

ISM-Houston Business Report

December 2025



Analysis and report by **Ross Harvison, CPSM**

ISM-Houston Business Survey Committee

Houston PMI at 50.2 (down 0.7 points from November)

Sales/New Orders Contracting

Production Expanding

Employment Contracting

Prices Paid Expanding

Lead Times Expanding

Finished Goods Inventories Expanding

(Houston, Texas) – According to Houston area supply chain executives, economic activity in Houston continued to expand in December. The manufacturing sector contracted for the fifth month, while non-manufacturing expanded for the seventh month. The overall Houston economy expanded for the 67th month in a row.

The Houston Purchasing Managers Index expanded at a slower rate at 50.2 points, falling just under one point from November. Of the three underlying indicators that have a strong direct correlation with economic activity, sales/new orders and employment are now pointing to minimal weakness. The third indicator with a strong direct correlation, lead times, moved from indicating contraction to pointing to expansion. The sales/new orders index fell 4.5 points to 49.9 points, indicating that there was no meaningful change in sales/new orders from November. The employment index fell 1.9 points to 49.3 points, indicating minimal contraction. The lead times index rose 5.4 points to 53.2 points, returning to showing expansion after one month pointing to contraction. The finished goods inventory index, the underlying indicator that has the strongest inverse correlation with economic activity, fell 3.3 points to 51.2 points, indicating expansion of this indicator for the seventh month in a row.

The Houston Manufacturing PMI rose 2.1 points during the month to 46.8 points, indicating a modestly slower rate of contraction in this sector. The non-manufacturing PMI fell 1.4 points to 50.8 points.

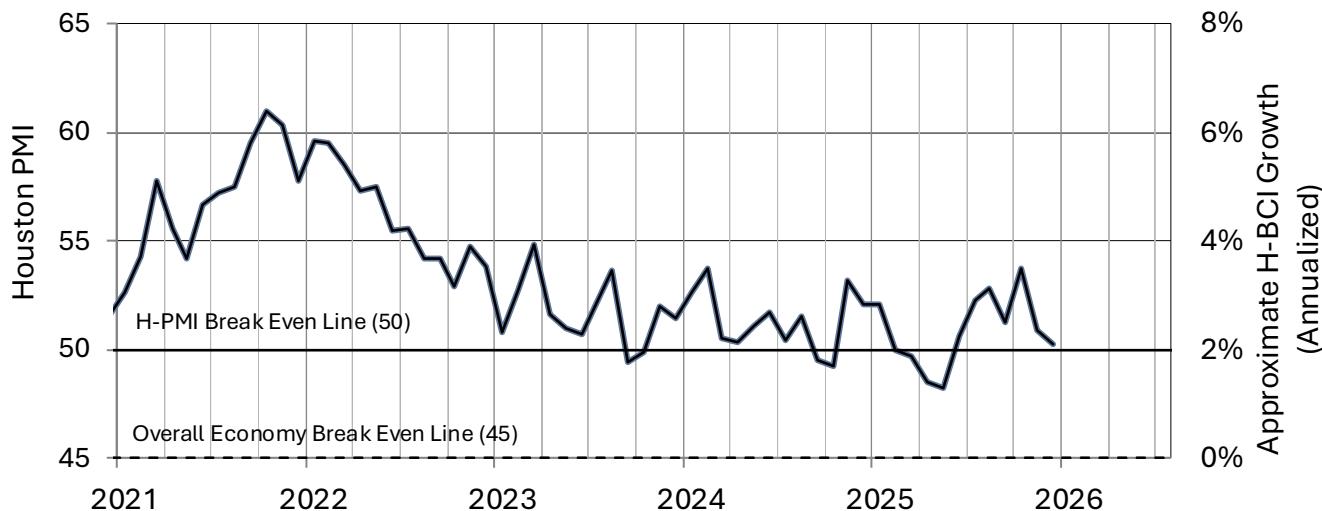
On an industry specific basis health care, construction, and professional services continued to report strong expansion. Retail trade, wholesale trade, and non-durable goods manufacturing reported weakness.

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Houston PMI Trend



Indices at a Glance

Houston PMI readings over fifty indicate that respondents see their activities as expanding. An H-PMI above 45 normally correlates with expansion of the Houston-The Woodlands-Sugar Land Business Cycle Index.

