CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

August 2009

PRESS RELEASE

Important:
Do Not Release Until
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SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of August 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 August gives many indications that we have reached a bottoming out: the recession may not last much longer.

The Purchasing Managers Index – Cincinnati measured 46.3 in August, continuing a run of eight consecutive increases from December's figure of 31.7. Any index value below 50 represents a decrease in purchasing activity.

The **New Orders Index** is at *zero*, a far, far better value than anything in the previous nine months. Many other indicators rose slightly; one of these was the **Production index,** which rose from -9 to *positive* 11; the last time it was higher was August of 2008.

National Association of Purchasing Management Cincinnati

UNIVERSITY OF Cincinnati

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Cincinnati

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

The Cincinnati Purchasing Management Index (PMI) was 46.3 in August, higher than July's value and the latest out of eight consecutive improving months. Before the catastrophic collapse in November of last year, the index had remained above 44 for seven years. For reference, the national PMI for July 2009 was 48.9. The national August 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. A value of PMI below 50 indicates economic contraction.

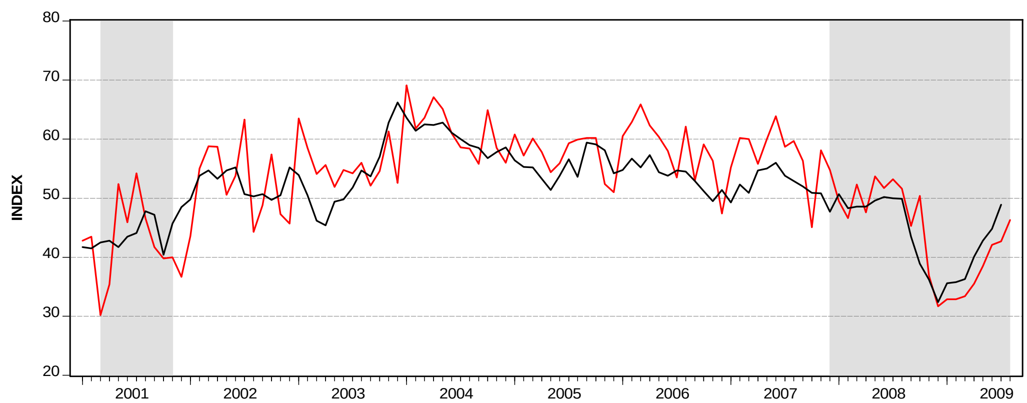

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of August from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers indicate that the bottom of the recession may be near for the Cincinnati MSA economy; most surveyed indices actually increased from July to August, and several key ones actually crossed above the zero-line to indicate expansion. The **Cincinnati PMI** continues its slow, steady improvement, rising to 46.3, a value exceeded in only one other month out of the past year, which was October's value of 50.4; despite these increases, there is still a struggle in many purchasing activities. Note that PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce.

Dollars spent in purchasing rose to -9 from -46, an eerie mirror image of its collapse in July; the peak value of 67 for that index was reached in May of 2008.

The **new orders** index rose from -21 to *zero*. The **production index** rose to *positive* 11 from -9; as recently as April of this year, it was at -50. The last time those two indices both rose 20 points in the same month was May 2008. While the index for **backlog of orders** rose, it has remained negative for 24 months running. After a brief rise above zero in June, the index for **inventories of finished** goods fell back to *negative* 18. The **equipment price** index regressed also, falling to *zero*. The **commodity price** index is now *positive* 9; it has been below zero nine months out of the last twelve.

