

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

October 2010

PRESS RELEASE

**Important: Do Not Release Until
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SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of September 2010.

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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**National
Association of
Purchasing
Management**

Cincinnati

The Purchasing Managers Index – Cincinnati measured 57.7 in October. Its continuance above fifty is a welcome indication of sustained expansion in the Cincinnati MSA.

The Production Index rose solidly from 27 to 37. The Employment Index fell to -7, its first negative value since 2009; we do not believe this to be cause for alarm.

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The National Association of Purchasing Management-Cincinnati Report on Business for the Month of October 2010

The Cincinnati Purchasing Management Index (PMI) was 57.7 in October. A year ago, the national PMI was at 44.6, ending a full year in which the index was below 50. This month's increase from 55.5 in September is an encouraging sign of continued recovery. The national September index value was 54.4; the national October index is not available as of this writing. A value of PMI above 50 indicates economic expansion.

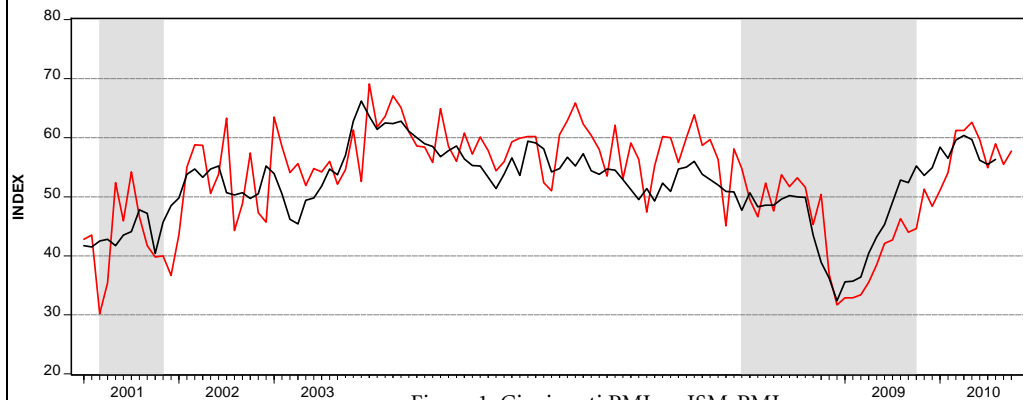


Figure 1. Cincinnati PMI vs. ISM-PMI

Note: The recession is indicated by the bar

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HIGHLIGHTS

In October there was a welcome increase in the PMI to follow the moderating trend of September. The Cincinnati PMI increased to 57.7. The index has now been above fifty for ten consecutive months, which has not happened since the affluent era of 2007. PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce; other indices are unadjusted. Though the increase in PMI this month is modest, its continuance above fifty is a welcome indication of sustained expansion. September was a month of caution; October signifies a return to cautious optimism. Though the indicators are encouraging overall, a decrease in the employment index—possibly associated with decreasing demand at the end of summer—is cause for frustration.

The Dollars spent in purchasing index increased from 24 to 33 this month. The new orders index increased to 41 from 35. The production index rose to a healthy 37. The recently volatile index for backlog of orders again reversed course from last month, increasing from negative 3 to positive fourteen. Firms continue to spend down their inventories of finished goods; this index remained strongly negative at -33. Indices for equipment and service prices both decreased to 15 and 26 respectively. The commodity price index inched down to 37 from 38. As the Federal Reserve begins another round of quantitative easing, we keep our ever-vigilant eye out for inflation.

The raw material inventories index remained near its three-year average at negative 16. That index has only been positive for one month in the past two years. Further depletion of inventories may put positive pressure on employers to hire new workers. The domestic purchasing index rose to 30, while buying elsewhere in the Americas fell from 27 to 8. The index for buying from across the Atlantic rose from 16 to 24; it has been above the zero level in only one month since the summer of 2008; The Euro has strengthened against the dollar during the past month, meaning this result was probably driven by early-month respondents. Buying from across the Pacific decreased from 22 to 15.

Production, Employment, New Orders, and Backlog of Orders

All of the major indicators showed modest increases this month except for one: the Employment Index. The Employment indicator dropped into negative territory after nine months of positive territory. This indicator tends to lag behind the others, and we had hoped to see it return to higher levels while our other indices remained consistently positive. Specifically, increasing New Orders and Production put pressure on firms to engage in additional hiring. However, Finished Goods and Raw Material inventories continue their decline. When will businesses replenish inventories and begin to hire again?

We posit that a robust recovery is underway; all of the major indices (with the exception of Backlog of Orders) have sustained positive territory for the duration of the calendar year. The expansion so far has been driven by productivity gains; while production is up, employment has been sluggish to recover.

