

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 January 31st, 2008

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of January 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 January shows that reported purchasing activity presents a mixed picture in January. The **Production Index** still indicates an increase in production, but with a lessening in growth. The **Employment Index** turned negative in January, signaling slower economic activity in the region.

The Purchasing Managers Index – Cincinnati measured 49.5 in January compared to 54.8 last month, a 5.3 percentage point decrease. The Cincinnati PMI had remained above 50 since January 2003, with the two exceptions of October 2007 and that of December 2006. The January report makes this the third decrease since January 2003. Any index value under 50 represents an decrease.

The Composite Price Index – Cincinnati rose in January as the index measured 53.3, up from 45.0 December. Any index value that exceeds zero represents an increase in average prices. The increase in commodity prices accelerated from December as 78 percent of respondents reported increases in the prices they pay, 14 percent reported the same, and 9 percent reported declines. The **Equipment Price Index** increased in January, and the **Service Price Index** increased from December's value, staying above the 36 month average of 24.

The **New Orders Index** decreased in January, but the index measuring **Dollars Spent by Purchasing** increased sharply compared to December's value. The **Backlog of Orders Index** remained negative, markedly more so compared to December.

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

Following a decrease in December, the **Cincinnati Purchasing Management Index (PMI)** decreased again in January, falling to 49.5 from 54.8 in December. A year ago, the January Cincinnati PMI stood at 55.2. For reference, the **national PMI** for December 2007 was 49.8, decreasing one point from its November value of 50.8. The national January 2008 index is not available at this writing.

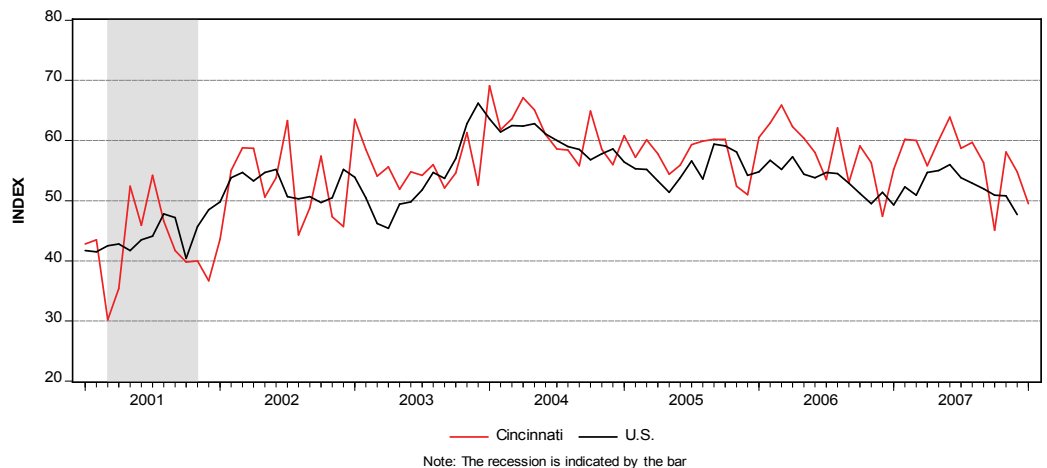


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of January from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers show that reported purchasing activity has decreased, and reflects national trends of slowing economic activity. The Cincinnati PMI fell from 54.8 in December to 49.5 in January. The January value is calculated using the new 2008 seasonal adjustment factors from the U.S. Department of Commerce. The various indices are reflecting slowing economic activity in the region. The indices for production and for new orders remained positive in January, but lower than December. The index for

backlog of orders fell again in January, becoming more negative. The index for inventories of finished goods became less negative this month. Commodity prices fell slightly in January (index = 69), below December's report of 70. The equipment price index rose sharply from 30 in December to 54 in January, and the service price index rose to 37 from 35 in December. Dollars spent in purchasing increased (index = 38) compared to December's value of 20. The reported raw material inventories index continued to be negative at -14, up from December's value of -16. With respect to geographic buying patterns, in the Americas the index rose

to 37 from December's value of -13; the index for buying from across the Atlantic rose to 15 from December's value of zero; buying from across the Pacific rose to 38, up from last month's -13, and the domestic purchasing index also rose to 19 from December's value of 15. The **Composite Price Index - Cincinnati** registered an upward movement in January, rising to 53.3 from 45 in December. Any index value that exceeds zero represents an increase in average prices.

