Applied Economics Research Institute
Department of Economics, University of Cincinnati

September 2007

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

PRESS RELEASE

Important:

Do Not Release Until
12:01 a.m. Friday September 28th, 2007

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of September 2007.

Please note that this IS NOT the national report. This report covers the level of business activity in the Greater Cincinnati Area only — Ohio, Northern Kentucky and Southeastern Indiana.

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 September shows that reported purchasing activity continues to expand at a slightly slower rate than in August, but faster than one year ago. The **Production Index** signals increased production, with growth at a slower rate than that in August. The **Employment Index** showed continued growth in employment, but down from August's report.

The Purchasing Managers Index – Cincinnati measured 56.3 in September compared to 59.7 last month, a 3.4 percentage point decrease. The Cincinnati PMI has remained above 50 since January 2003 with the exception of one month. Any reading over 50 represents an increase.

The Composite Price Index – Cincinnati rose in September as the index value measured 10.7, down from 28.3 in August. Any index value that exceeds zero represents an increase in average prices. The increase in commodity prices decelerated from August as a decreased percentage of respondents reported increases in the prices they pay, an increased percentage reported the same, and an increased percentage reported declines. The **Equipment Price Index** increased slightly in September, and the **Service Price Index** declined substantially, from 21.0 to zero.

The **New Orders Index** fell in September, and the index measuring **Dollars Spent by Purchasing** also declined. The **Backlog of Orders Index** decreased substantially, falling from 7 in August to –11 this month.

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The National Association of Purchasing Management-Cincinnati Report on Business for the Month of September 2007

The **Cincinnati Purchasing Management Index (PMI)** decreased in September, moving down 3.4 percentage points to 56.3 from 59.7 in August. A year ago, the September Cincinnati PMI stood at 53.0. For reference, the **national PMI** for August 2007 decreased 0.9 percentage points to 52.9 from its July value of 53.8. The national September 2007 index is not available at this writing.