Index	Dec	Nov	Change	Track	Rate	Trend*
Houston Overall PMI	50.2	50.9	-0.7	Expanding	Slower	7
Houston Manufacturing PMI	46.8	44.7	2.1	Contracting	Slower	5
Houston Non-Manufacturing PMI	50.8	52.2	-1.4	Expanding	Slower	7
Sales/New Orders	49.9	54.4	-4.5	Falling	Fr. Rising	1
Production	51.7	52.6	-0.9	Rising	Slower	7
Employment	49.3	51.2	-1.9	Falling	Fr. Rising	1
Purchases	50.7	51.5	-0.8	Rising	Slower	24
Prices Paid	50.7	54.1	-3.4	Rising	Slower	3
Lead Times	53.2	47.8	5.4	Rising	Fr. Falling	1
Purchased Inventory	52.9	52.5	0.4	Rising	Faster	3
Finished Goods Inventory	51.2	54.5	-3.3	Rising	Slower	7
Houston Economy				Expanding	Slower	67

* Number of months on current track

Commodities Reported to be Up/Down in Price or in Short Supply

Up in Price: General labor; insurance; motor fuels (gasoline, diesel, jet fuel)[‡]; natural gas; propane, ethylene, film; silver, platinum, palladium; carbon steel products[‡]; aluminum shapes, copper, nickel; transformers, switchgear, circuit breakers, electrical bulks, electrical equipment, instrumentation; overland trucking, ocean container freight.

Down in Price: Professional services; motor fuels (gasoline, diesel, jet fuel)[‡]; resins; carbon steel products[‡]; stainless steel, lined pipe.

In Short Supply: Skilled labor; ethylene oxide, ethylene oxide derivatives; electrical bulks, electrical equipment, electrical components, automation equipment, instrumentation, high count fiber cable; laboratory equipment; overland trucking.

[‡]Reported as up or down in price by different respondents

What Our Respondents Are Saying:

Oil and Gas Exploration, and Key Support Services:

- We have cut our budgets for 2026.
- We are developing strategies to deal with increased tariffs, the Corporate Sustainability Reporting Directive (CSRD), and the European Union's Carbon Border Adjustment Mechanism (CBAM).
- While rig counts continue to run at low levels, we are seeing production increases because of improved efficiency.
- *This sector returned to indicating expansion this month. The purchases and prices paid indices moved significantly higher, pointing to a strong indication of expansion. Production, employment, and lead times came in flat on a month-to-month basis.*

Construction:

- We have seen a marginal increase in transport fuel prices.
- Ocean container freight costs increased by more than 10% during the month after four months of declines.
- Electrical equipment lead times and pricing remain high.
- Pricing for most commodities remains flat.
- *The sector continues to experience strong expansion with the sales/new orders, employment, and prices paid indices showing significant strength. Purchases and lead times were relatively flat month-to-month.*

What Our Respondents Are Saying (Continued):

Durable Goods Manufacturing:

- Expect demand to increase in the 2nd quarter of 2026
- Our company's overall business activity for calendar year 2025 was comparable to 2024.
- Commodity costs were relatively stable throughout the year, but tariff costs have moderately increased the cost of doing business.
- *This sector moved from significant contraction to flat growth during the month. The sales/new orders, production, and purchases indices were much stronger. The employment index remained weak. All other indices came in near neutral.*

Non-durable Goods Manufacturing:

- Awaiting Supreme Court ruling on tariffs, if they are upheld several temporary supply chains that we have put in place will be locked in for longer time horizons.
- Propane and natural gas prices rose in December due to higher weather-related demand, but we have seen considerable softening in early January.
- Olefin and polymer prices remain at an exceptionally low level.
- The price of precious metals used for catalysts (gold, silver, platinum, and palladium) continues to increase. As noted last month, this appears to be due to market speculation as opposed to refinery and petrochemical plant demand.
- The price of industrial metals (copper, aluminum, and nickel) continued to increase in December.
- Refinery margins improved significantly during the month due to both production increases and crack spread improvements.
- *This sector showed further weakness in December with the sales/new orders, production, employment, and purchases indices coming in below neutral. The prices paid, lead times, and inventory indices pointed to expansion.*

Wholesale and Retail Trade:

- Sales have remained resilient but imported finished goods prices are higher across the board due to the impact of tariffs.
- Military spending is going up again.
- *This sector reported moderate weakness again this month. The strong sales/new orders, employment, purchases, prices paid, and inventory indices are pointing to contraction.*

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What Our Respondents Are Saying (Continued):