Production, Employment, New Orders, and Backlog of Orders
Survey respondents report that the rate of production

decelerated in January as the **Production Index** decreased from 10 in December to 7 in January. A year ago, the production index equaled 14. The **Employment Index** decreased in January as 18 percent of the respondents reported increases, 21 percent reported decreases, and 61 percent reported no change in employment. The **New Orders Index** for the month of January fell, as the index moved from 21 to 9. A year ago, the new orders index measured 27. The **Backlog of Orders Index** fell from -15 in December to -26 this month. A year ago it was -13.

| Table 1. The Cincinnati Economy at a Glance | | | | | |
|---|--------------|------|-----------|----------------|--------|
| Index | Series index | | Direction | Rate of change | Trend* |
| | Jan | Dec | | | |
| Cincinnati PMI | 49.5 | 54.8 | ↓ | Slower | 1 |
| New Orders | 9 | 21 | ↑ | Slower | 3 |
| Backlog of Orders | -26 | -15 | ↓ | Faster | 5 |
| Production | 7 | 10 | ↑ | Slower | 3 |
| Employment | -3 | 10 | ↓ | Slower | 1 |
| Vendor Deliveries | 10 | 5 | ↑ | Faster | 4 |
| Raw Material Inventories | -14 | -16 | ↓ | Slower | 3 |
| Finished Goods Inventories | -3 | -5 | ↓ | Slower | 4 |
| Composite Price Index | 53.3 | 45.0 | ↑ | Faster | 52 |

*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
(20, 23, 21, 9)

The New Orders index in January decreased to a value of 9, a change of 12 points. This change resulted from 31 percent of replies indicating new orders were “up”, 22 percent indicating “down” and 48 percent reporting “the same”. A year ago, the new orders index equaled 27.

BACKLOG OF ORDERS - Fig. 3
(1, -17, -15, -26)

The backlog of orders index turned even more negative in January, falling to -26 from December’s value of -15, a decrease caused by only 10 percent of respondents reporting “up” (15 percent in December), 36 percent reporting “down” (30 in Decem-

ber), and 54 percent reporting “the same” (55 in December).

PRODUCTION - Fig. 4
(24, 35, 10, 7)

The production index decreased in January as the index number fell from 10 in December to 7, a 3 point

drop. Twenty-eight percent of respondents reported production as “up”, 21 percent reported “down”, and 52 percent reported “the same”. The production index in January of 2007 was 14. Although the January 2007 index lies well below the 36 month average of 24, its positive value sug-

