CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

July 2009

PRESS RELEASE

Important:
Do Not Release Until
12:01 a.m. Friday July 31st, 2009

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

FOR FURTHER INFORMATION CONTACT:

Dr. Benjamin Passty	**NAPM-Cincinnati**
Applied Economics Research Institute	http://www.napm-c.org/
Department of Economics	
University of Cincinnati	
1605 Crosley Tower	PO Box 54777
Cincinnati, OH 45221-0371	Cincinnati, OH 45254
513.556.0791	513.385.4144
Benjamin.Passty@uc.edu	

http://www.artsci.uc.edu/collegedepts/economics/aeri/

The Greater Cincinnati Report on Business for the month of July shows that reported purchasing activity remains stagnant, in line with all other indications that the regional economy persists in recession.

The Purchasing Managers Index – Cincinnati measured 42.7 in July, continuing a run of seven consecutive increases from December's figure of 31.7. Any index value below 50 represents a decrease in purchasing activity.

The **Dollars Spent Purchasing index** is at -46, a far, far worse value than last month's, but not too different from the average of -41 over the last eight months. Many other indicators rose slightly; one of these was the **Employment index,** which rose to -9; the last time it was higher was October of 2008.

National Association of Purchasing Management Cincinnati

UNIVERSITY OF Cincinnati

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For Further Information Contact:

Dr. Benjamin Passty,
Applied Economics
Research Institute,
Department of Economics,
University of Cincinnati,
1605 Crosley Tower,
Cincinnati, Ohio 45221-0371
Telephone: 513.556.0791
Benjamin.Passty@uc.edu
http://www.uc.edu/aeri

(sponsor)
NAPM-Cincinnati
http://www.napm-c.org/

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

The Cincinnati Purchasing Management Index (PMI) was 42.7 in July, higher than June's value and the latest out of seven 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 June 2009 was 44.8. The national July 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.

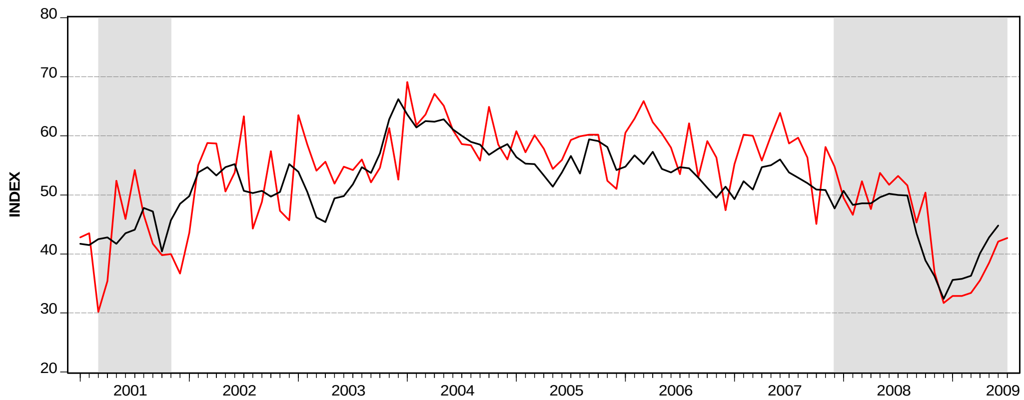

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Data collected during the month of July from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers show that the Cincinnati MSA economy is struggling but improving; most surveyed indices actually regressed from June, suggested disappointment that the recovery has not arrived as quickly as many were expecting last month. The **Cincinnati PMI** continues to increase slowly but steadily, rising to 42.7, its highest value since October 2008: despite these increases, there is still stagnation in many purchasing activities. Note that PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce. Most other indices did improve slightly.

Dollars spent in purchasing fell from -9 to -46; the peak value of 67 for that index was reached in July of 2008, but this number is disastrously low, and calls into question the robustness of any recovery.

The **new orders** index fell to -21 from -18. The **production index** rose to -9 after falling back to -22 last month. While the index for **backlog of orders** rose, it has remained negative for 23 months running. After a brief rise above zero last month, the index for **inventories of finished** goods fell back to *negative* 15. The **equipment price** index rose again slightly, although the **service price** index fell. The **commodity price** index fell to *negative* 3 from *positive* 3; before crossing zero in November, it hadn't been below 50 for a year.

The reported **raw material inventories** index fell from -25 to -35, while finished goods inventories fell to -15 from 3; the former index had been below zero for ten of the last twelve months, but it is now struggling to remain higher than September's value of -46. With respect to geographic buying patterns, we saw considerable regression after last month's gains: buying in the Americas fell to an index value of -30; the index for buying from across the **Atlantic** fell to –30, while the index for buying from across the **Pacific** fell 25 points to -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 are continuations of this struggle. The **domestic purchasing** index fell, too, decreasing to –37, not far above January's low of –50. The **Composite Price Index – Cincinnati** stood at 1.3 in July; 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 July; the **Production Index** increased to -9, up from June's value of -22. In July of last year, the production index was 9, and it had been below zero only two times in the previous five years; it has now been negative for nine consecutive months. In July the **Employment Index** rose to –9 from –15, with fifteen percent of respondents now reporting increasing employment (it was only three percent in December 2008). The **New Orders Index** for July fell from -18 to -21. In July of last year, this index was *positive* 18. The **Backlog of Orders Index** rose considerably from -43 to -21. This index value has now been negative for nearly two years.

