Applied Economics Research Institute
Department of Economics, University of Cincinnati

October 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. Friday October 31st, 2008

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of October 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 October shows that reported purchasing activity presents a generally positive picture, with a couple of exceptions. The Production Index rose from September's negative value, becoming positive and indicating modest expansion. The Employment Index also turned positive, rising eight points from September's value.

The Purchasing Managers Index – Cincinnati measured 50.4 in October compared to 45.3 for last month, a 5.1 percentage point increase. Any index value over 50 represents an increase in purchasing activity. The Cincinnati PMI had remained above 50 since January 2003 with six exceptions, five of which occurred since October 2007.

The Composite Price Index – Cincinnati fell sharply in October as the index measured 32.3, down from 56.0 in September. Any index value that exceeds zero represents an increase in average prices. The increase in commodity prices decelerated from September as 49 percent of respondents reported increases in the prices they pay, 29 percent reported the same, and 23 percent reported declines. Eight percent had reported declines in September. The Equipment Price Index fell to 34 from its September value of 50, and the Service Price Index also fell to 37, from 47 in September, but remains above the 36 month average of 29.

The New Orders Index increased in October, turning positive. The index measuring Dollars Spent by Purchasing also rose compared to September's values. The Backlog of Orders Index remained negative, although less so than in September.

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

Following a decrease in September, the **Cincinnati Purchasing Management Index (PMI)** increased in October, rising to 50.4 from 45.3 in September. A year ago, the October Cincinnati PMI stood at 45.1. For reference, the **national PMI** for September 2008 was 43.5, showing a 6.4 point decrease from its August value of 49.9. The national October 2008 index is not available at this writing.

