

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

August 2010

PRESS RELEASE

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SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of August 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 59.0 in August. This is greater than the value in July, and displays the increased economic growth that occurred activity this month.

The Production Index rose from 20 to 38, an indication of the observed expansion in the month of August. The Dollars spent by purchasing Index rose to 52, an increase from July's value of 32.

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

The Cincinnati Purchasing Management Index (PMI) was 59.0 in August. This is a considerably better position than last summer, when we still had three sub-fifty months ahead of us. While other months of this year have been higher, we are optimistic that this report signifies a robustly expanding economy. The national July index value was 55.5; the national August 2010 index is not available as of this writing. A value of PMI above 50 indicates economic expansion.

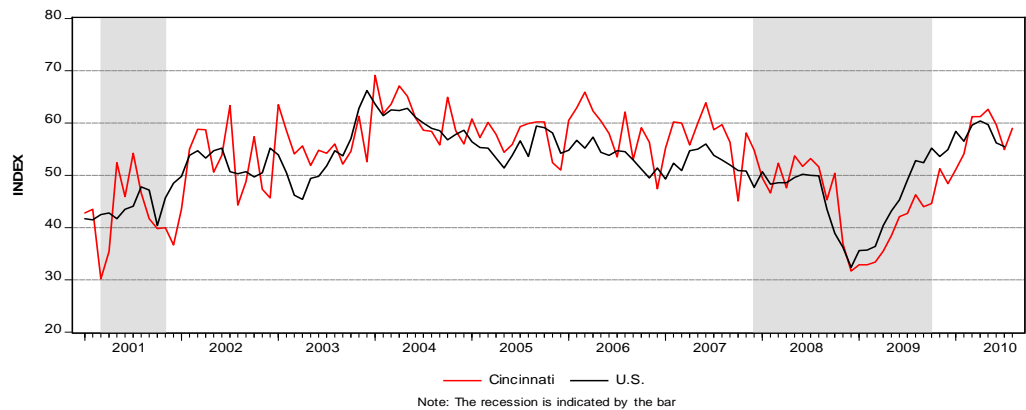


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

August moved against July's moderating trend on the expansion of business activity in Cincinnati. Most major indices showed increased economic expansion in the Cincinnati Economy. The Cincinnati PMI rose from 54.9 to 59.0, reversing last month's decline and continuing a string of eight consecutive months in which it has measured above fifty; the last eight month run above fifty ended nearly three years ago. PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce; other indices are unadjusted. Prices are continuing to rise, but the rate is falling fall short of the crisis levels observed in the summer of 2008. The Employment index declined slightly, but it still indicates increase. It has not been negative since October 2009.

The Dollars spent in purchasing index was again among the highest indicators this month, showing a bounce back from last month's decline (although it is still shy of the amazing May value). The new orders index rose significantly to 36. The production index rose from 20 to 38 as well, and the index for backlog of orders climbed to a lofty mark of positive 31. The index for inventories of finished goods remains below zero at -21, while Raw Material Inventories is creeping back toward zero. Prices were reported as rising by some respondents, but the increase is much less thorough than in previous times of rising prices: the equipment price index increased to positive eight. The commodity price index fell from 45 to 35. The Composite Price Index shows prices rising slightly.

The raw material inventories index stayed in negative territory, although its rise to negative 4 brings it quite close to zero. It has not spent appreciable time in positive territory in three years. Periodic interruptions notwithstanding, inventories have been decreasing since the storm clouds gathered in late 2007. With respect to geographic buying patterns, we are seeing strengthening in some important markets: the domestic purchasing index rose substantially, while the index for buying from across the Atlantic moved from negative to positive. Austerity measures employed by European governments may have an impact here depending on exchange rates. Buying elsewhere in the Americas fell slightly, going from 17 to 6. Buying from across the Pacific remained high at 38.

