

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

PRESS RELEASE

Important:

**Do Not Release Until
12:01 a.m. Thursday May 31, 2007**

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of May 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 May shows that reported purchasing activity continues to expand at a faster rate than in April and at about the same rate as one year ago. The PRODUCTION Index signals increased production, with growth at a slightly slower rate than that in April, but still positive. The EMPLOYMENT Index showed growth in employment in contrast to no growth in March and April.

The Purchasing Managers Index – Cincinnati measured 60.0 in May compared to 55.8 last month, a 4.2 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 - The rate of increase in the **Composite Price Index – Cincinnati** rose in May as the index value measured 30, up from 21.7 in April. Any index value that exceeds zero represents an increase in average prices. The increase in commodity prices accelerated from April as a larger percentage of survey respondents reported increased prices, fewer reported unchanged prices, and none reported lower prices. The equipment price index, while still positive, fell somewhat in May, and the service price index increased compared to April.

The **New Orders Index** rose only slightly in May, but the index measuring **Dollars Spent by Purchasing** rose sharply. The **Backlog of Orders Index** increased and became positive, in contrast to April's negative value.

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

After a drop in April, the **Cincinnati Purchasing Management Index (PMI)** increased in May, moving up 4.2 percentage points to 60.0 from 55.8 in April. A year ago, the May Cincinnati PMI stood at 60.4. For reference, the national PMI increased 3.8 percentage points in April 2007 from its March value. The national May 2007 index is not available at this writing.

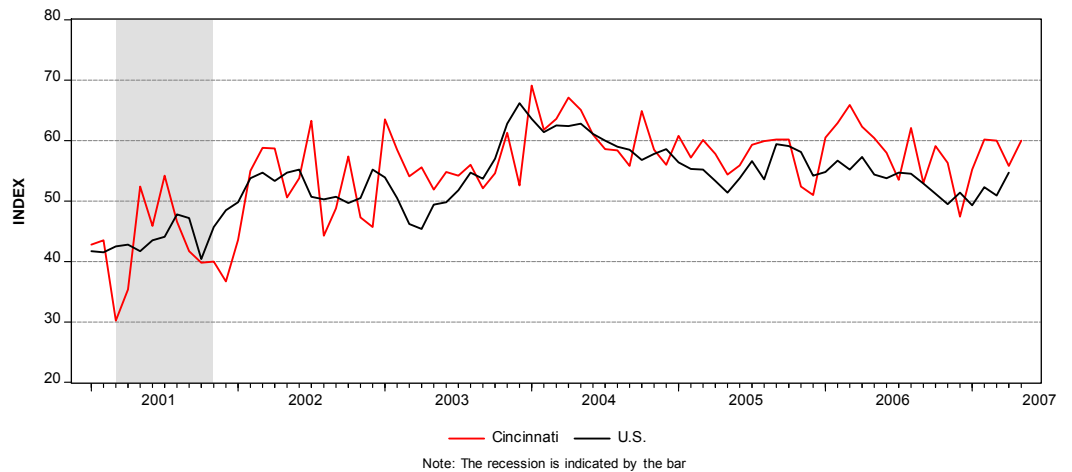


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of May 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 faster rate than in April, and at about the same rate as a year ago. The Cincinnati PMI rose from 55.8 in April to 60.0 in May. The various indices are suggesting increasing economic activity in May. The indices for production and for new orders changed only slightly in May, while the index for backlog of orders reversed direction to become positive. The index of inventories of finished goods remained positive this month as in April. As measured by

the commodity price index, commodity prices continued to rise in May, and more rapidly than in the April report. The equipment price index fell from 20 in April to 8 in May and the service price index rose slightly from 14 in April to 16 in May. Dollars spent in purchasing continued to increase and at a higher rate than in April. Reported raw material inventories increased substantially from April. Decreasing production rates did cause an increase in the backlog of orders in May as it grew substantially compared to April. With respect to geographic buying patterns, in the Americas the index fell slightly to 20 from April's value of 25; the index for

