

# Local Economy Shows Signs of Potential Slowing

## Employment Remains Strong While Other Indicators Weaken

Analysis and report by Ross Harvison,  
chair of the ISM-Houston Business Survey Committee

ross.harvison@intuitivum.com 713-702-1088

The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that our economy grew at a slower pace in November. Five of eight underlying indicators continue to predict expansion near term, one is neutral, and the other two point to potential contraction.

The Houston Purchasing Managers Index (H-PMI) fell from 58.5% to 54.3% in November 2014. Readings over 50% generally indicate expansion near term. The Employment Index remained strong. Production, Purchases, Prices and Lead Times continue to point to expansion, but are growing at a slower pace. The Sales/New Orders Index moved from expansion to potential contraction for the first time in more than five years and the Finished Goods Inventory Index stayed on the contraction side. The Purchased Inventory Index move to neutral from potential contraction.

The Employment index fell marginally this month from 38 to 37, as did Production which was down from 15 to 13. Sales/New Orders fell from 3 points to minus 7, Purchases dropped from 38 to 10, Lead Times was down from 32 to 13, and Prices decreased from 35 to 27. Finished Goods Inventories moved up from 6 to 17 and Purchased Goods Inventory move down from 3 to neutral (0). 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	Nov	Oct	Change	Track	Rate	Trend* (Mos)
Houston PMI	54.3	58.5	-4.2	Growing	Slower	63
Sales/New Orders	-7	3	-10	Contracting	Fr. Growth	1
Production	13	15	-2	Growing	Slower	60
Employment	37	38	-1	Growing	Slower	23
Purchases	10	38	-28	Growing	Slower	23
Prices	27	35	-8	Increasing	Slower	28
Lead Times	13	32	-19	Increasing	Slower	61
Purchased Inventory	0	3	-3	Neutral	Slower	1
Finished Goods Inventory	17	6	11	Increasing	Faster	7

\* Months on current track



**Commodities Reported Up in Price:** Pressure vessels, engineered products, skilled technical craft labor (welders, boiler makers, pipe fitters, carpenters), and pharmaceuticals

**Commodities Reported Down in Price:** Crude oil, fuel products, lube oils, and computers and computer components.

**Commodities Reported in Short Supply:** Skilled technical crafts, fabrication shop space, and flu vaccines

### WHAT OUR RESPONDENTS ARE SAYING ...

#### Oil and Gas:

- The skilled labor market is still seeing escalating wages
- Skilled labor shortages are impacting project schedules
- Exploration and production activities will slow if oil prices stay at this level

#### Manufacturing - Durable Goods:

- Falling oil prices are beginning to have an impact on our business
- Business is not bad, but less than what it has been.

#### Manufacturing - Non-Durable Goods:

- Waiting to see how the crude oil supply/demand balance will play out

#### Wholesale Trade:

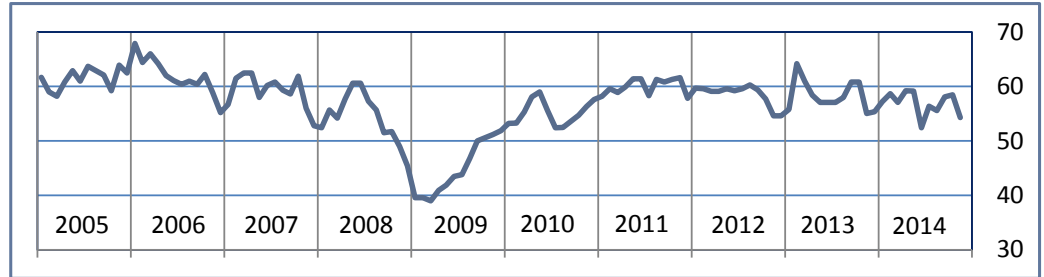
- Perhaps oil industry downsizing and consolidations will free up qualified people and ease hiring needs for other employers
- Lower oil prices will be helpful to our business

#### Health Care:

- We are hiring for our new expansion

### 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.

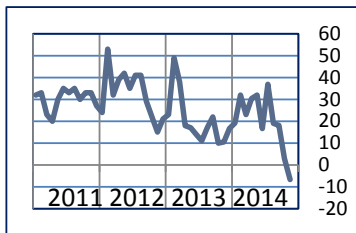


### Trend of Underlying Indicators

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.

