ISM-Houston Business Report

October 2026

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ISM-Houston Business Survey Committee

Houston SCMI at 54.0 (up 0.7 points)

Sales/New Orders Expanding
Production Expanding
Employment Expanding
Prices Paid Expanding
Lead Times Expanding
Finished Goods Inventories Contracting

(Houston, Texas) – According to Houston area supply chain executives, the Houston economy expanded for the 77th month in October. The manufacturing sector moved to indicating expansion and non-manufacturing activities expanded for the nineth month.

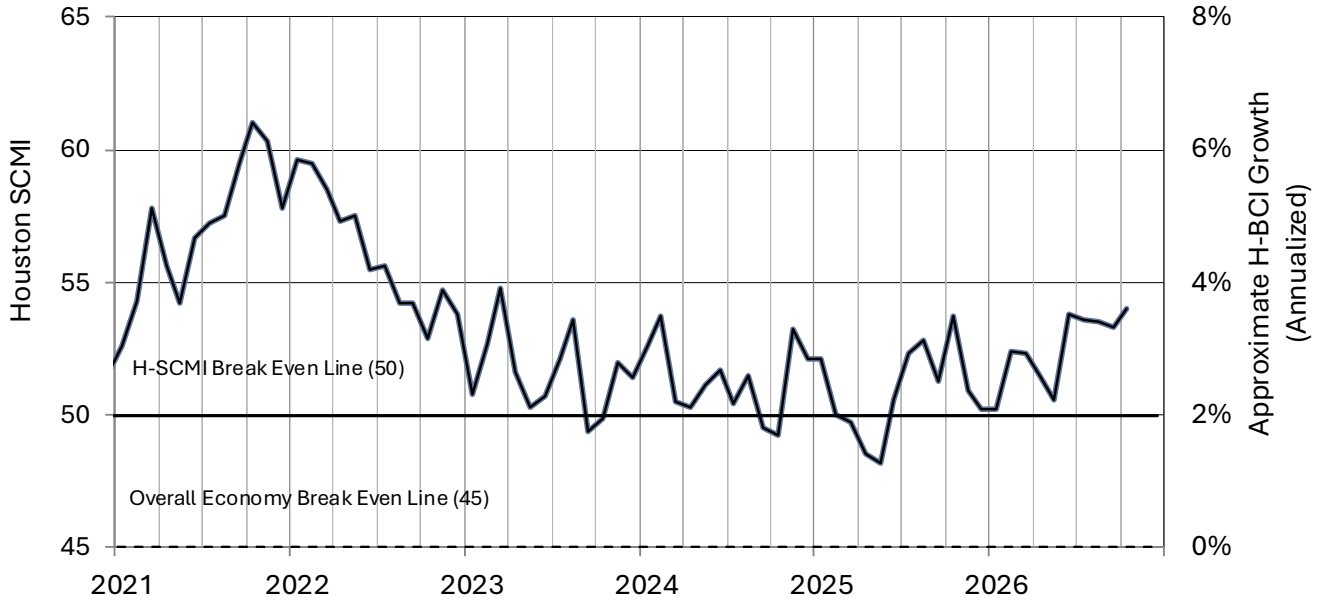
The Houston Supply Chain Managers Index rose 0.7 points to 54.0, indicating continued strong growth in the overall economy. All three of the underlying indicators that have a strong direct correlation with economic activity (sales/new orders, employment, and lead times) are continuing to point to modest to strong growth. The sales/new orders index rose 3.7 points to 58.7 points, the employment index fell 1.4 points to 51.6, and the lead times index rose 0.5 points to 53.5 points. The finished goods inventory index, the underlying indicator that has the strongest inverse correlation with economic activity, fell 1.0 points to 49.7 points, which indicates a very modest move towards overall economic expansion.

The Houston Manufacturing SCMI rose 0.8 points to 50.6 points. Durable goods manufacturing recovered significantly and is now near neutral. Non-durable goods weakened modestly to show growth just above neutral. The non-manufacturing SCMI rose 0.8 points to 54.7, indicating minimal strengthening from last month.

On an industry specific basis construction, health care, professional services, trade/transportation/warehousing, and oil and gas all reported modest to strong expansion. No sector reported significant weakness.