Professional and Business Services:

- We are not seeing much movement in hiring.
- I anticipate job seekers to start taking lower than their expected rates in the next few months.
- We expect the Venezuelan geopolitical crisis to drive the global price of oil down to just above \$50/bbl, which is below the level needed to make additional drilling activity cost effective.
- *This sector continues to report expansion led by strength in the sales/new orders, employment, purchases, and prices paid indices.*

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Trend of Underlying Indicators

Sales/New Order Index (Seasonally Adjusted)

The sales/new orders index moved below neutral for the first time in seven months, falling almost five points to register at 49.9 points. Non-manufacturing activities provided significant support for this index during this period while manufacturing respondents reported contraction.

Sales/New Orders	Higher	Same	Lower	Net	Index
Jul 2025	20%	75%	5%	15%	58.6
Aug 2025	14%	82%	4%	10%	55.6
Sep 2025	11%	86%	3%	8%	55.6
Oct 2025	16%	79%	5%	11%	60.8
Nov 2025	11%	83%	6%	5%	54.4
Dec 2025	11%	74%	15%	-4%	49.9

Production Index (Seasonally Adjusted)

The production index remained above neutral while falling modestly to 51.7 points. Non-manufacturing respondents continued to report measured strength, while manufacturing reported contraction in this index at a rapid rate for the first time this quarter.

Production	Higher	Same	Lower	Net	Index
Jul 2025	12%	86%	2%	10%	54.2
Aug 2025	10%	87%	3%	7%	52.9
Sep 2025	12%	84%	4%	8%	55.2
Oct 2025	11%	85%	4%	7%	55.3
Nov 2025	9%	86%	5%	4%	52.6
Dec 2025	3%	91%	6%	-3%	51.7

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Employment Index (Seasonally Adjusted)

The employment index fell 1.9 points to just below neutral at 49.3 points after only two months showing expansion. Manufacturing has reported this index as contracting for 21 months. Non-manufacturing reported contraction in this index for the first time in five months.

Employment	Higher	Same	Lower	Net	Index
Jul 2025	6%	84%	10%	-4%	48.3
Aug 2025	9%	82%	9%	0%	51.2
Sep 2025	11%	72%	17%	-6%	48.5
Oct 2025	8%	83%	9%	-1%	50.3
Nov 2025	9%	83%	8%	1%	51.2
Dec 2025	2%	91%	7%	-5%	49.3

Purchases Index (Seasonally Adjusted)

The purchases index fell about one point to 50.7 points, continuing to show limited expansion. Both non-manufacturing and manufacturing reported near this level.

Purchases	Higher	Same	Lower	Net	Index
Jul 2025	13%	82%	5%	8%	54.1
Aug 2025	7%	87%	6%	1%	50.8
Sep 2025	16%	76%	8%	8%	55.5
Oct 2025	15%	78%	7%	8%	55.8
Nov 2025	14%	71%	15%	-1%	51.5
Dec 2025	7%	81%	12%	-5%	50.7

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Prices Paid Index (Seasonally Adjusted)

The prices paid index fell just over three points to 50.7 points, indicating continued expansion but at an extremely low rate. Non-manufacturing has reported this index near neutral for the last five months, while manufacturing has reported it as contracting for 14 months.

Prices Paid	Higher	Same	Lower	Net	Index
Jul 2025	17%	80%	3%	14%	57.6
Aug 2025	12%	77%	11%	1%	50.1
Sep 2025	9%	74%	17%	-8%	44.7
Oct 2025	12%	78%	10%	2%	51.1
Nov 2025	13%	75%	12%	1%	54.1
Dec 2025	9%	76%	15%	-6%	50.7

Lead Time Index (Seasonally Adjusted)

The lead times index moved back above neutral after spending one month pointing to contraction. While manufacturing respondents have reported significant expansion of this index for the last ten months, non-manufacturing has consistently reported it within a few points of neutral.

Lead Times	Higher	Same	Lower	Net	Index
Jul 2025	10%	88%	2%	8%	53.5
Aug 2025	8%	90%	2%	6%	53.6
Sep 2025	7%	90%	3%	4%	51.3
Oct 2025	8%	87%	5%	3%	52.6
Nov 2025	2%	89%	9%	-7%	47.8
Dec 2025	4%	94%	2%	2%	53.2

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Purchased Inventory Index (Seasonally Adjusted)

The purchased inventory index rose minimally to 52.9 points. Manufacturing has reported this index as contracting for most of the last year. Non-manufacturing reported modest expansion during the same period.

