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## ISM - HOUSTON BUSINESS REPORT

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### Press Release

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by Ross S. Harvison

#### Comments on Revised Houston PMI Calculation and Reporting Methods

ISM-Houston periodically reviews the capability of its correlations and adjusts the regression factors when needed. The most recent revision occurred as a result of a review undertaken during the third quarter of 2018, which determined that changes in the Houston economy over the last decade have shifted the intercept of the correlation, causing a neutral Houston PMI to no longer align with a neutral Houston-The Woodlands-Sugar Land Business Cycle Index (BCI). A Houston PMI of 45 points now equates to a neutral Houston BCI. A similar offset between the National PMI and the National economy has existed for some time.

The new regression factors will be applied going forward. Additionally, the Houston PMI reported from the beginning of 2014 to present has been restated using the adjusted regression factors.

## Economic Forecasts Point to Continued Growth

(Houston, Texas) – According to Houston supply chain executives, economic activity in Houston expanded in September for the 26th consecutive month, and the near-term forecast points to continued growth.

The September Houston Purchasing Managers Index registered **57.1**, down 2.4 points from a revised reading of 59.5 last month. The performance of the sales/new orders and lead times indicators, two of the three underlying indicators that have the strongest positive correlation with current economic activity, showed strength again this month. The third indicator that has a strong positive correlation with the current economy, employment, weakened to just above neutral during the month.

The three-month forecast for the Houston PMI registered 57.2, up 2.0 points from its revised August reading of 55.2. The primary drivers for maintaining this high level were strong sales/new orders, production, prices, and lead times, which are all directly correlated with economic activity at all forecast horizons.

On an industry specific basis Professional Services, Health Care, Manufacturing, Mid-stream Operations, and EPC firms reported expansion. All other sectors were near neutral. From a three-month forecast standpoint, Oil & Gas is expected to join the above sectors indicating healthy growth.

The Houston PMI provides a measure of current economic activity in the greater Houston area and a forecast of likely shifts in activity over a three-month forecast horizon. These indicators have a possible range of 0 to 100. Readings over 50 generally indicate manufacturing expansion; readings below 50 show contraction. A PMI above 45 generally correlates with expansion of the Houston-The Woodlands-Sugar Land Business Cycle Index. The current and forecast PMI indices are 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.