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ISM - HOUSTON BUSINESS REPORT

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Storm Impacts Gulf Coast Operations Sales, Production, and Employment Reported as Falling

(Houston, Texas) – According to Houston area Supply Chain leaders, the Houston area economy was heavily impacted by Hurricane Harvey. The Houston Purchasing Managers Index moved from 51.8 in July to 46.5 in August. While six of the index's underlying indicators were pointing to expansion in July, an equal number (Sales/New Orders, Production, Employment, Purchases, Prices Paid, and Purchased Inventory) are now indicating potential near term contraction. Only the Lead Times and Finished Goods Inventory Indices are point to expansion.

The Sales/New Orders index fell significantly by 12.1 points to 38.5 in August, its first month indicating potential contraction since July of last year. The Production, Employment, and Purchases indices also reversed direction, ending eight months point to expansion. The Production Index was down 6.7 points to 45.0. The Employment Index registered 45.8 points, down 5.1 points. The Purchases Index fell considerably to 38.8 points, down 16.6 points. The Lead Times Index fell to 52.3, down from 59.8, but still predicting expansion near term. These five indicators are directly correlated with economic activity. The purchased inventory index, which is also positively correlated with economic activity, continues to predict contraction near term registering 44.9 points, up modestly from July.

The Finished Goods Inventory index completed its fourth month pointing to expansion registering 47.5 points. This indicator is inversely correlated with economic activity. The other indicator that is inversely related to the economy, Prices Paid, indicated potential contraction near term for the second month, registering 54.4 points, down 3.4 from July.

On an industry specific basis, only non-durable goods showed any sizable trend towards expansion. Oil & gas, construction, and to a lesser extent wholesale trade are now indication contraction near term. All other sectors reported near neutral.

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.