

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

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The National Association of Purchasing Management-Cincinnati Report on Business for the Month of December 2006

According to the December reading of the **Cincinnati Purchasing Management Index (PMI)**, the manufacturing sector of the Greater Cincinnati economy contracted in December as the Cincinnati PMI dropped 8.9 percentage points from 56.3 in November to 47.4 in December. This is the first month since December 2002 that the local index was below 50.0. A year ago, the Cincinnati PMI measured 51.0. This significant decline terminated the 47 month upward trend in the Cincinnati Purchasing Management Index. In November, the national PMI posted an index value of 49.5 which was the first below 50.0 number since June 2003. Recent research by the Applied Economics Research Institute (AERI) suggests the December Cincinnati PMI corresponds to a fourth quarter growth rate in total regional output of 2.5 percent.

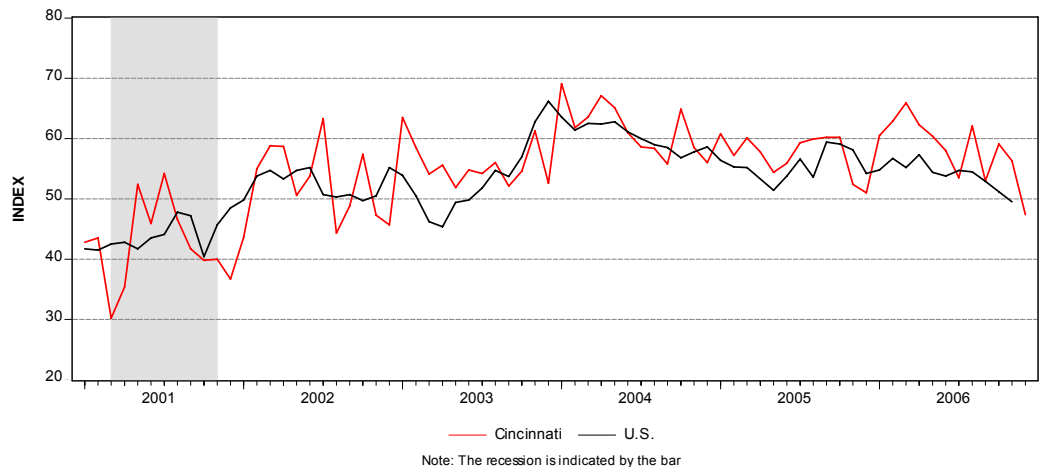


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of December from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers suggest the manufacturing sector of regional economy entered a period of contraction. While the 47.4 Cincinnati Purchasing Management Index signals a decline in the manufacturing sector of the regional economy, total production of goods and services continues to increase; the rate of expan-

sion, however, falls beneath the historical long term trend in real output growth. Recent research by the Applied Economics Research Institute (AERI) indicates the regional economy is currently growing at a seasonally adjusted annual rate of 2.5 percent. Nationally, the Institute for Supply Management (ISM) states a PMI above 42 over a period of time indicates an expanding economy. Unlike the mixed and difficult to discern series movements last month,

the December indices point to a slowdown in the growth of business activity. The new orders, production, and employment indices shrank during December. Inventories of raw materials and finished goods increased. Commodity prices, measured by the commodity price index, accelerated as service and equipment index numbers fell. The latter is noteworthy in the context of the upward blip in equipment prices recorded during November that now

appears transitory. The rate of increase in the **Composite Price Index – Cincinnati** continued to slow during the month of December as the price index declined from 13.7 in November to 6.0 in December. Any index value that exceeds zero represents an increase in average prices. Members reported diminishing price increases for services, commodity prices advancing at a faster rate than November and an abrupt reversal in the movement of the equipment price index.

