Applied Economics Research Institute
Department of Economics, University of Cincinnati

October 2006

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

INSIDE THIS ISSUE:

New Orders	2
Backlog of Orders	2
Production	2
Employment	3
Vendor Delivery Performance	3
Dollars Spent by Purchasing	3
Commodity Prices	3
Service Prices	3
Equipment Prices	3
Raw Material Inventories	4
Finished Goods Inventories	4
Buying Patterns	4
General Comments by Purchasing Managers	4

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UNIVERSITY OF Cincinnati

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

The **Cincinnati Purchasing Management Index (PMI)** increased 6.1 percentage points to 59.1 in October from 53.0 in September. In October 2005, the Cincinnati PMI equaled 60.2. The latest index reading suggests the regional economy continues to expand but at a somewhat slower rate. To a large extent, the local economy mirrors current changes in business activity nationally. The upward trend in the PMI, however, extends to 46 months.

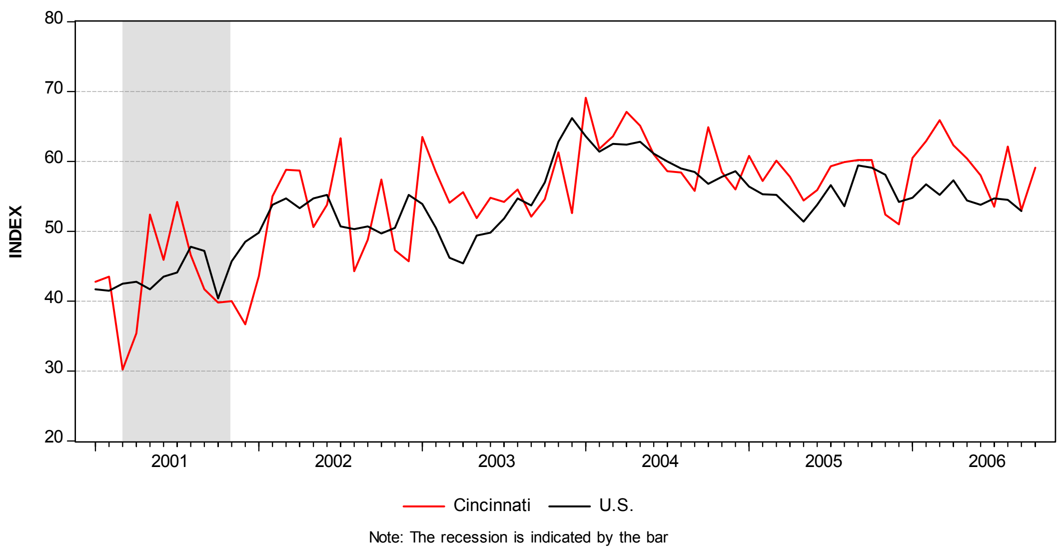

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

The Greater Cincinnati Report on Business (ROB) for the month of October points to a continuing slowdown in the growth of business activity in the in the 15 county Greater Cincinnati regional economy. Although the **Purchasing Managers Index – Cincinnati,** a barometer of current business conditions, increased 6.1 percentage points above the September index to 59.1, the monthly index remains 1.1 percentage points below the year ago reading. Restated, the Cincinnati PMI, compared to the same month a year ago, has fallen 1.8 percent.

The rate of increase in the **Composite Price Index – Cincinnati** continued to slow in October as the price index declined from 18.2 in September to 17.3 in October. Any index value that exceeds zero represents an increase in average prices. Members reported slower price increases for services, equipment, and commodities. Moderating price increases parallel the recent behavior of broad market indices of commodity prices and continue to be consistent with slowing economic growth and reduced demand for energy and other commodities.

Production, Employment, New Orders, and Backlogs

Survey respondents report production accelerated in October increasing at a more rapid rate than in September. The **Production Index** increased from 15 in September to 28 in October. A year ago, the production index measured 37. The **Employment Index** for October declined to a monthly value of 0 from 7 in September. Although a larger percentage of survey respondents reported hiring increases, these were offset by the same percentage of replies reporting employment decreases during October. The percentage indicating employment the same as the preceding month plunged 33 percentage points. The **New Orders Index** for the month of October recovered from the September decline rising to 20 from 0. New orders, however, remain 4 percentage points lower that the index value in October 2005. **The Backlog of Orders** remains capricious and continues to reflect the monthly up down cycle that started in January of this year.