Table 1. The Cincinnati Economy at a Glance

Index	Series Index		Direction	Rate of Change	Trend*
	Oct.	Sep.			
Cincinnati PMI	57.7	55.5	↑	Faster	9
New Orders	41	35	↑	Faster	10
Backlog of Orders	14	-3	↑	Faster	1
Production	37	27	↑	Faster	10
Employment	-7	10	↓	Slower	1
Vendor Deliveries	-30	-7	↓	Faster	9
Raw Material Inventories	-16	-14	↓	Faster	6
Finished Goods Inventories	-33	-34	↓	Slower	10
Composite Price Index	26.0	30.0	↑	Slower	17

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

(2, 36, 35, 41)

The New Orders index increased healthily to 41 from 35 this month, indicating an acceleration in the growth of new orders. Fifty-six percent of replies indicated new orders were “up” (52 in September), thirty percent indicated “the same” (31 in September) and fifteen percent indicated “down” (17 in September). The New Orders Index has held steady positive ground for over a year and is an encouraging indication of business expansion.

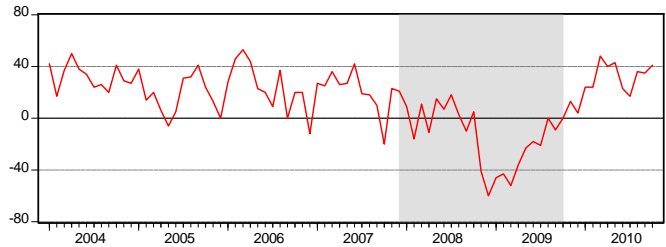


Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3

(-16, 31, -3, 14)

In September the Backlog of Orders Index took a sharp decline to negative 3; in October it jumped back to positive 14. This month’s result came from thirty-three percent of respondents reporting “up” (21 percent in September), forty-eight percent reporting “the same” (41 in September), and nineteen percent reporting “down” (24 in September). A jump back into positive territory is encouraging; this may foreshadow an increase in employment in coming months.

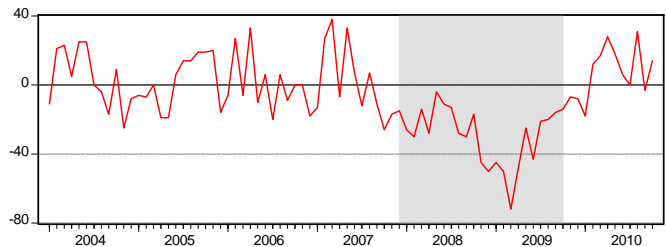


Figure 3. Backlog of Orders

PRODUCTION - Fig. 4

(5, 38, 27, 37)

The production index increased in October to a value of 37. This is a return to the robust levels we saw this past summer, and a continuation of increased activity. Respondents have reported increased production for the entirety of this year. Fifty-two percent of respondents reported production as “up” (41 in September), thirty-three percent reported “the same” (45 in September), and fifteen percent reported “down” (14 in September).

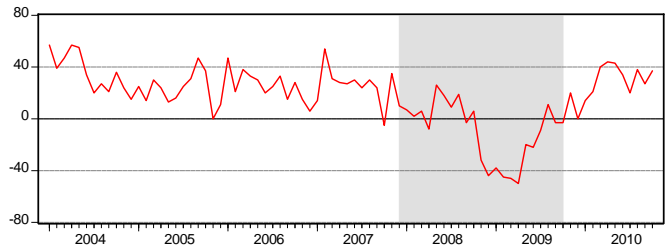


Figure 4. Production

EMPLOYMENT - Fig. 5
(-4, 14, 10, -7)

The employment index took a hit in October, declining from 10 to *negative* 7. Nineteen percent of respondents reported increased employment (17 percent in September), fifty-six percent of the respondents reported employment remained the same (76 percent in September), and twenty-six percent reported decreased employment (7 percent in September). Most respondents reported no change last month; this month more businesses shed jobs. This indicator lags the others and is the one we hope to see recover the most. Because of the timing of this index (after the summer, before the frantic holiday season), our general outlook on employment remains positive.

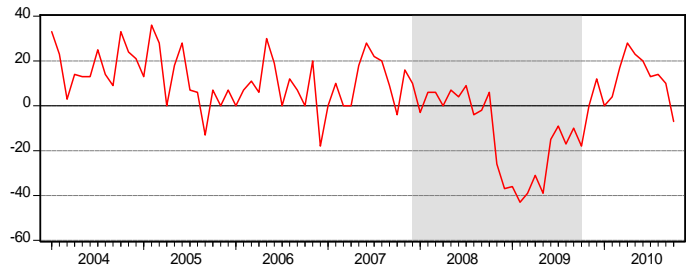


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(3, -14, -7, -30)

The vendor delivery performance index dipped down to *negative* thirty in October, ending four consecutive months of increases. The negative index value implies that delivery performance continues to deteriorate, likely due to increases in new orders. This indicator was generally positive for the duration of the recession. No respondents reported faster deliveries (3 percent in September), seventy percent of survey respondents this month reported delivery times as the “same” (86 percent in September), and thirty percent reported slower delivery times (17 percent in September).