Production, Employment, New Orders, and Backlog of Orders

As thorough as our disappointment was last month—all of the major indicators declined—the strength of this month’s results gives new hope for the Cincinnati economy. We still have fundamental concerns: if new orders are up, when will the pressure on inventories be enough to prompt additional hiring? Can the increases in production be enough to sustain the ramping up of dollars going to purchasing? What more must happen to find that tipping point at which growth can be deemed healthy?

We argue that these sustained advances actually signal the robustness of the recovery. Successful businesses demonstrate a lasting ability to correctly read their markets over time. With the exception of the Backlog of Orders, all of the major indices have now been positive for more than half a year: their repetition and reliability thus signalled are the greatest strength of these results; while some respondents may have been overly-optimistic at the first site of land (see May), many of them, most of the time, are confident that we are finding a port soon.

Table 1. The Cincinnati Economy at a Glance

Index	Series Index		Direction	Rate of Change	Trend*
	Aug.	Jul.			
Cincinnati PMI	59.0	54.9	↑	Faster	8
New Orders	36	17	↑	Faster	8
Backlog of Orders	31	0	↑	Faster	4
Production	38	20	↑	Faster	8
Employment	14	13	↑	Faster	8
Vendor Deliveries	-14	-19	↓	Slower	7
Raw Material Inventories	-4	-14	↑	Slower	4
Finished Goods Inventories	-21	-24	↓	Slower	8
Composite Price Index	18.0	18.3	↑	Faster	15

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, 23, 17, 36)

The New Orders index in August increased substantially from 17 to 36. While still below the lofty values of early spring of this year, this is a very healthy index value. Fifty-four percent of replies indicated new orders were “up” (36 in July), twenty-nine percent indicated “the same” (45 in July) and eighteen percent indicated “down” (19 in July). The New Orders Index has averaged above thirty-four for the last six months, and averaged 22 for the past year, both numbers far in excess of the three year moving average.

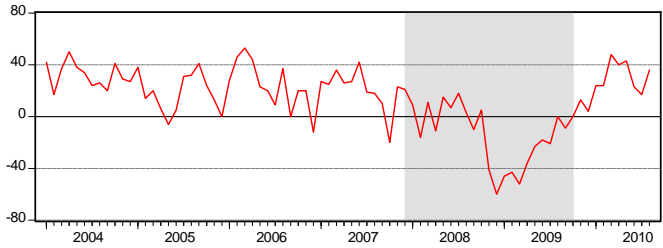


Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3

(-18, 6, 0, 31)

After a brief return to zero, the backlog of orders index rose substantially in the month of August to 31. This month’s result came from forty-one percent of respondents reporting “up” (23 percent in July), forty-eight percent reporting “the same” (55 in July), and ten percent reporting “down” (23 in July). Analysts expect that a sharp increase in backlogs may prompt more hiring by employers. This is the highest value of this index since spring of 2007, and the recent rise comes after a lengthy period—more so than any other indicator—in which the index was below zero.

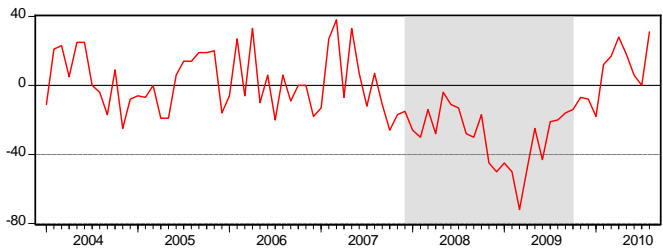


Figure 3. Backlog of Orders

PRODUCTION - Fig. 4

(3, 34, 20, 38)

The production index for August rose quite a bit, coming in at a value of positive 38. This robust positive value indicates that most firms are stepping up activity. The index has not been zero or negative during the entirety of this year. Thirty-nine percent of respondents reported production as “up” (39 in July), forty-two percent reported “the same” (42 in July), and nineteen percent reported “down” (19 in July).