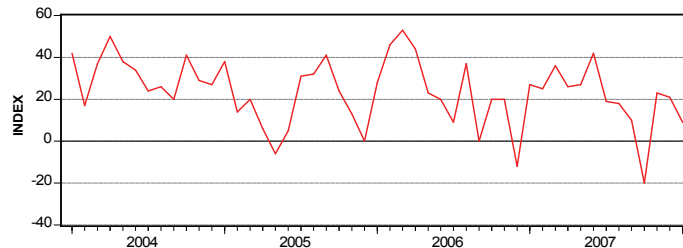


Figure 2. New Orders

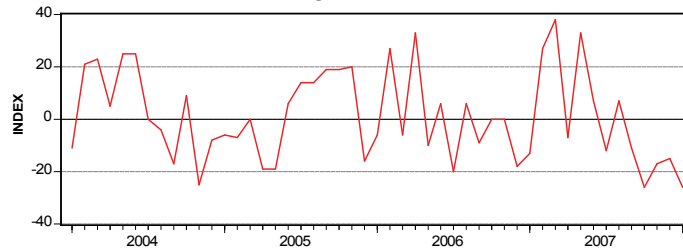


Figure 3. Backlog of Orders

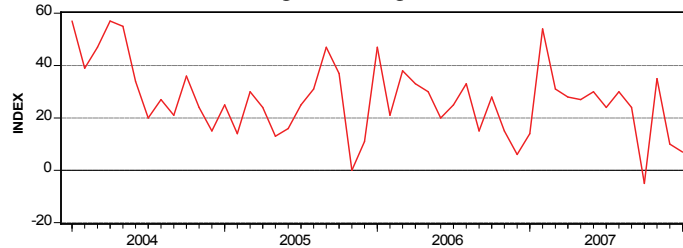


Figure 4. Production

“The production index decreased in January as the index number fell from 10 in December to 7, a 3 point drop.”

gests that the upward trend in production continues, although at a much slower rate. The maximum index value in this 36 month period was 54, reached in February, 2007.

EMPLOYMENT - Fig. 5
(10, 16, 10, -3)

January's employment index fell to -3, down 13 points from December's value. Eighteen percent of respondents reported increased employment (20 percent in December), and 21 percent reported decreased employment (10 percent in December), while 61 percent of the respondents reported employment remained the same (70 percent in December).

VENDOR DELIVERY PERFORMANCE - Fig. 6
(-7, 6, 5, 10)

The vendor delivery performance index rose 5 points to 10, down from December's and November's values of 5 and 6. Sixty-eight percent of survey respondents this month reported delivery times as the "same", down from 85 percent in December. Twenty-one percent reported faster deliveries (10 in December), and 11 percent reported slower delivery times (5 in December). A year ago, the index value was 0.

DOLLARS SPENT BY PURCHASING - Fig. 7
(21, 28, 20, 38)

The monthly index measuring changing dollar amounts spent by regional purchasers increased markedly in January compared to December, rising 18 points. Fifty-eight percent of respondents indicated increased spending, 22 percent reported no change, and 20 percent indicated decreased spending.

COMMODITY PRICES - Fig. 8
(43, 56, 70, 69)

The commodity price index in

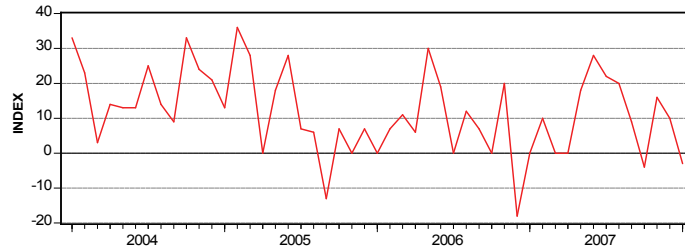


Figure 5. Employment

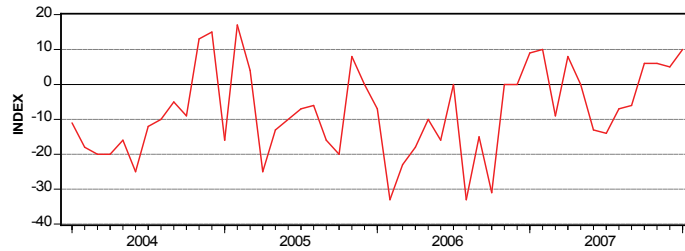


Figure 6. Vendor Delivery Performance

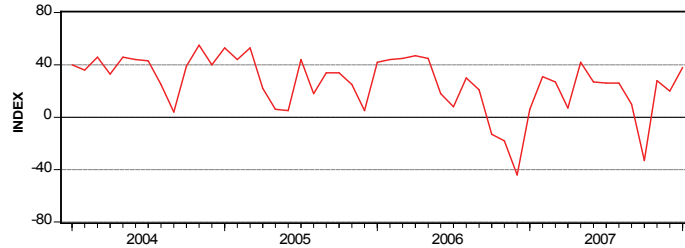


Figure 7. Dollars Spent by Purchasing

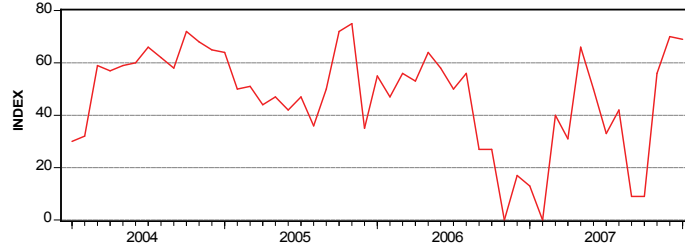


Figure 8. Commodity Prices

January dropped slightly to 69, with 78 percent of respondents reporting higher prices, 14 percent reporting the "same", and 9 percent reporting lower prices. In January 2007 the index measured 13.

