

July 2006

HIGHLIGHTS

- Purchasing Managers Index
- The Composite Price Index
- Production
- Employment
- Pricing
- New Orders

DETAILS

- New Orders
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- Production
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- Dollars Spent by Purchasing
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The National Association of Purchasing Management-Cincinnati Report on Business for the Month of July 2006

The Applied Economics Research Institute, Department of Economics, University of Cincinnati, reports the Cincinnati PMI dropped 4.5 percentage points below the June number. The current index reading of 53.5 marks the fourth consecutive monthly decline in the Cincinnati PMI.

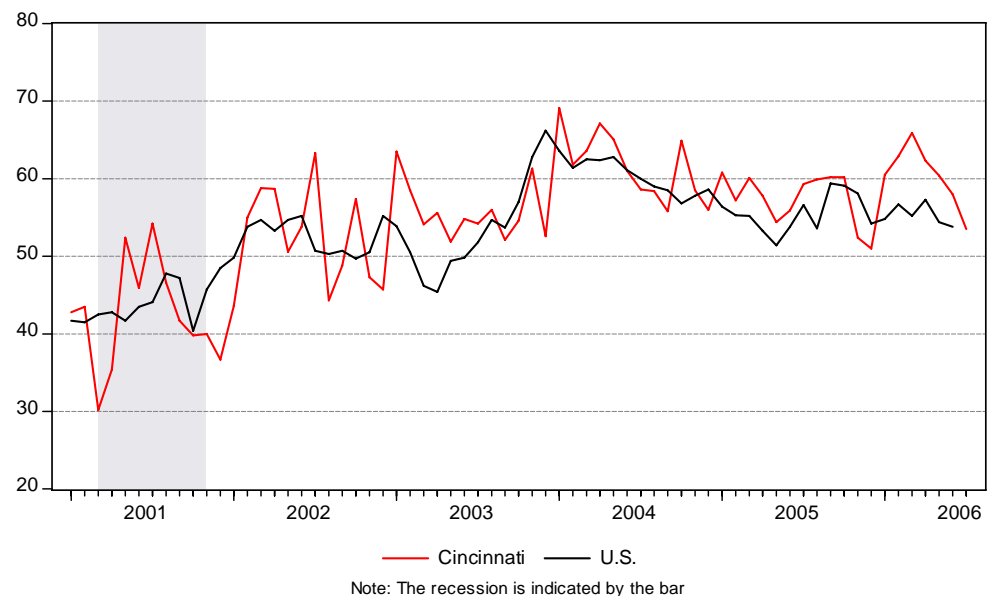


Figure I. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

The Greater Cincinnati Report on Business for the month of July suggests the growth rate in the regional economy continues to decline. The **Purchasing Managers Index – Cincinnati**, a barometer of current business conditions, measured 53.5 in July 2006. Continuing the slowdown in the rate of increase that began in April 2006, the July

reading marks the fourth consecutive monthly decline in the Cincinnati PMI. The current index reading, 5.8 percentage points below the July 2005 number, is the lowest for the month of July since 2001 when the Cincinnati PMI measured 54.2.

The rate of increase in the **Composite Price Index – Cincinnati** was largely unchanged in July as the

index value measured 31.6. Any index value that exceeds zero represents an increase in average prices. The increase in commodity prices moderated from the pace recorded in June as the percentage of survey respondents reporting higher prices declined to 50 percent from 58 percent in June. Price increases were marginal for services and higher for equipment.

Production, Employment, New Orders, and Backlogs



Survey respondents report production continued to increase at a somewhat higher rate in July; the **Production Index**, which equals 25, increased 5 percentage points above the June value. The **Employment Index**

fell from the June level of 19 as the percentage of those reporting payroll increases was exactly offset by the percentage reporting decreases. The **New Orders Index** in July continued the decline that began in April of this year. Changes in the growth rate of new orders are important in that the index serves as a precursor or leading indicator of future business conditions. The behavior of the index well corresponds to the expected slowing in regional business conditions survey participants projected in the mid year economic forecast. **The Backlog of Orders** continues to register volatility and adheres to the monthly up down cycle that started in January of this year.

