Applied Economics Research Institute
Department of Economics, University of Cincinnati

December 2008

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

PRESS RELEASE

Important:

Do Not Release Until
12:01 a.m. Wednesday December 31st, 2008

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of December 2008.

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 December shows that reported purchasing activity continues to reflect a chilling in the economy, without exception.

The Purchasing Managers Index – Cincinnati measured 31.7 in December compared to 36.9 for last month; this new figure is the lowest in the past seven years. Any index value below 50 represents a decrease in purchasing activity. The Cincinnati PMI had remained above 50 since January 2003 with eight exceptions, seven of which have occurred since November 2007.

The Composite Price Index – Cincinnati fell sharply in again in December; in October the index measured 32.3, and now it is below zero. Any index value that exceeds zero represents an increase in average prices; decreasing prices are now a reality, as all major price indices are down.

The **New Orders Index** plummeted to –60 in December from October's value of 5. The index measuring **Dollars Spent by Purchasing** also fell compared to November's values. The **Backlog of Orders Index** returned well into the negative, after a brief surge in September.

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The National Association of Purchasing Management-Cincinnati Report on Business for the Month of December 2008

Following an increase in November, the **Cincinnati Purchasing Management Index (PMI)** fell dramatically in December to 31.7, the lowest figure reported since the 2001 recession. In the past year, this index has been below 50 eight out of twelve months. For reference, the **national PMI** for November 2008 was 36.2. The national December 2008 index is not available at this writing.

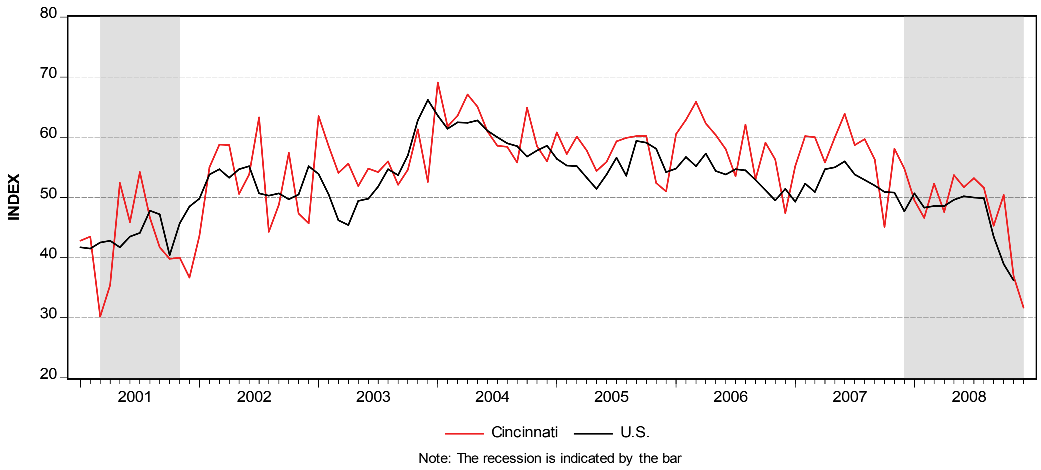

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of December from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers show that reported purchasing activity has generally declined, as most surveyed activities in the region decreased. In November, we reported that the **Cincinnati PMI** fell to 36.9 in December, the lowest number reported since the 2001 recession. This month it fell even lower, to 31.7. Many other indices typify this serious decline. The December value of PMI is calculated using the new 2008 seasonal adjustment factors from the U.S. Department of Commerce. The **new orders** index decreased again, continuing a sharp reversal after a positive reading in October. The **production** index fell to −44, turning negative for the fourth month in the past year; it was 35 in November 2007. The index for **backlog of orders** fell again this month, and has remained negative for 16 months running. The index for **inventories of finished** goods turned negative this month for the fourth time in the past year. The **equipment price** index barely budged this month, as did the **service price** index. The **commodity price** index fell sharply for a third straight month to −30; before this decline started, it hadn't been below 50 for a year. **Dollars spent in purchasing** decreased (index = -38) compared to November's value of −13. The reported **raw material inventories** index fell back to −13, still well up from September's value of -46. With respect to geographic buying patterns, in the Americas the index fell to −63; the index for buying from across the **Atlantic** fell to −71; buying from across the **Pacific** fell to −63. The **domestic purchasing** index fell, decreasing to −44 from November's value of −27. The **Composite Price Index – Cincinnati** stood at −3.3 in December; a year ago it was 45.0. Any index value below zero represents a decrease in average prices.