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, 17, 35, 37)

The service price index rose in January, with an index value

of 37, up slightly from December's value of 35. This was caused by 42 percent of respondents reporting increases, 53 percent reporting no change in prices and 5 percent reporting price decreases. A year ago the service price index equaled 20.

EQUIPMENT PRICES
(23, 50, 30, 54)

The equipment price index rose sharply to 54 in January, up from 30 in December, and remains above the three year average of 23, suggesting continuing price pressure. A year ago, the index was 20.

"January's employment index fell to -3, down 13 points from December's value."

RAW MATERIAL INVENTORIES

(-6, -29, -16, -14)

The index measuring changes in raw material inventories rose this month to -14. Sixteen percent of the reports indicated increased inventories, and 54 percent of respondents indicated decreases, with 30 percent reporting no change.

FINISHED GOODS INVENTORIES

(5, -11, -5, -3)

The index for finished goods inventories increased somewhat in January to -3 compared to -5 in December. Twenty-three percent indicated increased inventories, 51 percent reported the same, and 26 percent reported finished goods inventories as "down".

BUYING PATTERNS

- DOMESTICALLY (21, 33, 15, 19)

The following percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (3, -29, -13, 37)
- ACROSS THE ATLANTIC (-4, -12, 0, 15)
- ACROSS THE PACIFIC (34, 0, -13, 38)

GENERAL COMMENTS BY PURCHASING MANAGERS**Noticeable Price Changes**

- Up are: services, fatty acid, energy, polyethylene, PVC, steel, freight, caustic soda, resins, paper, gasoline/fuel, plastic/plastic additives, oreg-

ano, flour, eggs, copper, stainless steel (and surcharges), electric motors, oil, metals, freight fuel surcharges, fruit juices (foreign and domestic), chemicals, nickel, resin-based packaging, brass, glycerine, polystyrene, polypropylene, PET, utilities, corrugated, fiber.

- Down are: metals, copper, zinc, steel, aluminum (including sheet and coil), nickel, paper, thermal transfer ribbons, connectors.

- In short supply: fatty acid, diapers, caustic soda, armor plate, oregano, titanium, nomex, aluminum wire, electrical steel, fresh vegetables, wheat, dairy, metals, inventories, commodity sweeteners, copper, fiber, cable assemblies, eggs, soy, corn, HVP.

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

General Business

| Index | Up | Same | Down |
|-------------------|----|------|------|
| Production | 28 | 52 | 21 |
| New Orders | 31 | 48 | 22 |
| Backlog Of Orders | 10 | 54 | 36 |
| Employment | 18 | 61 | 21 |

Prices & Spending

| Index | Up | Same | Down |
|-----------------------------|----|------|------|
| Prices for Commodities | 78 | 14 | 9 |
| Prices for Services | 42 | 53 | 5 |
| Prices for Equipment | 58 | 39 | 4 |
| Dollars Spent by Purchasing | 58 | 22 | 20 |

Inventories

| Index | Up | Same | Down |
|----------------|----|------|------|
| Raw Materials | 16 | 54 | 30 |
| Finished Goods | 23 | 51 | 26 |

Deliveries

| Index | Quicker | Same | Slower |
|------------|---------|------|--------|
| Deliveries | 21 | 68 | 11 |

Change in the Amount Spent

| Change in the amount spent | Up | Same | Down |
|---|----|------|------|
| Domestically | 46 | 27 | 27 |
| For Firms Purchasing Internationally | | | |
| Elsewhere in the Americas | 43 | 51 | 6 |
| Across the Atlantic | 26 | 63 | 11 |
| Across the Pacific | 44 | 50 | 6 |

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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