Table 1. The Cincinnati Economy at a Glance

Index	Series July	Index June	Direction	Rate of Change	Trend*
Cincinnati PMI	42.7	42.1	↓	Faster	9
New Orders	-21	-18	↓	Faster	9
Backlog of Orders	-21	-43	↓	Slower	23
Production	-9	-22	↓	Slower	9
Employment	-9	-15	↓	Slower	9
Vendor Deliveries	9	16	↑	Slower	22
Raw Material Inventories	-35	-25	↓	Faster	11
Finished Goods Inventories	-15	3	↓	Faster	1
Composite Price Index	1.3	8.0	↑	Slower	2

*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
(0, -23, -18, -21)
The New Orders index in July fell back slightly to a value of –21; despite this regression, it is up 39 points from the December low. This change resulted from 18 percent of replies indicating new orders were "up", 42 percent indicating "the same" and 39 percent reporting "down". In July of 2008, the new orders index equaled *positive* 18. 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.

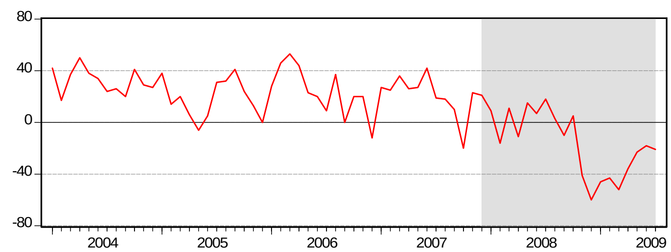

Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3
(-17, -25, -43, -21)
The backlog of orders index rose after a momentary setback in the previous month; it is far above March's catastrophic value of -72. Nevertheless, its persistence far below zero is a troubling sign about the robustness of any recovery. This month's result came from 15 percent of respondents reporting "up" (3 percent in June), 49 percent reporting "the same" (52 in June), and 36 percent reporting "down" (46 in June). A year ago the index was -13, and it has not been higher since then.

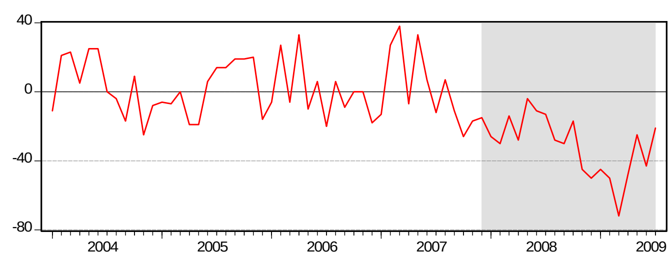

Figure 3. Backlog of Orders

PRODUCTION - Fig. 4
(5, -20, -22, -9)

The production index rose modestly to -9 from June's value of -22. Nineteen percent of respondents reported production as "up" (10 in June), fifty-three percent reported "the same" (58 in June), and twenty-eight percent reported "down" (32 in June). The maximum index value in this 36 month period was 54, reached in February, 2007. This reading is the highest value since October 2008.

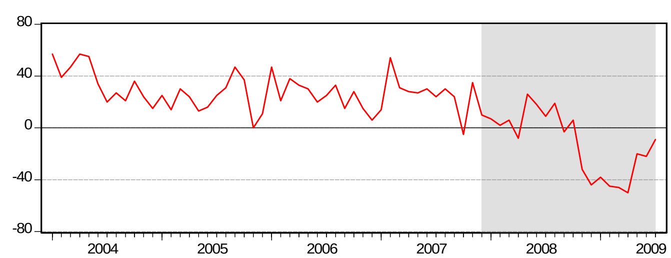

Figure 4. Production

EMPLOYMENT - Fig. 5
(-3, -39, -15, -9)

July's employment index was –9, continuing the marked improvement from the May's value of -39. While 15 percent of respondents reported increased employment (18 percent in June), 61 percent of the respondents reported employment remained the same (49 percent in June), and 24 percent reported decreased employment (33 percent in June). Since July 2008 the index has only been above zero for one month.

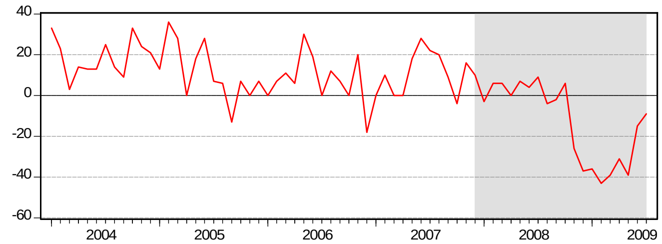

Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(4, 14, 16, 9)
The vendor delivery performance index is 9 this month, the lowest value since March of this year. Twenty-one percent of respondents reported faster deliveries (22 in June), sixty-seven percent of survey respondents this month reported delivery times as the "same" (72 percent in June), and twelve percent reported slower delivery times (6 in June). The index value for July 2008 was 14.