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

Table I. The Cincinnati Economy at a Glance

Index	Series index July	June	Direction	Rate of change	Trend*
Cincinnati PMI	53.5	58.0	↑	Slower	43
New Orders	9.0	20.0	↑	Slower	7
Backlog of Orders	-20.0	6.0	↓	Faster	1
Production	25.0	20.0	↑	Faster	8
Employment	0.0	19.0	↑	Slower	1
Vendor Deliveries	0.0	-16.0	↑	Slower	1
Raw Material Inventories	-38.0	-42.0	↓	Slower	4
Finished Goods Inventories	0.0	28.0	↓	Slower	1
Composite Price Index	31.6	31.4	↑	Faster	34

*Number of months moving in current direction

“The rate of increase in new orders declined for the fourth consecutive month in July”

left followed by indices for the last three months, with the last month to the right.

NEW ORDERS

(26, 23, 20, 9)

The rate of increase in new orders declined for the fourth consecutive month in July as the percentage of survey participants reporting increases in new orders fell. The index value is at the lowest level to date in 2006. Since changes in the growth rate of new orders tend to signal changes in the future direction of busi-

ness activity, the latest reading well correlates with the slowdown in economic growth the Cincinnati Purchasing Managers forecast for the latter half of 2006.

BACKLOG OF ORDERS (3, -10, 6, -20)

The pattern of monthly up down swings in the backlog of orders that began in January 2006 continued to be reflected in the July data as the index number fell to -20 from a positive 6 in June.

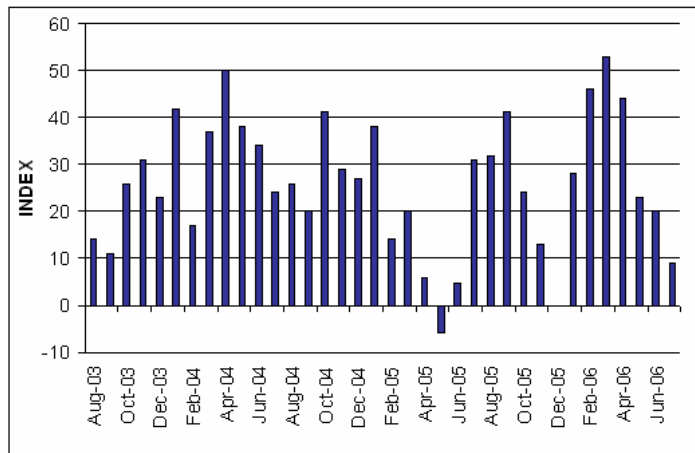


Figure 2. New Orders

PRODUCTION

(28, 30, 20, 25)

Production increased at a more rapid rate in July than in June. The percentage point difference (net change) between respondents reporting an increase in production and those reporting a decrease in production widen to 25 between July and June. The production index value exactly matched that of July 2005.



“Production increased at a more rapid rate in July than in June”

EMPLOYMENT

(13, 30, 19, 0)

The employment index was flat in July as the number of survey participants reporting employment levels up fell almost 50 percent below responses recorded in the June survey. This was not unexpected as the recent behavior of other indices signaled hiring rates would not likely be maintained. More than two thirds of responding members indicated employment remained at the same level as the preceding month.

VENDOR DELIVERY PERFORMANCE

(-8, -10, -16, 0)

In July, 80 percent of the replies to the monthly survey of business conditions indicated vendor delivery performance was unchanged from the preceding period. Fewer respondents reported decreases relative to June responses and a larger share of replies suggested improvement. This may result from lower rates

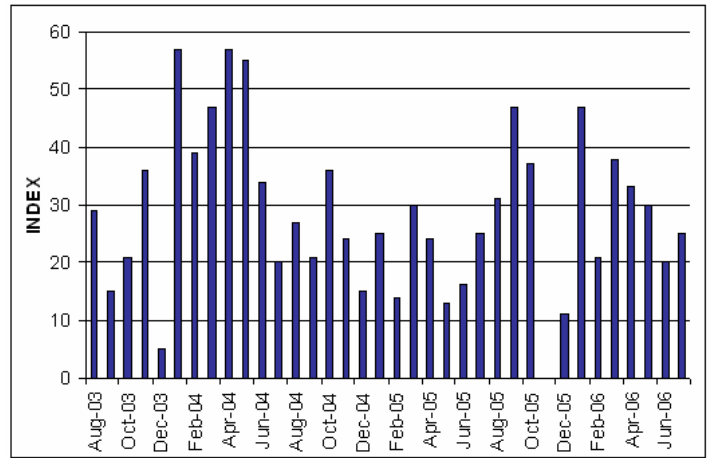


Figure 3. Production

of increase in new orders or increased production.

