

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

INSIDE THIS ISSUE:

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

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

The Cincinnati Purchasing Management Index (PMI) declined 9.1 percentage points to 53.0 in September from 62.1 in August. A year ago, the Cincinnati PMI equaled 60.2. The latest index reading suggests, as forecasted by the Cincinnati Purchasing Managers in June 2006, the regional economy continues to expand but at a significantly slower rate. The upward trend, however, extends to 45 months.

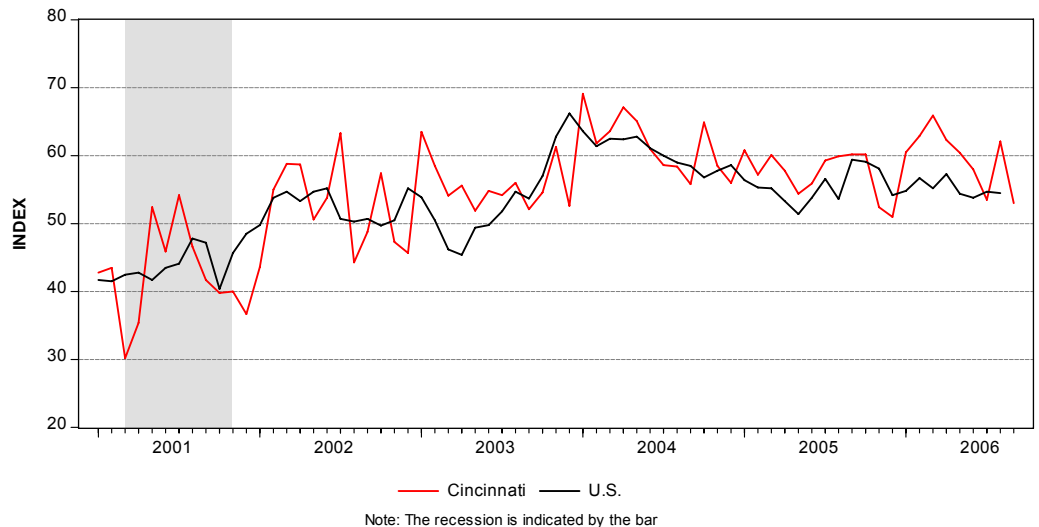


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

The Greater Cincinnati Report on Business for the month of September points to a slowdown in the growth of business activity in the 15 county Greater Cincinnati regional economy. The **Purchasing Managers Index - Cincinnati**, a barometer of current business conditions, fell 9.1 percentage points beneath the August index to 53.0. The Cincinnati Purchasing Managers Index (PMI) was 60.2 in September 2005. For reference, in the third quarter of 2005, the Cincinnati PMI averaged 59.8; during the

third quarter of 2006, the average equaled 56.2

The rate of increase in the **Composite Price Index - Cincinnati** slowed markedly in September; the index value measured 18.2 compared to the 49.8 level registered in August. Any index value that exceeds zero represents an increase in average prices. Members reported significantly slower price increases for services, equipment, and commodities. The latter parallels the recent behavior of broad market indices of com-

modity prices and is in harmony with moderating economic growth and reduced demand for energy and other commodities.

Production, Employment, New Orders, and Backlogs

Survey respondents report production increased at a considerably slower rate in September than August as the September Production Index fell from 33 in August to 15. In September 2005, the

Cincinnati Production Index was 47. The current index is the lowest September number since 2003. The **Employment Index** for September declined to a monthly value of 7 from 12 in August. A smaller percentage of survey respondents reported hiring increases and an increased percentage of survey participants indicated staffing levels remained the same as the preceding month. The **New Orders Index** for the month of September abruptly changed direction falling from 31 in August to 0. The **Backlog of Orders** remains capricious and adheres to the monthly up down cycle that started in January of this year.

| Table 1. The Cincinnati Economy at a Glance | | | | | |
|---|--------------|-------|-----------|----------------|--------|
| Index | Series index | | Direction | Rate of change | Trend* |
| | Sep. | Aug. | | | |
| Cincinnati PMI | 53.0 | 62.1 | ↑ | Slower | 45 |
| New Orders | 0.0 | 31.0 | ↔ | Slower | 1 |
| Backlog of Orders | -9.0 | 6.0 | ↓ | Faster | 1 |
| Production | 15.0 | 33.0 | ↑ | Slower | 10 |
| Employment | 7.0 | 12.0 | ↑ | Slower | 2 |
| Vendor Deliveries | -15.0 | -33.0 | ↓ | Slower | 2 |
| Raw Material Inventories | -18.0 | -34.0 | ↓ | Slower | 6 |
| Finished Goods Inventories | -9.0 | -27.0 | ↓ | Slower | 2 |
| Composite Price Index | 18.2 | 49.8 | ↑ | Slower | 36 |

*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, 9, 31, 0)

The rate of increase in new orders in September fell to 0 from 31 in August ending the 8 month upward trend. The sharp decrease resulted from an increase of 15 percentage points in the percent of replies indicating lower rates in new orders and a drop of 16 percentage points from August in the number of responses reporting new orders were up. This index also confirms the expected slowdown in the pace of growth forecasted by Cincinnati Purchasing Managers.

