CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

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

The Cincinnati Purchasing Management Index (PMI) was 59.5 in June; a year ago at this time, it was at 42.1. PMI has been over 50 for six consecutive months, indicating sustained expansion of purchasing activity. The national May index value was 59.7; the national June 2010 index is not available as of this writing. A value of PMI above 50 indicates economic expansion.

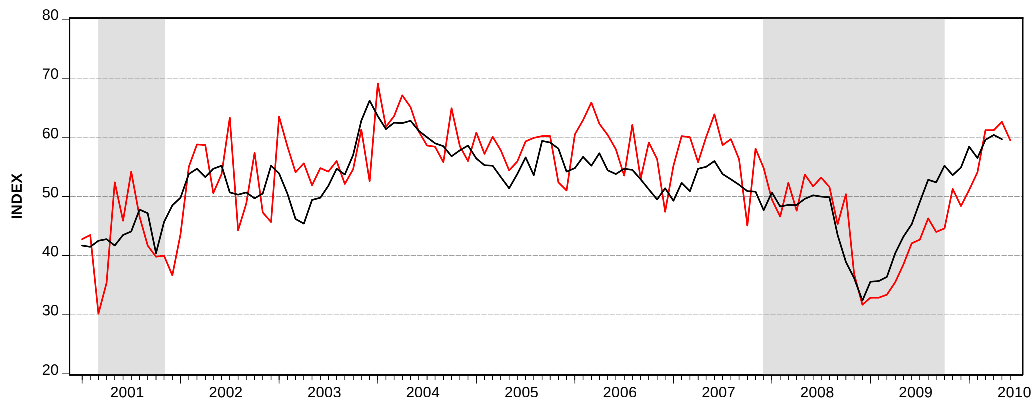

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Results from this month's survey of purchasers in the Cincinnati area show continued expansion of manufacturing activity, though at a lesser pace than last month. There has been an upward trend in the main economic indicators for the entire first half of 2010. The **Cincinnati PMI** showed a slight decrease to 59.5; though no longer above 60, this figure is still well above the all-important 50 line for its sixth consecutive month. Note that—while other indices are unadjusted—PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce. Respondents continued to report increasing prices in all categories, though these increases are not as drastic as we saw in May. The Employment index was at 20 in June, suggesting that purchasers are maintaining a positive outlook on the labor market.

The **Dollars spent in purchasing** index remained high at 43, down from last month's unprecedented peak at 77. This index has been above *zero* since November of 2009. The **new orders** index decreased from 43 to 23; this index has also been in positive territory since November of 2009. The **production index** slipped to 34, and the index for **backlog of orders** dipped again to 6. The index for **inventories of finished goods** remained below *zero* at -6. The **equipment price** index declined to 13. The **commodity price** index was at 37, down significantly from last month's peak of 61 and ending a four month climb to remarkably high levels. This figure of 37 is less alarming, though we are still keeping a watchful eye out for inflation in the near future. The Federal Reserve has not taken action to fight inflation as of yet; stimulating economic growth is still the top priority.

The **raw material inventories** index stayed the same at -8. This is the second consecutive month it has been below *zero.* The **finished goods inventories** index was at -3. Trends in geographic buying patterns were still largely positive in most markets, though, like other indicators, were not as strong as they were in May. The **domestic purchasing** index fell from 58 to 34, while buying elsewhere in the Americas fell from 40 to 12. The index for buying from across the **Atlantic** fell from positive seven back into negative territory at -6. Aside from last month, it has not been above the zero level since May of 2008. The fall in this indicator may be attributable to the current economic woes of the western European economy, although the weaker Euro should start to make European goods more attractive. The index for buying from across the **Pacific** declined to 17 from 33.

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Production, Employment, New Orders, and Backlog of Orders

Readers will notice that the rate of change for nearly all indicators is slower this month than it was last month. Particularly large dropoffs were seen in New Orders and also in Dollars spent purchasing. Why would these decline so much? One possibility is that the economy was simply rebounding more quickly than will be sustainable. Like a spring that has been compressed, the strength of recovery is higher when the economy is farther depressed from its potential. Even this publication showed a degree of skepticism about the 77 value of the **Dollars spent purchasing** index last month. A second possibility is that the growth of the first part of this year has finally forced purchasers to be more discerning about the future: in the desolation of the great recession, it was a safe bet that conditions would improve because they were so bad. Now that we're starting to see some improvement, purchasers are beginning to have to lay intelligent wagers about what kind of improvement and how much.

Table 1. The Cincinnati Economy at a Glance

Index	Series Jun.	Index May.	Direct ion	Rate of Change	Trend*
Cincinnati PMI	59.5	62.6	↑	Slower	6
New Orders	23	43	↑	Slower	5
Backlog of Orders	6	18	↑	Slower	5
Production	34	43	↑	Slower	6
Employment	20	23	↑	Slower	6
Vendor Deliveries	-28	-31	↓	Slower	5
Raw Material Inventories	-8	-8	↔	Same	2
Finished Goods Inventories	-3	-8	↓	Slower	5
Composite Price Index	21.0	33.7	↑	Slower	12

*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 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
(-1, 40, 43, 23)
The New Orders index in June fell to 23 from a level of 43 in May. This is a continuation of impressive growth over the previous year for this index. Forty percent of replies indicated new orders were "up" (54 in May), forty-three percent indicated "the same" (36 in May) and seventeen percent reporting "down" (11 in May). This index, though not as strong as it was in last month, has now been positive for the entire first half of 2010. This sustained expansion is encouraging and we hope to see it continue into the second half of the year.