DOLLARS SPENT BY PURCHASING

(30, 45, 18, 8)

The monthly index capturing dollar amounts spent by regional purchasers increased at a significantly slower rate in July than in June. The percentage of purchasers reporting decreases in dollars spent advanced from 23 percent in June to 33 percent in July. The national monthly report on business published by the Institute for Supply

Management (ISM) includes a “trend” statistic which measures the number of months the series index has moved in the same direction. The Cincinnati “trend” value for dollars spent by purchasers equals 34; moderating increases merit careful monitoring.

COMMODITY PRICES

(47, 64, 58, 50)

The rate of increase in commodity prices slowed from the rate of increase posted in June as a higher percentage of respondents reported prices the same

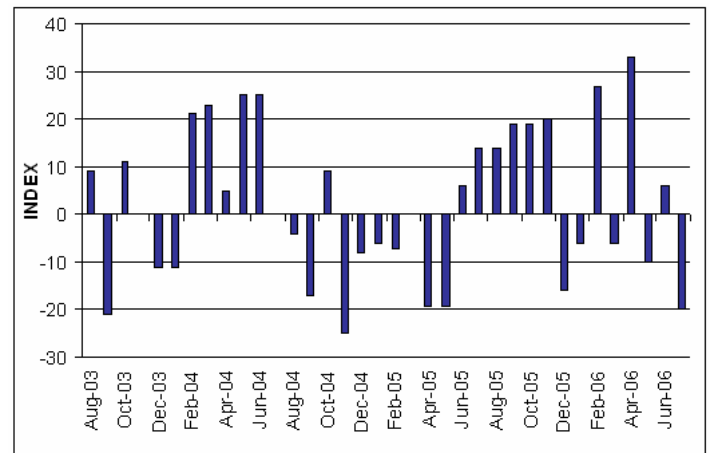


Figure 4. Backlog of Orders

while fewer members indicated commodity prices continued to advance.

SERVICE PRICES

(22, 33, 18, 17)

The rate of increase in service prices slowed slightly from June's pace. The net percentage change, defined as the difference between those replies reporting increases less those reporting decreases, fell 1 percentage point from the previous month.

EQUIPMENT PRICES

(17, 42, 18, 27)

The rate of increase in equipment prices accelerated during the month of July. The index, however, remains considerably below the May 2006 level of 42.

RAW MATERIAL INVENTORIES

(-7, -22, -42, -38)

The index measuring changes in raw material inventories marginally increased in July. The data may be suggesting purchasers are working off inventory in anticipation of the forecasted slowing pace of business or the change may only reflect the slight up tick in July's production rates. August data will provide more insight.

FINISHED GOODS INVENTORIES (3, 12, 28, 0)

Our index measuring rates of increase in inventories of finished goods fell in July as more survey participants

reported stable inventory levels and fewer reported increases.

BUYING PATTERNS

These percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (4, 15, -14, 0)
- ACROSS THE ATLANTIC (-6, 16, 0, -40)
- ACROSS THE PACIFIC (33, 46, 71, 80)
- DOMESTICALLY (29, 32, 13, 17)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

- Up are: Copper wire, electrical motors and transformers, all metals, welding supplies, 1/4" THR 304SS 'L,' paper, toner, stainless steel and coil, plastic components
- Down are: Ocean freight, aluminum sheet and coil
- In Short Supply are: 1/4" THR 304SS 'L,' gasoline, electric motors, fuel

"Our index measuring rates of increase in inventories of finished goods fell in July"

STATISTICAL SUMMARY

Replies of a Percent of Total Replies

General Business

Index	Up	Same	Down
Production	50	25	25
New Orders	25	59	16
Backlog Of Orders	10	60	30
Employment	16	68	16

Prices & Spending

Index	Up	Same	Down
Prices for Commodities	50	50	0
Prices for Services	25	67	8
Prices for Equipment	27	73	0
Dollars Spent by Purchasing	41	26	33

Inventories

Index	Up	Same	Down
Raw Materials	12	38	50
Finished Goods	22	56	22

Deliveries

Index	Quicker	Same	Slower
Deliveries	10	80	10

Of those Firms that Purchase Internationally

Change in the amount spent	Up	Same	Down
Elsewhere in the Americas	20	60	20
Across the Atlantic	0	60	40
Across the Pacific	80	20	0
Domestically	33	51	16