buying from across the Atlantic remained at zero, the same as last month's index; buying from across the Pacific still shows growth with an index of 60 up from last month's 30, while the domestic purchasing index rose to 22, up sharply from -28 in April. The **Composite Price Index - Cincinnati** registered an upward movement in April, rising to 30. 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 decelerated somewhat in May as the **Production Index**

decreased from 28 in April to 27 in May. A year ago, the production index equaled 30. The **Employment Index** rose in May as 27 percent of the respondents reported increases and only 9 percent reported decreases in employment (64 percent reported no change). The **New Orders Index** for the month of May rose slightly, as the index moved from 26 to 27. A year ago, the new orders index measured 23. The **Backlog of Orders Index** rose from -7 in April to 33 this month, a 40 percentage point swing.

| Table 1. The Cincinnati Economy at a Glance | | | | | |
|---|--------------|-------|-----------|----------------|--------|
| Index | Series index | | Direction | Rate of change | Trend* |
| | May | Apr. | | | |
| Cincinnati PMI | 60.0 | 55.8 | ↑ | Faster | 5 |
| New Orders | 27.0 | 26.0 | ↑ | Faster | 5 |
| Backlog of Orders | 33.0 | -7.0 | ↑ | Faster | 1 |
| Production | 27.0 | 28.0 | ↑ | Slower | 18 |
| Employment | 18.0 | 0.0 | ↑ | Faster | 1 |
| Vendor Deliveries | 0.0 | 8.0 | ↔ | Slower | 1 |
| Raw Material Inventories | 11.0 | -36.0 | ↑ | Slower | 1 |
| Finished Goods Inventories | 33.0 | 16.0 | ↑ | Faster | 2 |
| Composite Price Index | 30.0 | 21.7 | ↑ | Faster | 44 |

*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
(24, 36, 26, 27)

The New Orders index in May increased slightly to a value of 27. This change resulted from a larger decrease in the percentage of replies indicating new orders were “down” than the decrease in the number of “up” replies. A year ago, the new orders index equaled 23.

BACKLOG OF ORDERS - Fig. 3
(2, 38, -7, 33)

The backlog of orders index turned positive in May, rising a total of 40 percentage points, with increases in those reporting “up” and decreases in those reporting “down” This is a return to a positive index after April’s negative report.

PRODUCTION - Fig. 4
(25, 31, 28, 27)

The production index decreased again in May as the index number fell to 27 from 28 the previous month. While the number of “up” replies increased by 3 percentage points, there was a 4 percent-

age point increase in the number reporting “down” and an 7 percentage point decrease in those reporting “same”. The production index in May of 2006 was 30. The May 2007 index, while lower than April, still lies slightly above the 36 month average of 25, suggesting that the

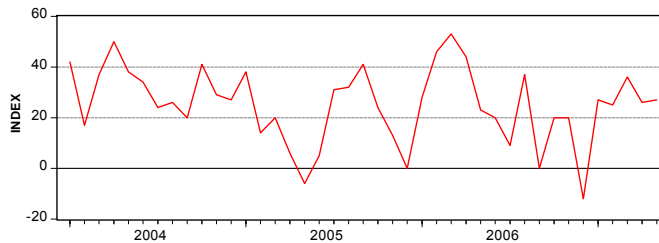


Figure 2. New Orders

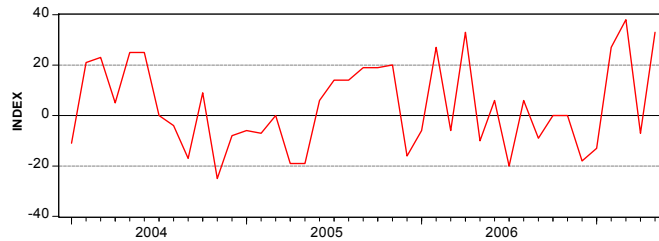


Figure 3. Backlog of Orders

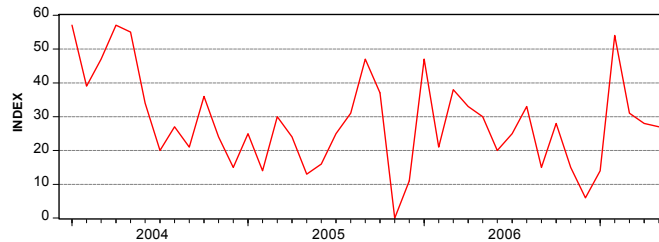


Figure 4. Production

“The production index decreased again in May as the index number fell to 27 from 28 the previous month.”