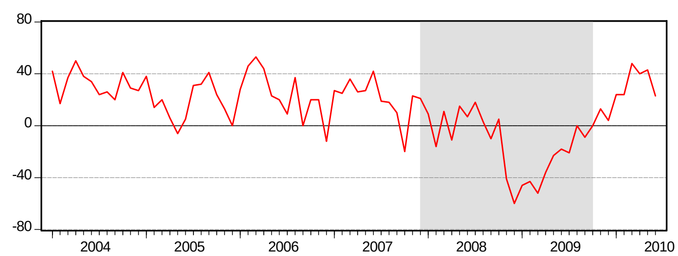


Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3
(-19, 28, 18, 6)
The backlog of orders index stayed positive in June after its peak last month; until February of this year the index had been negative for two and a half years. A positive value for this indicator shows that orders are not being met given current employment levels, and could be a sign of job growth. This month's result came from twenty-three percent of respondents reporting "up" (36 percent in May), sixty percent reporting "the same" (46 in May), and seventeen percent reporting "down" (18 in May).

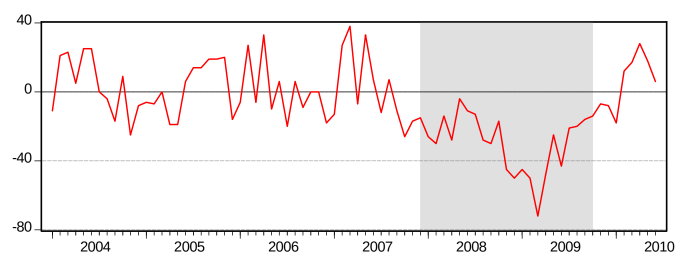
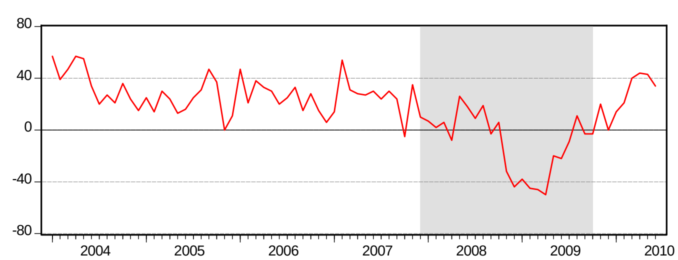


Figure 3. Backlog of Orders

PRODUCTION - Fig. 4
(3, 44, 43, 34)

The production index for June maintained a strongly positive level at 34, a modest decrease from 43 in May. Thirty-seven percent of respondents reported production as "up" (50 in May), sixty percent reported "the same" (43 in May), and three percent reported "down" (7 in May). This index value has now been positive for eight consecutive months.

Figure 4. Production



EMPLOYMENT - Fig. 5
(-3, 28, 23, 20)

The employment index decreased again slightly but held strong at twenty this month, down from twenty-three in May. Twenty-seven percent of respondents reported increased employment (36 percent in April), sixty-seven percent of the respondents reported employment remained the same (46 percent in April), and seven percent reported decreased employment (18 percent in April). Note that this is a *change* in employment, not an overall level of employment. While many respondents reported no change, fewer reported a decrease in employment in June than in May.

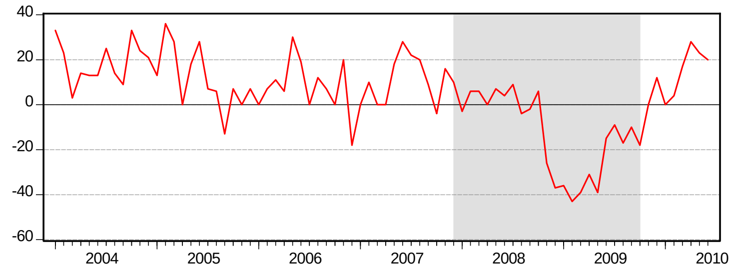


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(4, -16, -31, -28)
The vendor delivery performance index stayed very low at -28 this month. No respondents reported faster deliveries (4 percent in May), seventy-two percent of survey respondents this month reported delivery times as the "same" (62 percent in May), and twenty-eight percent reported slower delivery times (35 in May). Note This value was positive for the entire duration of the recession – shown in grey on the right.