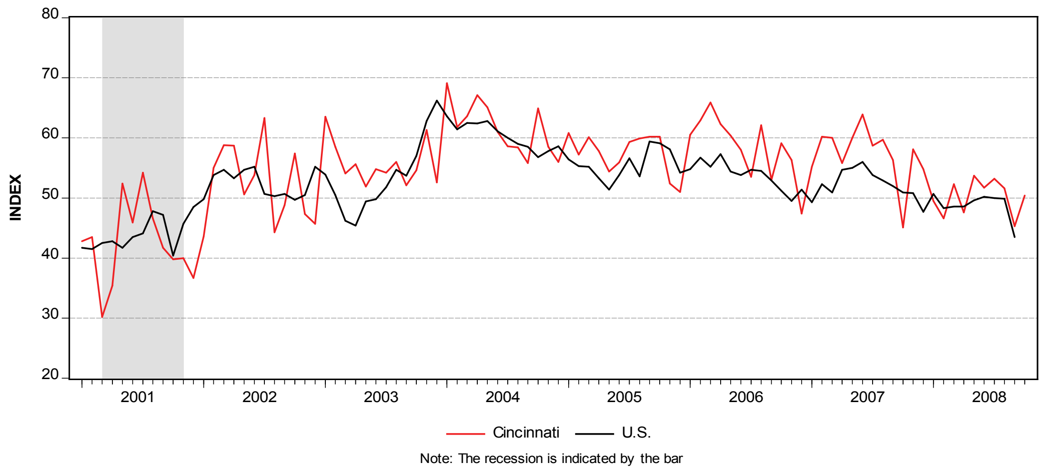

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of October from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers show that reported purchasing activity has generally improved, as most surveyed activities in the region increased. The **Cincinnati PMI** rose from 45.3 in September to 50.4 in October. Values above 50 mean economic expansion. The October value is calculated using the new 2008 seasonal adjustment factors from the U.S. Department of Commerce. The **new orders** index increased, turning positive in October. The **production** index turned positive, rising to a value of 6 compared to −3 in September. The index for **backlog of orders** rose in October, but still remains negative. The index for **inventories of finished** goods rose to 5 this month, from −16 in September. The **commodity price** index fell sharply in October (index = 26), down 45 points from September's value. The **equipment price** index fell to 34 from September's value of 50. The **service price** index fell to 37 from 47 in September. **Dollars spent in purchasing** increased (index = 37) compared to September's value of 30. The reported **raw material inventories** index rose to −20 from September's value of -46. With respect to geographic buying patterns, in the Americas the index fell to −10; the index for buying from across the **Atlantic** fell from September's value of −13 to −19; buying from across the **Pacific** rose to −6, up from last month's −9. The **domestic purchasing** index fell, decreasing to 17 from September's value of 27. The **Composite Price Index – Cincinnati** exhibited a downward movement in October, falling to 32.3 from 56.0 in September. Any index value that exceeds zero represents an increase in average prices.

Production, Employment, New Orders, and Backlog of Orders

Respondents report that the rate of production increased in October as the **Production Index** increased from –3 in September to 6 in October. A year ago, the production index equaled –5. The **Employment Index** rose in October to 6 from September's value of –2, as 20 percent of the respondents reported increases, 14 percent reported decreases, and 66 percent reported no change. The **New Orders Index** for October increased, moving from –10 to 5. A year ago, this index was –20. The **Backlog of Orders Index** also rose from –30 in September to –17 this month.

Table 1. The Cincinnati Economy at a Glance

Index	Series index Oct	Series index Sep	Direction	Rate of change	Trend*
Cincinnati PMI	50.4	45.3	↑	Slower	1
New Orders	5	-10	↑	Slower	1
Backlog of Orders	-17	-30	↓	Slower	14
Production	6	-3	↑	Faster	1
Employment	6	-2	↑	Faster	1
Vendor Deliveries	6	0	↑	Faster	13
Raw Material Inventories	-20	-46	↓	Slower	2
Finished Goods Inventories	5	-16	↑	Slower	1
Composite Price Index	32.3	56.0	↑	Slower	61

*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

(16, 3, -10, 5)

The New Orders index in October increased to a value of 5, up 15 points from the September value. This change resulted from 31 percent of replies indicating new orders were "up", 26 percent indicating "down" and 43 percent reporting "the same". A year ago, the new orders index equaled –20.

BACKLOG OF ORDERS - Fig. 3

(-5, -28, -30, -17)

The backlog of orders index increased in October, rising from –30 in September to –17, an increase of 13 points caused by 14 percent of respondents reporting "up" (11 percent in September), 31 percent reporting "down" (41 in September), and 54 percent reporting "the same" (49 in September).

PRODUCTION - Fig. 4

(20, 19, -3, 6)

The production index increased in October as the index number rose from –3 in September to 6, a 9 point swing, indicating expansion. Twenty-six percent of respondents reported production as "up", 20 percent reported "down", and 54 percent reported "the same". The production index in October of 2007 was –5. The October 2008 index lies well below