upward trend in production continues, although less strongly. The maximum index value in this 36 month period was 54, reached in February, 2007.

EMPLOYMENT - Fig. 5
(11, 0, 0, 18)

May's employment index rose to 18 in contrast to the previous two month's values of zero. Twenty seven percent of respondents reported increased employment (20 percent in April), and 9 percent reported decreased employment (also 20 percent in April), while 64 percent of the respondents reported employment remained the same.

VENDOR DELIVERY PERFORMANCE - Fig. 6
(-8, -9, 8, 0)

The vendor delivery performance index declined from 8 in April to 0 in May. According to survey respondents this month, 100 percent reported delivery times as "the same", up from 92 percent in April. A year ago, the index value was -10.

DOLLARS SPENT BY PURCHASING - Fig. 7
(26, 27, 7, 42)

The monthly index measuring changing dollar amounts spent by regional purchasers rose compared to April. The May 2007 index rose 35 percentage points, increasing from 7 to 42. There was a 33 percentage point rise in the number of respondents reporting increases, and a 2 point decline in those reporting decreases. There was a 31 percentage point decrease in those reporting purchases as the "same".

COMMODITY PRICES - Fig. 8
(48, 40, 31, 66)

The commodity price index in May rose sharply upward, with a 35 percentage point increase in those respondents reporting higher prices, and