Table 1. The Cincinnati Economy at a Glance					
Index	Series index		Direction	Rate of change	Trend*
	Dec.	Nov.			
Cincinnati PMI	47.4	56.3	↓	Slower	1
New Orders	-12.0	20.0	↓	Slower	1
Backlog of Orders	-18.0	0.0	↓	Faster	1
Production	6.0	15.0	↑	Slower	13
Employment	-18.0	20.0	↓	Slower	1
Vendor Deliveries	0.0	0.0	↔	Same	2
Raw Material Inventories	7.0	-9.0	↑	Slower	1
Finished Goods Inventories	7.0	-17.0	↑	Slower	1
Composite Price Index	6.0	13.7	↑	Slower	39

*Number of months moving in current direction

Production, Employment, New Orders, and Backlogs

Survey respondents report the rate of increase in production declined during December as the **Production Index** fell from 15 in November to 6 in December. A year ago, the

production index equaled 11. The **Employment Index** for December fell to -18 from 20 in November. The percentage of replies reporting decreases in employment increased from 6 to 29. The **New Orders Index** for the month of De-

cember dropped from 20 in November to -12 in December. A year ago, the new orders index measured 0. The **Backlog of Orders Index** which was unchanged at a 0 reading in November and October fell to -18 in December.

DETAILS

The index numbers indicate the NET CHANGE (number reporting UP from last month minus the number reporting DOWN). For each indicator, in parenthesis, is the average for the last three years on the left followed by indices for the last three months, with the last month to the right.

NEW ORDERS - Fig.2
(25, 20, 20, -12)

The rate of increase in new orders in December plunged from 20 in November to -12 in December as 41 percent of the survey replies indicated new orders were “down.” In December 2005, the index equaled 0. If the behavior of the index continues on a down trend in coming months, it is likely, based on prior historical statistical relationships, the local economy is heading towards a period slower economic growth.

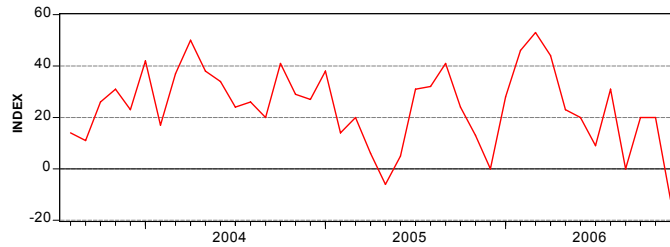


Figure 2. New Orders

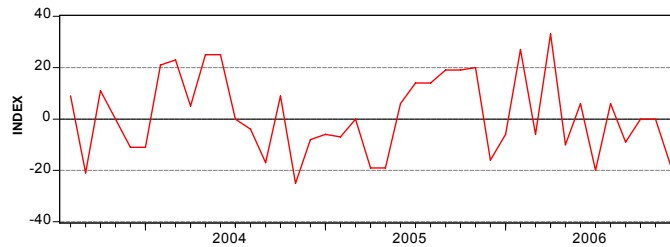


Figure 3. Backlog of Orders

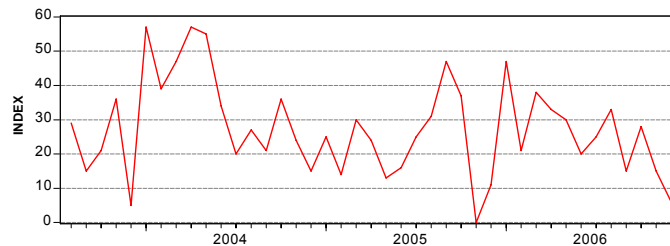


Figure 4. Production

“The New Orders Index for the month of December dropped from 20 in November to -12 in December”

BACKLOG OF ORDERS - Fig.3

(2, 0, 0, -18)

The pattern of monthly up down swings in the backlog of orders that began in January 2006 and stabilized in November reverted to the earlier pattern in December as the backlog of orders index fell to a -18 value.

PRODUCTION - Fig.4

(28, 28, 15, 6)

The rate of increase in the production index declined in December as the index number moved lower by 9 percentage points. The decrease largely resulted from a decrease of 7 percentage points in the number of replies indicating production rates were "up." A year ago, the production index was 11. Overall, the behavior of the production index correlates with moderating business activity. December, however, marks the 13th month the production measure has moved in the same direction.

EMPLOYMENT - Fig. 5

(13, 0, 20, -18)

December's employment index significantly fell from November reversing the 1 month up direction recorded in the previous month. The last negative value occurred in September 2005. Over the past consecutive 36 months, the employment index has registered only 2 negative values; this change merits careful monitoring in coming months. Changes in the employment index often trail changes in production. Coupled with recent behavior of new orders and rising inventory levels, the December data are highly suggestive of softening labor markets.

