CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

September 2010

PRESS RELEASE

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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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The Purchasing Managers Index – Cincinnati measured 55.5 in September. This is less than the value in August, and indicates a moderation in the economic recovery of the past year.

The **Production Index** decreased from 38 to 27, a slower rate than that of August. The **Dollars spent by purchasing Index** receded to 24, a decrease from the August value of 52.

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National Association of Purchasing Management

Cincinnati

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

The Cincinnati Purchasing Management Index (PMI) was 55.5 in September. A year ago, the national PMI was at 44.0, easing back towards favorable territory after a full year below 50. We are cautiously optimistic that an economic expansion is underway. The national August index value was 56.3; the national September 2010 index is not available as of this writing. A value of PMI above 50 indicates economic expansion.

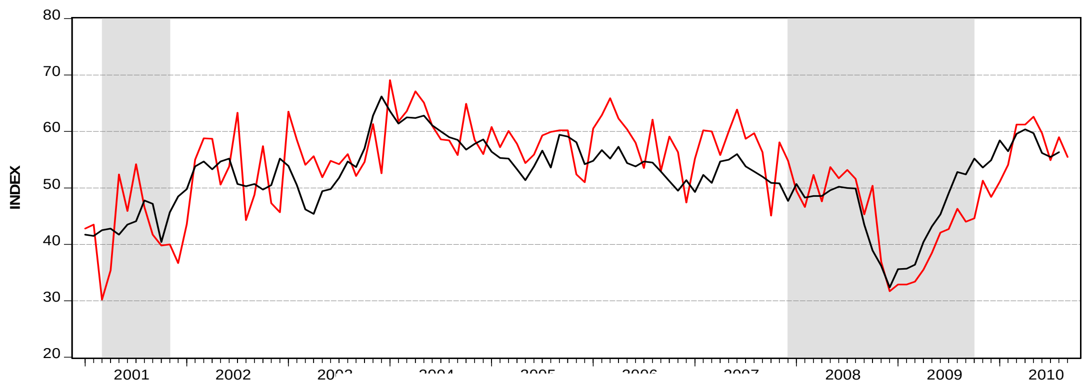

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

September saw continued moderation of the expansion of business activity in Cincinnati. The **Cincinnati PMI** decreased to 55.5, sustaining a now nine-month period above 50; the last time there has been such a period was in 2007. PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce; other indices are unadjusted. The modesty of September's figures, and declines in the major indicators show a leveling off, rather than a decline, in expansion. For the Production, Employment, and New Orders indicators, fewer respondents reported decreased levels while many more reported that levels had not changed. We characterize September as a month of caution.

The **Dollars spent in purchasing** index was one indicator that regressed to a modest level this month, falling to 24 from higher levels in July and August. The **new orders** index remained high at 35. The **production index** fell to 27, and the index for **backlog of orders** reversed last month's spike, declining from 31 to *negative* 3. The index for **inventories of finished goods** receded further below *zero* to -34. Indices for **equipment and service prices** increased significantly to 21 and 31 respectively. The **commodity price** index climbed marginally to 38. These price increases fuel concerns of inflation amid a weakening dollar; the Federal Reserve has not chosen to raise interest rates from near-zero levels at the time of this writing.

The **raw material inventories** index declined back to its July level of *negative* 14. 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 fell close to July levels, while buying **elsewhere in the Americas** rose markedly from 6 to 27. The index for buying from across the **Atlantic** was in positive territory for a second month; it has been above the zero level in only one month since the summer of 2008. The increase may be attributable to the effects of a weakened Euro and the austerity measures introduced in the European Union, particularly in the United Kingdom. Buying from across the **Pacific** decreased from 38 to 22.

Production, Employment, New Orders, and Backlog of Orders

Contrary to August, most of the major indicators declined this month, returning to the moderating trend we witnessed in July. The Employment indicator has remained consistently positive for its ninth month, though the rate of change was slightly less encouraging in September than in August. Finished Goods and Raw Material inventories are now both reportedly lower than last month, possibly delaying that point at which New Orders and Production will warrant additional hiring.

We continue to assert that a robust recovery is underway; all of the major indices (with the exception of Backlog of Orders) have sustained positive territory for nine months. Though many respondents are moving forward with caution, there is a material improvement in the health of the economy.

Table 1. The Cincinnati Economy at a Glance

Index	Series Index Sep.	Aug.	Direction	Rate of Change	Trend*
Cincinnati PMI	55.5	59.0	↑	Slower	9
New Orders	35	36	↑	Slower	9
Backlog of Orders	-3	31	↓	Slower	1
Production	27	38	↑	Slower	9
Employment	10	14	↑	Slower	9
Vendor Deliveries	-7	-14	↓	Slower	8
Raw Material Inventories	-14	-4	↓	Faster	5
Finished Goods Inventories	-34	-21	↓	Faster	9
Composite Price Index	30.0	18.0	↑	Faster	16

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

(0, 17, 36, 35)

The New Orders index in September decreased only slightly from 36 to 35, continuing the healthy expansion that we witnessed last month. Fifty-two percent of replies indicated new orders were "up" (54 in August), thirty-one percent indicated "the same" (29 in August) and seventeen percent indicated "down" (18 in August). The New Orders Index has averaged 25 for the past year, indicating a consistent and healthy appetite for new growth.