The reported **raw material inventories** index stayed almost unchanged at -34, while **finished goods inventories** fell to -18; the former index has been below zero for the last twelve months, and it is still struggling to remain higher than last September's value of -46. With respect to geographic buying patterns, we saw some change after June's gains were given back by July: buying in the Americas fell from -30 to an index value of -38; the index for buying from across the **Atlantic** did the same, while the index for buying from across the **Pacific** rose from -5 points to *positive* 5. Many are optimistic that improvement in world markets is an essential part of any recovery; this publication previously reported that these world markets are having trouble re-starting after a catastrophic winter, but these new results suggest that a thaw may be at hand. The **domestic purchasing** index improved, too, increasing from –37 to -22, above January's low of –50. The **Composite Price Index – Cincinnati** stood at 4.0 in August; last summer it was 67.7. Any index value above zero represents an increase in average prices, and some respondents are now reporting significant worries about further price increases.

Production, Employment, New Orders, and Backlog of Orders

Respondents report that the rate of production improved moderately in August; the **Production Index** increased from July's value of -9 up to *positive* 11. In August of last year, the production index was 19, and it had been below zero only two times in the previous five years; it has now risen back above zero after nine consecutive months of contraction. Unfortunately, the **Employment Index** regressed to -17 with fifteen percent of respondents now reporting increasing employment (on the positive side, it was only three percent in December 2008). The **New Orders Index** for August rose significantly from -21 to *zero.* In July of last year, this index was *positive* 18, a number not approached since. The **Backlog of Orders Index** stayed almost exactly level at -20. This index value has now been negative for two years.

Table 1. The Cincinnati Economy at a Glance

Index	Series Index August	Series Index July	Direction	Rate of Change	Trend*
Cincinnati PMI	46.3	42.7	↓	Faster	10
New Orders	0	-21	↔	Slower	1
Backlog of Orders	-20	-21	↓	Slower	24
Production	11	-9	↑	Faster	1
Employment	-17	-9	↓	Faster	10
Vendor Deliveries	6	9	↑	Slower	23
Raw Material Inventories	-34	-35	↓	Slower	12
Finished Goods Inventories	-18	-15	↓	Faster	2
Composite Price Index	4.0	1.3	↑	Faster	3

*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
(-1, -18, -21, 0)

The New Orders index in August rose to a value of zero; this is up 60 points from the December low. Thirty-four percent of replies indicated new orders were "up", 31 percent indicated "the same" and 34 percent reporting "down". In August of 2008, the new orders index equaled *positive* 3; it has only been positive in one other month since then. New orders are a critical leading indicator of an economic recovery, as their increase will demand that firms take action to increase hiring and increase production.

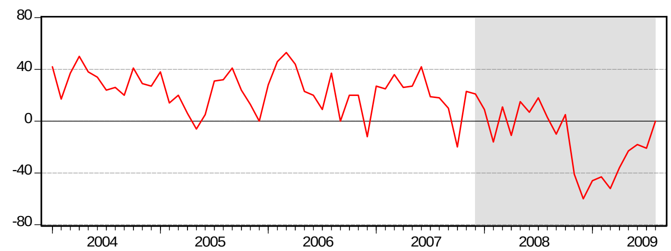

Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3
(-18, -43, -21, -20)

The backlog of orders index remained almost unchanged from the previous month; it is far above March's catastrophic value of -72, and significantly higher than the average for the last twelve months of -40. Nevertheless, its persistence far below zero is a troubling sign about the robustness of any recovery. This month's result came from 11 percent of respondents reporting "up" (15 percent in July), 57 percent reporting "the same" (49 in July), and 31 percent reporting "down" (36 in July). A year ago the index was -13, and it has not been higher since then.

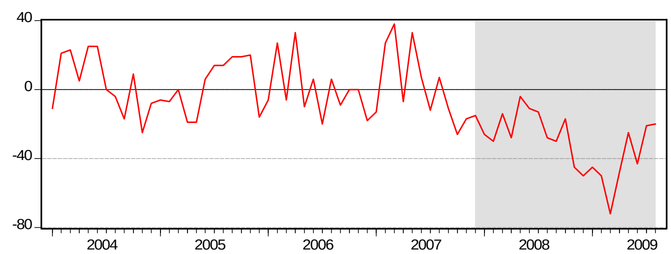

Figure 3. Backlog of Orders

PRODUCTION - Fig. 4
(4, -22, -9, 11)

The production index rose from July's value of -9 to August's value of 11. Thirty-four percent of respondents reported production as "up" (19 in July), forty-three percent reported "the same" (53 in July), and twenty-three percent reported "down" (28 in July). The maximum index value in this 36 month period was 54, reached in February, 2007. This reading is the highest value since August 2008, when the index was 19; the index had been negative for nine consecutive months.

