

ISM - HOUSTON BUSINESS REPORT

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Press Release

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Manufacturing Expansion Continues

(Houston, Texas) – According to Houston supply chain executives, manufacturing activity in Houston expanded in November for the 14th consecutive month and overall economic activity expanded for the 28th month. The near-term forecast points to continued growth.

The November Houston Purchasing Managers Index registered 54.9, down minimally from 55.0 last month. The performance of the sales/new orders, employment and lead times indices, the three underlying indicators that have the strongest positive correlation with current economic activity, showed continued strength. The prices paid index fell significantly during the month moving from indicating rising prices to falling prices for the first time since the middle of 2017.

The three-month forecast for the Houston PMI registered 53.1, down 0.5 points from its October reading of 53.6. Strong sales/new orders, production, and lead times, which are all directly correlated with economic activity at all forecast horizons, were the primary drivers for the continued strength in the forecast index.

On an industry specific basis Oil and Gas joined Health Care, Professional Services, and Non-Durable Goods Manufacturing, in reporting expansion. Durable Goods Manufacturing fell to below neutral. All other sectors were flat month to month. From a three-month forecast standpoint, Health Care, Oil and Gas, and Professional Services are expected to remain strong. Non-durable goods manufacturing should strengthen.

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.

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 have been used since the September 2018 report and will be applied going forward. Additionally, the Houston PMI reported from the beginning of 2014 to August 2018 have been restated using the adjusted regression factors.