

# Economy Remains Strong - Some Mixed Signals

## Production Shows Potential Slowing While Employment Improves

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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 continued growing in September. Six of the eight underlying indicators are predicting expansion near term. The remaining two are either neutral or showing a moderate potential for contraction.

The Houston Purchasing Managers Index (H-PMI) rose from 55.6% to 58.1% in August 2014. Readings above 50% generally indicate near term economic expansion. The Sales/New Orders, Employment, Purchases, Prices, Lead Times and Purchased Inventory indices all point to expansion near term. The Production Index fell to neutral this month and the Finished Goods Inventory index continued to point to possible contraction.

The Employment index was up considerably from 10 to 27, as was the Prices index, which moved from 33 to 50, and Lead Times, which rose 12 to 41. Purchases was also up, rising 8 points to 18. New Orders fell modestly from 19 points to 18. Production fell significantly from 14 to 0, marking its first time near the contraction threshold in more than five years. The Purchased Inventory index was flat at minus 5 and the Finished Goods Inventory Index fell 9 points 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	Sep	Aug	Change	Track	Rate	Trend* (Mos)
Houston PMI	58.1	55.6	2.5	Growing	Faster	61
Sales/New Orders	18	19	-1	Growing	Slower	61
Production	0	14	-14	Growing	Slower	58
Employment	27	10	17	Growing	Faster	21
Purchases	18	10	8	Growing	Slower	21
Prices	50	33	17	Increasing	Faster	26
Lead Times	41	29	12	Increasing	Faster	59
Purchased Inventory	-5	-5	0	Decreasing	Stable	2
Finished Goods Inventory	5	14	-9	Increasing	Faster	5

\* Months on current track



**Commodities Reported Up in Price:** Base wages for skilled crafts, software license fees, filler

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

**Commodities Reported in Short Supply:** Equipment repair shop space, laboratory equipment, freight drivers, IV solutions

### WHAT OUR RESPONDENTS ARE SAYING ...

#### Oil and Gas:

- Skilled craft labor costs continue to increase

#### Manufacturing - Durable Goods:

- We continue to operate at a very high level
- Sales continue at recent levels
- Keeping a steady pace

#### Manufacturing - Non-Durable Goods:

- As we complete our major projects we are seeing longer lead times on parts and very high utilization at shops for equipment repair
- Tire imports and rubber substitutions are impacting butadiene pricing

#### Wholesale Trade:

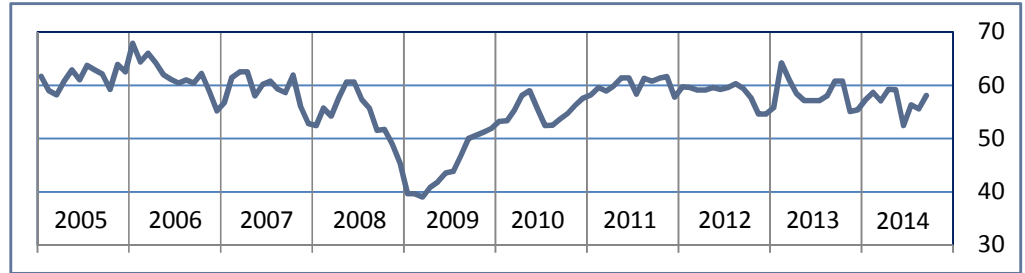
- Business is very good
- Backlog is up
- Employment is up slightly but we need to find people willing to work

#### Health Care:

- The Medical Industry is hiring
- Major construction remains stagnate

### 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.

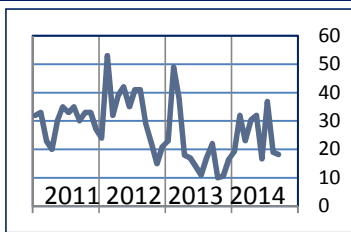


### Trend of Underlying Indicators

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.

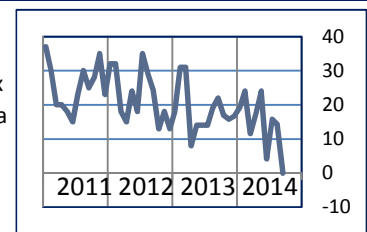
#### Sales/New Orders

The Houston PMI New Orders index fell marginally to 18 this month, continuing its 5 year growth run.



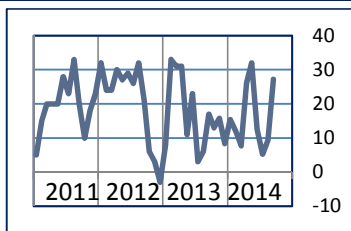
#### Production

The Houston PMI Production index fell 14 in September to 0 showing a potential move the contraction in the near future.



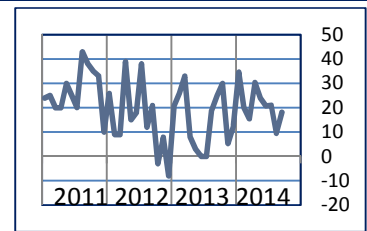
#### Employment

The Houston PMI Employment index gained 17 points this month to end September at 27.



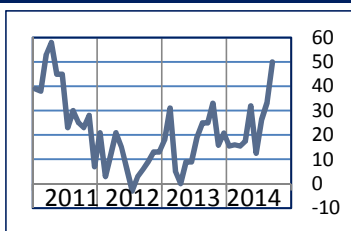
#### Purchases

The Houston PMI Purchases index was 18 this month, up from 10 in August.



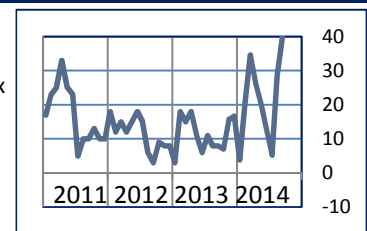
#### Prices

The Houston PMI Prices index gained another 17 points in September to end the month at 50 points, its highest level for more than three years.



#### Lead Times

The Houston PMI Lead Times index also rose in September gaining 12 points to 41, its highest level in almost eight years.



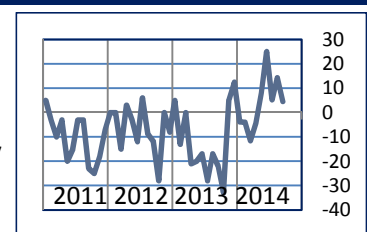
#### Purchased Inventory

The Houston PMI Purchased Inventory index was flat at minus 5 points in September.



#### Finished Goods Inventory

The Houston PMI Finished Goods Inventory remained above zero this month, but returned to its July level of 5 points.



The ISM-Houston Business Report began in January 1995

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