Applied Economics Research Institute
Department of Economics, University of Cincinnati

January 2007

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

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

After contracting in December, the **Cincinnati Purchasing Management Index (PMI)** reversed direction in January increasing 8.2 percentage points to 55.6. A year ago, the Cincinnati PMI measured 60.5. For reference, the national PMI declined in November 2006 and moved upward 1.9 percentage points in December; the national January 2007 index is not available at this time.

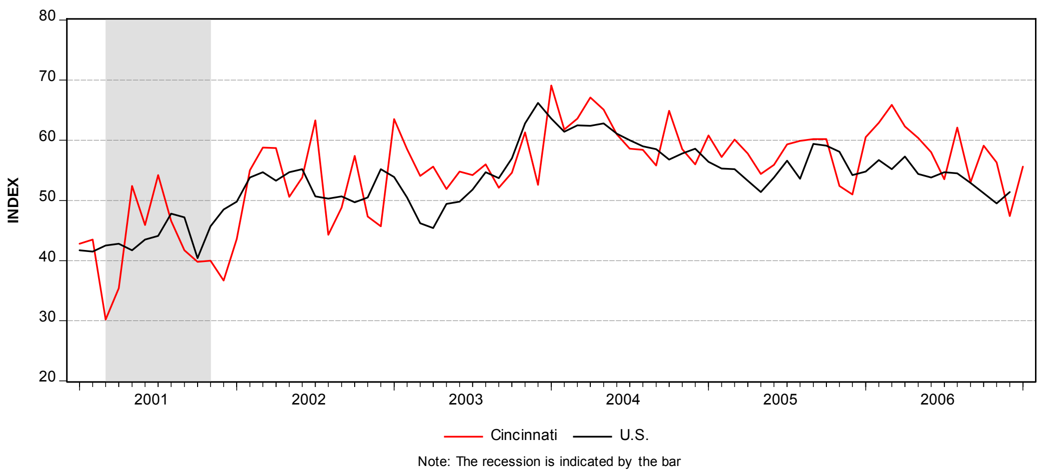

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of January from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers suggest the contraction in the manufacturing sector of the Greater Cincinnati economy in December may prove to be an aberration. While the various indices are flashing mixed signals, there is little question growth in the regional economy remains sluggish and falls beneath historical long term trends; moreover, below trend growth is likely to continue during the first quarter of 2007. The new orders, production, and employment indices advanced in January following sharp declines in December. As measured by the commodity price index, commodity price increases moderated (increased at a slower rate) in January as equipment and service prices indices increased at a more rapid pace. Dollars spent by purchasers recorded the first positive value since September 2006. Raw material inventories declined as inventories of finished goods remained unchanged. Rising production rates reduced the backlog of orders as domestic purchases and imports from the Pacific rim increased. The rate of increase in the **Composite Price Index – Cincinnati** registered an upward surge in January rising to 17.9 from 6.0 in December. 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 January as the **Production Index** increased from 6 in December to 14 in January. A year ago, the production index equaled 47. The **Employment Index** rose from -18 in December to 0 in January because of a shift in the percentage of replies from the "down" to the "up" category. The **New Orders Index** for the month of January reversed direction and posted a strong increase as the index moved from -12 to 27. A year ago, the new orders index measured 28. **The Backlog of Orders Index** continued negative but recorded a +5 percentage point improvement.

Table 1. The Cincinnati Economy at a Glance

Index	Series index Jan.	Series index Dec.	Direction	Rate of change	Trend*
Cincinnati PMI	55.6	47.4	↑	Faster	1
New Orders	27.0	-12.0	↑	Faster	1
Backlog of Orders	-13.0	-18.0	↓	Slower	2
Production	14.0	6.0	↑	Faster	14
Employment	0.0	-18.0	↔	Slower	1
Vendor Deliveries	9.0	0.0	↑	Faster	1
Raw Material Inventories	-14.0	7.0	↓	Faster	1
Finished Goods Inventories	7.0	7.0	↑	Same	2
Composite Price Index	17.9	6.0	↑	Faster	40

***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
(24, 20, -12, 27)

The rate of increase in new orders in January advanced strongly to an index value of 27 following a precipitous decline in December. This change largely resulted from a sharp fall in the percentage of replies indicating new orders were "down." A year ago, the new orders index equaled 28.

BACKLOG OF ORDERS - Fig.3
(2, 0, -18, -13)

The backlog of orders index remained negative in January. The positive 5 percentage point change may reflect the upward movement in production and slowing new orders the previous month.

