

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

December 2009

PRESS RELEASE

**Important: Do Not Release Until
12:01 a.m. Thursday December 31st, 2009**

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of December 2009.

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 a regression from last month's gains.

**National
Association of
Purchasing
Management**

Cincinnati

The Purchasing Managers Index – Cincinnati measured 48.4 in December, the second-highest value of this year. Any index value below 50 represents a decrease in purchasing activity and expectations.

The New Orders Index fell from 13 to 4, while the production index fell from 20 to zero. The Employment index rose to *positive* 12; it has been positive in only one other month since July of 2008.

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The National Association of Purchasing Management-Cincinnati Report on Business for the Month of December 2009

The Cincinnati Purchasing Management Index (PMI) was 48.4 in December; a year ago at this time, it was at a record low of 32.4 and in a sustained six-month streak of values below 40. While the current value suggests slight contraction and is below last month's level, it is still evident that a lot of progress has been made in the past twelve months. The national November index value was 53.6; the national December 2009 index is not available as of this writing. A value of PMI above 50 indicates economic expansion.

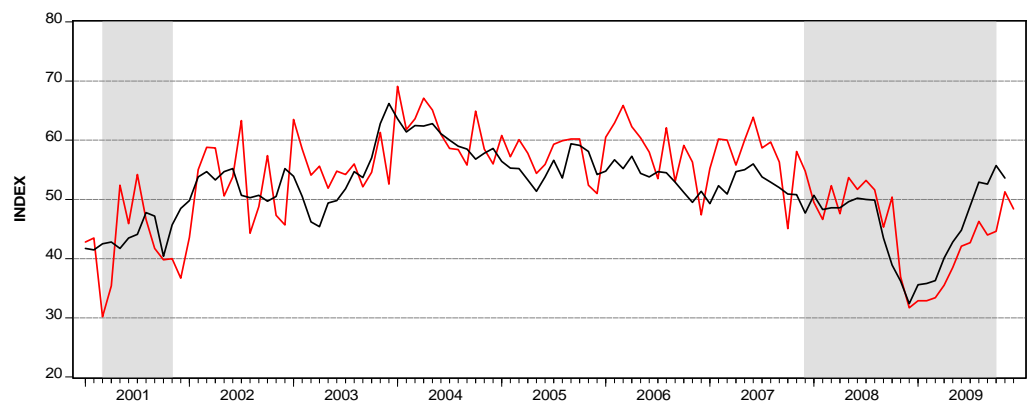


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

In November this report showed a picture of economic recovery; this month, data from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers show a general hiccup in that recovery. Many of the major indicators surrendered at least part of the gains that they showed in the previous month: the Cincinnati PMI fell back below 50, although there is still a clear upward trend throughout 2009. Most respondents reported increasing prices. The most important gains were in reports of Employment: that index was positive for the first time since October 2008. Note that—while other indices are unadjusted, PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce.

Dollars spent in purchasing was positive 8, almost unchanged from the month before. The new orders index fell from 13 to 4. The production index fell back to zero from positive 20. The index for backlog of orders has remained negative for 28 months running; only once during that time has it been higher than it is now (and that was the previous month), suggesting that a reversal is imminent. The index for inventories of finished goods plummeted from zero back to negative 31; it has been positive only once since November of 2009. The equipment price index fell from 14 to 8, moderating a rise-and-fall cycle that has been running since July. The commodity price index is now positive 30, equalling its three-year moving average; rising prices are now a concern.

The reported raw material inventories index rose to -24; it has been below zero for the last fifteen months beginning with last September's value of -46. With respect to geographic buying patterns, we saw mixed results: domestic buying fell from 10 to 4; buying elsewhere in the Americas fell from -5 to -40; the index for buying from across the Atlantic also worsened to well below zero, as did the index for buying from across the Pacific (both were at -36). Unlike previous world recoveries, which were led by the American Consumer, the weaker dollar and domestic deleveraging are leading many to believe that this recovery may be led by Asia. The domestic purchasing index rose to positive 10; this is the first time it has been positive in more than a year.

