

## ISM - HOUSTON BUSINESS REPORT

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### Press Release

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## Expansion Reaches Three-Year Mark Manufacturing Sales Continue to Contract

(Houston, Texas) – According to Houston supply chain executives, manufacturing activity in Houston expanded in July for the 23rd consecutive month and overall economic activity expanded for the 36th month. The near-term forecast continues to point to overall economic growth. Manufacturing activity continues to be a moderate concern. The overall rate of growth is still anticipated to slow.

The July Houston Purchasing Managers Index registered 51.4, up very modestly from its June reading of 51.2. The sales/new orders index, one of the three underlying indicators that have a strong direct correlation with current economic activity, pointed to contraction for the second month. The other two indicators with a strong correlation with current economic activity (employment and lead times) continue to point expansion. The underlying indicator that has the largest inverse correlation, finished goods inventory, remained just below neutral showing no real impact on the final HPMI figure.

The three-month forecast for the Houston PMI registered 48.7, down 0.7 points from its June reading of 49.4. Continued weakness of the sales/new orders and prices paid indices are the primary drivers for the on-going weakness of the forecast HPMI as these indices have a strong direct correlation with economic activity at the three-month forecast horizon.

On an industry specific basis Healthcare, Transportation and Utilities, and EPC firms reported expansion, while non-durable goods manufacturing reported continued contraction. From a three month forecast standpoint Transportation and Utilities, and Health Care are expected to continue expansion. Durable goods manufacturing is expected to join non-durable Goods 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.