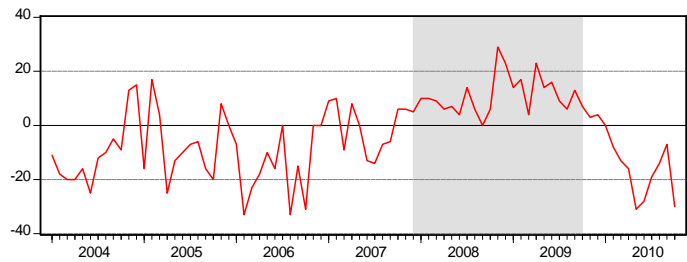


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(15, 52, 24, 33)

The index measuring dollar amounts spent by regional purchasers increased marginally from a modest 24 to a less-modest 33. This level remains strongly above the three-year moving average and has been positive for a full year. Fifty-nine percent of respondents indicated increased spending (45 percent in September); fifteen percent reported no change (35 percent in September), while twenty-six percent indicated decreased spending (21 percent in September). Analysts believe that increased spending activity will have beneficial ripple effects throughout the economy.

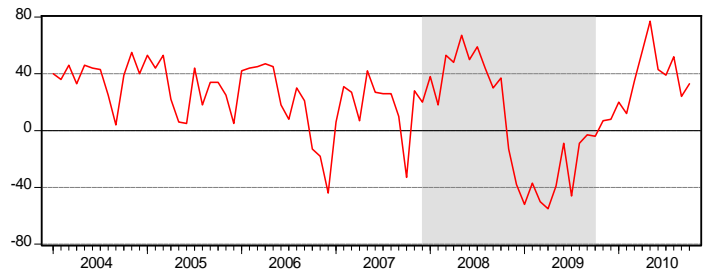


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(33, 35, 38, 37)

In September the commodity price index decreased a pinch from 38 to 37, maintaining the steady upward trend of the year. Forty-one percent of respondents reported higher prices (48 percent in September), fifty-six percent reported the “same” (41 percent in September), and four percent reported lower prices (10 percent in September).

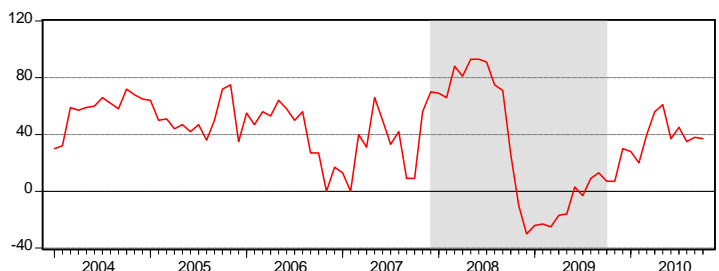


Figure 8. Commodity Prices

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

(22, 11, 31, 26)

The service price index slouched to 26 this month after jumping last month to 31. This change was caused by 30 percent of respondents reporting increases, 67 percent reporting no change in prices, and 4 percent of respondents reporting price decreases. This index has been *positive* or *zero* for fifteen consecutive months.

EQUIPMENT PRICES

(20, 8, 21, 15)

The equipment price index decreased this month, to a value of *positive* 15 from *positive* 21. 19 percent of respondents reported increases, 78 percent reported no change, and 4 percent of respondents reported decreases. This index has not been negative since the spring of 2009.

RAW MATERIAL INVENTORIES

(-18, -4, -14, -16)

The raw material inventories index decreased marginally to *negative* sixteen this month. This index remains negative, as it generally has since the onset of the financial crisis in the fall of 2007. Nineteen percent of the

reports indicated increased inventories, forty-six percent reported no change, and thirty-five percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES

(-11, -21, -34, -33)

The finished goods inventories index increased negligibly in October; inventories remain on the decline at *negative* 33. This was caused by nineteen percent of respondents indicating increased inventories, thirty percent reporting the same, and fifty-two percent reporting finished goods inventories as "down".

BUYING PATTERNS

DOMESTICALLY

(11, 45, 28, 30)

The following percentages consider only those firms that buy internationally; compared to previous months, they show continued improvement from the global downturn.

ELSEWHERE IN THE AMERICAS

(-8, 6, 27, 8)

ACROSS THE ATLANTIC

(-17, 14, 16, 24)

ACROSS THE PACIFIC

(4, 38, 22, 15)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Copper, *Steel, *Furan Resin, *Silicon Carbide, *Ferrosilicon, Toner, pork, *Beef, soy.

Down are: *Natural gas, *Wheat, *Steel, *Aluminium.

In short supply: *Garlic, Pork, *Beef, *Plastic.

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

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

Index	Up	Same	Down
Production	52	33	15
New Orders	56	30	15
Backlog Of Orders	33	48	19
Employment	19	56	26

Index	Up	Same	Down
Prices for Commodities	41	56	4
Prices for Services	30	67	4
Prices for Equipment	19	78	4
Dollars Spent by Purchasing	59	15	26

Index	Up	Same	Down
Raw Material Inventories	19	46	35
Finished Goods Inventories	19	30	52

Index	Quicker	Same	Slower
Deliveries	0	70	30

Change in the amount spent	Up	Same	Down
Domestically	52	26	22
For Firms Purchasing Internationally			
Elsewhere in the Americas	31	46	23
Across the Atlantic	39	46	15
Across the Pacific	36	43	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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