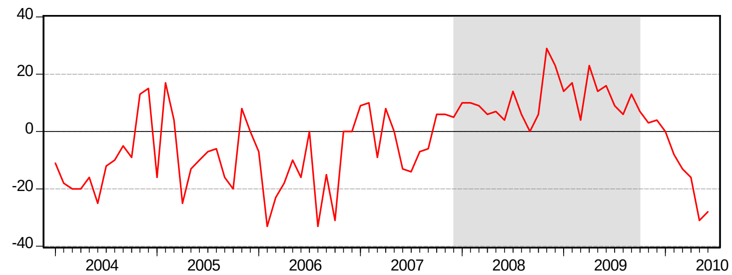


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(12, 56, 77, 43)

The monthly index measuring changing dollar amounts spent by regional purchasers decreased from an unprecedented level of 77 in May to a still-strong level of 43 in June. Fifty percent of respondents indicated increased spending (85 percent in April), forty-three percent reported no change (8 percent in April), and seven percent indicated decreased spending (8 percent in April). This indicator has been positive for eight consecutive months. An important note is that this survey does not distinguish between increased spending due to rising prices and an increase in demand.

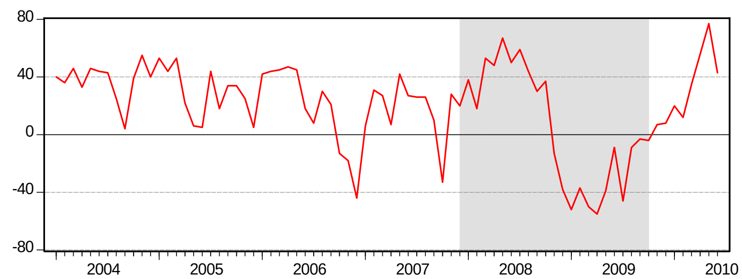


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(32, 56, 61, 37)
The commodity price index fell from an eye-catching level of 61 in May to a more reasonable level of 37 this month. This decrease does not completely calm our concerns of inflation, especially given recent fiscal stimulus and sustained expansionary monetary policy. However, it is now no longer trending toward the astronomical levels that we saw in the summer of 2008. Forty-seven percent of respondents reported higher prices (65 percent in April), thirty percent reported the "same" (31 percent in April), and ten percent reported lower prices (4 in April).

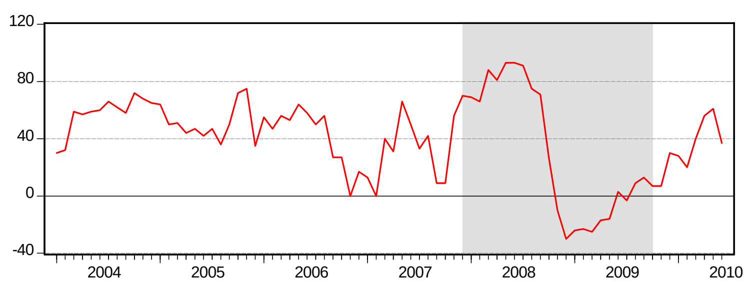


Figure 8. Commodity Prices

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, 28, 19, 13)

The service price index fell back again in June to thirteen. Twenty percent of respondents reported increases, seventy-two percent reported no change in prices, and seven percent reported price decreases. This index has been positive for eleven straight months.

EQUIPMENT PRICES
(22, 25, 21, 13)

In June the equipment price index fell to thirteen. Twenty-three percent of respondents reported increases, sixty-seven percent reported no change, and ten percent of respondents reported decreases. All three price indices remain positive, as they have been since late 2009.

RAW MATERIAL INVENTORIES
(-16, 12, -8, -8)

The raw material inventories index was unchanged at *negative* eight. This index has been mainly negative or *zero* since the fall of 2007. Twenty-one percent of the respondents indicated an increase in inventories, fifty percent reported "no change", and twenty-nine percent indicated decreases.

FINISHED GOODS INVENTORIES
(-8, -32, -8, -3)

The finished goods inventories index rose slightly to *negative* 3 from *negative* eight last month. This was caused by twenty-eight percent of respondents indicating increased inventories, forty-one percent reporting the same, and thirty-one percent reporting finished goods inventories as "down".

BUYING PATTERNS

DOMESTICALLY
(10, 52, 58, 34)

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

ELSEWHERE IN THE AMERICAS
(-8, 36, 40, 12)

ACROSS THE ATLANTIC
(-20, 0, 7, -6)

ACROSS THE PACIFIC
(3, 55, 33, 17)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Metals - copper, nickel, steel; electric motors, gasoline, paper, toner, beef, chicken, *Integrated Circuits, *Films and synthetics, *Plastic
Down are: Wheat, *Soy Meal, *Industrial cleaning equipment

In short supply: Pandemic supplies, glastic, molding materials, stainless steel, beef, chicken, *Integrated Circuits, *Iron Ore

*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	37	60	3
New Orders	40	43	17
Backlog Of Orders	23	60	17
Employment	27	67	7

Index	Up	Same	Down
Prices for Commodities	47	43	10
Prices for Services	20	73	7
Prices for Equipment	23	67	10
Dollars Spent by Purchasing	50	43	7

Index	Up	Same	Down
Raw Materials	21	50	29
Finished Goods	28	41	31

Index	Quicker	Same	Slower
Deliveries	0	72	28

Change in the amount spent	Up	Same	Down
Domestically	47	40	13
For Firms Purchasing Internationally			
Elsewhere in the Americas	18	77	6
Across the Atlantic	0	94	6
Across the Pacific	29	59	12

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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