Production, Employment, New Orders, and Backlog of Orders

Respondents reported significant economic pullback in December; the **Production Index** decreased from November's value of *positive* 20 down to *zero*. This is still the third highest value of 2009. The **Employment Index** improved to *positive* twelve; thirty-five percent of respondents are now reporting increasing employment (only three percent reported that in December 2008). The **New Orders Index** was smaller, but still positive; the last two month stretch when these three were non-negative was June-July of 2008. While the **Backlog of Orders Index** improved to -7 it has now been negative for well over two years. The **Composite Price Index – Cincinnati** measured 17.7 in December; last June it was 70.3, but it was negative for the first five months of 2009. Any index value above zero represents an increase in average prices, and some respondents are now reporting significant worries about further price increases.

Table 1. The Cincinnati Economy at a Glance

Index	Series Dec.	Index Nov.	Direction	Rate of Change	Trend*
Cincinnati PMI	48.4	51.3	↓	Faster	1
New Orders	4	13	↑	Slower	2
Backlog of Orders	-8	-7	↓	Faster	28
Production	0	20	↔	Faster	1
Employment	12	0	↑	Faster	1
Vendor Deliveries	4	3	↑	Faster	27
Raw Material Inventories	-24	-35	↓	Slower	16
Finished Goods Inventories	-31	0	↓	Faster	1
Composite Price Index	17.7	8.3	↑	Faster	7

*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 parentheses, 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

(-1, 0, 13, 4)

The New Orders index in December fell back to a value of 4; excepting last month, this is the highest value since October of 2008, and it is sixty-four points above the low value in December of last year. Thirty-one percent of replies indicated new orders were “up”, forty-two percent indicated “the same” and twenty-seven percent reporting “down”. During the first three months of 2009, the new orders index averaged *negative* 47; November marked its first positive month since that spectacular trough.

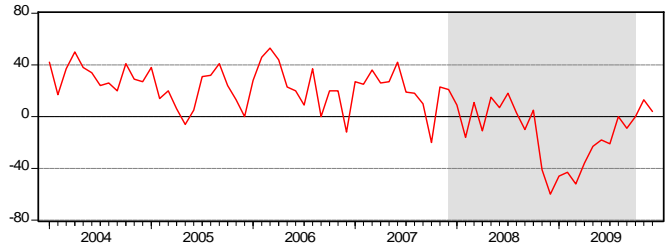


Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3

(-18, -14, -7, -8)

The backlog of orders index ended its streak of incremental monthly improvements dating back to June 2009; this month it receded very slightly, although—last month excepted—it is still higher than any value since May 2008. This month's result came from 19 percent of respondents reporting “up” (20 percent in November), 54 percent reporting “the same” (53 in November), and 27 percent reporting “down” (27 in November).

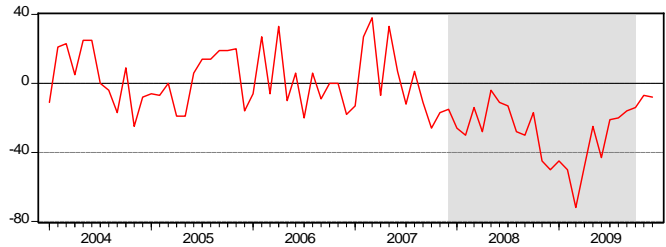


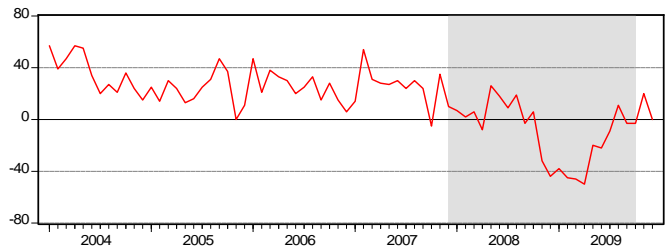
Figure 3. Backlog of Orders

PRODUCTION - Fig. 4

(3, -3, 20, 0)