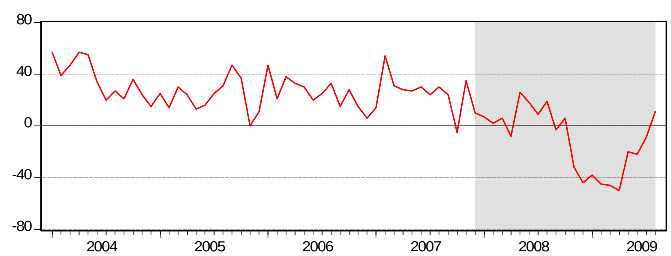

Figure 4. Production

EMPLOYMENT - Fig. 5
(-3, -15, -9, -17)

August's employment index was –17; this is worse than July's, but still an improvement from May's value of -39. While 15 percent of respondents reported increased employment (15 percent in July), 53 percent of the respondents reported employment remained the same (61 percent in July), and 32 percent reported decreased employment (24 percent in July). Since August 2008 the index has only been above zero for one month. Since World War II, recoveries typically see all other economic indicators rise before employment does.

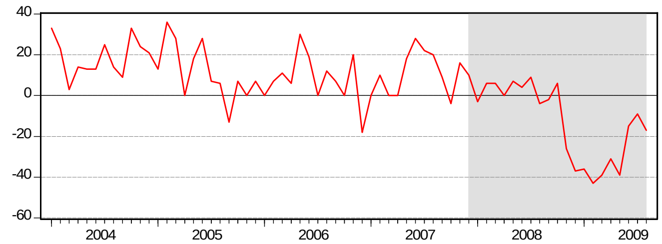

Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(5, 16, 9, 6)
The vendor delivery performance index is 6 this month, the lowest value since March of this year. Nine percent of respondents reported faster deliveries (21 in July), eighty-eight percent of survey respondents this month reported delivery times as the "same" (67 percent in July), and three percent reported slower delivery times (12 in July). The index value for August 2008 was 6; it's been higher than this for ten of the thirteen months following.

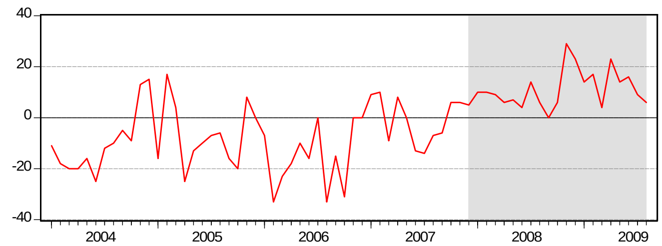

Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(7, -9, -46, -9)

The monthly index measuring changing dollar amounts spent by regional purchasers decreased disastrously in July, falling thirty-five points to -46; in August, it regained those same 35 points, finishing at -9; other than in June, it had been below -30 for every month beginning with December 2008. Thirty-four percent of respondents indicated increased spending (12 percent in July), twenty-three percent reported no change (30 percent in July), and forty-three percent indicated decreased spending (58 percent in July). In spring 2008 the index peaked at 67; it has now been negative for the past ten months. Look for this to improve as new orders increase and the backlog of orders continues to decline.

