth near term. Two others, while weakening this month, continue to display growth. The remaining two show a potential for moderate contraction near term.

The Houston Purchasing Managers Index (H-PMI) rose to 56.4% in July 2014. Readings above 50% generally indicate near term economic expansion. The results showed strong gains in Sales/New Orders, Production, and Prices. Additionally, Purchases for future production remained strong. Employment and Lead Times both lost ground, but remain positive. Potentially of greatest note is that Finished Goods Inventories, while still pointing to contraction near term, made a strong move towards the positive side.

The New Orders Index was up 20 points to 37, Production was up 12 to 16, and Prices was up 13 to 26. The Purchases Index was flat at 21. The Employment index was down 8 to 5 and Lead Times was also down 8 to 5. The Finished Goods Inventory Index fell 20 points to 5 and the Purchased Inventory index gained 1 to 5. Note that these underlying indicators are on a different scale than the H-PMI. Readings above zero for all but the Inventory Indicators generally forecast expansion. The Inventory Indicators point to economic expansion below zero and contraction above.

Indices at a Glance

Index	Jul	Jun	Change	Track	Rate	Trend* (Mos)
Houston PMI	56.4	52.4	4.0	Growing	Faster	59
Sales/New Orders	37	17	20	Growing	Faster	59
Production	16	4	12	Growing	Faster	56
Employment	5	13	-8	Growing	Slower	19
Purchases	21	21	0	Growing	Stable	19
Prices	26	13	13	Increasing	Faster	24
Lead Times	5	13	-8	Increasing	Slower	57
Purchased Inventory	5	4	1	Increasing	Stable	5
Finished Goods Inventory	5	25	-20	Increasing	Slower	3

* Months on current track



Commodities Reported Up in Price: Software, copolymer resins, pharmaceuticals, high alloy steels, skilled labor, mechanical construction

Commodities Reported Down in Price: Carbon steel, computers and computer components

Commodities Reported in Short Supply: PSV repair shop availability, vinyl acetate monomer, custom pharmaceuticals and special catheters, drivers and trucks for bulk deliveries, mechanical construction labor

WHAT OUR RESPONDENTS ARE SAYING ...

Engineering, Procurement and Construction:

- Continued slippage in major capital project ramp-ups. They are still on the horizon, but not as fast as thought.

Oil and Gas (Exploration and Support):

- We are seeing major project cost increases driven by the tight labor market, but most materials costs are staying in line.

Manufacturing - Durable Goods:

- Operating rates are identical or slightly up from June.
- We have strong sales but have no indication of which way they will go in August.

Manufacturing - Non-durable Goods:

- Product pricing is mixed. We are up on a couple product lines and down on one or two others.

Wholesale Trade:

- Supply and demand are in balance.
- Our business has recovered from the Winter/Early Spring slump.

Health Care:

- Increased spend on small equipment and consumable purchases ahead Fiscal Year End.
- Construction purchases are down as are new orders and prices remained unchanged.
- The hospital continues expanding. We have many job opportunities open.

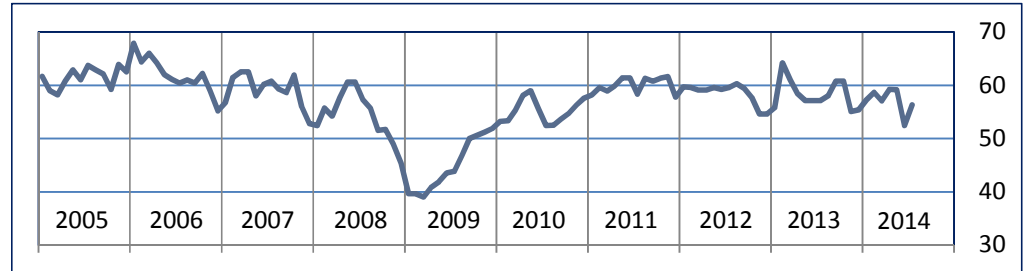
ISM-Houston Business Report

July 2014



Houston PMI Trend

The Houston PMI indicates likely shifts in Production three or four months in advance. Readings over 50 generally indicate production expansion over the near term; readings below 50 show coming contraction.