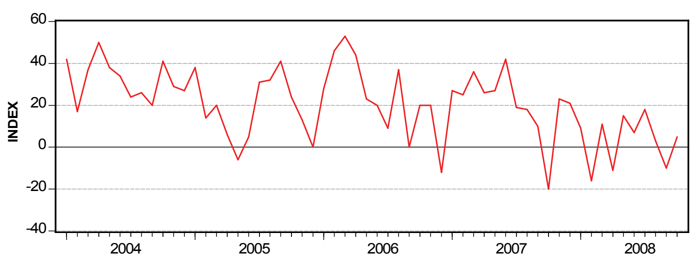

Figure 2. New Orders

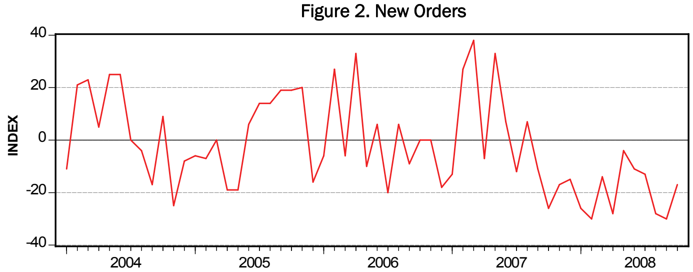

Figure 3. Backlog of Orders

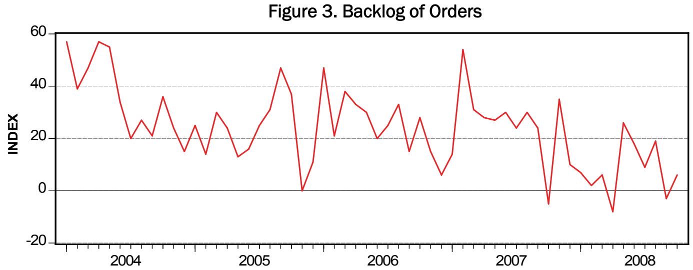

Figure 4. Production

"The production index increased in October as the index number rose from –3 in September to 6, a 9 point swing, indicating expansion."

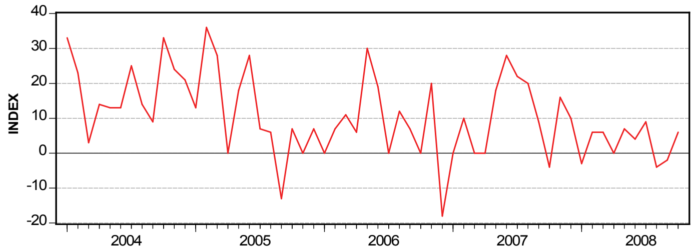

Figure 5. Employment

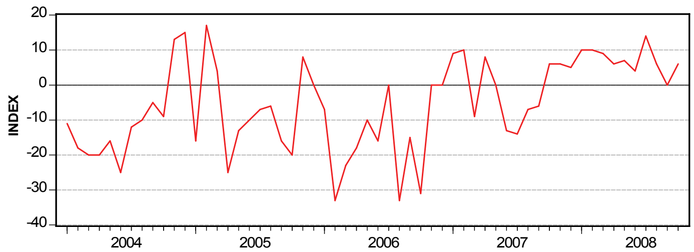

Figure 6. Vendor Delivery Performance

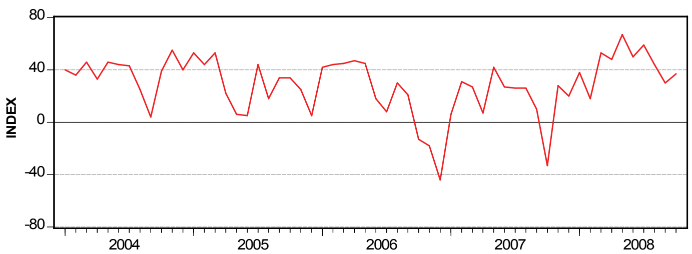

Figure 7. Dollars Spent by Purchasing

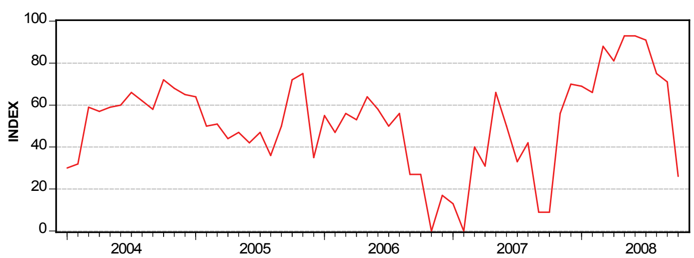

Figure 8. Commodity Prices

the 36 month average of 20. The maximum index value in this 36 month period was 54, reached in February, 2007.

EMPLOYMENT - Fig. 5

(7, -4, -2, 6)

October's employment index was 6, rising from the last months' value of –2. Twenty percent of respondents reported increased employment (14 percent in September), and 14 percent reported decreased employment (16 percent in September), while 66 percent of the respondents reported employment remained the same (70 percent in September).

