

ISM - HOUSTON BUSINESS REPORT

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Press Release

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Houston Economy Continues to Expand Goods Producing Industries Show Modest Weakness

(Houston, Texas) – According to Houston area supply chain executives, goods producing industry activity in Houston contracted modestly in December. While construction activity improved, it was offset by continued weakness in manufacturing and oil & gas. Services producing industry activity continued to run near neutral. Overall economic activity continued to expand at a very modest rate.

The December Houston Purchasing Managers Index rose modestly to **47.4** from last month's level of 46.9. Two of the three underlying indicators that have the strongest direct correlation with economic activity, sales/new orders and employment, continue to report below neutral. The third underlying indicator with a strong positive correlation, lead times, returned to just above neutral. The sales/new orders index rose 1.5 points to 44.1. The employment index fell an additional 0.5 points to 47.2. The lead times index rose 0.6 points to 50.5. The underlying indicator that has the largest inverse correlation, finished goods inventory, fell an additional 1.9 points to 47.4.

The three-month forecast for the Houston PMI rose 1.8 points to 49.7. Strengthening of the sales/new orders, production, and lead times indices drove most of this increase. These indices have a strong direct correlation with economic activity at the three-month forecast horizon.

On an industry specific basis, transportation and utilities, and health care reported expansion. Oil & gas, durable goods manufacturing, wholesale trade, and professional services reported contraction. From a three-month forecast standpoint, modest improvement is anticipated for this assessment.

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 goods producing industry 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.