

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 October 2009

The Cincinnati Purchasing Management Index (PMI) was 44.6 in October; this is a slight improvement over September and the second-highest value reported during 2009. Before the catastrophic collapse in November of last year, the index had remained at 44.3 or higher since August of 2002. For reference, the national PMI for September 2009 was 52.6. The national October 2009 index is not available as of this writing. Beginning in November of last year, the national PMI has generally been the higher of the two as the local economy tries to work through excess capacity in several contracting sectors. A value of PMI below 50 indicates economic contraction; above 50 indicates expansion.

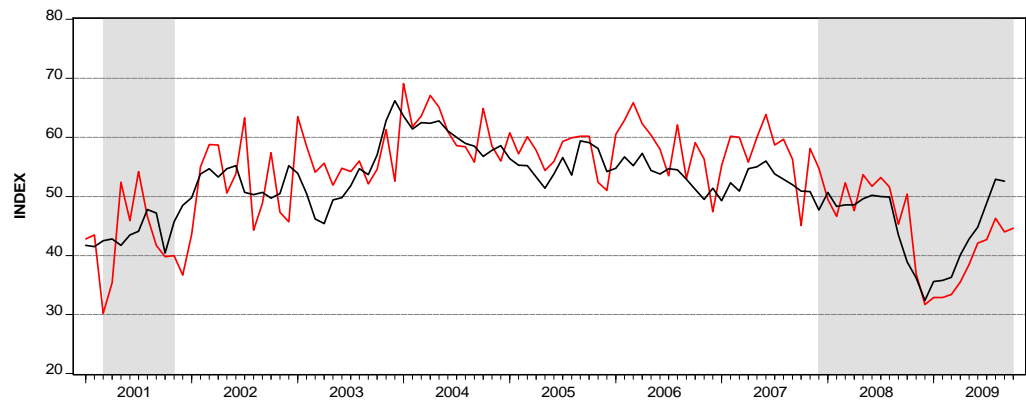


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of October from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers indicate that realization of a recovery is still struggling. With only one exception (New Orders), all major indicators stayed the same or got worse at the regional level. The Cincinnati PMI saw a series of slow, steady improvements before falling to 44.0 last month; this month it barely increased to 44.6; there is continued struggle in many other purchasing activities as described below. The PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce.

Dollars spent in purchasing barely budged; the peak value of 67 for that index—reached in May of 2008—looks very far away now.

The new orders index climbed to zero from -9. The production index held steady at -3; as recently as April of this year, it was at -50. The index for backlog of orders has remained negative for 26 months running. After a brief rise above zero in June, the index for inventories of finished goods has declined for four consecutive months; it now stands at negative 23. The equipment price index has risen from zero to positive 14 and now fallen back to zero. The commodity price index is now positive 7; it has been below zero eight months out of the last twelve, but the trend lately has been upwards.

The reported raw material inventories index changed hardly at all, while finished goods inventories fell slightly to -25; the former index has been below- or at zero for all but one month since October 2007. With respect to geographic buying:

we saw mixed results: buying in the Americas fell from an index value of positive 5 to -6; the index for buying from across the Atlantic got worse as did the index for buying from across the Pacific, which fell to -12 from -5. Many are optimistic that improvement in world markets—particularly those that are across the Pacific—is an essential part of any recovery; these new results suggest that the worldwide recovery is having some problems. The domestic purchasing index improved from -29 to -7; since January's catastrophic low of -50, this represents a vast improvement. The Composite Price Index – Cincinnati fell to 2.3 in October; last June it was 70.3. Any index value above zero represents an increase in average prices, and some respondents are now reporting significant worries about further price increases. This value represents a backpedaling from the end of the summer, but it requires careful monitoring.

Production, Employment, New Orders, and Backlog of Orders

The **Production Index** stayed level from September to October; its value of *negative 3* represents a slight decrease in productive activities in the region. In September 2007, the production index was -3, and it had been below zero only two times in the previous five years; it has now been above zero only once out of the previous twelve months. The **Employment Index** gave back September's gains, falling to -18; fourteen percent of respondents reported increasing employment (only three percent reported that in December 2008). The **New Orders Index** for October reversed September's fall by rising to *zero* from -9. In July of last year, this index was *positive 18*, a number not approached since. The **Backlog of Orders Index** improved to -14. This index value has now been negative for over two years.

Table 1. The Cincinnati Economy at a Glance

Index	Series Oct.	Index Sept.	Direction	Rate of Change	Trend*
Cincinnati PMI	44.6	44.0	↓	Faster	12
New Orders	0	-9	↔	Slower	1
Backlog of Orders	-14	-16	↓	Slower	26
Production	-3	-3	↓		2
Employment	-18	-10	↓	Faster	12
Vendor Deliveries	7	13	↑	Slower	25
Raw Material Inventories	-25	-26	↓	Slower	14
Finished Goods Inventories	-25	-23	↓	Faster	4
Composite Price Index	2.3	12.3	↑	Slower	5

*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

(-2, 0, -9, 0)

The New Orders index in October rose to *zero* from a value of -9 last month; in October of 2008, the new orders index equaled *positive 5*. It has not been positive since then, and the worst value of the past year was December's low of -60. Thirty-six percent of replies indicated new orders were "up" (23 in September), twenty-nine percent indicated "the same" (45 in September) and thirty-six percent reporting "down" (32 in September). We have emphasized in this publication the importance of new orders as a leading indicator of an economic recovery. Our hope is that this second attainment of the zero-mark will be more robust than the previous one.

