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*August 11, 2020*

Overall economic activity expanded for the second straight month in Houston, though manufacturing activity continues to contract, according to a survey of local supply chain executives conducted by the Institute for Supply Management, Houston Chapter, and published monthly as the Houston Purchasing Managers Index (PMI).

The PMI, which had sunk to 34.6 in April, inched up steadily in recent months, topping out at 49.5 in June. Escalation of COVID-19 cases in the Houston region caused the July reading to fall to 47.9. Readings above 45 correlate with expansion of the **overall** economy, below 45 a contraction. For Houston's **goods producing sectors**, however, the PMI needs to top 50 to signal expansion. This includes Houston's mining, manufacturing and construction sectors.

The index is composed of eight underlying indicators: 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. In the July PMI, two of the three sub-indexes that correlate strongly with growth—sales/new orders and lead times—pointed to expansion while the employment index continued to signal contraction.

**Houston Purchasing Managers Index (PMI) Overall Components**

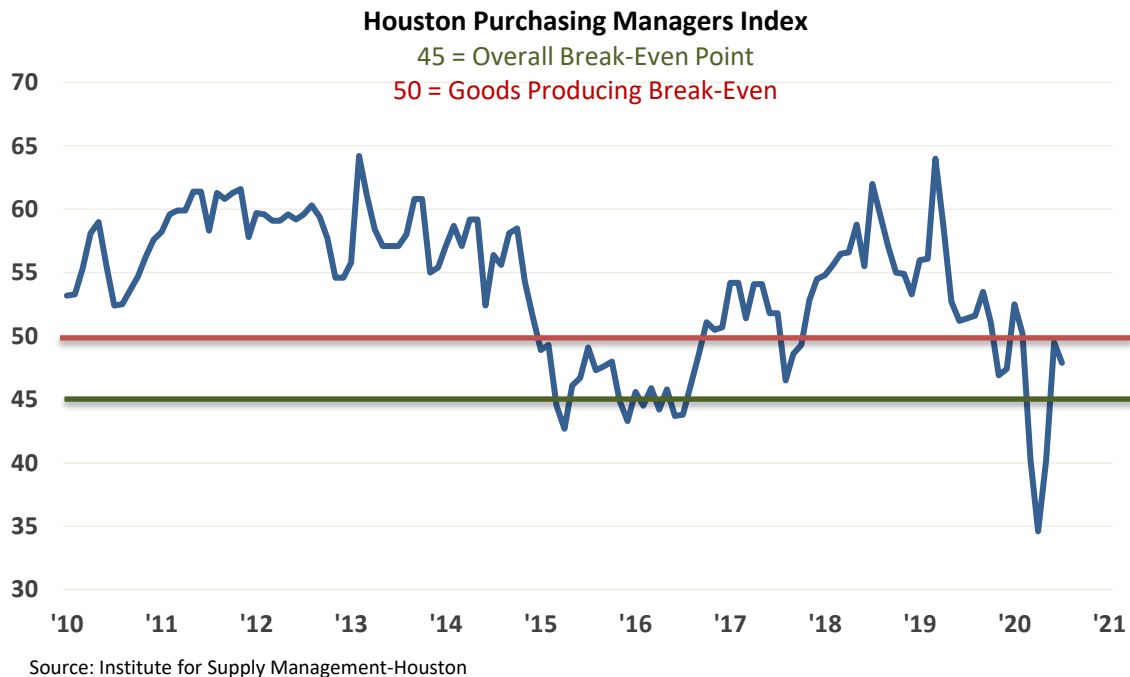
Index	Jul	Jun	Change
Houston PMI	47.9	49.5	-1.6
Sales/New Orders	53.7	56.8	-3.1
Production	52.4	55.5	-3.1
Employment	41.3	44.8	-3.5
Purchases	49.4	50.1	-0.7
Prices Paid	44.0	50.7	-6.7
Lead Times	51.7	51.7	-
Purchased Inventory	46.0	55.9	-9.9
Finished Goods Inventory	49.8	58.3	-8.5

Source: Institute for Supply Management-Houston

On an industry specific basis, accommodations and foods services, transportation, utilities, and health care reported expansion in June after a very weak report in May. Real estate, oil and gas, and nondurable goods

manufacturing reported near neutral. Construction, durable goods manufacturing, and professional services continued to report contraction.

The forecast component of the Houston PMI, which suggests economic trends over the next three months, fell from 53.9 in June to 51.2 in July. This was driven by a decline in the purchases, prices paid, purchased inventory and finished goods inventory indices. The accuracy three-month forecast is highly uncertain, however, as further economic improvement is dependent on the severity of the COVID-19 pandemic.



The Institute for Supply Management - Houston has published the Houston PMI monthly since January 1995 as a service to its members and the greater Houston business community. For additional information on the index, click [here](#).

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