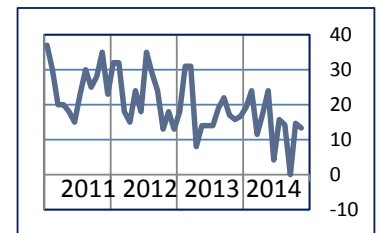
#### Sales/New Orders

The Houston PMI New Orders index moved from indicating growth near term to potential contraction this month falling 10 to minus 7 points.



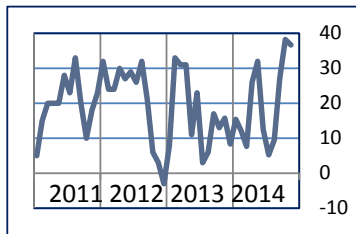
#### Production

The Houston PMI Production index remained relatively flat, falling 2 points to 13.



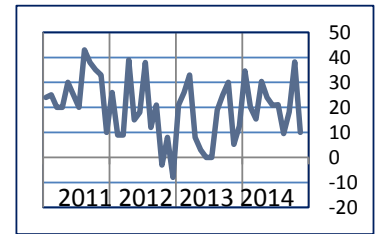
#### Employment

The Houston PMI Employment index was also relatively unchanged, falling 1 to 37 points.



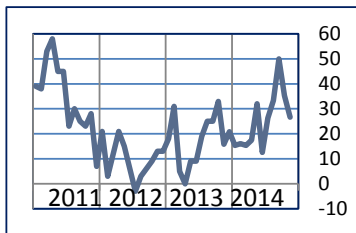
#### Purchases

The Houston PMI Purchases index fell 28 points to 10 this month.



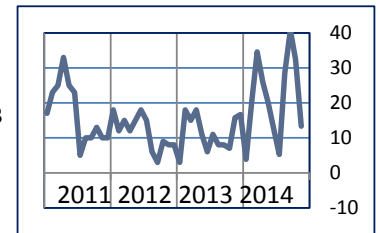
#### Prices

The Houston PMI Prices index fell again this month from 35 to 27 points



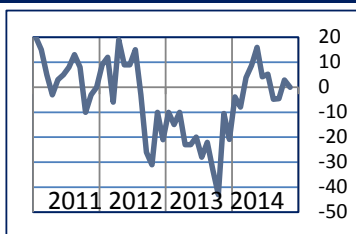
#### Lead Times

The Houston PMI Lead Times index also fell in November from 32 to 13 points



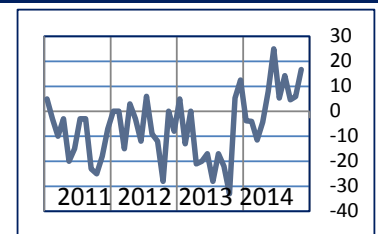
#### Purchased Inventory

The Houston PMI Purchased Inventory index was relatively flat, falling 3 points to zero.



#### Finished Goods Inventory

The Houston PMI Finished Goods Inventory Index gained 11 points, rising from 6 in October to 17 this month



The ISM-Houston Business Report began in January 1995

Subscriptions are available through ISM-Houston, Inc. and can be obtained by request at [ismhoustonbusinessreport@intuitivum.com](mailto:ismhoustonbusinessreport@intuitivum.com)

The Institute for Supply Management-Houston is an affiliate of the Institute for Supply Management

Copyright 2014 by ISM-Houston, Inc. All Rights Reserved