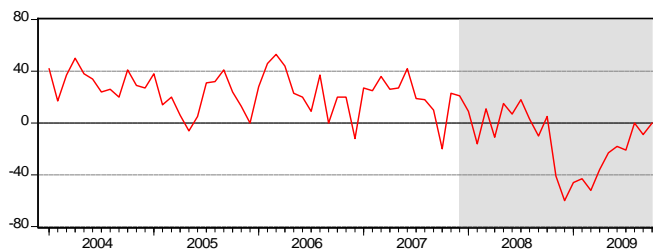


Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3

(-18, -20, -16, -14)

The backlog of orders index improved slightly from the previous month; it is now at its highest value since July 2008 and far above March's catastrophic value of -72. Despite this gain, we must note that the negative index value still means that the backlog of orders is shrinking for most producers; only when this backlog starts to increase again should we expect to see employment pick up. This month's result came from 29 percent of respondents reporting "up" (13 percent in September), 29 percent reporting "the same" (58 in September), and 43 percent reporting "down" (29 in September). A year ago the index was -17.

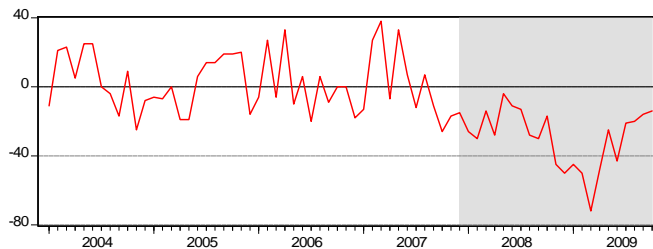


Figure 3. Backlog of Orders

PRODUCTION - Fig. 4

(3, 11, -3, -3)

The production index stayed level at *negative 3*, the same value as in September. Twenty-nine percent of respondents reported production as "up" (26 in September), thirty-nine percent reported "the same" (45 in September), and thirty-two percent reported "down" (29 in September). The maximum index value in this 36 month period was 54, reached in February, 2007. This reading is exactly the same as that of September 2008, the month in which the economic crisis officially began; the index has been negative—representing contracting production—for eleven out of the last twelve months.

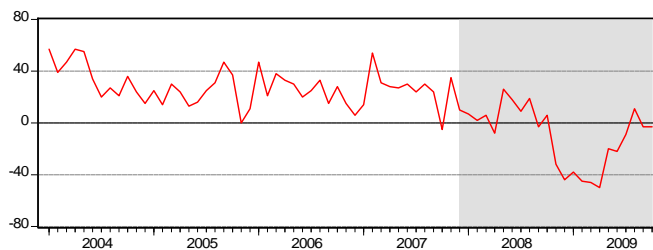


Figure 4. Production

EMPLOYMENT - Fig. 5
(-4, -17, -10, -18)

October's employment index was -18, representing another step backwards from September's value. While 14 percent of respondents reported increased employment (19 percent in September), 54 percent of the respondents reported employment remained the same (52 percent in September), and 32 percent reported decreased employment (29 percent in September). The index has been negative for twelve consecutive months. As the labor market continues to sputter, worries persist about the much longer time it is taking laid-off workers to find new jobs.

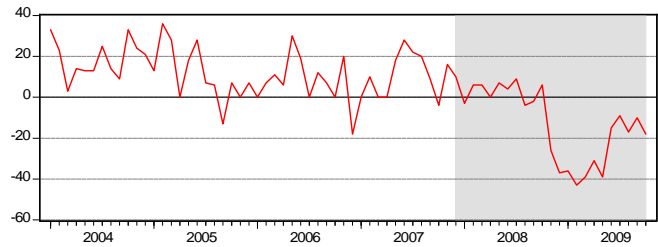


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(7, 6, 13, 7)

The vendor delivery performance index is 7 this month, giving back some of the ground that had been gained in September. Twenty-three percent of respondents reported faster deliveries (23 in September), sixty-eight percent of survey respondents this month reported delivery times as the "same" (68 percent in September), and ten percent reported slower delivery times (10 in September). The index value for September 2008 was zero; it's been higher than that for every month following.