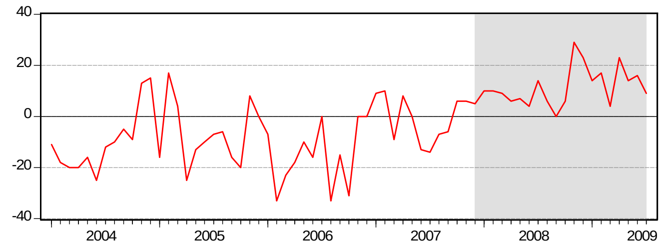

Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(8, -39, -9, -46)

The monthly index measuring changing dollar amounts spent by regional purchasers decreased disastrously in July, falling thirty-five points to -46. Twelve percent of respondents indicated increased spending (30 percent in June), thirty percent reported no change (30 percent in June), and fifty-eight percent indicated decreased spending (30 percent in June). In spring 2008 the index peaked at 67; it has now been negative for the past nine months, and below -30 for all but two of them.

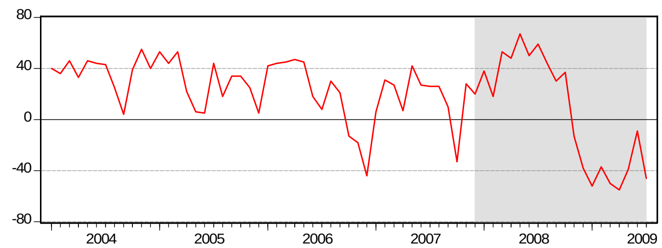

Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(32, -16, 3, -3)
The commodity price index in July decreased slightly. 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; now it has fallen back below zero. Twenty-seven percent of respondents reported higher prices (28 percent in June), forty-two percent reported the "same" (47 percent in June), and thirty percent reported lower prices (25 in June). 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.

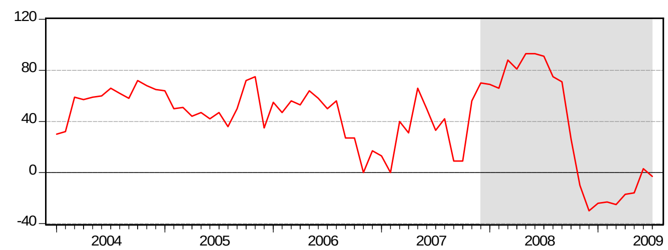

Figure 8. Commodity Prices

SERVICE PRICES
(23, -14, 15, -3)

The service price index fell in July, with an index value of -3. This was caused by 9 percent of respondents reporting increases, 79 percent reporting no change in prices and 12 percent reporting price decreases. In the past year, it has varied between 68 and -14.

EQUIPMENT PRICES
(23, -14, 6, 10)

The equipment price index rose in July, from 6 to 10; it was 54 in June 2008. Nineteen percent of respondents reported increases, seventy-two percent reported no change, and nine percent of respondents reported decreases. It is still somewhat below the three year average of 23.

RAW MATERIAL INVENTORIES
(-13, -32, -25, -35)

The index measuring changes in raw material inventories fell this month from –25 in June to -35. Nine percent of the reports indicated increased inventories, forty-seven percent reported "no change", and forty-four percent of respondents indicated decreases. In July 2008 the index was *positive* 5.

FINISHED GOODS INVENTORIES
(-2, -17, 3, -15)

After being negative for five out of seven months, the finished goods inventories index returned there, falling to -15 in July. This was caused by 15 percent of respondents indicating increased inventories, 55 percent reporting the same, and 30 percent reporting finished goods inventories as "down".

BUYING PATTERNS

DOMESTICALLY
(7, -22, -12, -37)

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
(-10, -30, -15, -30)

ACROSS THE ATLANTIC
(-16, -42, -25, -30)

ACROSS THE PACIFIC
(12, -40, 20, -5)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: *Meat, Toner cartridges, Paper, *Steel, Resin, *Energy, *Insurance, Oil products, Copper, *Stainless Steel, Nickel, *Plastics, *Alginates

Down are: *Dairy products, Stainless steel, Carbon steel, *Soy, *Wheat, *Paper label stocks, *Furan binder, Corrugated board, Aluminum, Plastics, Resins, *Nitric acid

In short supply: Masks, Gloves, Gowns, *Chicken trim meat, *Sporadic HCL

*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	19	53	28
New Orders	18	42	39
Backlog of Orders	15	49	36
Employment	15	61	24

Index	Up	Same	Down
Prices for Commodities	27	42	30
Prices for Services	9	79	12
Prices for Equipment	19	72	9
Dollars Spent by Purchasing	12	30	58

Index	Up	Same	Down
Raw Materials	9	47	44
Finished Goods	15	55	30

Index	Quicker	Same	Slower
Deliveries	21	67	12

Change in the amount spent	Up	Same	Down
Domestically	12	39	49
For Firms Purchasing Internationally			
Elsewhere in the Americas	5	60	35
Across the Atlantic	0	70	30
Across the Pacific	16	63	21

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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