VENDOR DELIVERY PERFORMANCE - Fig. 6

(-11, -31, 0, 0)

As reflected by the vendor delivery performance index,

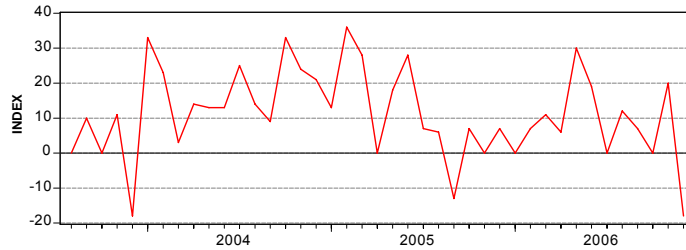


Figure 5. Employment

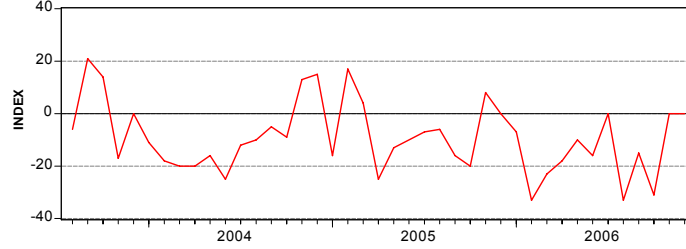


Figure 6. Vendor Delivery Performance

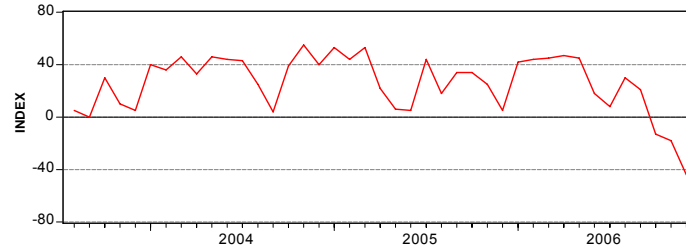


Figure 7. Dollars Spent by Purchasing

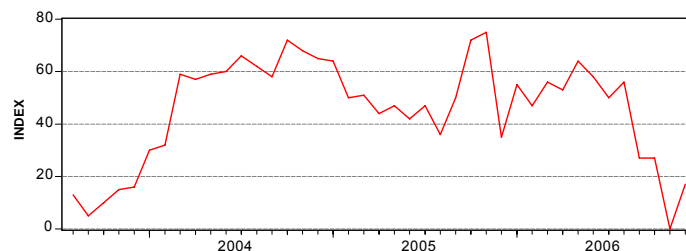


Figure 8. Commodity Prices

deliveries, according to Cincinnati purchasing managers, were unchanged from November. According to survey respondents, 90 percent of replies indicated vendor delivery performance the "same" as the preceding month. The index, moreover, matches exactly the value of December 2005.

DOLLARS SPENT BY PURCHASING - Fig.7

(28, -13, -18, -44)

The monthly index measuring changing dollar amounts spent by regional purchasers continued the fall that started in September. The December

index is the third consecutive negative this year; the last time the index registered 3 consecutive negative months occurred over the August to October period of 2002. For comparison, a year ago, the dollars spent index was 5. The data are supportive of the widely expected and likely economic slowdown in the first six months of 2007. Changes in this measure merit close attention.

COMMODITY PRICES - Fig. 8

(50, 27, 0, 17)

The commodity price index in December increased to 17 from 0 in November. As men-

"December's employment index significantly fell from November reversing the 1 month up direction recorded in the previous month"

tioned in the November report on business, survey data suggest commodity prices peaked in May 2006. Members do report higher prices for hydrocarbon resin, methanol, aluminum, paper products, electric motors, energy, zinc and copper.

SERVICE PRICES

(25, 13, 13, 0)

The rate of increase in service prices after stabilizing in October and November fell in December. In December 2005, the index measured 26. According to survey data collected from responding members, the Cincinnati service price index peaked in August.

EQUIPMENT PRICES

(21, 13, 27, 0)

The rate of increase in equipment prices that accelerated in November was short lived as the equipment price index fell to 0 in December. The equipment price index measured 6 a year ago.

