CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

May 2010

PRESS RELEASE

Important: Do Not Release Until
12:01 a.m. Friday, May 28th, 2010

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of May 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 Greater Cincinnati Report on Business for the month of May shows continued recovery in the Tri-State area, with remarkable increases being made in the **Dollars Spent Purchasing Index**.

The Purchasing Managers Index – Cincinnati measured 62.6 in May, exceeding last month's value and every value since summer of 2007. Any index value above 50 represents an increase in purchasing activity and expectations.

The **Production Index and New Orders Index** both measured 43. The **Dollars Spent Purchasing Index** rose to 77, the highest it has been since we started tracking it. The **Employment Index** fell slightly to 23.

National Association of Purchasing Management Cincinnati

UNIVERSITY OF Cincinnati

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Cincinnati

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

The Cincinnati Purchasing Management Index (PMI) was 62.6 in May; a year ago at this time, it was at 38.5. There has been very little change in PMI over the last three months; the last time there were three consecutive months in which the Cincinnati value was over 60 occurred in 2006. The national April index value was 60.4; the national May 2009 index is not available as of this writing. A value of PMI above 50 indicates economic expansion.

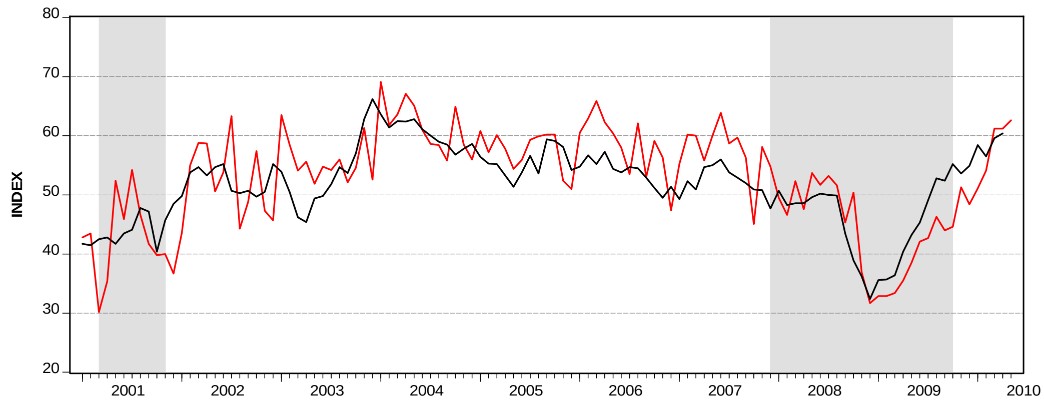


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Results from this month's survey of purchasers in the Cincinnati area show sustained manufacturing growth. The upward trend in the main economic indicators that we have seen since late 2009 has continued healthily along an encouraging trend. The **Cincinnati PMI** showed a slight increase to 62.6; it has now been above 60 – remarkably high, for three consecutive months, and well above the all-important 50 line for five consecutive months. Note that—while other indices are unadjusted, PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce. Respondents again reported increasing prices in a variety of categories; inflation could become a concern in coming months. The Employment index, which represents a purchaser's view of the labor market, has not been negative since October 2009. In May it was at 23, a refreshing indicator of sustained recovery.

The **Dollars spent in purchasing** index rose sharply to a staggering 77, its highest level in the history of this publication! This shows a strong boost in purchasing activity, perhaps attributable to depleted inventories. The **new orders** index rose to 43; it has now been above *zero* since November of 2009. The **production index** remained fairly steady at 43, and the index for **backlog of orders** dipped to 18. The index for **inventories of finished goods** remained below *zero* at -8. The **equipment price** index declined slightly to 22. The **commodity price** index rose again to 61, continuing an upward trend and fueling concerns about inflation. For the time being the Federal Reserve has not shown any sign of monetary policy action; timing of such actions are critical in countering inflation before it becomes an issue.