Production, Employment, New Orders, and Backlog of Orders

Respondents report that the rate of production decreased in December; the **Production Index** fell to –44 from –32 in November. A year ago, the production index equaled 10. The **Employment Index** fell from –26 in November to –37, with only three respondents reporting increasing employment. The **New Orders Index** for December decreased, moving from –41 to –60. A year ago, this index was 21. The **Backlog of Orders Index** also fell from –45 in November to –50 this month.

Table 1. The Cincinnati Economy at a Glance

Index	Series index Dec	Series index Nov	Direction	Rate of change	Trend*
Cincinnati PMI	31.7	36.9	↓	Slower	2
New Orders	-60	-41	↓	Faster	2
Backlog of Orders	-50	-45	↓	Faster	16
Production	-44	-32	↓	Faster	2
Employment	-37	-26	↓	Faster	2
Vendor Deliveries	23	29	↑	Slower	15
Raw Material Inventories	-13	-7	↓	Faster	4
Finished Goods Inventories	-7	3	↓	Faster	1
Composite Price Index	-3.3	4.0	↓	Slower	1

*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 for this month ending 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
(13, 5, -41, -60)

The New Orders index in December decreased sharply to a value of –60, down 19 points from the November value and down 81 points for the year. This change resulted from no replies indicating new orders were "up", 60 percent indicating "down" and 40 percent reporting "the same". A year ago, the new orders index equaled *positive* 21.

BACKLOG OF ORDERS - Fig. 3
(-8, -17, -45, -50)

The backlog of orders index decreased in December, falling from –45 in November to –50, a decrease of 5 points caused by 3 percent of respondents reporting "up" (7 percent in November), 53 percent reporting "down" (52 in November), and 43 percent reporting "the same" (54 in November).

PRODUCTION - Fig. 4
(17, 6, -32, -44)

The production index decreased in December as the index number fell from –32 in November to –44, a 12 point decline. Three percent of respondents reported production as "up", 47 percent reported "down", and 50 percent reported "the same". The production index in December of 2007 was 10. The December 2008 index lies well be-