After rising from *negative* 3 to *positive* 20 in November, the production index for December fell back significantly. Twenty-four percent of respondents reported production as “up” (30 in November), fifty-two percent reported “the same” (60 in November), and twenty-four percent reported “down” (10 in November). The maximum index value in this 36 month period was 54, reached in February, 2007. Out of the last twelve months, the production index has been zero or higher for three of them.

Figure 4. Production



EMPLOYMENT - Fig. 5
(-4, -18, 0, 12)

December's employment index was twelve, an improvement from November's value and the second positive value since July 2008. While 35 percent of respondents reported increased employment (27 percent in November), 42 percent of the respondents reported employment remained the same (47 percent in November), and 23 percent reported decreased employment (27 percent in November). Before this month, the index has been zero or negative for thirteen consecutive months. Most reported economic outlooks suggest it will take five years or more for the labor market to return to full strength.

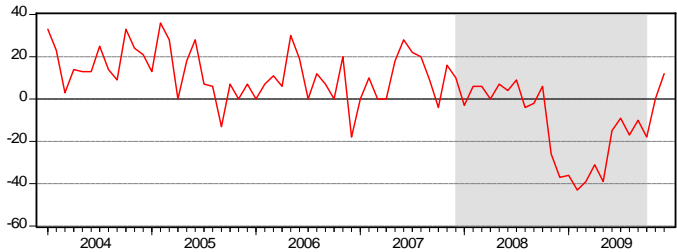


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(7, 7, 3, 4)

The vendor delivery performance index is 4 this month, rising slightly after two consecutive small declines. Eight percent of respondents reported faster deliveries (17 in November), eighty-nine percent of survey respondents this month reported delivery times as the "same" (69 percent in November), and four percent reported slower delivery times (14 in November). The index value for December 2008 was twenty-nine; it's been lower than this for every month following.

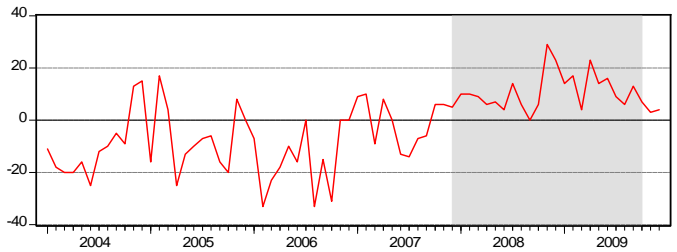


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(9, -4, 7, 8)

The monthly index measuring changing dollar amounts spent by regional purchasers increased slightly in December, rising eleven points to eight. Thirty-nine percent of respondents indicated increased spending (37 percent in November), thirty-one percent reported no change (33 percent in November), and thirty-one percent indicated decreased spending (30 percent in November). This is the fifth consecutive month that this indicator has improved. Note that discrepancies in rounding may cause the totals to not add to 100.

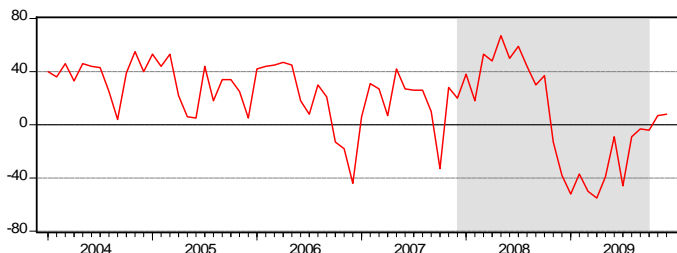


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(30, 7, 7, 30)

The commodity price index increased substantially from seven to thirty in December. Note that this scale measures a rate of change, i.e. continued rising prices. This scale has now been positive for six out of the last seven months. Some consider rising prices a sign of recovery, while others worry that they may choke it off by motivating a premature increase in interest rates. Forty-two percent of respondents reported higher prices (21 percent in November), forty-six percent reported the "same" (66 percent in November), and twelve percent reported lower prices (14 in November).

