

CINCINNATI REPORT ON BUSINESS

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ECONOMIC FORECAST for the Greater Cincinnati Area in the second half of 2009 and the first half of 2010

During June 2009 members of the National Association of Purchasing Management – Cincinnati were surveyed to gather primary statistical data on their outlook and forecast of business conditions for the Greater Cincinnati MSA regional economy during the second two quarters of 2009 and the first two quarters of 2010. Participants were asked to predict changes in the volume of new orders, employment levels, expected movements in commodity prices, total dollars spent by purchasing, and raw material inventories. Participants were also asked to indicate whether they believe the regional economy would expand, stabilize at present levels, or contract over the next 12 months.

OVERVIEW

The ferocity of our current recession is something that respondents underestimated in our previous forecast; given the tumult that began in September of 2008, this was unavoidable. In our last forecast, expectations were for short-term decline, followed by an immediate bounce-back

At first glance, this report continues to follow this pattern, but there is good reason to believe that this time the optimism is well-founded. First, of all, the near-term expectations are actually far rosier than before. The New Orders index (numbers do not quite add to one hundred because of rounding) reveals that even now as many of our respondents expect expansion as expect contraction in the short-term.

Secondly, the outlook for 2010 is quite positive, with New Orders, Employment, and Dollars spent purchasing all expected to be increasing at rates that are far more robust than the equivalent expectations for a year out were in the December 2008 forecast. There is indeed strong evidence that the bottom may finally be here.

Table 1: Outlook for the 3rd and 4th Quarters of 2009

	2nd Half of 2009	Up	Same	Down	Net %
New Orders	23	55	23	0	
Employment	13	56	31	-18	
Prices	28	53	19	9	
Dollars Spent by Purchasing	24	38	38	-14	
Inventories	13	45	42	-29	

Table 2: Outlook for the 1st and 2nd Quarters of 2010

	1st Half of 2010	Up	Same	Down	Net %
New Orders	58	32	10	48	
Employment	36	61	3	32	
Prices	42	55	3	39	
Dollars Spent by Purchasing	52	38	10	41	
Inventories	13	53	33	-20	

DETAILS

New Orders are projected to remain level over the remaining 6 months of 2009; the twenty-three percent of survey participants who expect an increase is down from our previous forecast of the same period, in which forty percent anticipated increased orders in the last half of 2009. The first half of 2010 looks much more exciting, with an anticipated index of *positive* forty-eight.

Employment numbers—compared to the outlooks reported in this publication—have certainly been a disappointment so far. Nevertheless, there is hope: the percentage of respondents who anticipate continuing decline has shrunk from forty-seven to thirty-one. In addition, there are expectations that employment will recover substantially in the first half of 2010. The April unemployment rate (most recently available) for the Cincinnati MSA is 9.1%.

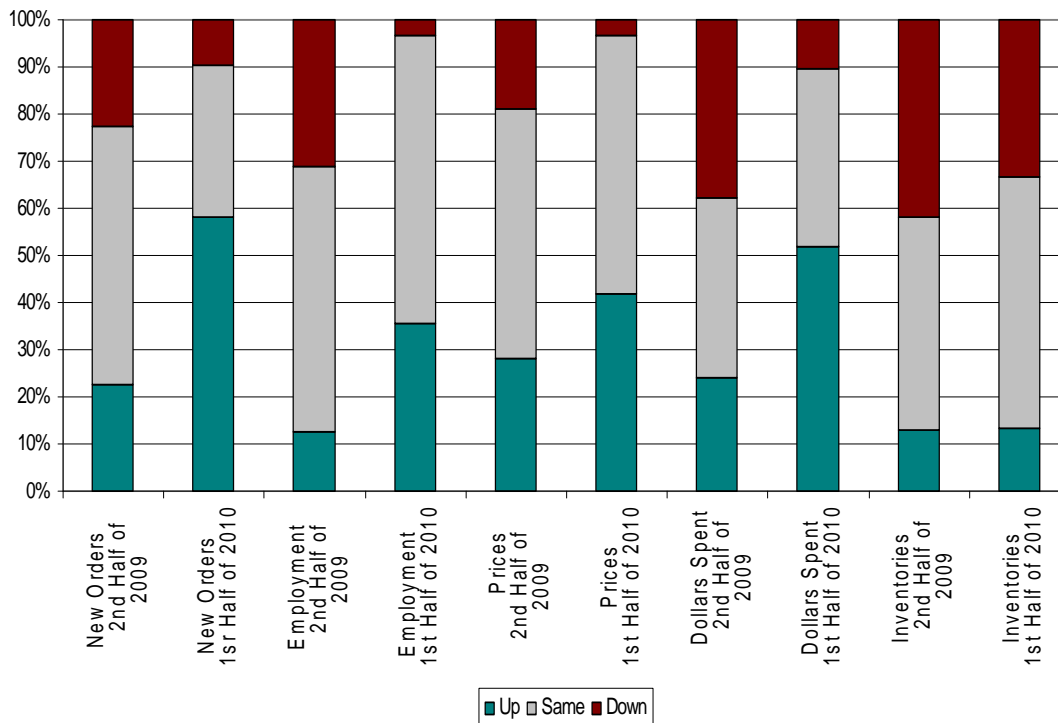
Raw Material Inventories are expected to decline consistently over the next year; this suggests a favorable long-term outlook for the economy as purchasing activity (see next) changes to meet a new level of consumer expenditures. The rise in employment should trail this decrease in inventories as the economy rebounds.

Dollars spent by Purchasing are expected to decrease somewhat during the remainder of 2009. In the first part of 2010, however, forty-two percent of respondents expect these to increase, which is a dramatic change from our previous forecast; this change represents a wager on the return of the consumer. US consumers have struggled to increase their savings rates into the 3% range as they deal with the uncertainty of the labor market. Once that savings rate finally stabilizes, businesses can get a better read on the rate at which they can move inventory. The net index value of *positive* forty-one for the first half of 2010 represents powerful optimism that this will happen soon.

Commodity Prices Our previous forecast indicated that more than half of respondents expected prices to decrease; the decreasing price index numbers reported in our Cincinnati Report on Business have confirmed this expectation so far. Nevertheless, there has been considerable discussion about the large fiscal stimulus enacted by the Federal government and its eventual impact on prices. By the middle of 2010, there should be substantial evidence of an increase in input prices, as the market seeks to draw more currently idle resources back into productive efforts.

“...there are expectations that employment will recover substantially in the first half of 2010...”

Figure 1. Forecast for the First and Second Halves of 2009



**Table 3. Statistical Summary
Forecast for the First and Second Halves of 2009
(Percent Responses)**

	Up	Same	Down	Net Percent
1st Half of 2009				
New Orders	23	55	23	0
Employment	13	56	31	-19
Commodity Prices	28	53	19	9
Dollars Spent by Purchasing	24	38	38	-14
Inventories	13	45	42	-29
2nd Half of 2009				
New Orders	58	32	10	48
Employment	36	61	3	32
Prices	42	55	3	39
Dollars Spent by Purchasing	52	38	10	41
Inventories	13	53	33	-20
Change in Outlook over the next 12 months				
New Orders	36	-23	-13	48
Employment	23	5	-28	51
Prices	14	2	-16	29
Dollars Spent by Purchasing	28	0	-28	55
Raw Materials Inventories	0	8	-9	9
Overall the economy in the next 12 months will be				
	55	29	16	39

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 15th of June and December of each year 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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