PRODUCTION - Fig.4
(27, 15, 6, 14)

The rate of increase in the production index increased in January as the index number climbed to 14 from 6 the previous month. An additional 4 percent of survey respondents indicated production was "up" matching the decrease in replies reporting production "down." The production index in January 2006 was 47. The January increase in the production index extends the upward

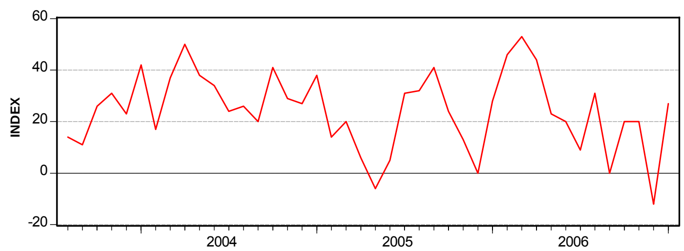

Figure 2. New Orders

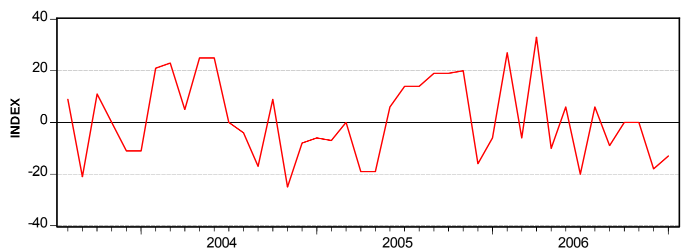

Figure 3. Backlog of Orders

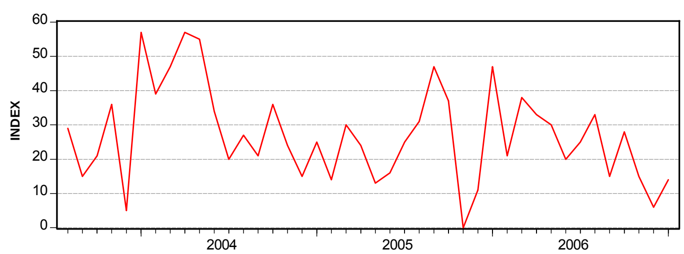

Figure 4. Production

"The rate of increase in new orders in January advanced strongly to an index value of 27"

trend to 14 months. Over the past 36 months, the production index has averaged 27; the maximum index valued reached 57.

EMPLOYMENT - Fig. 5
(12, 20, -18, 0)

January's employment index recovered from December's significant decline. The plus 18 percentage point change largely resulted from a decrease in the percentage of replies reporting lower employment levels. When coupled with the rise in the production index and the upturn in new orders, the data may be signaling the December drop in the employment index to be a seasonal abnormality. Several additional data points will be necessary to evaluate the meaningfulness of the previous month's statistic.

VENDOR DELIVERY PERFORMANCE - Fig. 6
(-10, 0, 0, 9)

As reflected by the vendor delivery performance index, deliveries, according to Cincinnati purchasing managers, improved from December. According to survey respondents, 91 percent of replies indicated vendor delivery performance the "same" as the preceding month; none reported slower delivers. A year ago, the index value was -7.

DOLLARS SPENT BY PURCHASING - Fig.7
(27, -18, -44, 6)

The monthly index measuring changing dollar amounts spent by regional purchasers reversed the decline that began in September 2006. The January 2007 index number gained 50 percentage points rising from -44 to 6.

COMMODITY PRICES
(50, 0, 17, 13)

The commodity price index in January moved upward at a slower rate. In January 2006 the index measured 55. The latest monthly data confirmed that commodity prices peaked in May 2006. The noticeable price increases reported by survey participants are summarized in the "General Comments by Purchasers" section of the Cincinnati monthly Report on Business.