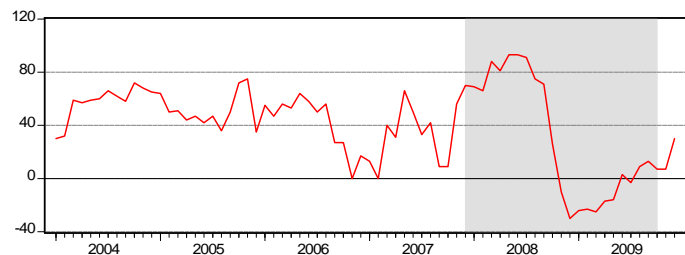


Figure 8. Commodity Prices

The most noticeable price changes reported by survey participants are summarized below in the "General Comments by Purchasers" section of the Cincinnati monthly Report on Business.

SERVICE PRICES

(21, 0, 4, 15)

The service price index rose in December, with an index value of *positive* 15. This was caused by 7 percent of respondents reporting increases, 90 percent reporting no change in prices and 3 percent reporting price decreases. During 2009, it varied between 15 and -14.

EQUIPMENT PRICES

(22, 0, 14, 8)

The equipment price index had alternated between zero and *positive* 14 for four months; in December, it measured 8. Twenty percent of respondents reported increases, sixty-eight percent reported no change, and twelve percent of respondents reported decreases. All measures of prices increased in the month of December.

RAW MATERIAL INVENTORIES

(-16, -25, -35, -24)

The raw material inventories index reversed its fall of the previous month: it was -25 in October, -35 in November, and it is -24 now. Sixteen percent of the reports indicated increased inventories, forty-four percent reported "no change", and forty percent of

respondents indicated decreases. This index has stayed in a very narrow range of -25 to -35 since March of 2009.

FINISHED GOODS INVENTORIES

(-3, -25, 0, -31)

During 2009, the finished goods inventories index has been *zero* or below- for all but one month: this month, it returned to a deeply negative value of -31. This was caused by 8 percent of respondents indicating increased inventories, 54 percent reporting the same, and 39 percent reporting finished goods inventories as "down".

BUYING PATTERNS

DOMESTICALLY

(6, -7, 10, 4)

The following percentages consider only those firms that buy internationally; compared to previous months, they show definite improvement from the depths of a serious global downturn that was evident in previous months.

ELSEWHERE IN THE AMERICAS

(-9, -6, -5, -40)

ACROSS THE ATLANTIC

(-19, -27, -36)

ACROSS THE PACIFIC

(7, -5, -12, -36)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Steel, stainless steel, aluminum, *copper, soy, *soy oil, resins, toner, general office supplies, *gas components, *electric motors, *freight, *consulting services

Down are: Steel, natural gas, *fabricated parts

In short supply: Pandemic supplies, *chicken wings

*indicates a change from the previous report; some goods may appear in multiple lists because of aggregation of multiple reports

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

Index	Up	Same	Down
Production	24	52	24
New Orders	31	42	27
Backlog Of Orders	19	54	27
Employment	35	42	23

Index	Up	Same	Down
Prices for Commodities	42	46	12
Prices for Services	19	77	4
Prices for Equipment	20	68	12
Dollars Spent by Purchasing	39	31	31

Index	Up	Same	Down
Raw Materials	16	44	40
Finished Goods	8	54	39

Index	Quicker	Same	Slower
Deliveries	8	89	4

Change in the amount spent	Up	Same	Down
Domestically	31	42	27
For Firms Purchasing Internationally			
Elsewhere in the Americas	0	60	40
Across the Atlantic	7	50	43
Across the Pacific	7	50	43

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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