BACKLOG OF ORDERS - Fig.3
(2, -20, 6, -9)

The pattern of monthly up down swings in the backlog of orders that began in January 2006 continued to be re-

flected in the September data as the index number fell from 6 in August to a -9 in September.

PRODUCTION - Fig.4
(29, 25, 33, 15)

The rate of increase in the production index slowed in

September as the index number dropped some 18 percentage points. The slowdown reversed the growth increases registered in the two preceding months and the September 2006 index is 32 percentage points beneath the year earlier value. The trend or the number of months the index

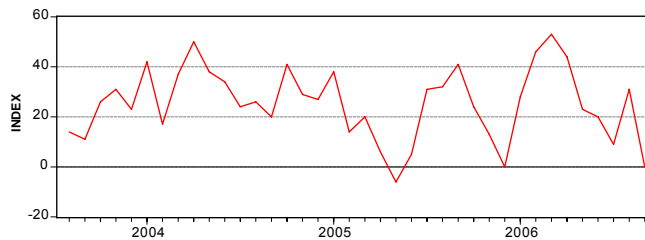


Figure 2. New Orders

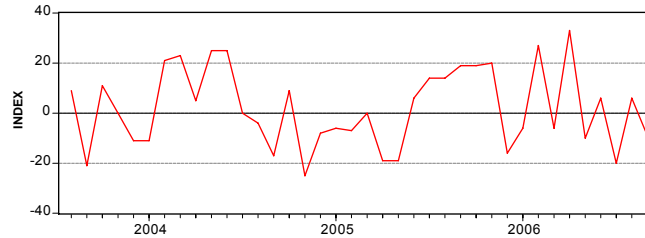


Figure 3. Backlog of Orders

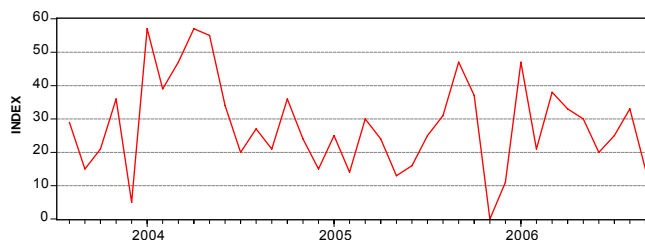


Figure 4. Production

“The rate of increase in new orders in September fell to 0 from 31 in August ending the 9 month upward trend“

moves in the current direction, however, stretches to 10 months.

EMPLOYMENT - Fig. 5
(13, 0, 12, 7)

The employment index in September mirrored the moderating growth in production as the index number declined from 12 in August to 7 in September. Although declining from the preceding month, the September 2006 index reading contrasts markedly with the index value of -13 in the same month in 2005.

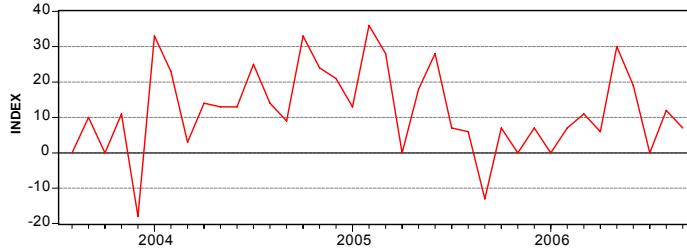


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(-10, 0, -33, -15)

As reflected by the vendor delivery performance index, deliveries, according to Cincinnati purchasing managers, somewhat improved during September as a smaller fraction of survey respondents specified lengthened delivery times. It is likely this improvement results from slowing growth rates in the production index and the decrease in the new orders index.

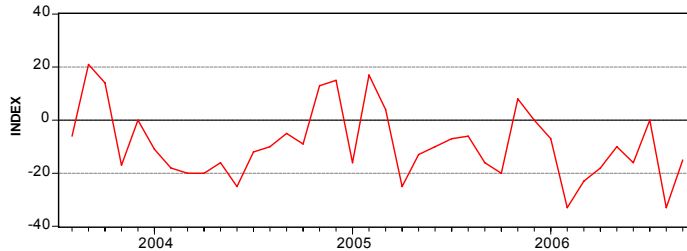


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig.7
(32, 8, 30, 21)

The monthly index measuring changing dollar amounts spent by regional purchasers fell to 21 in September from 30 in August. Slower increases correlate highly with lower production and employment index performance. A year ago, the dollars spent index was 34. Over the third quarter of 2005, the index value averaged 32; for the third quarter of the current year, the index average is 20.