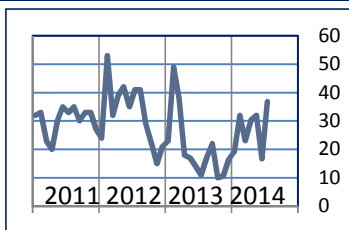


Trend of Underlying Indicators

The Houston PMI is based on diffusion indices for eight underlying indicators as shown below. The value of each of these indicators is simply the percentage of respondents who cite a positive shift from the previous month minus the percentage who cite a negative shift. Values above zero for the first six indicators point towards expansion and values below zero signal contraction. The two Inventory indicators are inversely correlated to economic activity, meaning that lower inventories point to expansion and higher inventories point to contraction.

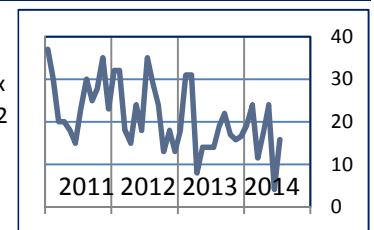
Sales/New Orders

The Houston PMI New Orders index rose 20 points to 37 this month, returning to the higher levels of growth seen during the early part of the year.



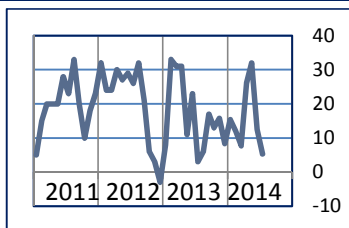
Production

The Houston PMI Production index rebounded as well increasing by 12 to 16 in July.



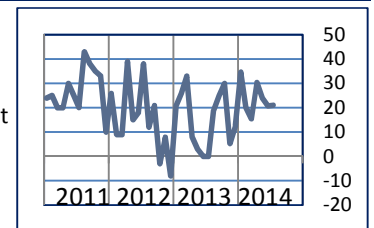
Employment

The Houston PMI Employment index fell again this month from 13 to 5, its lowest level since July of last year.



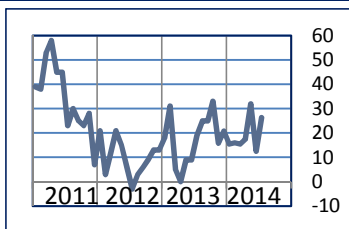
Purchases

The Houston PMI Purchases index remained unchanged this month at 21, keeping it in line with the average for the last three years.



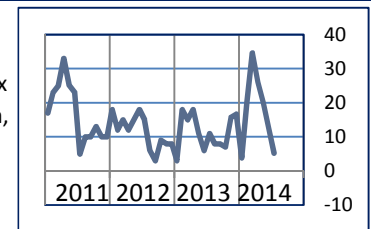
Prices

The Houston PMI Prices index gained 13 to end the month at 26 points, recovering much of last months fall.



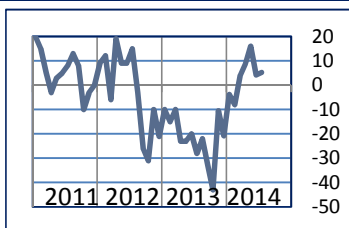
Lead Times

The Houston PMI Lead Times index continued to moderate this month, falling to 5 from 13 in June.



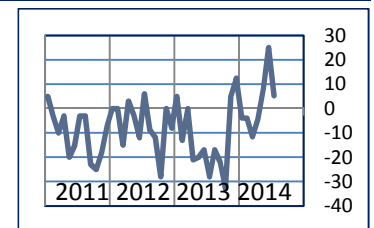
Purchased Inventory

The Houston PMI Purchased Inventory index increased minimally in July to 5 marking it's fifth month above zero.



Finished Goods Inventory

The Houston PMI Finished Goods Inventory index fell significantly this month, down 20 points from its all time high of 25 in June.



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