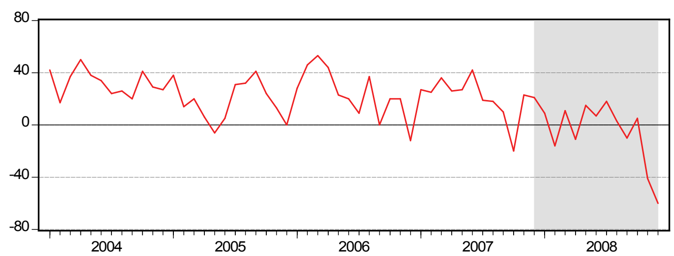

Figure 2. New Orders

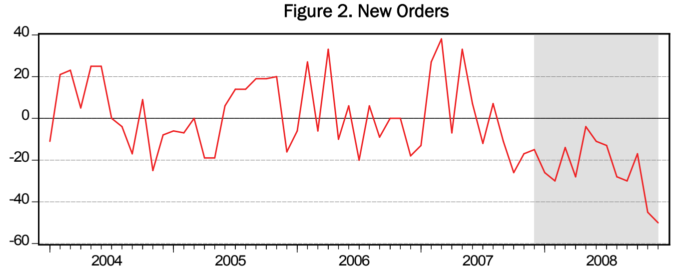

Figure 3. Backlog of Orders

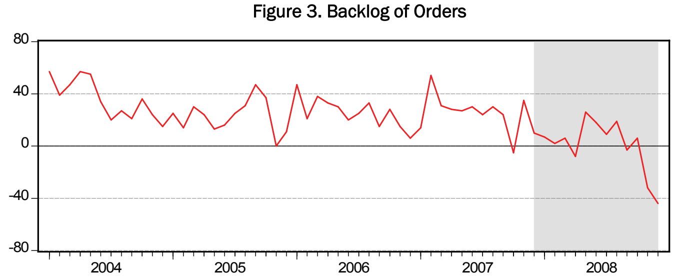

Figure 4. Production

"The New Orders index in December decreased sharply to a value of – 60, down 19 points from the November value and down 81 points for the year."

low the 36 month average of 17. The maximum index value in this 36 month period was 54, reached in February, 2007.

EMPLOYMENT - Fig. 5

(5, -6, -26, -37)

December's employment index was –37, falling from the last months' value of –26. While three percent of respondents reported increased employment (none in November), and 40 percent reported decreased employment (26 percent in November), 57 percent of the respondents reported employment remained the same (74 percent in November). In December 2007 the index was 10.

VENDOR DELIVERY PERFORMANCE - Fig. 6

(-2, 6, 29, 23)

The vendor delivery performance index is 23 this month, down from November's value of 29. Sixty-three percent of survey respondents this month reported delivery times as the "same" (65 percent in November). Thirty percent reported faster deliveries (32 in November), and seven percent reported slower delivery times (3 in November). Last years index value was 5.

DOLLARS SPENT BY PURCHASING - Fig. 7

(23, 37, -13, -38)

The monthly index measuring changing dollar amounts spent by regional purchasers decreased in December compared to November, sinking another 25 points. Seventeen percent of respondents indicated increased spending, 28 percent reported no change, and fifty-five percent indicated decreased spending. A year ago the index was 20.

COMMODITY PRICES - Fig. 8

(46, 26, -10, -30)

The commodity price index in December dropped sharply for a third month in a row, this time falling 20 points to –30; it is even farther below the 36 month average of 46. Seventeen percent of respondents reported higher prices (29 percent in November), 37 percent reported the "same" (32 percent in November), and 47 percent reported lower prices (39 in November). In December 2007, the index measured 70. The most noticeable price changes reported by survey participants are summarized in the "General Comments by Purchasers" section of the Cincinnati monthly Report on Business.