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Houston SCMI Trend



Indices at a Glance

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

Index	Oct	Sep	Change	Track	Rate	Trend*
Houston Overall SCMI	54.0	53.3	0.7	Expanding	Faster	17
Houston Manufacturing SCMI	50.6	49.8	0.8	Expanding	Fr. Cont.	1
Houston Non-Manufacturing SCMI	54.7	53.9	0.8	Expanding	Faster	9
Sales/New Orders	58.7	55.0	3.7	Expanding	Faster	10
Production	54.9	53.2	1.7	Expanding	Faster	5
Employment	51.6	53.0	-1.4	Expanding	Slower	9
Purchases	53.2	52.0	1.2	Expanding	Faster	34
Prices Paid	59.0	57.1	1.9	Expanding	Faster	13
Lead Times	53.5	53.0	0.5	Expanding	Faster	11
Purchased Inventory	51.3	48.9	2.4	Expanding	Fr. Cont.	1
Finished Goods Inventory	49.7	50.7	-1.0	Contracting	Fr. Exp.	1
Overall Houston Economy				Expanding	Faster	77

* Number of months on current track

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

Up in Price: General labor; diesel fuel; ethane, propane, normal butane, isobutane, natural gas liquids, natural gasoline, propylene; PVC resins, PE resins, PP resins; power generation equipment; carbon steel pipe, carbon steel castings, hot rolled carbon steel, structural steel, stainless steel, stainless steel knitting wire; electronics, electrical equipment; containerized ocean freight.

Down in Price: Gasoline; ammonia, methanol, caustic soda; precious metals (gold, silver, platinum, palladium); dry bulk ocean freight.

In Short Supply: Power generation equipment and related parts/components, compression equipment; structural steel, steel forgings of all grades; electrical equipment, control panels, electronics.

‡ Noted as being up or down by different respondents.

What Our Respondents Are Saying:

Oil and Gas Exploration, and Key Support Services:

- Crude, natural gas, and motor fuel prices continue to rise.
- Texas rig counts fell modestly in October.
- *This sector reported expansion for the fourth month. Strong sales/new orders, production, prices paid, and lead time indices were significantly offset by a falling employment index.*

Construction:

- *This sector strengthened during the month and continues to experience strong expansion. The sales/new orders and employment indices moved to well above neutral, joining the prices paid and lead times indices showing significant strength.*

Durable Goods Manufacturing:

- *Activity in this sector was reported as expanding for the first time since February. The sales/new orders, production, prices paid, and lead times indices were all reported as expanding, while the employment index continued to show weakness.*

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What Our Respondents Are Saying (Continued):

Non-durable Goods Manufacturing:

- We have seen no major changes.
- General political instability continues to impact the industry.
- Petrochemical feedstock prices rose across the board (ethane, propane, butanes, and natural gasoline).
- While cracking feedstock prices rose significantly, we have seen minimal increases in polymer prices.
- *This sector weakened minimally and is now reporting just above neutral. While the sales/new orders, production, purchases, prices paid, and lead times indices all showed strength, the employment index continues to point to considerable weakness.*

Trade, Transportation, and Warehousing:

- Labor costs continue to trend higher.
- Oil prices are impacting on transportation and the cost of finished goods.
- Tariffs continue to be a concern.
- Many capital projects are slated to begin after the first of the year.
- Air passenger traffic rose in October consistent with normal seasonal trends.
- Container freight rates from Asia remain stable.
- *This sector reported stronger expansion this month. The sales/new orders and purchases indices joined the production, employment, and prices paid indices in reporting strength. Inventories are now falling. All other indices came in near neutral.*

Real Estate:

- *This sector reported below neutral this month with new home sales showing considerable weakness. Existing home sales came in near neutral. Industrial real estate continues to show strength. Office real estate continues to be weak but is starting to show improvement.*

Health Care:

- *This sector reported continued strong expansion with the sales/new orders index joining prices paid and lead times in showing significant strength. All other indices reported near neutral.*

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What Our Respondents Are Saying (Continued):

Professional and Business Services:

- We are seeing a very static market right now in regard to compensation of talent.
- Prices for both direct hire and contractor hourly billing remain steady for the energy sector.
- We continue to have a stable market. The only services that might be in short supply are those involving specific specialized expertise.
- From now until the end of the year oil companies are completing their budgets for 2027, This is for both staffing and for the capital projects where they want to spend their money. Indications are that even with higher than normal oil prices, the energy sector is proceeding with caution.
- *This sector reported strong expansion with the sales/new orders and employment indices continuing to be reported as expanding.*

Trend of Underlying Indicators

Sales/New Order Index

The sales/new orders index rose 3.7 points to 58.7 points during the month. Both non-manufacturing and manufacturing reported higher expansion rates in this index.

Sales/New Orders	Higher	Same	Lower	Net	Index
May 2026	11%	84%	5%	6%	50.3
Jun 2026	23%	72%	5%	18%	59.4
Jul 2026	16%	79%	5%	11%	56.5
Aug 2026	10%	83%	7%	3%	52.2
Sep 2026	12%	83%	5%	7%	55.0
Oct 2026	10%	86%	4%	6%	58.7

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Trend of Underlying Indicators (Continued)

Production Index

The production index rose 1.7 points to 54.9. Both non-manufacturing and manufacturing showed much stronger growth in this index.