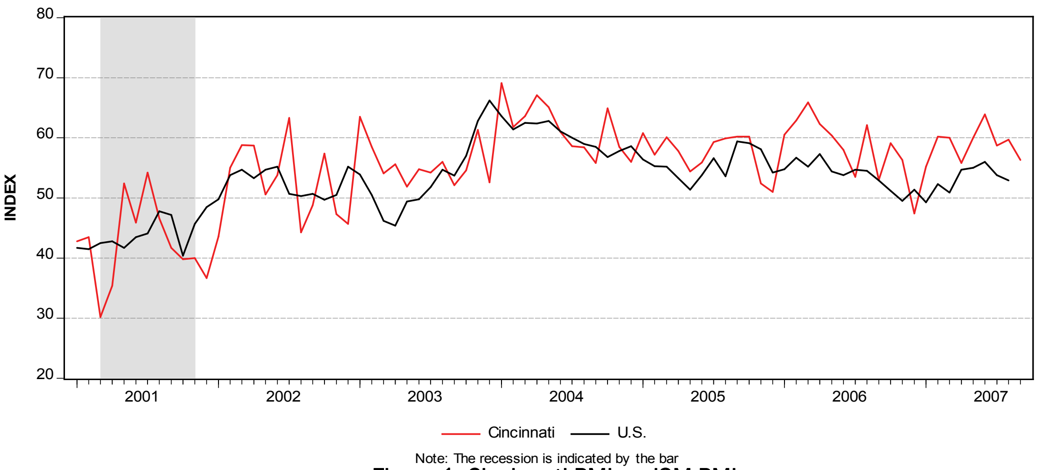

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of September from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers show that reported purchasing activity continues to expand at a slower rate than in August, but at a faster rate than one year ago. The Cincinnati PMI fell from 59.7 in August to 56.3 in September. The various indices are suggesting increasing economic activity in September, but at a slower pace. The indices for production and for new orders both remained positive in September, but with production and new orders both down from the August report. The index for backlog of orders fell substantially from the August value, and turned negative. The index of inventories of finished goods remained positive this month, but down slightly by two points. Commodity prices continued to rise in September (index = 9), but much slower than in the August report (index = 42). The equipment price index rose slightly from 22 in August to 23 in September, but the service price index dropped to zero from 21 in August. Dollars spent in purchasing also fell, dropping to 10 from August's value of 26. The reported raw material inventories index fell to 6 from August's value of 7. Production rates remained positive, but decreased, and were coupled with a decline in the backlog of orders index in September. With respect to geographic buying patterns, in the Americas the index fell to −11 from August's value of 25; the index for buying from across the Atlantic rose to zero from −28 in August; buying from across the Pacific shows much slower growth with an index of 11, down from last month's 71, while the domestic purchasing index fell to 28 from August's value of 33. The **Composite Price Index – Cincinnati** registered a downward movement in September, falling from 28.3 to 10.7. Any index value that exceeds zero represents an increase in average prices.

Production, Employment, New Orders, and Backlogs

Respondents report that the rate of increase in production declined as the **Production Index** fell from 30 in August to 24 in September. A year ago, the index was 15. The **Employment Index** fell in September as 23 percent of the respondents reported increases, 14 percent reported decreases, and 63 percent reported no change. The **New Orders Index** for September declined, moving from 18 in August to 10. The **Backlog of Orders Index** declined from 7 in August to --11 this month.

Table 1. The Cincinnati Economy at a Glance

Index	Series index Sept	Series index Aug	Direction	Rate of change	Trend*
Cincinnati PMI	56.3	59.7	↑	Slower	9
New Orders	10	18	↑	Slower	9
Backlog of Orders	-11	7.0	↓	Faster	1
Production	24	30	↑	Slower	22
Employment	9	20	↑	Slower	5
Vendor Deliveries	-6	-7	↓	Slower	4
Raw Material Inventories	6	7	↑	Slower	2
Finished Goods Inventories	11.0	13.0	↑	Slower	2
Composite Price Index	10.7	28.3	↑	Slower	48

*Number of months moving in current direction

DETAILS

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

NEW ORDERS - Fig. 2

(23, 19, 18, 10)

The New Orders index in September decreased to a value of 10 from 18 in August. This change resulted from a decrease in the percentage of replies indicating new orders were "up" and an increase in the number of "down" replies, also with more respondents indicating "the same". A year ago, the new orders index equaled zero.

BACKLOG OF ORDERS - Fig. 3

(2, -12, 7, -11)

The backlog of orders index turned negative in September, falling from August's value of 7, a decrease caused by a large increase in those reporting "down", offsetting an increase in those reporting "up". Those reporting "the same" also decreased significantly.

PRODUCTION - Fig. 4

(26, 24, 30, 24)

The production index decreased as the index number fell from 30 in August to 24 in September. The number of "up" replies decreased by 6 percentage points; there was no change in the number reporting "down" and a 6 percentage point increase in those reporting the "same". The production index in September of 2006 was 15. The September 2007 index fell below the 36 month average

"The production index decreased in September as the index number fell from 30 in August to 24."