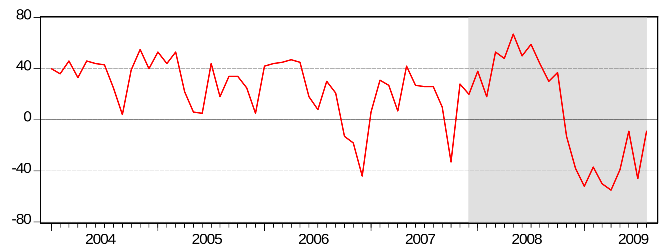

Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(31, 3, -3, 9)
The commodity price index rose in August. 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 for the first time since October 2008 in June 2009; since then, it has flirted with even. Twenty-three percent of respondents reported higher prices (27 percent in July), sixty-three percent reported the "same" (42 percent in July), and fourteen percent reported lower prices (30 in July). 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.

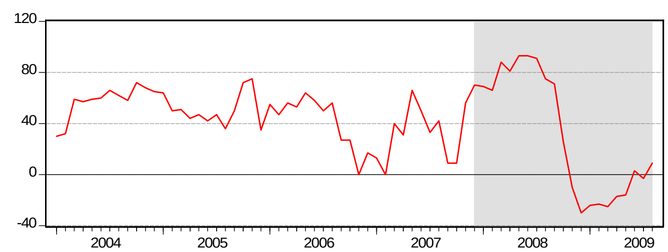

Figure 8. Commodity Prices

SERVICE PRICES
(22, 15, -3, 3)

The service price index rose in August, with an index value of *positive* 3. This was caused by 9 percent of respondents reporting increases, 86 percent reporting no change in prices and 6 percent reporting price decreases. In the past year, it has varied between 68 and -14.

EQUIPMENT PRICES
(22, 6, 10, 0)

The equipment price index regressed in August, from 10 to zero; it was 50 in September 2008. Fifteen percent of respondents reported increases, seventy percent reported no change, and fifteen percent of respondents reported decreases. It is still significantly below the three year average of 22.

RAW MATERIAL INVENTORIES
(-13, -25, -35, -34)

The index measuring changes in raw material inventories stayed almost exactly event: it was -35 in July, and it is -34 now. Fifteen percent of the reports indicated increased inventories, thirty-six percent reported "no change", and forty-nine percent of respondents indicated decreases. In August 2008 the index was *zero*.

FINISHED GOODS INVENTORIES
(-2, 3, -15, -18)

After being negative for five out of seven months, the finished goods inventories index returned there, falling to -15 in July and then to -18 in August. This was caused by 21 percent of respondents indicating increased inventories, 39 percent reporting the same, and 39 percent reporting finished goods inventories as "down".

BUYING PATTERNS

DOMESTICALLY
(6, -12, -37, -22)

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
(-11, -15, -30, -38)

ACROSS THE ATLANTIC
(-17, -25, -30, -38)

ACROSS THE PACIFIC
(11, 20, -5, 5)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: *Precious metals, Plastic polymers, Steel, Resins, Stainless steel, Nickel, Copper, *Chicken trim, *Fuel, Toner cartridges, Paper products, *Chemicals

Down are: *Freight, Furan binder, *Natural gas, Wheat, Soy, Corrugated board, Resins, *Services

In short supply: *Steel, *Pandemic supplies, Masks, Gowns, *Face shields, Chicken trim, *Stainless 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	34	43	23
New Orders	34	31	34
Backlog of Orders	11	57	31
Employment	15	53	32

Index	Up	Same	Down
Prices for Commodities	23	63	14
Prices for Services	9	86	6
Prices for Equipment	15	70	15
Dollars Spent by Purchasing	34	23	43

Index	Up	Same	Down
Raw Materials	15	36	49
Finished Goods	21	39	39

Index	Quicker	Same	Slower
Deliveries	9	88	3

Change in the amount spent	Up	Same	Down
Domestically	27	24	49
For Firms Purchasing Internationally			
Elsewhere in the Americas	0	62	38
Across the Atlantic	5	52	43
Across the Pacific	38	29	33

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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