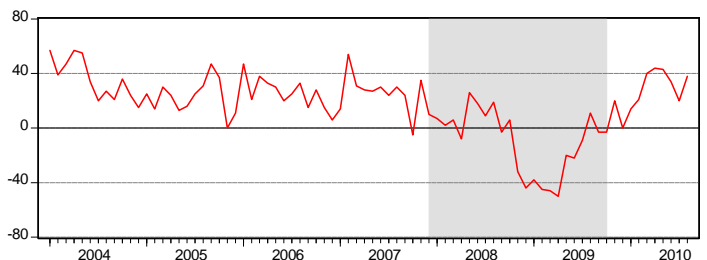


Figure 4. Production

EMPLOYMENT - Fig. 5
(-4, 20, 13, 14)

The employment index moved very little in August, rising to 14. Twenty-four percent of respondents reported increased employment (27 percent in July), sixty-six percent of the respondents reported employment remained the same (67 percent in July), and ten percent reported decreased employment (7 percent in July). A year ago this index was at *negative* seventeen, and it would not rise significantly above zero until the winter of 2009/2010. The recent outlook for employment has been much more positive than that, but we are still needing resolution: there are about as many jobs in the Cincinnati economy now as there were in 2004.

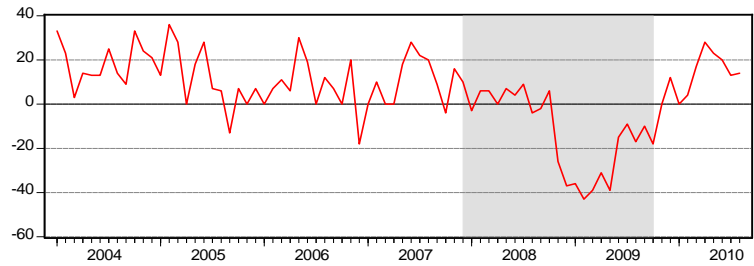


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(4, -28, -19, -14)

The vendor delivery performance index rose to *negative* fourteen in August, the third consecutive month it has increased; it should be noted that the negative index value implies continued deterioration of delivery performance, although at a slower rate than before. Before this current streak below zero, the last sustained period of decreasing vendor performance was in the summer of 2007. Three percent of respondents reported faster deliveries (0 in July), seventy-nine percent of survey respondents this month reported delivery times as the “same” (81 percent in July), and seventeen percent reported slower delivery times (19 in July).

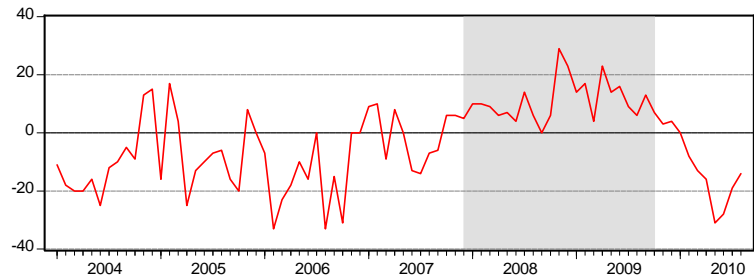


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(13, 43, 39, 52)

There was a substantial increase in the monthly index measuring changing dollar amounts spent by regional purchasers during the month of August; the current value of *positive* 52 is still substantially above the average for the last thirty-six months, although it is below the lofty levels the index attained earlier this year. Sixty-six percent of respondents indicated increased spending (58 percent in July); twenty-one percent reported no change (8 percent in July), while fourteen percent indicated decreased spending (19 percent in July). Aside from the anomalous month of May 2010, this is the most purchasers who have reported increases since May 2008.