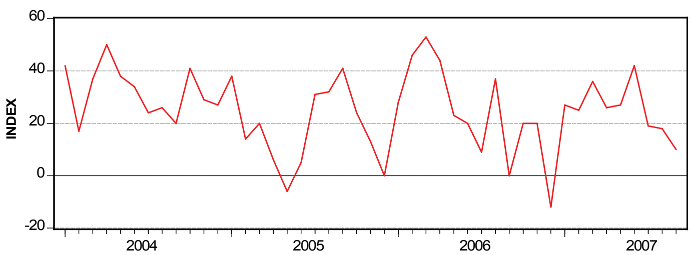

Figure 2. New Orders

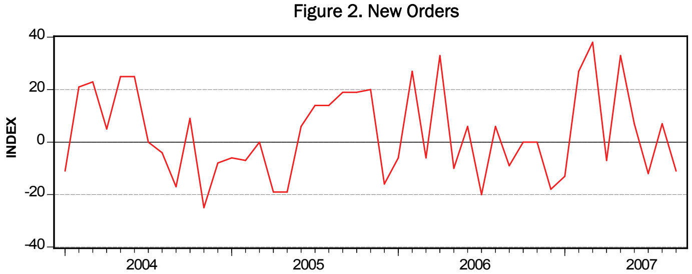

Figure 3. Backlog of Orders

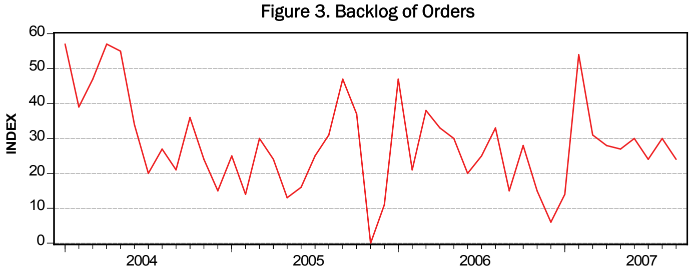

Figure 4. Production

of 26, suggesting a diminution in the continued positive rate of growth. The maximum index value in this 36 month period was 54, reached in February, 2007.

EMPLOYMENT - Fig. 5

(12, 22, 20, 9)

September's employment index decreased to 9, down 11 points from August's value. Twenty-three percent of respondents reported increased employment (26 percent in August), and 14 percent reported decreased employment (six percent in August), while 63 percent of the respondents reported employment remained the same (68 percent in August).

VENDOR DELIVERY PERFORMANCE - Fig. 6

(-8, -14, -7, -6)

The vendor delivery performance index increased slightly from –7 in August to –6 in September. Eighty-four percent of survey respondents this month reported delivery times as the "same", up from 81 percent in August. Five percent reported faster deliveries (6 in August), and 11 percent reported slower delivery times (13 in August). A year ago, the index value was –15.

DOLLARS SPENT BY PURCHASING - Fig. 7

(25, 26, 26, 10)

The monthly index measuring changing dollar amounts spent by regional purchasers declined in September falling to 10. There was a 3 percentage point drop in the number of respondents reporting increases, and a 13 point rise in those reporting decreases. There was a 10 percentage point decrease in those reporting purchases as the "same".

COMMODITY PRICES - Fig. 8

(45, 33, 42, 9)