The **raw material inventories** index declined from *positive* 12 to *negative* 8. Last month was the first time this index had been positive since July of 2008. A dip back into negative territory is an indication that attempts to replenish inventories have been met with heightened demand. With respect to geographic buying patterns, we see a continued positive trend in all markets: the **domestic purchasing** index rose from 52 to 58, while buying elsewhere in the Americas also rose slightly to 40; meanwhile, the index for buying from across the **Atlantic** rose from zero to *positive* seven; it has not been above the zero level since May of 2008. We will be keeping a close eye on this indicator as the economic situation in Europe becomes clearer in the wake of the Greek bailout. The index for buying from across the **Pacific** declined to 33 from April's peak of 55.

Production, Employment, New Orders, and Backlog of Orders

For several consecutive months, this publication has been reporting a variety of measures that show business expansion to be robust and thorough. While the index values for **new orders** and **production** were almost exactly unchanged, both are showing different motions with regard to how many respondents are reporting increases: in particular, the number of respondents reporting "unchanged" for quantity of new orders rose in May, as did the number reporting the equivalent for production. We at AERI take this as a sign of "leveling off" in which firms that have ratcheted up these activities to a higher level in anticipation of recovery are now locking in that level. In contrast, the **Dollars Spent Purchasing** index saw its remarkable upswing driven by respondents who have shifted from "unchanged" to "increased".

Table 1. The Cincinnati Economy at a Glance

Index	Series May.	Index Apr.	Direction	Rate of Change	Trend*
Cincinnati PMI	62.6	61.2	↑	Faster	5
New Orders	43	40	↑	Faster	4
Backlog of Orders	18	28	↑	Slower	4
Production	43	44	↑	Slower	5
Employment	23	28	↑	Slower	5
Vendor Deliveries	-31	-16	↓	Faster	4
Raw Material Inventories	-8	12	↑	Slower	1
Finished Goods Inventories	-8	-32	↓	Slower	5
Composite Price Index	33.7	36.3	↑	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
(0, 48, 40, 43)
The New Orders index in May inched up to 43 from a level of 40 in April. This is a continuation of impressive growth over the previous year for this index. Fifty-four percent of replies indicated new orders were "up" (56 in April), thirty-six percent indicated "the same" (28 in April) and eleven percent reporting "down" (16 in April). This is the fifth consecutive month that the New Orders index has been positive – a sustained expansion.

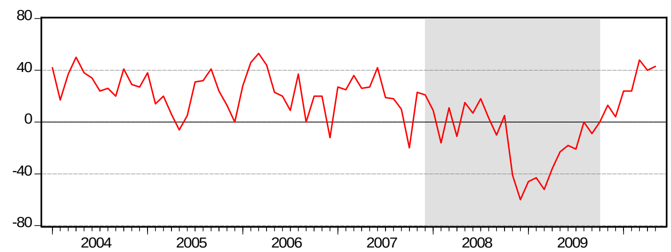


Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3
(-19, 17, 28, 18)
The backlog of orders index has now been positive for fourth consecutive month in May; until February of this year the index had been negative for two and a half years. Sustained growth in the backlog of orders is considered by many to be a prerequisite to job growth. This month's result came from thirty-six percent of respondents reporting "up" (44 percent in April), forty-six percent reporting "the same" (40 in April), and eighteen percent reporting "down" (16 in April).

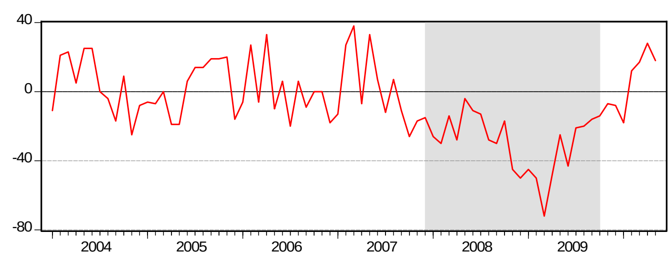
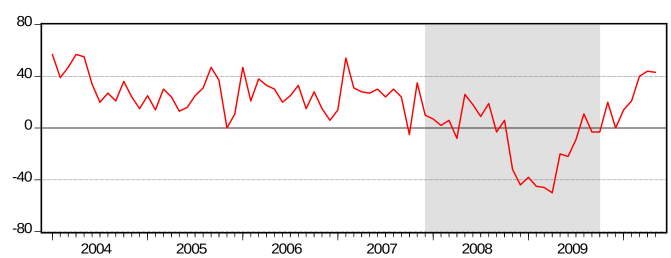