Purchased Inventory	Higher	Same	Lower	Net	Index
Jul 2025	6%	91%	3%	3%	52.4
Aug 2025	7%	89%	4%	3%	50.9
Sep 2025	6%	85%	9%	-3%	48.3
Oct 2025	6%	87%	7%	-1%	50.6
Nov 2025	8%	89%	3%	5%	52.5
Dec 2025	5%	89%	6%	-1%	52.9

Finished Goods Inventory Index (Seasonally Adjusted)

The finished goods inventory index fell more than three points to 51.2 points. Manufacturing respondents reported this index as contracting at a rapid pace, consistent with normal year end inventory control activities. Non-manufacturing has reported this index as expanding at a modest rate for the last seven months.

Finished Goods Inventories	Higher	Same	Lower	Net	Index
Jul 2025	8%	90%	2%	6%	53.1
Aug 2025	5%	91%	4%	1%	50.4
Sep 2025	8%	85%	7%	1%	50.3
Oct 2025	10%	84%	6%	4%	51.9
Nov 2025	13%	84%	3%	10%	54.5
Dec 2025	7%	89%	4%	3%	51.2

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Houston PMI Calculation Methods

The Houston Purchasing Managers Index has been included as an integral part of the ISM-Houston Business Report since the Houston affiliate of the Institute for Supply Management started publishing this document in January 1995. The report and index are issued monthly as the primary deliverables from a survey of Houston area Supply Chain leaders regarding the status of key activities that provide insight into the strength of the economy. The respondents come from diverse organizations including construction, energy, engineering, health care, durable and non-durable goods manufacturing, financial and business services, wholesale and retail trade, and utilities related companies.

The Houston Purchasing Managers Index is determined from diffusion indices of the eight indicators of economic activity covered by the ISM-Houston Business Survey and Report. These underlying indicators are sales or new orders, production, employment, purchases, prices paid for major purchases, lead times from sellers, purchased materials inventory (raw materials and supplies), and finished goods inventories. The respondents to the survey report the direction of each of these activities as either up, the same, or down in comparison to the previous month. An index for each of these areas is then calculated by subtracting the percentage of respondents that sight a negative shift from the percentage that sight a positive shift. For indicators that are positively correlated with economic growth, this results in an underlying index that points to expansion when it is above zero. Indicators that are negatively correlated with growth point to expansion when they are below zero.

The final Houston PMI is calculated by applying optimal regression factors to each of the eight underlying indicators noted above. These regression factors are determined using standard regression techniques comparing these underlying indicators to the Houston-The Woodlands-Sugar Land Business Cycle Index (Houston BCI), which is reported monthly by the Federal Reserve Bank of Dallas. This top-level index is converted to a 0 to 100 scale to match that of the national Purchasing Managers Index® (PMI®) which is published monthly by the Institute for Supply Management® (ISM®). Readings over 50 for the HPMI generally indicate manufacturing expansion in Houston in the near term and readings below 50 show coming manufacturing contraction.

It is important to note that the manufacturing breakeven HPMI does not equate to the breakeven point for the overall Houston economy. ISM-Houston periodically reviews the capability of its correlations and adjusts the regression factors when appropriate. The most recent revision occurred in 2018 after it was determined that changes in the Houston economy over the previous decade had shifted the intercept of the correlation, causing a neutral Houston PMI to no longer align with a neutral Houston BCI. A Houston PMI of 45 points now equates to a neutral Houston economy as measured by the Houston BCI. A similar offset between the National PMI and the National economy has existed for some time.

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ISM-Houston Business Report Background

The ISM-Houston Purchasing Manager Report has provided some of the best information regarding what is happening in the Greater Houston area economy for over 25 years. It delivers significant analytical data along with a summary of what Houston area Supply Chain Leaders are saying about the economy and is subscribed to by a wide range of global business leaders, economists, researchers, and reporters.

The report and index are published monthly as the primary deliverables from a survey of Houston area Supply Chain professionals. These highly engaged leaders provide information on key activities that are related to the strength of the economy. They come from diverse organizations including construction, energy, engineering, health care, durable and non-durable goods manufacturing, financial and business services, wholesale and retail trade, and utilities related companies.

We are always looking to improve our coverage of the industries that make up our economy. Please join us to help make our results even more representative of what's happening in Houston by completing this [signup form](#).