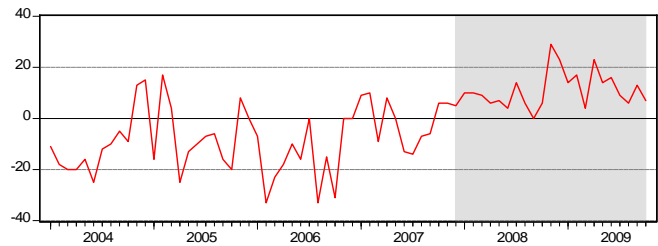


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(7, -9, -3, -4)

The monthly index measuring changing dollar amounts spent by regional purchasers decreased disastrously in July, falling thirty-five points to -46; in September, it regained those same 35 points, finishing at -9; it has now remained in that same neighborhood for two additional months. Thirty-three percent of respondents indicated increased spending (29 percent in September), thirty percent reported no change (39 percent in September), and thirty-seven percent indicated decreased spending (32 percent in September). Like many other indicators in this report, it has now been negative for the past year.

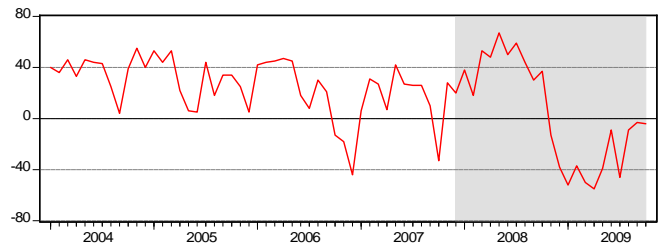


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(30, 9, 13, 7)

The commodity price index fell back slightly in October. In June 2008, the index measured 93, before dropping sharply for six months in a row. Since then, it had languished in the negative, before rising above zero in June 2009; this publication has been more leary of deflation than inflation, but the reality that this measure is now positive cannot be ignored any longer: look for further increases to come! Twenty-one percent of respondents reported higher prices (29 percent in September), sixty-four percent reported the "same" (55 percent in September), and fourteen percent reported lower prices (16 in September).

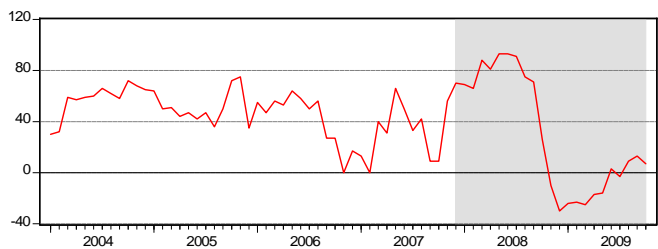


Figure 8. Commodity Prices

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, 3, 10, 0)

The service price index fell in October, with an index value of zero. This was caused by 14 percent of respondents reporting increases, 71 percent reporting no change in prices and 14 percent reporting price decreases. A year ago it was 37, and it has not been close since.

EQUIPMENT PRICES

(22, 0, 14, 0)

The equipment price index fell in October, returning to August's value of zero from positive 14; it was 34 in October 2008. Fifteen percent of respondents reported increases, sixty-nine percent reported no change, and fifteen percent of respondents reported decreases.

RAW MATERIAL INVENTORIES

(-14, -34, -26, -25)

The index measuring changes in raw material inventories has barely budged the last few months: it was -26 in September, and it is -25 now. Nineteen percent of the reports indicated increased inventories, thirty-seven percent reported "no change", and forty-four percent of respondents indicated decreases.

The index has been negative for the last fourteen months.

FINISHED GOODS INVENTORIES

(-3, -18, -23, -25)

During 2009, the finished goods inventories index has been negative for all but two months: it fell to -25 in October. This was caused by 11 percent of respondents indicating increased inventories, 54 percent reporting the same, and 36 percent reporting finished goods inventories as "down".

BUYING PATTERNS

DOMESTICALLY

(5, -22, -29, -7)

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, -38, 5, -6)

ACROSS THE ATLANTIC

(-19, -38, -23, -27)

ACROSS THE PACIFIC

(9, 5, -5, -12)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Steel, Stainless steel, *Dairy, *Chicken wings, *Cheese, Polypropylene, HDPE, Toner, *Plastics, *Pens, *Resins

Down are: *Nickel, *Copper scrap, *Beef, *Chicken trim, Wheat, Soy, *Gasoline, *Steel

In short supply: *Pandemic supplies-masks, gloves, goggles, hand sanitizer, *Plastics, *Chicken wings, *Specialized metal, *Steel

*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	29	39	32
New Orders	36	29	36
Backlog of Orders	29	29	43
Employment	14	54	32

Index	Up	Same	Down
Prices for Commodities	21	64	14
Prices for Services	14	71	14
Prices for Equipment	15	69	15
Dollars Spent by Purchasing	33	30	37

Index	Up	Same	Down
Raw Materials	19	37	44
Finished Goods	11	54	36

Index	Quicker	Same	Slower
Deliveries	14	79	7

Change in the amount spent	Up	Same	Down
Domestically	29	36	36
For Firms Purchasing Internationally			
Elsewhere in the Americas	19	56	25
Across the Atlantic	0	73	27
Across the Pacific	19	50	31

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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