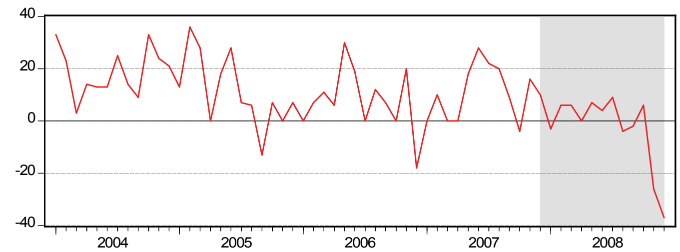

Figure 5. Employment

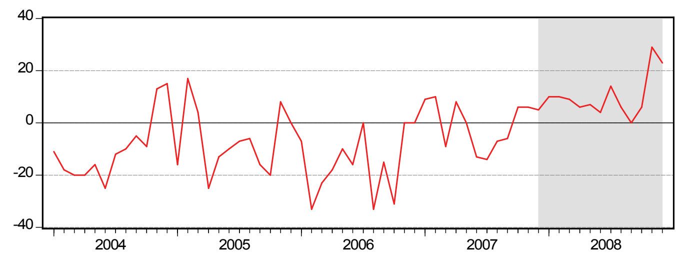

Figure 6. Vendor Delivery Performance

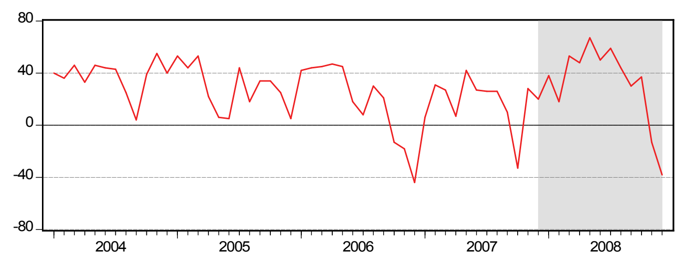

Figure 7. Dollars Spent by Purchasing

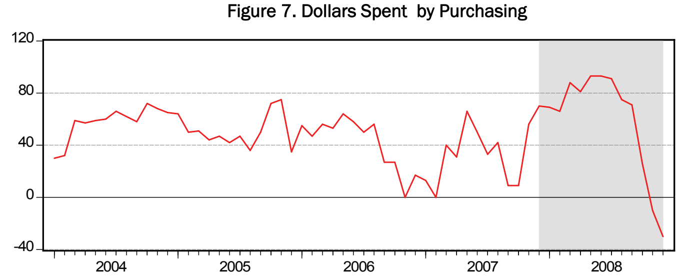

Figure 8. Commodity Prices

SERVICE PRICES

(28, 37, 16, 13)

The service price index fell again in December, with an index value of 13, down 34 points from September's value of 47. This was caused by 20 percent of respondents reporting increases, 73 percent reporting no change in prices and seven percent reporting price decreases. A year ago the service price index equaled 35.

EQUIPMENT PRICES

(29, 34, 6, 7)

The equipment price index rose slightly in December, to

"December's dollars spent by purchasing index was –38, falling from a value of 20 a year ago."

7; it was 6 in November. It is now below the three year average of 29, as are most of these indices. A year ago, the index was 30.

RAW MATERIAL INVENTORIES (-11, –20 –7, -13)

The index measuring changes in raw material inventories fell this month to –13 from –7 last month. Twenty-eight percent of the reports indicated increased inventories, and 41 percent of respondents indicated decreases, with 31 percent reporting no change. A year ago the index was at –16.

FINISHED GOODS INVENTORIES (4, 5, 3, -7)

The index for finished goods inventories decreased and turned negative in December; it is now at –7, compared to 3 in November. 21 percent indicated increased inventories, 52 percent reported the same, and 28 percent reported finished goods inventories as "down".

BUYING PATTERNS

- DOMESTICALLY (19, 17, -27, -44)

The following percentages consider only those firms that buy internationally; they show a global downturn that is thorough and severe.

- ELSEWHERE IN THE AMERICAS (-1, -10, -44, -63)
- ACROSS THE ATLANTIC (-7, -19, -47, -71)
- ACROSS THE PACIFIC (26, -6, -19, -63)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

- Up are: concrete, locks, exothermic risers, carbon steel, computer hardware, toners, fittings, glass, label components, alcohol.
- Down are: nickel, steel, stainless steel, copper, furan binder, resin, plastic additives, scrap, gasoline, chemicals, plastics, lumber, sheet metal, apple juice concentrate, natural gas, transportation, plastic resins.
- In short supply: stainless steel, alcohol, ethoxylates.

Statistical Summary

Replies as a Percent of Total Replies

General Business

Index	Up	Same	Down
Production	3	50	47
New Orders	0	40	60
Backlog Of Orders	3	43	53
Employment	3	57	40

Prices & Spending

Index	Up	Same	Down
Prices for Commodites	17	37	47
Prices for Services	20	73	7
Prices for Equipment	20	67	13
Dollars Spent by Purchasing	17	28	55

Inventories

Index	Up	Same	Down
Raw Materials	28	31	41
Finished Goods	21	52	28

Deliveries

Index	Quicker	Same	Slower
Deliveries	30	63	7

Change in the Amount Spent

Change in the amount spent	Up	Same	Down
Domestically	13	30	57
For Firms Purchasing Internationally			
Elsewhere in the Americas	0	38	63
Across the Atlantic	0	29	71
Across the Pacific	6	25	69

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, gives us the current 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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