Applied Economics Research Institute
Department of Economics, University of Cincinnati

August 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 August 31, 2007

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

PERMISSION: Is granted to duplicate, publish, or quote in whole or in part, with proper credit to the Applied Economics Research Institute and the NAPM-Cincinnati.

FOR FURTHER INFORMATION CONTACT:

Dr. Haynes C. Goddard
Applied Economics Research Institute
Department of Economics
University of Cincinnati
1605 Crosley Tower
Cincinnati, OH 45221-0371
513.556.2621
Haynes.Goddard@uc.edu

The Greater Cincinnati Report on Business for the month of August shows that reported purchasing activity continues to expand at a slightly faster rate than in July, but slower than one year ago. The **Production Index** signals increased production, with growth at a faster rate than that in July. The **Employment Index** showed continued growth in employment, but down from July's report.

The Purchasing Managers Index – Cincinnati measured 59.7 in July compared to 58.7 last month, a one percentage point increase. 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 August as the index value measured 28.3, up from 25 in July. Any index value that exceeds zero represents an increase in average prices. The increase in commodity prices accelerated from July as an increased percentage of respondents reported increases in the prices they pay, a decreased percentage reported the same, and the same percentage reported declines. The **Equipment Price Index** increased slightly in August, and the **Service Price Index** remained the same as July's value.

The **New Orders Index** fell slightly in August, and the index measuring **Dollars Spent by Purchasing** remained the same as July's value. The **Backlog of Orders Index** increased substantially.

Applied Economics Research Institute
Department of Economics, University of Cincinnati

August 2007

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

INSIDE THIS ISSUE:

For Further Information Contact:

Dr. Haynes C. Goddard,
Applied Economics
Research Institute,
Department of Economics,
University of Cincinnati,
1605 Crosley Tower,
Cincinnati, Ohio 45221-0371
Telephone: 513.556.2621
Haynes.Goddard@uc.edu
http://www.uc.edu/aeri

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

After an decrease in July, the **Cincinnati Purchasing Management Index (PMI)** increased again in August, moving up one percentage point to 59.7 from 58.7 in July. A year ago, the August Cincinnati PMI stood at 62.1. For reference, the **national PMI** for July 2007 decreased 2.2 percentage points to 53.8 from its June value of 56. The national August 2007 index is not available at this writing.