Figure 3. Backlog of Orders

PRODUCTION - Fig. 4
(3, 40, 44, 43)

The production index for May maintained a strongly positive level at 43, a subtle drop from its peak of 44 last month, which was its highest value since February 2007. Fifty percent of respondents reported production as "up" (56 in April), forty-three percent reported "the same" (32 in April), and seven percent reported "down" (12 in April). This index value, positive for the past seven months, represents an expansion in production.

Figure 4. Production



EMPLOYMENT - Fig. 5
(-3, 17, 28, 23)

The employment index receded from its peak of twenty-eight last month, ending a three-month rise but holding strong at twenty-three in May. Thirty-six percent of respondents reported increased employment (36 percent in April), forty-six percent of the respondents reported employment remained the same (56 percent in April), and eighteen percent reported decreased employment (8 percent in April). This indicator has been known to lag behind, but positive levels since February of this year could point to brighter expectations among purchasers with regard to the increase in orders being sustained.

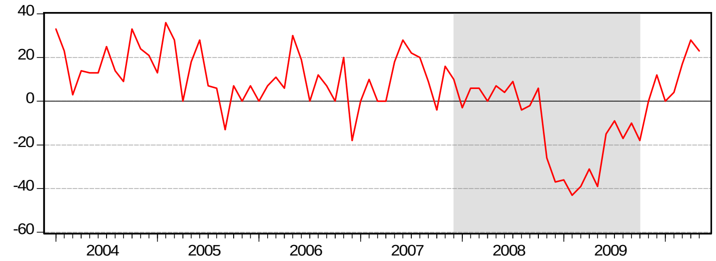


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(5, -13, -16, -31)
The vendor delivery performance index decreased substantially in May, falling to -31. This ties the October 2006 value, which had been the lowest since August 2006. Four percent of respondents reported faster deliveries (4 in April), sixty-two percent of survey respondents this month reported delivery times as the "same" (76 percent in April), and thirty-five percent reported slower delivery times (20 in April). Note that this value was positive for the entire duration of the recession – shown in grey on the right.

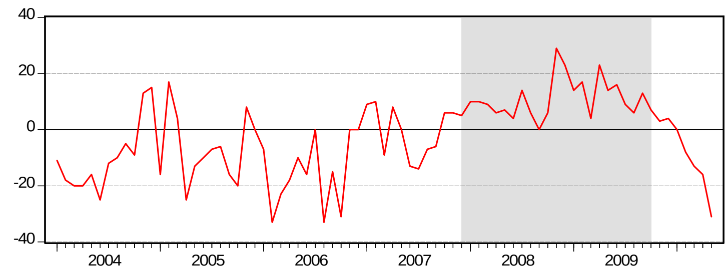


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(11, 35, 56, 77)

The monthly index measuring changing dollar amounts spent by regional purchasers increased sharply in May, rising to the unprecedented level of 77. A remarkable eighty-five percent of respondents indicated increased spending (65 percent in April), only eight percent reported no change (26 percent in April), and eight percent indicated decreased spending (9 percent in April). While this indicator has now improved for seven consecutive months, we are skeptical that this current level will be sustainable for any significant time. An important note is that this survey does not distinguish between increased spending due to rising prices and an increase in demand.