Production	Higher	Same	Lower	Net	Index
May 2026	5%	90%	5%	0%	48.9
Jun 2026	8%	87%	5%	3%	52.2
Jul 2026	9%	87%	4%	5%	52.2
Aug 2026	8%	89%	3%	5%	51.9
Sep 2026	8%	89%	3%	5%	53.2
Oct 2026	9%	89%	2%	7%	54.9

Employment Index

The employment index fell 1.4 points to 51.6, indicating continued moderate expansion. Non-manufacturing came in above neutral and manufacturing continued to report well below this level.

Employment	Higher	Same	Lower	Net	Index
May 2026	8%	86%	6%	2%	50.5
Jun 2026	13%	79%	8%	5%	51.4
Jul 2026	12%	80%	8%	4%	52.2
Aug 2026	11%	82%	7%	4%	53.4
Sep 2026	9%	85%	6%	3%	53.0
Oct 2026	8%	86%	6%	2%	51.6

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Trend of Underlying Indicators (Continued)

Purchases Index

The purchases index rose 1.2 points to 53.2 points. Non-manufacturing remained near neutral while manufacturing strengthened to further above this level.

Purchases	Higher	Same	Lower	Net	Index
May 2026	20%	74%	6%	14%	55.1
Jun 2026	18%	75%	7%	11%	55.5
Jul 2026	20%	78%	2%	18%	58.9
Aug 2026	10%	81%	9%	1%	51.0
Sep 2026	8%	86%	6%	2%	52.0
Oct 2026	8%	87%	5%	3%	53.2

Prices Paid Index

The purchases index rose 1.9 points to 59.0 with non-manufacturing relatively unchanged and manufacturing reporting at a much higher level than last month.

Prices Paid	Higher	Same	Lower	Net	Index
May 2026	35%	63%	2%	33%	65.1
Jun 2026	23%	74%	3%	20%	61.4
Jul 2026	24%	74%	2%	22%	62.3
Aug 2026	17%	81%	2%	15%	57.0
Sep 2026	20%	78%	2%	18%	57.1
Oct 2026	20%	78%	2%	18%	59.0

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Trend of Underlying Indicators (Continued)

Lead Times Index

The purchases index rose a minimal 0.5 points to 53.5 points with manufacturing reporting a significant increase in this index and non-manufacturing continuing to report just above neutral.

Lead Times	Higher	Same	Lower	Net	Index
May 2026	9%	86%	5%	4%	51.3
Jun 2026	8%	89%	3%	5%	52.7
Jul 2026	14%	80%	6%	8%	53.3
Aug 2026	15%	83%	2%	13%	57.1
Sep 2026	11%	85%	4%	7%	53.0
Oct 2026	9%	87%	4%	5%	53.5

Purchased Inventory Index

The purchased inventory index rose 2.4 points to 51.3 with non-manufacturing reporting just above neutral again this month and manufacturing reporting expansion.

Purchased Inventory	Higher	Same	Lower	Net	Index
May 2026	3%	93%	4%	-1%	48.1
Jun 2026	3%	92%	5%	-2%	48.7
Jul 2026	5%	92%	3%	2%	51.6
Aug 2026	2%	89%	9%	-7%	45.8
Sep 2026	2%	94%	4%	-2%	48.9
Oct 2026	3%	95%	2%	1%	51.3

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Trend of Underlying Indicators (Continued)

Finished Goods Inventory Index

The finished goods inventory index fell 1.0 points to 49.7 points. Manufacturing and non-manufacturing both reported near this level.

Finished Goods Inventories	Higher	Same	Lower	Net	Index
May 2026	5%	90%	5%	0%	49.7
Jun 2026	7%	88%	5%	2%	50.8
Jul 2026	4%	89%	7%	-3%	48.7
Aug 2026	4%	92%	4%	0%	50.0
Sep 2026	4%	94%	2%	2%	50.7
Oct 2026	4%	91%	5%	-1%	49.7

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Houston SCMI Calculation Methods

The Houston Supply Chain 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 Supply Chain 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 SCMI 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 HSCMI 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 HSCMI 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 SCMI to no longer align with a neutral Houston BCI. A Houston SCMI of 45 points now equates to a neutral Houston economy as measured by the Houston BCI. A similar offset between the National SCMI and the National economy has existed for some time.

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ISM-Houston Business Report Background

The ISM-Houston Business Report has provided some of the best information regarding what is happening in the Greater Houston area economy for over 30 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.