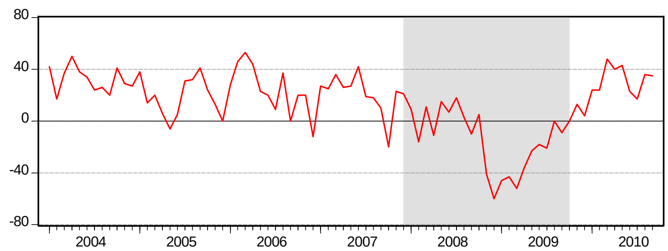

Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3

(-18, 0, 31, -3)

In August the Backlog of Orders Index jumped from *zero* to 31; in September it declined to *negative* 3. This month's result came from twenty-one percent of respondents reporting "up" (41 percent in August), forty-one percent reporting "the same" (48 in August), and twenty-four percent reporting "down" (10 in August). Such volatility is not uncommon for this indicator. Continued jumps into positive territory in coming months may foreshadow employment growth to come.

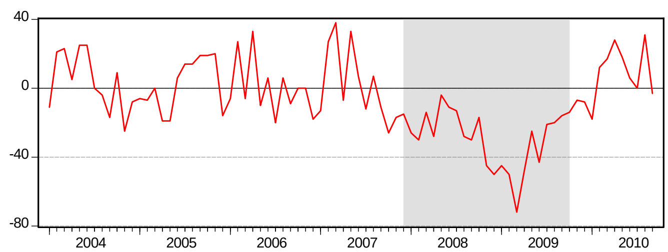

Figure 3. Backlog of Orders

PRODUCTION - Fig. 4

(3, 20, 38, 27)

The production index was more moderate in September at a value of 20. This shows an encouraging continuation of increased activity, though it is not as robust as the August level of 38. Respondents have reported increased production for the entirety of this year. Forty-one percent of respondents reported production as "up" (52 in August), forty-five percent reported "the same" (35 in August), and fourteen percent reported "down" (14 in July).

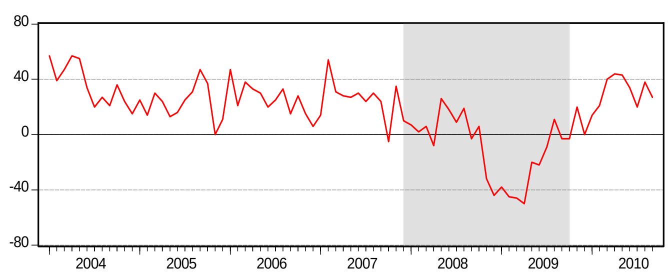

Figure 4. Production

EMPLOYMENT - Fig. 5
(-4, 13, 14, 10)

The employment index slowed yet again in September, to a value of ten. Seventeen percent of respondents reported increased employment (24 percent in August), seventy-six percent of the respondents reported employment remained the same (66 percent in August), and seven percent reported decreased employment (10 percent in August). Our recent outlook for employment remains positive. Notably, fewer respondents reported that employment was down in September; the moderate decline was from an increase in the percentage of respondents reporting no change.

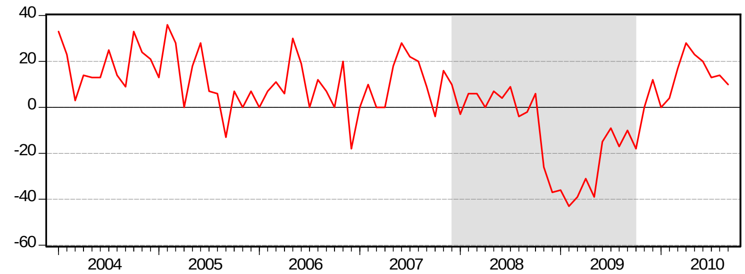

Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(4, -19, -14, -7)
The vendor delivery performance index rose again to *negative* seven in September, the fourth consecutive month it has increased. The negative index value implies continued deterioration of delivery performance, although at a slower rate than the previous seven months. This indicator was generally positive for the duration of the recession. Three percent of respondents reported faster deliveries (3 percent in August), eighty-six percent of survey respondents this month reported delivery times as the "same" (79 percent in August), and ten percent reported slower delivery times (17 percent in August).