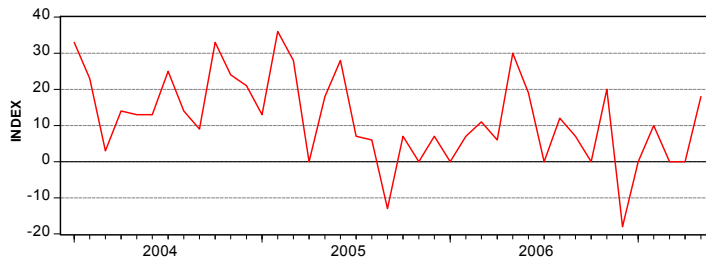


Figure 5. Employment

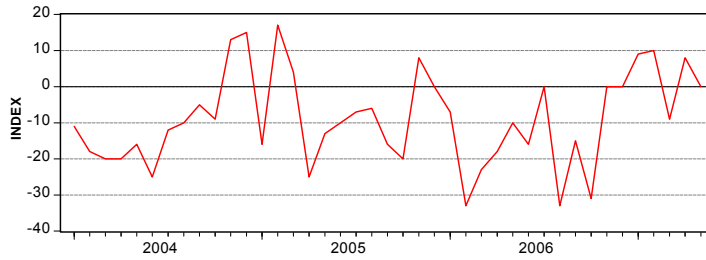


Figure 6. Vendor Delivery Performance

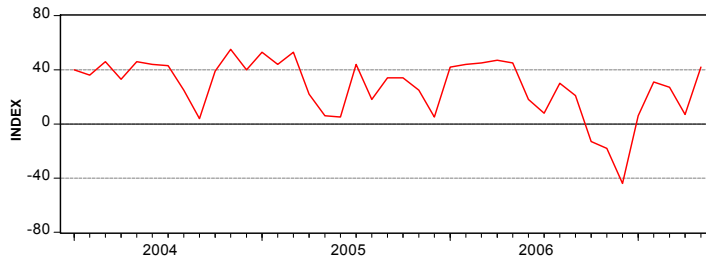


Figure 7. Dollars Spent by Purchasing

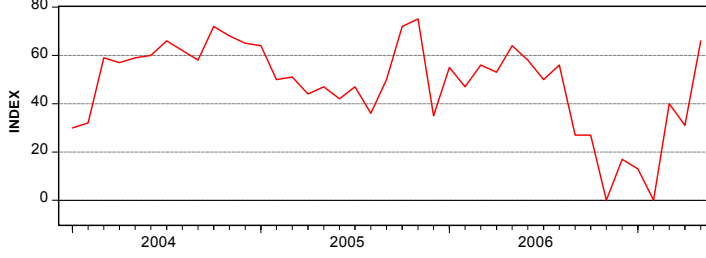


Figure 8. Commodity Prices

with no one reporting lower prices, as was true in March and April. Those reporting the "same" decreased from 69 to 34 percent of those responding to the survey. In May 2006 the index measured 64, which was also the previous peak in the last 12 months. The noticeable price increases reported by survey participants are summarized in the "General Comments by Purchasers" section of the Cincinnati monthly Report on Business.

SERVICE PRICES
(25, 21, 14, 16)

Service prices continued upward in May, but with fewer respondents reporting increases compared to last month's report. Compared to April, the service price index rose from 14 to 16. Zero percent of respondents reported price decreases, and 84 percent reported prices as the same, up from 74 percent in March. A year ago the service price index equaled 33.

"May's employment index rose to 18 in contrast to the previous two month's values of zero."

EQUIPMENT PRICES

(22, 14, 20, 8)

The equipment price index fell to 8 in May, down from 20 in April, suggesting moderating price pressure, and still remaining below the three year average. A year ago, the index was 42.

RAW MATERIAL INVENTORIES

(-9, 30, -36, 11)

The index measuring changes in raw material inventories reversed direction, increasing from -36 in April to 11 in May, a 47 percentage point swing. Thirty-three percent of the reports indicated increased inventories, and 22 percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES

(2, -9, 16, 33)

The index for finished goods inventories increased substantially in May compared to April, a 17 point rise in the index. Compared to April, there was a 3 percentage point increase in those reporting increased finished goods inventories, an 11 point rise in those reported "the same", and a 14 point drop in the "down" category.

BUYING PATTERNS

- DOMESTICALLY (24, 17, -28, 22)

The following percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (1, 17, 25, 20)
- ACROSS THE ATLANTIC (-7, 16, 0, 0)
- ACROSS THE PACIFIC (35, 34, 38, 60)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

- Up are: paper, toner, gasoline, stainless steel, copper, nickel, brass, aluminum, electrical and electronic parts.
- Down is: telecommunications.
- In short supply are: electrical steel, Nomex, motors, heat elements, electronic parts.

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

General Business

| Index | Up | Same | Down |
|-------------------|----|------|------|
| Production | 45 | 37 | 18 |
| New Orders | 45 | 37 | 18 |
| Backlog Of Orders | 44 | 45 | 11 |
| Employment | 27 | 64 | 9 |

Prices & Spending

| Index | Up | Same | Down |
|-----------------------------|----|------|------|
| Prices for Commodities | 66 | 34 | 0 |
| Prices for Services | 16 | 84 | 0 |
| Prices for Equipment | 8 | 92 | 0 |
| Dollars Spent by Purchasing | 58 | 26 | 16 |

Inventories

| Index | Up | Same | Down |
|----------------|----|------|------|
| Raw Materials | 33 | 45 | 22 |
| Finished Goods | 44 | 45 | 11 |

Deliveries

| Index | Quicker | Same | Slower |
|------------|---------|------|--------|
| Deliveries | 0 | 100 | 0 |

Change in the Amount Spent

| Change in the amount spent | Up | Same | Down |
|---|----|------|------|
| Domestically | 33 | 56 | 11 |
| For Firms Purchasing Internationally | | | |
| Elsewhere in the Americas | 20 | 80 | 0 |
| Across the Atlantic | 20 | 60 | 20 |
| Across the Pacific | 80 | 0 | 20 |

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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