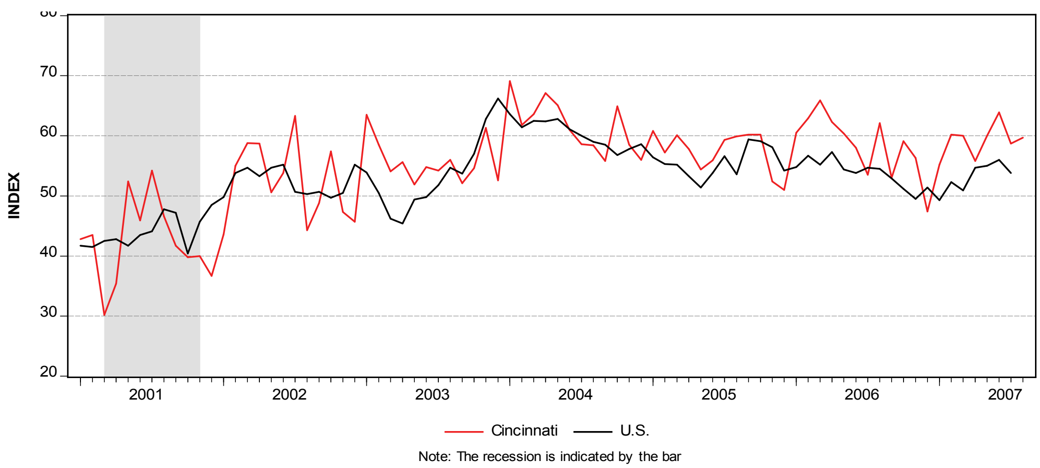

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of August 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 slightly faster rate than in July, but at a slower rate than one year ago. The Cincinnati PMI rose from 58.7 in July to 59.7in August. The various indices are suggesting increasing economic activity in August. The indices for production and for new orders both remained positive in August, with production up and new orders down slightly from the July report. The index for backlog of orders rose from the July value, and turned positive. The index of inventories of finished goods also turned positive this month, compared to the negative value in July. Commodity prices continued to rise in August (index = 42), more rapidly than in the July report (index = 33). The equipment price index rose slightly from 21 in July to 22 in August, and the service price index remained at 21 in August. Dollars spent in purchasing also remained the same as July's value of 26. The reported raw material inventories index rose to 7 from July's value of zero. Production rates increased, and were coupled with an increase in the backlog of orders index in August. With respect to geographic buying patterns, in the Americas the index fell to 25 from July's value of 57; the index for buying from across the Atlantic fell to –28 from July's value of zero; buying from across the Pacific shows faster growth with an index of 71, up from last month's 25, while the domestic purchasing index fell to 33 from July's value of 37. The **Composite Price Index – Cincinnati** registered an upward movement in August, rising from 25 to 28.3. Any index value that exceeds zero represents an increase in average prices.

Production, Employment, New Orders, and Backlogs

Survey respondents report the rate of increase in production accelerated in August as the **Production Index** increased from 24 in July to 30 in August. A year ago, the production index equaled 33. The **Employment Index** fell in August as 26 percent of the respondents reported increases, 6 percent reported decreases, and 68 percent reported no change in employment. The **New Orders Index** for the month of August fell slightly, as the index moved from 19 to 18. A year ago, the new orders index measured 37. The **Backlog of Orders Index rose** from –12 in July to 7 this month.

Table 1. The Cincinnati Economy at a Glance

Index	Series index August	Series index July	Direction	Rate of change	Trend*
Cincinnati PMI	59.7	58.7	↑	Faster	8
New Orders	18	19	↑	Slower	8
Backlog of Orders	7	-12	↑	Slower	1
Production	30	24	↑	Faster	21
Employment	20	22	↑	Slower	4
Vendor Deliveries	-7	-14	↓	Slower	3
Raw Material Inventories	7	0	↑	Faster	1
Finished Goods Inventories	13	-14	↑	Slower	1
Composite Price Index	28.3	25	↑	Faster	47

*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, 42, 19, 18)

The New Orders index in August decreased to a value of 18. This change resulted from an increase in the percentage of replies indicating new orders were "up" and an increase in the number of "down" replies, with fewer indicating "the same". A year ago, the new orders index equaled 37.

BACKLOG OF ORDERS - Fig. 3
(2, 7, -12, 7)

The backlog of orders index turned positive in August, rising from July's value of -12, an increase caused by a large decrease in those reporting "down", offsetting a decrease in those reporting "up". Those reporting "the same" increased substantially.

PRODUCTION - Fig. 4
(26, 30, 24, 30)

The production index increased in August as the index number rose from 24 in July to 30. While the number of "up" replies increased by 6 percentage points, there was a no change in the number reporting "down" and a 6 percentage point decrease in those reporting the "same". The production index in August of 2006 was 33. The August 2007 index is above the 36 month average of 26, suggesting that the upward trend in production continues.

"The production index increased in August as the index number rose from 24 in July to 30 in August. "