RAW MATERIAL INVENTORIES

(-7, 9, -9, 7)

The index measuring changes in raw material inventories again reversed direction moving up to 7 in December from a negative 9 in November. This swing in direction may reflect the slowdown in demand forecast for the first half of 2007 by Cincinnati Purchasing Managers.

FINISHED GOODS INVENTORIES

(3, -8, -17, 7)

Finished goods inventories increased in December. This may be in anticipation of a continuing slowdown in the expansion of the regional economy and an unusual seasonal pattern. Increased stocks of finished goods along with slowing production and employment lend additional credence to projected below trend growth for the regional and national economies.

BUYING PATTERNS

These percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (2, -25, -50, -13)
- ACROSS THE ATLANTIC (-5, 0, -37, 0)
- ACROSS THE PACIFIC (35, 12, 25, 25)
- DOMESTICALLY (29, -19, -19, -33)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

- Up are: Hydrocarbon resin, methanol, aluminum, paper products, electric motors, energy, zinc and copper
- Down are: Aluminum sheet and coil, resin and steel
- In Short Supply are: Aluminum plate, armor plate, electric motors, zinc and copper.

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

General Business

Index	Up	Same	Down
Production	31	44	25
New Orders	29	30	41
Backlog Of Orders	25	32	43
Employment	11	60	29

Prices & Spending

Index	Up	Same	Down
Prices for Commodities	22	73	5
Prices for Services	0	100	0
Prices for Equipment	0	100	0
Dollars Spent by Purchasing	11	34	55

Inventories

Index	Up	Same	Down
Raw Materials	30	47	23
Finished Goods	28	51	21

Deliveries

Index	Quicker	Same	Slower
Deliveries	5	90	5

Of those Firms that Purchase Internationally

Change in the amount spent	Up	Same	Down
Elsewhere in the Americas	12	63	25
Across the Atlantic	12	76	12
Across the Pacific	25	75	0
Domestically	11	45	44

Why This Report is Produced

The Greater Cincinnati Report on Business provided by the National Association of Purchasing Management-Cincinnati (NAPM-C), prepared and reported by the Applied Economics Research Institute, Department of Economics, University of Cincinnati, tells us RIGHT NOW the condition of business in the Greater Cincinnati region. It is a flash pool that secures information from a key economic participant in all businesses, the Purchasing Manager. The report is a summary of information reported by the Purchasing Managers for Greater Cincinnati firms of all sizes in a variety of industries.

Issued: On the last business day of each month by the Applied Economics Research Institute, Department of Economics, University of Cincinnati in collaboration with the National Association of Purchasing Management-Cincinnati.

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PRESS RELEASE

Important:

Do Not Release Until
12:01 a.m. Friday December 29, 2006

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of December 2006.

Please note that this IS NOT the national report. This report covers the level of business activity in the Greater Cincinnati Area only.

ISSUED: On the last business day of each month by the Applied Economics Research Institute, Department of Economics, University of Cincinnati in collaboration with the National Association of Purchasing Management-Cincinnati.

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The Greater Cincinnati Report on Business for the month of December suggests the manufacturing sector of regional economy entered a period of contraction as the rate of increase in the PRODUCTION Index declined by 9 percentage points and the EMPLOYMENT Index for December fell to -18 from 20 in November.

The Purchasing Managers Index - Cincinnati measured 47.4 in December compared to 56.3 last month for a 8.9 percentage point decrease. A year ago, the Cincinnati PMI equaled 51.0. This significant decline terminated the 47 month upward trend in the Cincinnati Purchasing Management Index. Any reading over 50 represents an increase.

The Composite Price Index - Cincinnati - The rate of increase in the **Composite Price Index - Cincinnati** continued to slow during the month of December as the price index declined from 13.7 in November to 6.0 in December. Any index value that exceeds zero represents an increase in average prices. Members reported diminishing price increases for services, commodity prices advancing at a faster rate than November and an abrupt reversal in the movement of the equipment price index.

The **New Orders Index** plunged from 20 in November to -12 in December. **The Backlog of Orders** which was unchanged at a 0 reading in November and October fell to -18 in December. The monthly index measuring **Dollars Spent by Purchasing** continued the fall that started in September. The December index is the third consecutive negative this year.