The commodity price index in

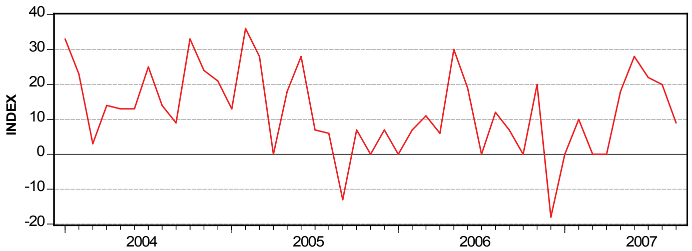

Figure 5. Employment

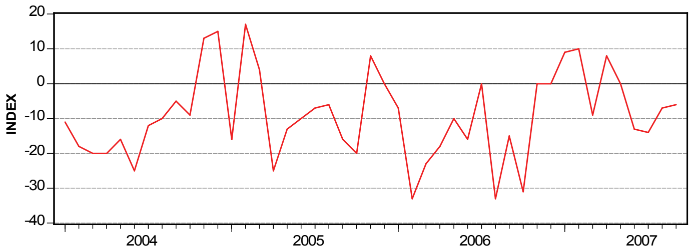

Figure 6. Vendor Delivery Performance

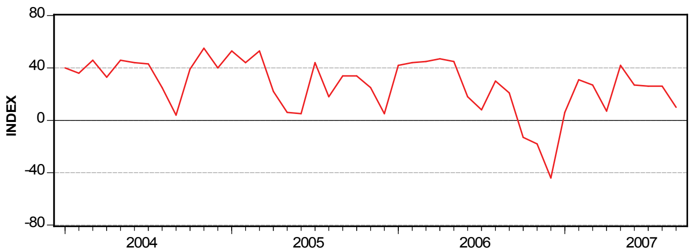

Figure 7. Dollars Spent by Purchasing

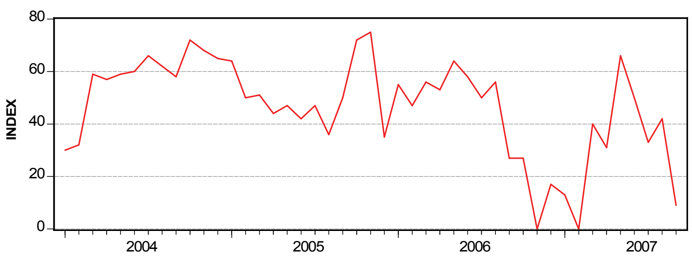

Figure 8. Commodity Prices

September fell by 33 percentage points compared to August, with 23 percent of respondents reporting higher prices and 63 percent reporting the "same". Fourteen percent reported lower prices, making this the third successive monthly report of lower prices. In September 2006 the index measured 27.

The noticeable price changes reported by survey participants are summarized in the "General Comments by Purchasers" section of the Cincinnati monthly Report on Business.

SERVICE PRICES

(24, 21, 21, 0)

Service prices declined substantially in September, falling to zero compared to 21 in August. This was caused by 4 percent of respondents reporting increases, down from 26 in August, and 92 percent reporting no change in prices, up from 69 percent in last month's report. Four percent reported price decreases down from 5 in August. A year ago the service price index equaled 14.

EQUIPMENT PRICES

(21, 21, 22, 23)

The equipment price index rose slightly to 23 in Septem-

"September's employment index decreased to 9, down 11 points from August's value"

ber, up from 22 in August, suggesting somewhat increasing price pressure, causing the index to rise again above the three year average of 21. A year ago, the index was 14.

RAW MATERIAL INVENTORIES
(-6, 0, 7, 6)

The index measuring changes in raw material inventories fell this month to 6. Seventeen percent of the reports indicated increased inventories, and 11 percent indicated decreases, with 72 percent reporting no change.

FINISHED GOODS INVENTORIES (5, -14, 13, 11)

The index for finished goods inventories decreased slightly in September to 11 compared to 13 in August. Compared to August, there was a 4 point decrease in those reporting increased finished goods inventories, a 6 point increase in those reporting the "same", and a 2 point decrease in the "down" category.

BUYING PATTERNS

- DOMESTICALLY
(25, 37, 33, 28)

The following percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (4, 57, 25, -11)
- ACROSS THE ATLANTIC
(-5, 0, -28, 0)
- ACROSS THE PACIFIC
(38, 25, 71, 11)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes:

- Up are: stainless steel, T-iron, R22 refrigerant, caustic soda, soybean oil, ink oils, fresh produce, corrugated.
- Down are: aluminum, stainless steel.
- In short supply: stainless steel, fresh produce, corrugated.

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

General Business

Index	Up	Same	Down
Production	41	42	17
New Orders	36	38	26
Backlog Of Orders	15	59	26
Employment	23	63	14

Prices & Spending

Index	Up	Same	Down
Prices for Commodities	23	63	14
Prices for Services	4	92	4
Prices for Equipment	23	77	0
Dollars Spent by Purchasing	33	44	23

Inventories

Index	Up	Same	Down
Raw Materials	17	72	11
Finished Goods	22	67	11

Deliveries

Index	Quicker	Same	Slower
Deliveries	5	84	11

Change in the Amount Spent

Change in the amount spent	Up	Same	Down
Domestically	42	44	14
For Firms Purchasing Internationally			
Elsewhere in the Americas	11	67	22
Across the Atlantic	0	100	0
Across the Pacific	22	67	11

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 poll 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.

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