

# Growth Continues at a Slower Pace

## Employment Remains Strong

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The Houston affiliate of the Institute for Supply Management's survey of area supply chain professionals indicates that our economy's growth continued to slow in December. Only three of eight underlying indicators are now predicting expansion near term; the other five are pointing to potential moderate contraction.

The Houston Purchasing Managers Index (H-PMI) fell from 54.3% to 51.5% in December 2014. Readings over 50% generally indicate expansion near term. The Employment Index continued at a strong level, which kept the overall Houston PMI above 50%. The Lead Times Index continued to point to expansion, albeit at a marginally slower pace, and the Purchased Inventory Index moved back to indicating near term expansion. The Production, Purchases and Prices Indices all moved from showing growth to indicating potential moderate slowing, and the Sales/New Orders and Finished Goods Inventory Indices continued to show potential contraction near term.

The Employment index fell from 37 to 29 this month. Sales/New Orders rebounded modestly from minus 7 to minus 3. Production fell, moving down from 13 to minus 4, as did Purchases, dropping from 10 to minus 3. Prices also fell, moving significantly down from 27 to minus 1, and Lead Times was down from 13 to 11. Purchased Goods Inventories fell from neutral (0) to minus 11 and Finished Goods Inventories fell from 17 to 14. 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	Dec	Nov	Change	Track	Rate	Trend* (Mos)
Houston PMI	51.5	54.3	-2.8	Expanding	Slower	64
Sales/New Orders	-3	-7	4	Falling	Slower	2
Production	-4	13	-17	Falling	Fr. Rising	1
Employment	29	37	-8	Rising	Slower	24
Purchases	-3	10	-13	Falling	Fr. Rising	1
Prices	-1	27	-28	Falling	Fr. Rising	1
Lead Times	11	13	-2	Rising	Slower	62
Purchased Inventory	-11	0	-11	Falling	Fr. Unch.	1
Finished Goods Inventory	14	17	-3	Rising	Slower	8

\* Months on current track



**Commodities Reported Up in Price:** Pharmaceuticals

**Commodities Reported Down in Price:** Crude oil, fuel products, lube oils, gasoline, SPVC, TiO<sub>2</sub>, polyethylene resins and films, and computers.

**Commodities Reported in Short Supply:** Castings and foundry space, winches and gear boxes, custom pharmaceuticals

### WHAT OUR RESPONDENTS ARE SAYING ...

#### Oil and Gas:

- The skilled labor market is softening as project forecasts become uncertain
- We are reviewing the recent oil price drop to develop a path forward
- Low oil and gas prices will significantly impact our industry
- All projects are under review and we anticipate a large reduction in capital spend

#### Manufacturing - Durable Goods:

- We have seen a slight increase in sales
- Typical activity for December; production is down to reduce physical inventory
- Demand on manufacturing for the oil and gas industry is declining; December new orders fell short of shipping totals; Employment will remain the same (less hours) as we determine expected sales for January

#### Manufacturing - Non-Durable Goods:

- We saw the typical year end slow-down as customers worked to achieve year end inventory targets
- The skilled labor market is softening in areas near Houston and we are waiting to see the impact on the Houston market

#### Wholesale Trade:

- Business remains good despite the decline in the price of oil.
- It will be an interesting year for Houston and the oil industry

#### Health Care:

- We have many job opportunities in Healthcare

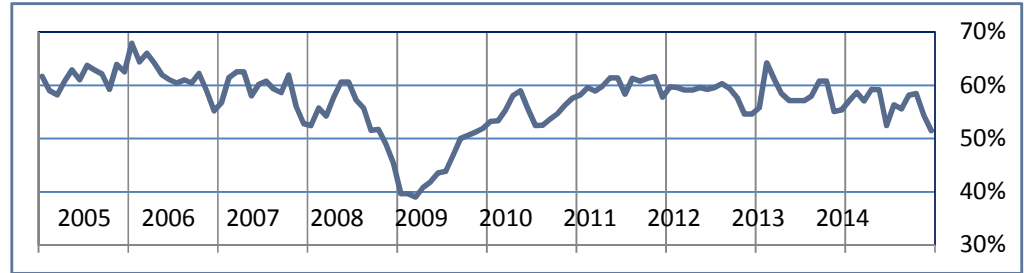
# ISM-Houston Business Report

December 2014



## Houston PMI Trend

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

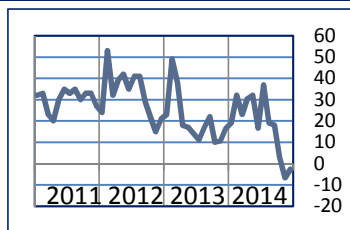


## Trend of Underlying Indicators

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.

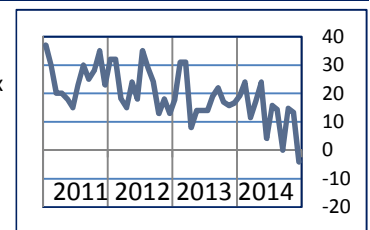
### Sales/New Orders

The Houston PMI New Orders index recovered modestly this month rising 4 points to minus 3 points.



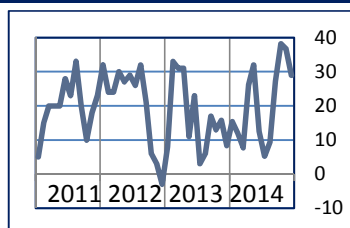
### Production

The Houston PMI Production index fell 17 points to minus 4 points, its first month indicating falling production levels in five years.



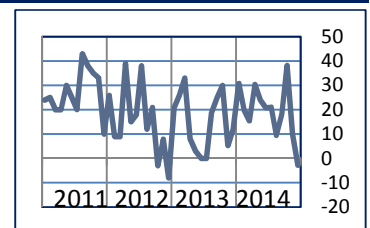
### Employment

The Houston PMI Employment index fell 8 points to 29 points, hitting its 24th month indicating employment growth in the houston area.



### Purchases

The Houston PMI Purchases index fell an additional 13 points to minus 3 points this month.



### Prices

The Houston PMI Prices index fell from 27 points to minus 1 this month marking its first month below zero since July 2012



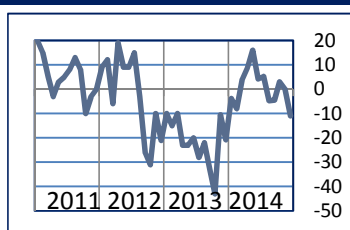
### Lead Times

The Houston PMI Lead Times index remained relatively flat in December falling 2 points to 11.



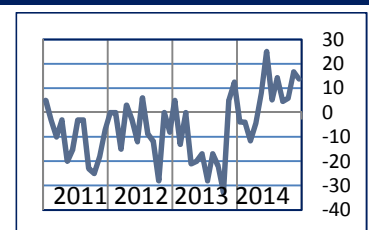
### Purchased Inventory

The Houston PMI Purchased Inventory index fell 11 points to minus 11 this month.



### Finished Goods Inventory

The Houston PMI Finished Goods Inventory Index dropped 3 points, falling from 17 in December to 14 this month



The ISM-Houston Business Report began in January 1995

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