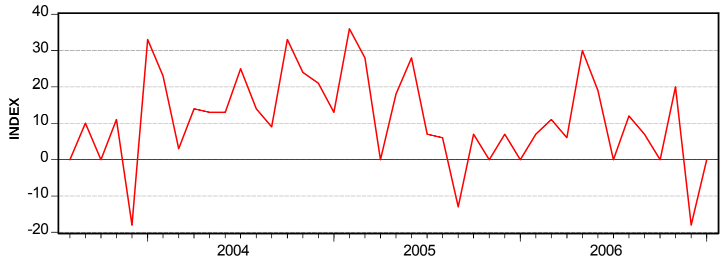

Figure 5. Employment

Figure 6. Vendor Delivery Performance

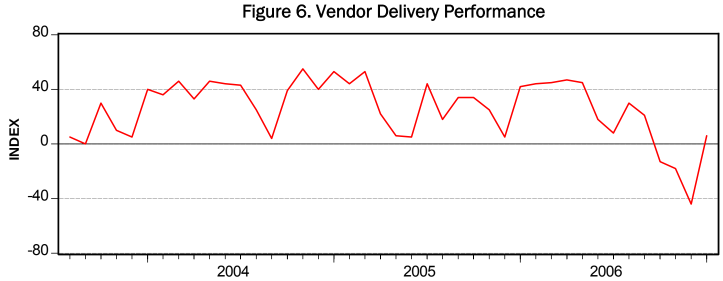

Figure 7. Dollars Spent by Purchasing

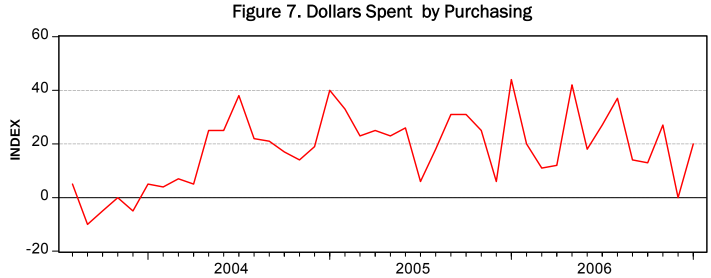

Figure 8. Equipment Prices

SERVICE PRICES
(26, 13, 0, 20)

The rate of increase in service prices accelerated in January as the service price index advanced to 20 from a 0 reading the preceding month. A year ago the service price index equaled 38. Compared to December when no survey replies indicated rising prices, 26 percent of respondent replies in January reported prices were "up."

EQUIPMENT PRICES - Fig. 8
(21, 27, 0, 20)

The rate of increase in equipment prices that accelerated in November then fell in December surged upward 20 percentage points in January. A year ago, the index was 44. Purchasers may want to pay particular attention to this index in coming months.

"January's employment index recovered from December's significant decline"

RAW MATERIAL INVENTORIES
(-8, -9, 7, -14)

The index measuring changes in raw material inventories again reversed direction declining to -14 from 7 in December. It seems likely that increases in production are responsible.

FINISHED GOODS INVENTORIES (2, -17, 7, 7)

Finished goods inventories increased at the same rate in January as December. This may be in combination of the anticipation of a continuing slowdown in the expansion of the regional economy and an unusual seasonal pattern. Increased stocks of finished goods may be suggestive of moderating demand which corresponds highly with projected lower, and below trend, growth rates in the Greater Cincinnati economy for the first and second quarters of 2007.

BUYING PATTERNS

These percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (2, -50, -13, 25)
- ACROSS THE ATLANTIC (-5, -37, 0, 0)
- ACROSS THE PACIFIC (35, 25, 25, 50)
- DOMESTICALLY (29, -19, -33, 13)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

- Up are: Electrical steel, central vacuum items, fans, fractional hp electric motors, outsourced assembly items, tall oil rosin, naphthalene derivatives
- Down are: Copper, stainless steel, steel, resin
- In Short Supply are: Aluminum wire, some electronic components.

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

General Business

Index	Up	Same	Down
Production	35	44	21
New Orders	40	47	13
Backlog Of Orders	20	47	33
Employment	18	64	18

Prices & Spending

Index	Up	Same	Down
Prices for Commodities	25	63	12
Prices for Services	26	68	6
Prices for Equipment	26	68	6
Dollars Spent by Purchasing	31	44	25

Inventories

Index	Up	Same	Down
Raw Materials	21	44	35
Finished Goods	21	65	14

Deliveries

Index	Quicker	Same	Slower
Deliveries	9	91	0

Of those Firms that Purchase Internationally

Change in the amount spent	Up	Same	Down
Elsewhere in the Americas	25	75	0
Across the Atlantic	12	76	12
Across the Pacific	62	26	12
Domestically	26	61	13

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. Wednesday January 31, 2007

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

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 Managers Index – Cincinnati measured 55.6 in January compared to 47.4 last month for a 8.2 percentage point increase. A year ago, the Cincinnati PMI equaled 60.5. Any reading over 50 represents an increase.

The Composite Price Index - Cincinnati - The rate of increase in the **Composite Price Index – Cincinnati** registered an upward surge in January rising to 17.9 from 6.0 in December. Any index value that exceeds zero represents an increase in average prices. Commodity price increases moderated (increased at a slower rate) in January as equipment and service prices indices increased at a more rapid pace.

The **New Orders Index** reversed direction and posted a strong increase as the index moved from -12 to 27. **The Backlog of Orders** continued negative but recorded a +5 percentage point improvement. The monthly index measuring **Dollars Spent by Purchasing** recorded the first positive value since September 2006.