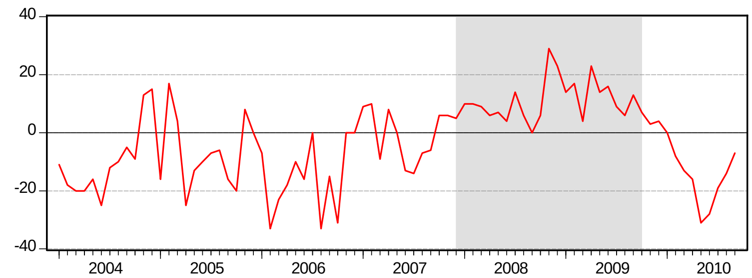

Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(13, 39, 52, 24)

The index measuring dollar amounts spent by regional purchasers fell from last month's robust level of 52 to a somewhat more modest 24. This level is still well above the three-year moving average. Forty-five percent of respondents indicated increased spending (66 percent in August); thirty-five percent reported no change (21 percent in August), while twenty-one percent indicated decreased spending (14 percent in August). Analysts believe that increased spending activity will have beneficial ripple effects throughout the economy.

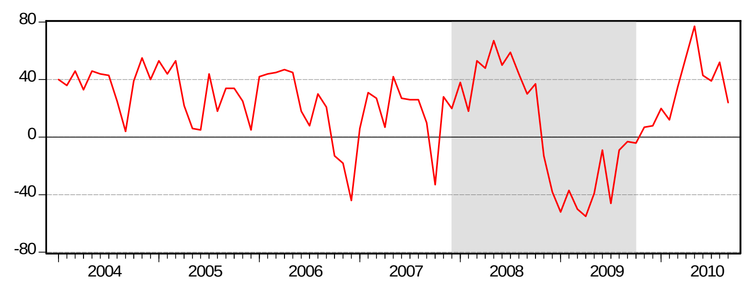

Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(32, 45, 35, 38)
In September the commodity price index increased marginally from 35 to 38, continuing the cautious increases of this year. Forty-eight percent of respondents reported higher prices (45 percent in August), forty-one percent reported the "same" (45 percent in August), and ten percent reported lower prices (10 percent in August).

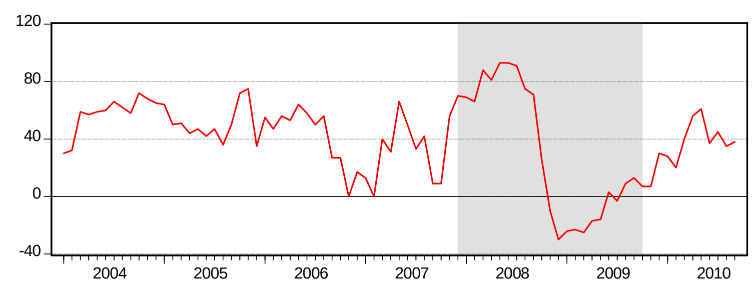

Figure 8. Commodity Prices

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, 10, 11, 31)

The service price index rose to 31 this month after three months of lower levels. This increase was caused by 31 percent of respondents reporting increases, 69 percent reporting no change in prices, and no reports of price decreases. This index has been *positive* or *zero* for fourteen consecutive months.

EQUIPMENT PRICES
(20, 0, 8, 21)

The equipment price index rose again this month, to a value of *positive* 21 from *positive* 8. 24 percent of respondents reported increases, 72 percent reported no change, and 3 percent of respondents reported decreases. This index has not been negative since the spring of 2009.

RAW MATERIAL INVENTORIES
(-18, -14, -4, -14)

The raw material inventories index decreased to its July level of *negative* fourteen this month. This index has been mainly negative or *zero* since the fall of 2007 and subsequent financial armaggeddon. Eighteen percent of the reports indicated increased inventories, fifty percent reported "no change", and thirty-two percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES
(-10, -24, -21, -34)

The finished goods inventories index fell beyond July levels this past month, from *negative* 21 to *negative* 34. This was caused by fourteen percent of respondents indicating increased inventories, forty-eight percent reporting the same, and thirty-eight percent reporting finished goods inventories as "down".

BUYING PATTERNS

DOMESTICALLY
(10, 27, 45, 28)

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
(-9, 17, 6, 27)

ACROSS THE ATLANTIC
(-19, -5, 14, 16)

ACROSS THE PACIFIC
(3, 41, 38, 22)

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

Index	Up	Same	Down
Production	41	45	14
New Orders	52	31	17
Backlog Of Orders	21	55	24
Employment	17	76	7

Index	Up	Same	Down
Prices for Commodities	48	41	10
Prices for Services	31	69	0
Prices for Equipment	24	72	3
Dollars Spent by Purchasing	45	35	21

Index	Up	Same	Down
Raw Material Inventories	18	50	32
Finished Goods Inventories	14	38	48

Index	Quicker	Same	Slower
Deliveries	3	86	10

Change in the amount spent	Up	Same	Down
Domestically	52	24	24
For Firms Purchasing Internationally			
Elsewhere in the Americas	a	61	6
Across the Atlantic	33	50	17
Across the Pacific	33	56	11

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Copper, stainless-steel, *Toner, wheat, *pork, plastic, *Eggs, *Wheat, soy.

Down are: *Resins, Carbon-steel.

In short supply: *Mushrooms, *Pork, *Beef, *Eggs.

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

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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