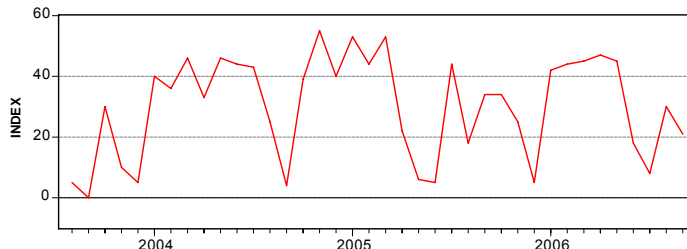


Figure 7. Dollars Spent by Purchasing

COMMODITY PRICES - Fig. 8
(50, 50, 56, 27)

The rate of increase in commodity prices slowed sharply in September. For the Greater Cincinnati region, survey data suggest commodity prices

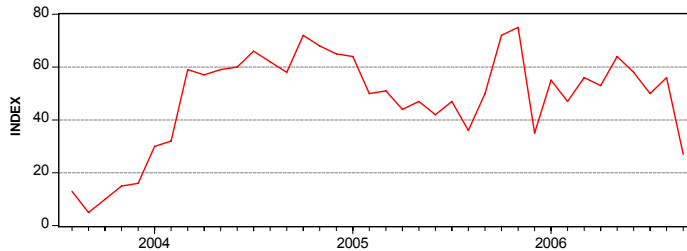


Figure 8. Commodity Prices

peaked in May 2006. It is interesting to note that, as reported in the "Wall Street Journal" on September 25, several national indices of commodity prices peaked during the same month. Members pointed to higher prices for methanol, oleum, sulfuric acid, and resin.

SERVICE PRICES
(25, 17, 56, 14)

The upward surge in rate of increase in service prices during August now appears anomalous as the service price index dipped precipitously in September. As reported in the August Cincinnati Report on Business, the

service price index increased 39 percentage points over July's index reading; the increase, however, was short lived as the same index plunged 42 percentage points in September more than offsetting the August increase. The current month index of 14 is the second lowest of calendar 2006.

EQUIPMENT PRICES
(20, 27, 37, 14)

The rate of increase in equipment prices moderated in September as the index of equipment prices declined from 37 in August to 14 in September. A year ago, the index equaled 31.

"The rate of increase in commodity prices slowed sharply in September"

RAW MATERIAL INVENTORIES
(-9, -38, -34, -18)

The index measuring changes in raw material inventories measured -18 in September. The August increase in production rates may have reduced raw material stocks and expected slower growth during the final quarter of 2006 accompanied by the trend reversal in the new order index may be responsible. This change also seems to echo changes in vendor delivery performance.

FINISHED GOODS INVENTORIES (3, 0, -27, -9)

Cincinnati purchasing managers seem to be monitoring both raw material and finished goods inventories care-

fully. Changes in market demand linked to the expected slowdown in the pace of Cincinnati business conditions during the fourth quarter of 2006 and supply side adjustments reflected in September's fall in the production index, the working off the backlog of new orders, and parallel adjustments in raw material and finished good inventories provide rather credible evidence.

BUYING PATTERNS

These percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (3, 0, -12, -17)
- ACROSS THE ATLANTIC (-5, -40, 0, 0)

- ACROSS THE PACIFIC (37, 80, 43, 33)
- DOMESTICALLY (30, 17, 18, 20)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

- Up are: Motors, aluminum, energy, fuel, copy paper, stainless steel, methanol, oleum, sulfuric acid, aniline, paper, toner, equipment, resin, airfares, and hotels
- Down are: Some paper products, copper, gasoline, and metallics
- In Short Supply are: Electronics from Asia, copy paper, and fuel.

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

General Business

| Index | Up | Same | Down |
|-------------------|----|------|------|
| Production | 30 | 55 | 15 |
| New Orders | 21 | 58 | 21 |
| Backlog Of Orders | 16 | 59 | 25 |
| Employment | 13 | 81 | 6 |

Prices & Spending

| Index | Up | Same | Down |
|-----------------------------|----|------|------|
| Prices for Commodities | 40 | 47 | 13 |
| Prices for Services | 14 | 86 | 0 |
| Prices for Equipment | 14 | 86 | 0 |
| Dollars Spent by Purchasing | 35 | 51 | 14 |

Inventories

| Index | Up | Same | Down |
|----------------|----|------|------|
| Raw Materials | 18 | 46 | 36 |
| Finished Goods | 16 | 59 | 25 |

Deliveries

| Index | Quicker | Same | Slower |
|------------|---------|------|--------|
| Deliveries | 0 | 85 | 15 |

Of those Firms that Purchase Internationally

| Change in the amount spent | Up | Same | Down |
|----------------------------|----|------|------|
| Elsewhere in the Americas | 16 | 51 | 33 |
| Across the Atlantic | 20 | 60 | 20 |
| Across the Pacific | 33 | 67 | 0 |
| Domestically | 26 | 68 | 6 |

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 September 29, 2006**

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of September 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 53.0 in September compared to 62.1 last month for a 9.1 percentage point decrease. A year ago, the Cincinnati PMI equaled 60.2. The latest index reading suggests, as forecasted by the Cincinnati Purchasing Managers in June 2006, the regional economy continues to expand but at a significantly slower rate. Any reading over 50 represents an increase.

The Composite Price Index - Cincinnati - The rate of increase in the **Composite Price Index – Cincinnati** slowed markedly in September; the index value measured 18.2 compared to the 49.8 level registered in August. Any index value that exceeds zero represents an increase in average prices. Members reported significantly slower price increases for services, equipment, and commodities.

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