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ISM - HOUSTON BUSINESS REPORT

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Press Release

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Expansion Continues to Slow Manufacturing Sales are Now Contracting

(Houston, Texas) – According to Houston supply chain executives, manufacturing activity in Houston expanded in June for the 22nd consecutive month and overall economic activity expanded for the 35th month. The near-term forecast continues to point to overall economic growth near term, but manufacturing activity may weaken. The overall rate of growth is anticipated to slow.

The June Houston Purchasing Managers Index registered 51.2, down from its May reading of 52.7. The sales/new orders index, one of the three underlying indicators that have the strongest direct correlation with current economic activity, is now pointing to contraction. The other two indicators with the strongest correlation with current economic activity (employment and lead times), continue to indicate expansion. The underlying indicator that has the largest inverse correlation, finished goods inventory, remained just below neutral.

The three-month forecast for the Houston PMI registered 49.4, down 1.7 points from its May reading of 51.1. Weakening of the sales/new orders and lead times indices, and a further drop of the prices paid index were the primary causes of this reduction. These indices are all directly correlated with economic activity at the three-month forecast horizon.

On an industry specific basis Healthcare, and Transportation and Utilities reported expansion, while non-durable goods manufacturing reported significant contraction. From a three month forecast standpoint Durable Goods Manufacturing, Transportation and Utilities, and Health Care are expected to continue expansion. Non-durable Goods Manufacturing is anticipated to remain below neutral.

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.