Table 1. The Cincinnati Economy at a Glance

Index	Series index Oct.	Series index Sep.	Direction	Rate of change	Trend*
Cincinnati PMI	59.1	53.0	↑	Faster	46
New Orders	20.0	0.0	↑	Faster	1
Backlog of Orders	0.0	-9.0	↔	Slower	1
Production	28.0	15.0	↑	Faster	11
Employment	0.0	7.0	↔	Slower	1
Vendor Deliveries	-31.0	-15.0	↓	Faster	3
Raw Material Inventories	9.0	-18.0	↑	Slower	1
Finished Goods Inventories	-8.0	-9.0	↓	Slower	3
Composite Price Index	17.3	18.2	↑	Slower	37

*Number of months moving in current direction

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

(26, 31, 0, 20)

The rate of increase in new orders in October recovered from the slump registered in September as the index moved up to 20 from September's reading of 0. The percentage of survey replies indicating new orders were up almost doubled from the preceding month; this increase resulted from a shift in "same" to "up" replies. The percent of "down" responses was little changed from September. The index, however, remains 4 percentage points below the October 2005 value.

BACKLOG OF ORDERS - Fig.3

(2, 6, -9, 0)

The pattern of monthly up down swings in the backlog of orders that began in January 2006 continued to be reflected in the October data as the index number rose from -9 in September to 0 in October. A year ago, the index measured 19.

PRODUCTION - Fig.4

(29, 33, 15, 28)

The rate of increase in the production index increased in October as the index number gained some 13 percentage points. As reflected in the

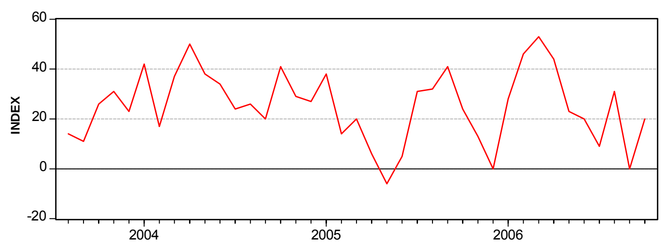

Figure 2. New Orders

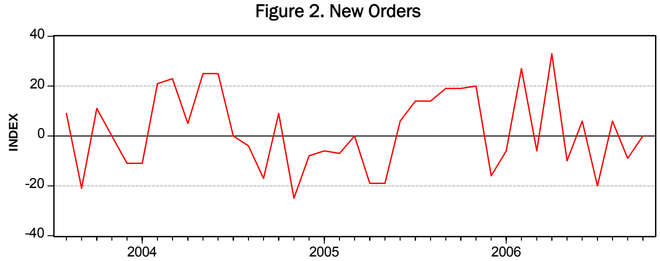

Figure 3. Backlog of Orders

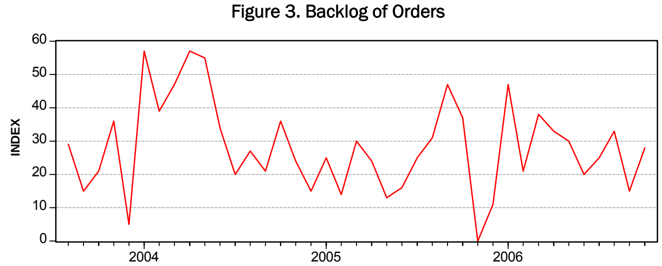

Figure 4. Production

"The rate of increase in new orders in October recovered from the slump registered in September"

Statistical Summary, the percentage of replies reporting production rates "down" declined from 15 to 7 percent. The October index of 28 is 9 percentage points lower that the year earlier level which is consistent with moderating growth in regional business conditions. The trend, or the number of months the index moves in the current direction, however, stretches to 11 months.

EMPLOYMENT - Fig. 5

(13, 12, 7, 0)

October's employment index continues to suggest a weakening in labor markets since August. Changes in the employment index often trail changes in production and new orders. Compared to the same month a year ago, the jobs index has fallen 7 percentage points and the decline is consistent with a slower rates of economic growth and a regional unemployment rate above that of the U.S.

VENDOR DELIVERY PERFORMANCE - Fig. 6

(-11, -33, -15, -31)

As reflected by the vendor delivery performance index, deliveries slowed somewhat during October as a significantly greater percentage of replies indicated less timely delivery schedules. Increases in new orders and in production rates may be contributing factors.

DOLLARS SPENT BY PURCHASING - Fig.7

(30, 30, 21, -13)

The monthly index measuring changing dollar amounts spent by regional purchasers fell from 21 in September to -13 in October. This is the first negative index reading since June 2003. A year ago, the dollars spent index was 34.