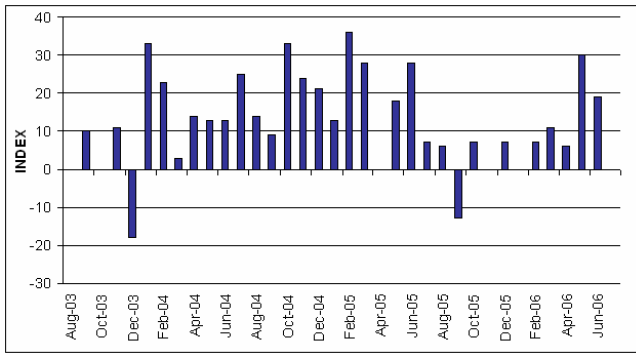


Figure 5. Employment

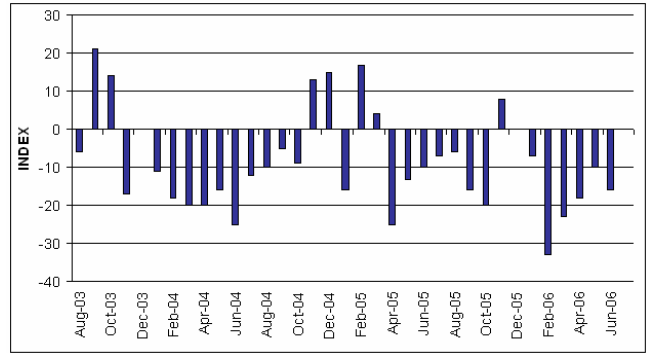


Figure 6. Vendor Delivery Performance

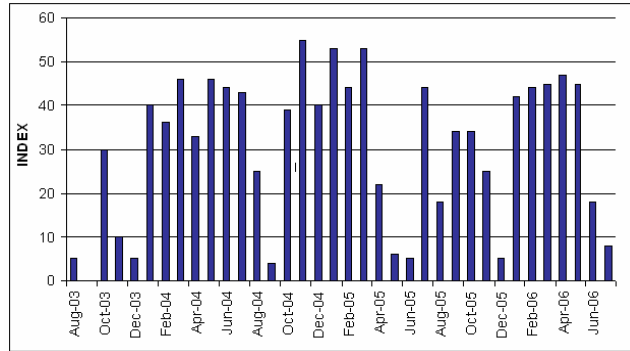


Figure 7. Dollars Spent by Purchasing

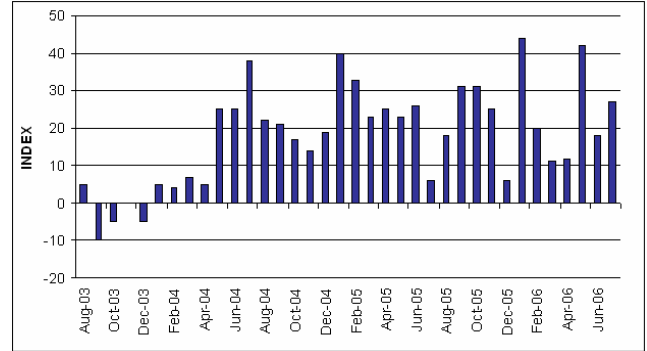


Figure 8. Equipment Prices

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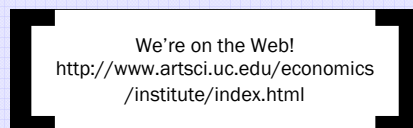
Why This Report is Produced

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. Monday July 31, 2006**

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

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

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The Greater Cincinnati Report on Business for the month of July indicates the growth rate in the regional economy continues to decline although the PRODUCTION Index increased at a faster rate than in June. The EMPLOYMENT Index dropped 19 percentage points.

The Purchasing Managers Index – Cincinnati measured 53.5 in July compared to 58.0 last month for a 4.5 percentage point decline, which marks the fourth consecutive monthly decline. The index measures 5.8 percentage points below the July 2005 number. Any reading over 50 represents an increase.

The Composite Price Index- Cincinnati - The rate of increase in the **Composite Price Index – Cincinnati** was largely unchanged in July as the index value measured 31.6. Any index value that exceeds zero represents an increase in average prices. The increase in commodity prices moderated from the pace recorded in June. Price increases were marginal for services.

New Orders and Dollars Spent by Purchasing increased at a slower rate in July and the backlog of orders moved from a positive to a negative value continuing this year's pattern of monthly up down swings.