VENDOR DELIVERY PERFORMANCE - Fig. 6

(-3, 6, 0, 6)

The vendor delivery performance index is six this month, up from September's value of zero. Seventy-one percent of survey respondents this month reported delivery times as the "same" (73 percent in September). Seventeen percent reported faster deliveries (14 in September), and 11 percent reported slower delivery times (14 in September). A year ago, the index value was 6.

DOLLARS SPENT BY PURCHASING - Fig. 7

(25, 44, 30, 37)

The monthly index measuring changing dollar amounts spent by regional purchasers increased in October compared to September, rising 7 points. Fifty-seven percent of respondents indicated increased spending, 23 percent reported no change, and 20 percent indicated decreased spending, down from 27 last month.

COMMODITY PRICES - Fig. 8

(50, 75, 71, 26)

The commodity price index in October dropped sharply by 45 points to 26, and has now fallen below the 36 month average of 50. Forty-nine percent of respondents reported higher prices, 29 percent reported the "same", and 23 percent reported lower prices. In October 2007, the index measured 9.

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

(29, 60, 47, 37)

The service price index fell again in October, with an index value of 37, down 10 points from September's value of 47. This was caused by 40 percent of respondents reporting increases, 57 percent reporting no change in prices and three percent reporting price decreases. A year ago the service price index equaled 23.

EQUIPMENT PRICES

(29, 47, 50, 34)

The equipment price index also fell in October, to 34, a decline of 16 points. It remains above the three year average of 29, suggesting continuing price pressure. A year ago, the index was 25.

"October's employment index was 6, rising from the last months' value of –2."

RAW MATERIAL INVENTORIES
(-10, 0, -46, -20)

The index measuring changes in raw material inventories rose this month to –20 from –46 last month. Fifteen percent of the reports indicated increased inventories, and 35 percent of respondents indicated decreases, with 50 percent reporting no change.

FINISHED GOODS INVENTORIES (4, 6, -16, 5)

The index for finished goods inventories increased in October to 5 compared to –16 in September, a 21 point increase. Twenty-nine percent indicated increased inventories, 47 percent reported the same, and 24 percent reported finished goods inventories as "down".

BUYING PATTERNS

- DOMESTICALLY
(22, 37, 27, 17)

The following percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (2, -5, -5, -10)
- ACROSS THE ATLANTIC
(-4, -20, -13, -19)
- ACROSS THE PACIFIC
(29, 14, -9, -6)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

- Up are: ferroalloys, silicon carbide, PE, PP, packaging, sugar, toners, paper, meat, metals, plastics, carbon steel, resin, plastic additives, stainless steel products, air bags, pallets, multi-layer bags, motors, controls, films, adhesives, liners, ethoxylates.
- Down are: steel, stainless steel, toners, gasoline, oil, paper, copper, aluminum, metals, breading, natural gas.
- In short supply: steel plate, ferroalloys, ferrosilicon, coke, EPDM, resins, stainless steel, HIPS & SBC - Styrene, plastic additives, small motors, adhesives, liners, helium, alcohols.

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

General Business

Index	Up	Same	Down
Production	26	54	20
New Orders	31	43	26
Backlog Of Orders	14	54	31
Employment	20	66	14

Prices & Spending

Index	Up	Same	Down
Prices for Commodities	49	29	23
Prices for Services	40	57	3
Prices for Equipment	37	60	3
Dollars Spent by Purchasing	57	23	20

Inventories

Index	Up	Same	Down
Raw Materials	15	50	35
Finished Goods	29	47	24

Deliveries

Index	Quicker	Same	Slower
Deliveries	17	71	11

Change in the Amount Spent

Change in the amount spent	Up	Same	Down
Domestically	44	29	27
For Firms Purchasing Internationally			
Elsewhere in the Americas	10	70	20
Across the Atlantic	14	52	33
Across the Pacific	26	42	32

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.

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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