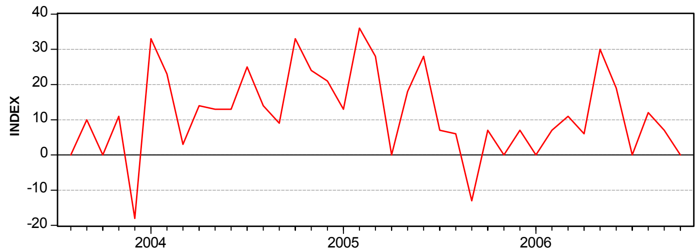

Figure 5. Employment

Figure 6. Vendor Delivery Performance

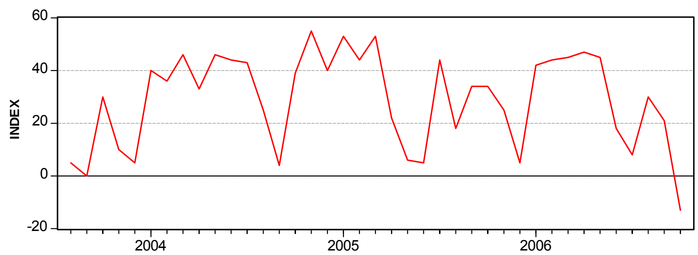

Figure 7. Dollars Spent by Purchasing

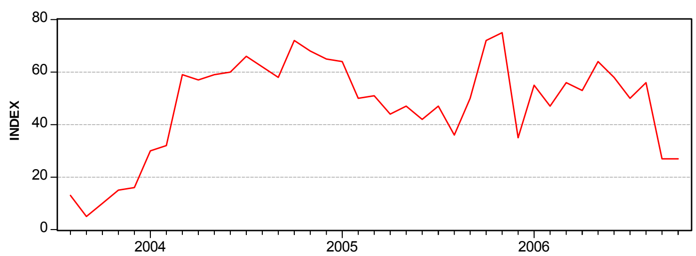

Figure 8. Commodity Prices

COMMODITY PRICES - Fig. 8

(51, 56, 27, 27)

The commodity price index in October was unchanged from September. As mentioned in the September Cincinnati report on business, survey data suggest commodity prices peaked in May 2006. Members do report higher prices for resin, PVC, acetic acid, and methanol.

SERVICE PRICES

(25, 56, 14, 13)

The upward surge in rate of increase in service prices during August now appears anomalous as the service price index dipped precipitously in September and registered a modest fall in October. The current month index of 13 is the lowest index reading since March and the index lies 34 percentage points beneath the October 2005 number.

EQUIPMENT PRICES

(20, 37, 14, 13)

The rate of increase in equipment prices continued to slow in October as the equipment price index fell to 13 from 14 in September. In October 2005, the equipment price index measured 31.

"As reflected in the behavior of the employment index in September and October, the data suggest a softening in the regional labor market"

RAW MATERIAL INVENTORIES (-8, -34, -18, 9)

The index measuring changes in raw material inventories reversed direction moving upward from -18 in September to 9 in October. This polarity change may reflect higher production rates and catching up with the backlog of orders. A year ago, the raw material stock index equaled -20.

FINISHED GOODS INVENTORIES (3, -27, -9, -8)

Finished goods inventories were little changed in October from September. Effective inventory management reflects a relative balance between the production and sales sides of the market.

BUYING PATTERNS

These percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (2, -12, -17, -25)
- ACROSS THE ATLANTIC (-5, 0, 0, 0)
- ACROSS THE PACIFIC (35, 43, 33, 12)

DOMESTICALLY (29,18, 20, -19)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

- Up are: Stainless steel plate and sheet, aluminum, electric motors, resin and PVC, paper and toner, transformers and small motors, methanol, and acetic acid
- Down are: oil, copper, steel, and energy
- In Short Supply are: Electronic parts, magnet wire, methanol, and acetic acid.

Statistical Summary

Replies as a Percent of Total Replies

General Business

Index	Up	Same	Down
Production	35	58	7
New Orders	40	40	20
Backlog Of Orders	21	58	21
Employment	26	48	26

Prices & Spending

Index	Up	Same	Down
Prices for Commodities	33	61	6
Prices for Services	13	87	0
Prices for Equipment	13	87	0
Dollars Spent by Purchasing	18	51	31

Inventories

Index	Up	Same	Down
Raw Materials	25	59	16
Finished Goods	15	62	23

Deliveries

Index	Quicker	Same	Slower
Deliveries	7	55	38

Of those Firms that Purchase Internationally

Change in the amount spent	Up	Same	Down
Elsewhere in the Americas	0	75	25
Across the Atlantic	25	50	25
Across the Pacific	37	38	25
Domestically	12	57	31

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.*

www.napm-c.org

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Department of Economics, University of Cincinnati

October 2006

Cincinnati Report on Business

NAPM-Cincinnati Affiliated with the Institute for Supply Management

PRESS RELEASE

Important:

Do Not Release Until
12:01 a.m. Tuesday October 31, 2006

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of October 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 Purchasing Mangers Index – Cincinnati measured 59.1 in October compared to 53.0 last month for a 6.1 percentage point increase. A year ago, the Cincinnati PMI equaled 60.2. The latest index reading suggests the regional economy continues to expand but at a somewhat slower rate. 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 in October as the price index declined from 18.2 in September to 17.3 in October. Any index value that exceeds zero represents an increase in average prices. Members reported slower price increases for services, equipment, and commodities.

The **New Orders Index** for the month of October recovered from the September decline rising to 20 from 0. **The Backlog of Orders** remains capricious and continues to reflect the monthly up down cycle that started in January of this year. The monthly index measuring **Dollars Spent by Purchasing** fell from 21 in September to -13 in October. This is the first negative index reading since June 2003.