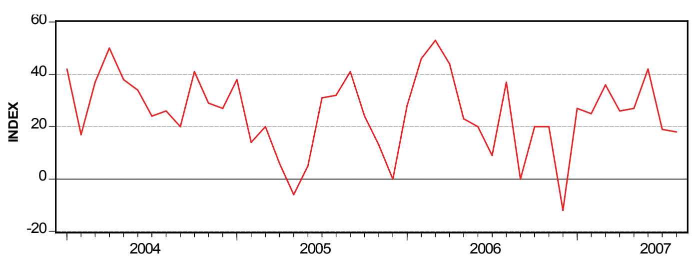

Figure 2. New Orders

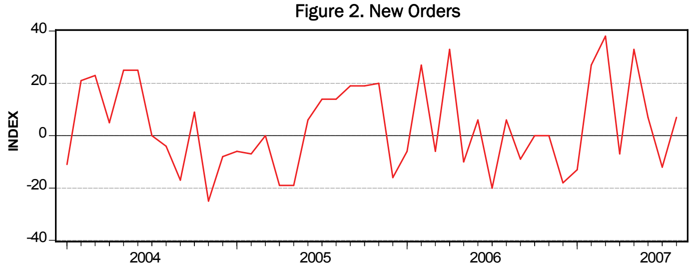

Figure 3. Backlog of Orders

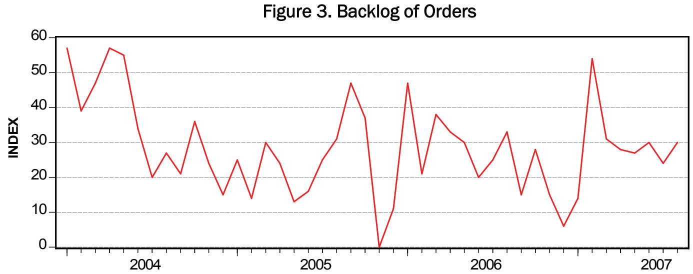

Figure 4. Production

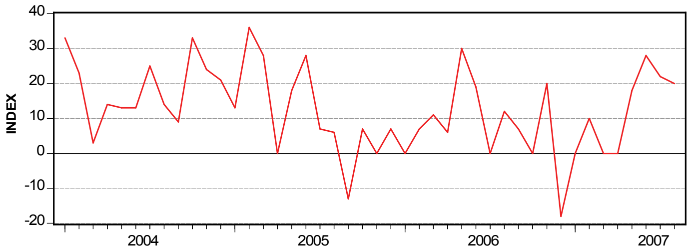

Figure 5. Employment

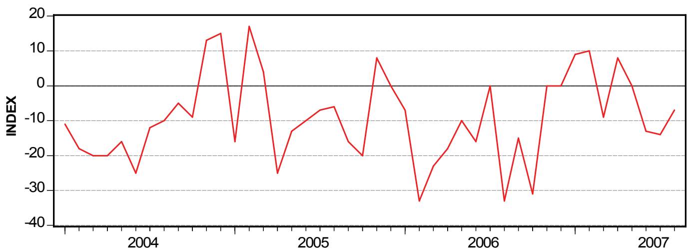

Figure 6. Vendor Delivery Performance

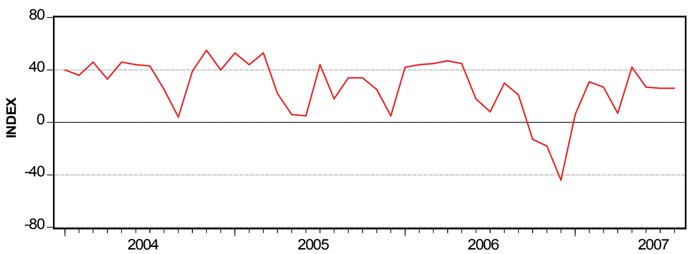

Figure 7. Dollars Spent by Purchasing

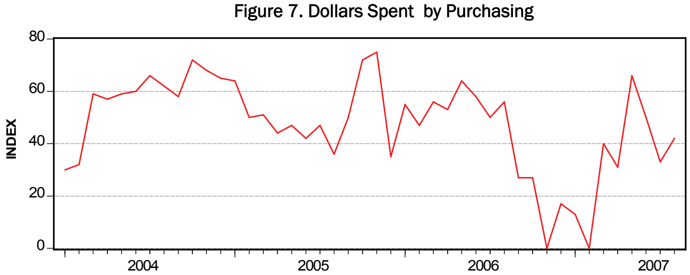

Figure 8. Commodity Prices

The maximum index value in this 36 month period was 54, reached in February, 2007.