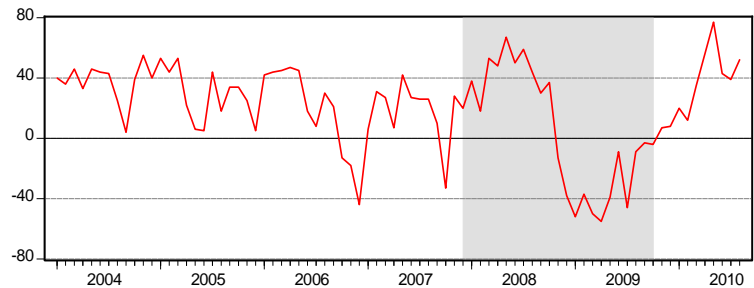


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(32, 37, 45, 35)

In August, the commodity price index decreased to 35, a value that is within hailing distance of the three-year moving average; while casual observers may think that existing forces driving prices up have been fairly constant over that time, the tumultuous era has seen three separate periods: furious acceleration (2008); utter stagnation (2009); and the cautious increases of this year. Forty-five percent of respondents reported higher prices (52 percent in July), forty-five percent reported the “same” (42 percent in July), and ten percent reported lower prices (7 in July).

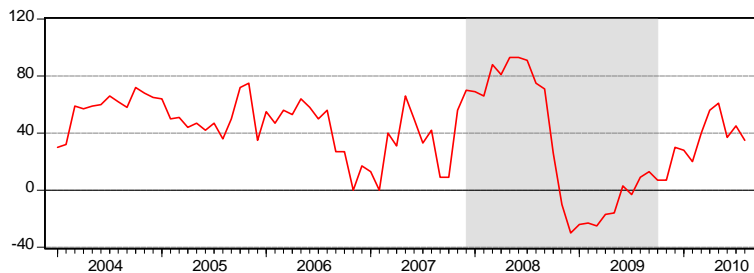


Figure 8. Commodity Prices

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

(21, 13, 10, 11)

The service price index has stayed steady for the last three months, rising slightly to 11. This was caused by 18 percent of respondents reporting increases, 75 percent reporting no change in prices and 7 percent reporting price decreases. This index has been *positive* or *zero* for thirteen consecutive months.

EQUIPMENT PRICES

(20, 13, 0, 8)

The equipment price index rose to a value of *positive* 8 this month. 15 percent of respondents reported increases, 78 percent reported no change, and 7 percent of respondents reported decreases. This index has not been negative since the spring of 2009.

RAW MATERIAL INVENTORIES

(-17, -8, -14, -4)

The raw material inventories index improved this month, rising from *negative* fourteen to *positive* four. With only one exception, this index has not been above *positive* five since the summer of 2007 and subsequent recession. Fourteen percent of the reports

indicated increased inventories, sixty-eight percent reported “no change”, and eighteen percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES

(-9, -3, -24, -21)

The finished goods inventories index increased slightly in August, rising from *negative* 24 to *negative* 21. This was caused by ten percent of respondents indicating increased inventories, fifty-nine percent reporting the same, and thirty-one percent reporting finished goods inventories as “down”.

BUYING PATTERNS

DOMESTICALLY

(10, 34, 27, 45)

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

(-10, 12, 17, 6)

ACROSS THE ATLANTIC

(-19, -6, -5, 14)

ACROSS THE PACIFIC

(3, 17, 41, 38)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Metals - *Iron castings, *brass copper, aluminum, *stainless-steel, gasoline, wheat, paper, integrated Circuits, plastic,*corn, *soy, *beef, *chicken.

Down are: *Carbon-steel, *sheet-steel, *Nickel.

In short supply: *Pineapple, *Chemicals, *Basic inventories.

*indicates a change from the previous report; sometimes goods can appear in multiple lists because of aggregation of multiple responses

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

Index	Up	Same	Down
Production	52	35	14
New Orders	54	29	18
Backlog Of Orders	41	48	10
Employment	24	66	10

Index	Up	Same	Down
Prices for Commodities	45	45	10
Prices for Services	18	75	7
Prices for Equipment	15	78	7
Dollars Spent by Purchasing	66	21	14

Index	Up	Same	Down
Raw Material Inventories	14	68	18
Finished Goods Inventories	10	59	31

Index	Quicker	Same	Slower
Deliveries	3	79	17

Change in the amount spent	Up	Same	Down
Domestically	59	28	14
For Firms Purchasing Internationally			
Elsewhere in the Americas	25	56	19
Across the Atlantic	21	71	7
Across the Pacific	44	50	6

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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