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ISM - HOUSTON BUSINESS REPORT

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Press Release

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Sales Remain Strong Employment Moves to Neutral

(Houston, Texas) – According to Houston area Supply Chain leaders, economic activity in Houston expanded for the eighth month in May. The Houston Purchasing Managers Index registered 54.1, unchanged from its April reading.

Only one underlying indicator is pointing to contraction near term. The Purchased Inventory (Raw Materials) index completed its 30th month indicating contraction, registering 44.0. This indicator is directly correlated with economic activity.

Six other underlying indicators are now pointing towards expansion over the 3-4 month forecast horizon. The Sales/New Orders index completed 10 months pointing to expansion, registering 58.7 in May. The Production, Employment, Purchases, and Lead Times indices reported their sixth month of expansion, registering 52.1, 50.8, 53.7, and 52.5 respectively. All of these indicators are directly correlated with economic activity. The Finished Goods Inventory index joined these five indicators pointing to expansion when it moved from 51.2 in April to 48.7 in May. This indicator is inversely correlated with economic activity.

The last underlying indicator, Prices Paid, is normally inversely correlated with economy. However, as it has for the last two quarters, it can show a direct correlation during the early stages of a recovery. It returned to below neutral this month registering 49.2, potentially showing that it is returning to its normal inverse correlation.

On an industry specific basis, manufacturing, transportation, wholesale trade, professional services, healthcare are expanding. Engineering and construction contracted for the third month. All other sectors reported minimal month to month change.

The Houston PMI indicates likely shifts in economic activity 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.