EMPLOYMENT - Fig. 5

(12, 28, 22, 20)

August's employment index fell slightly to 20, down 2 points from July's value. Twenty-six percent of respondents reported increased employment (22 percent in July), and 6 percent reported decreased employment (zero percent in July), while 68 percent of the respondents reported employment remained the same (78 percent in July).

VENDOR DELIVERY PERFORMANCE - Fig. 6

(-8, -13, -14, -7)

The vendor delivery performance index increased from –14 in July to –7 in August. Eighty-one percent of survey respondents this month reported delivery times as the "same", down from 86 percent in July. Six percent reported faster deliveries (0 in July), and thirteen reported slower delivery times (14 in July). A year ago, the index value was –33.

DOLLARS SPENT BY PURCHASING - Fig. 7

(25, 27, 26, 26)

The monthly index measuring changing dollar amounts spent by regional purchasers remained the same in August compared to July, both at 26. There was a 9 percentage point drop in the number of respondents reporting increases, and a 11 point fall in those reporting decreases. There was a 22 percentage point increase in those reporting purchases as the "same".

COMMODITY PRICES - Fig. 8

(46, 50, 33, 42)

The commodity price index in August rose 9 percentage points compared to July, with 47 percent of respondents reporting higher prices and 48 percent reporting the "same". Five percent reported lower prices, the second report of lower prices since February. Those reporting the "same" decreased from 57 to 48 percent of those responding to the survey. In August 2006 the index measured 56.

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, 16, 21, 21)

Service prices continued upward in August at the same rate as July, with an index value of 21. This was caused by 26 percent of respondents reporting increases, up from 21 in July, and 69 percent reporting no change in prices, down from 79 percent in last month's report. Five percent reported price decreases. A year ago the service price index equaled 56.

EQUIPMENT PRICES

(21, 27, 21, 22)

The equipment price index rose slightly to 22 in August, up from 21 in July, suggesting somewhat increasing price

"August's employment index fell slightly to 20, down 2 points from July's value."

pressure, causing the index to rise slightly above the three year average of 21. A year ago, the index was 37.

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

The index measuring changes in raw material inventories rose this month to 7. Twenty percent of the reports indicated increased inventories, and 13 percent of respondents indicated decreases, with 67 percent reporting no change.

FINISHED GOODS INVENTORIES (4, 21, -14, 13)

The index for finished goods inventories increased markedly in August to 13 compared to −14 in July, a 27 point swing. Compared to July, there was no change in those reporting increased finished goods inventories, a 27 point increase in those reporting the "same", and a 27 point decrease in the "down" category.

BUYING PATTERNS

- DOMESTICALLY (24, 22, 37 33)

The following percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (3, 0, 57, 25)
- ACROSS THE ATLANTIC (-6, 13, 0, -28)
- ACROSS THE PACIFIC (38, 75, 25, 71)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

- Up are: paper, toner, aluminum sheet, electric motors, soybean oil, fresh produce, dairy and meat, resin and fuel, lactose-pharmagrade.
- Down are: gasoline, steel.
- In short supply: trucks/flatbeds, glycerin, lactose—pharmagrade. fresh produce, dairy and meat.

Statistical Summary

Replies as a Percent of Total Replies

General Business

Index	Up	Same	Down
Production	47	36	17
New Orders	43	32	25
Backlog Of Orders	13	81	6
Employment	26	68	6

Prices & Spending

Index	Up	Same	Down
Prices for Commodities	47	48	5
Prices for Services	26	69	5
Prices for Equipment	22	78	0
Dollars Spent by Purchasing	36	54	10

Inventories

Index	Up	Same	Down
Raw Materials	20	67	13
Finished Goods	26	61	13

Deliveries

Index	Quicker	Same	Slower
Deliveries	6	81	13

Change in the Amount Spent

Change in the amount spent	Up	Same	Down
Domestically	33	67	0
For Firms Purchasing Internationally			
Elsewhere in the Americas	37	51	12
Across the Atlantic	0	72	28
Across the Pacific	71	29	0

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.

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.*