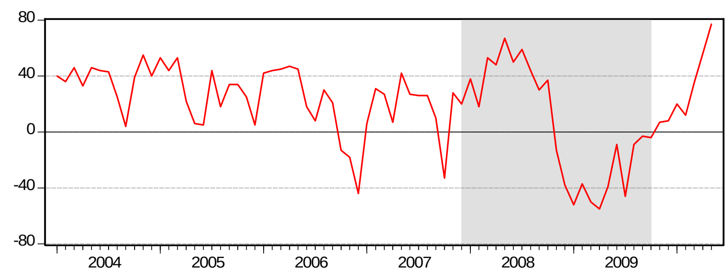


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(32, 40, 56, 61)
The commodity price index increased in May to an eye-catching level of 61, a continuation of a fairly steep upward trend toward the astronomical levels of the summer of 2008. This scale has now been positive for the last ten months, and we will be watching it closely amid concerns of inflation, especially given recent fiscal stimulus and sustained expansionary monetary policy. Sixty-five percent of respondents reported higher prices (60 percent in April), thirty-one percent reported the "same" (36 percent in April), and four percent reported lower prices (4 in April).

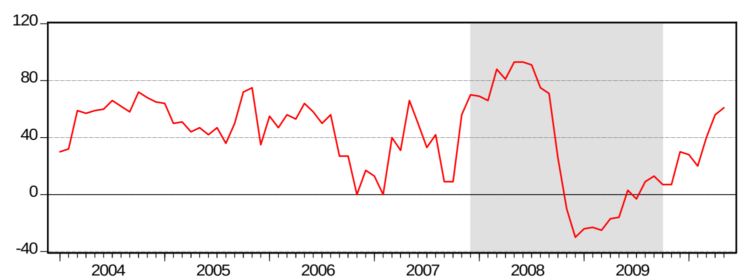


Figure 8. Commodity Prices

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
(22, 22, 28, 19)

The service price index fell back in May, with an index value of nineteen. This was caused by 27 percent of respondents reporting increases, 65 percent reporting no change in prices and 8 percent reporting price decreases. This index has been positive for ten straight months.

EQUIPMENT PRICES
(22, 13, 25, 22)

This month, the equipment price index fell slightly to twenty-two. Twenty-five percent of respondents reported increases, seventy-one percent reported no change, and four percent of respondents reported decreases. The pullback in service- and equipment prices tempered the substantial rise in commodity prices.

RAW MATERIAL INVENTORIES
(-16, 0, 12, -8)

The raw material inventories index also decreased this month: it fell back to *negative* eight. This index has been mainly negative or *zero* since the fall of 2007. Twenty-four percent of the reports indicated increased inventories, forty-four percent reported "no change", and thirty-two percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES
(-7, -9, -32, -8)

The finished goods inventories index reversed its dramatic plunge of the previous month, rising to *negative* 8. This was caused by nineteen percent of respondents indicating increased inventories, fifty-four percent reporting the same, and twenty-seven percent reporting finished goods inventories as "down".

BUYING PATTERNS

DOMESTICALLY
(10, 31, 52, 58)

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, 20, 36, 40)

ACROSS THE ATLANTIC
(-20, -10, 0, 7)

ACROSS THE PACIFIC
(5, 0, 55, 33)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Metals - copper, nickel, steel; electric motors, gasoline, *paper, *toner, *beef, *chicken
Down are: Wheat

In short supply: Pandemic supplies, *glastic, *molding materials, *stainless steel, *beef, *chicken

*indicates a change from the previous report; some goods may 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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STATISTICAL SUMMARY

Replies as a Percent of Total Replies

Index	Up	Same	Down
Production	50	43	7
New Orders	54	36	11
Backlog Of Orders	36	46	18
Employment	35	54	12

Index	Up	Same	Down
Prices for Commodities	65	31	4
Prices for Services	27	65	8
Prices for Equipment	25	71	4
Dollars Spent by Purchasing	85	8	8

Index	Up	Same	Down
Raw Materials	24	44	32
Finished Goods	19	54	27

Index	Quicker	Same	Slower
Deliveries	4	62	35

Change in the amount spent	Up	Same	Down
Domestically	73	12	15
For Firms Purchasing Internationally			
Elsewhere in the Americas	47	47	7
Across the Atlantic	20	67	13
Across the Pacific	40	53	7