

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

April 2010

PRESS RELEASE

**Important: Do Not Release Until
12:01 a.m. Friday, April 30th, 2010**

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of April 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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While the Greater Cincinnati Report on Business for the month of April shows a robust recovery in the Tri-State area, worries about increasing prices are starting to gain strength.

**National
Association of
Purchasing
Management**

Cincinnati

The Purchasing Managers Index – Cincinnati measured 61.2 in April, equalling last month's value. Any index value above 50 represents an increase in purchasing activity and expectations.

The Composite Price Index rose to 36.3, and uniform increases in the Commodity Price, Service Price, and Equipment Price indices are causing worries about possible inflation in the near future. The Dollars Spent Purchasing Index rose to 56, the highest it has been since July 2008.

UNIVERSITY OF
Cincinnati

CINCINNATI REPORT ON BUSINESS

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

The Cincinnati Purchasing Management Index (PMI) was 61.2 in April; a year ago at this time, it was at 35.5. PMI has now been over 50 for five out of the last six months, suggesting that purchasing activity is expanding at a sustained pace. The national March index value was 59.6; the national April 2009 index is not available as of this writing. A value of PMI above 50 indicates economic expansion.

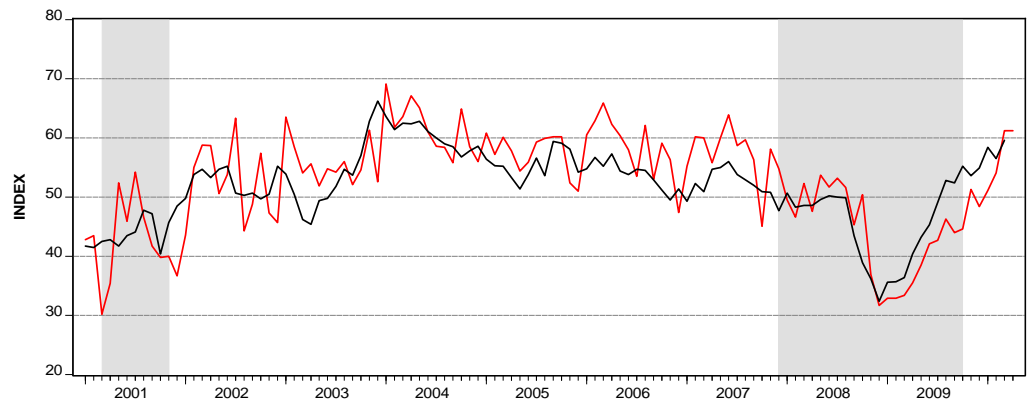


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Results from this month's survey of purchasers in the Cincinnati area show continued expansion of manufacturing activity. All of the major economic indicators are positive, and have shown robust evidence of recovery dating to late in 2009. The Cincinnati PMI stayed constant at 61.2, significantly above the all-important 50 line; since the financial crisis in 2008, it has steadily and incrementally increased! Note that—while other indices are unadjusted, PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce. Many respondents reported increasing prices in a variety of categories; we are on watch for evidence of inflation. The Employment index, which represents a purchaser's view of the labor market that is attracting much attention lately, has not been negative since October 2009. It rose to its highest value in nearly three years.

Dollars spent in purchasing was 56, significantly higher than any other value since before the financial crisis. The new orders index declined slightly, while the production index rose slightly. The index for backlog of orders rose even farther above zero; it had been negative since the summer of 2007, falling to -18 as recently as January. The index for inventories of finished goods declined sharply, falling from -9 to -32. The equipment price index rose to 25 from 13. The commodity price index rose to 56, which is just short of the stratospheric levels of summer 2008. Because of the uniformly increasing nature of price increases, we are now concerned about the possibility of inflation in the near future. A silver lining is that this inflation will help institutions and people reduce their debts, a deleveraging which is essential to economic recovery; the increase in prices, however, could also have a harmful impact on standard of

living, particularly for those individuals who are currently unemployed. The reported raw material inventories index rose to positive 12; only twice out of the last fifteen months has either inventory index number been above zero, so observing motion in future months will affect our ability to interpret this. Because restocking of inventories contributed to GDP growth during the fourth quarter of 2009, we are particularly anxious to see if there is sustained increase here. With respect to geographic buying patterns, we see minor improvement in all markets: the domestic purchasing index rose to 52, while buying elsewhere in the Americas was at 36; meanwhile, the index for buying from across the Atlantic rose to zero (it had been negative), while the index for buying from across the Pacific rose to 55. Worries about the stalling recovery in Europe are based on the same factors that are holding down our Atlantic index.

Production, Employment, New Orders, and Backlog of Orders

In this month, we observe continued growth in all of these indicators; our most skeptical readers may wonder why growth in these indicators and the general business optimism can be paired with continued economic struggling. Our response to this thought at AERI is to remind readers that we had a nine month period of catastrophic decrease in production and new orders that ended in the middle of 2009. Even though we're starting to see improvements in these areas, we still have a fair climb to return to where activity levels were pre-recession. In the labor market, that damage continues to be felt; while employment is expanding, there are many fewer jobs in the Cincinnati MSA today than there were in 2008. Economists tend to focus on these change measures because we are ultimately concerned with the ability that people have to *improve* their standards of living.

Table 1. The Cincinnati Economy at a Glance

Index	Series Apr.	Index Mar.	Direction	Rate of Change	Trend*
Cincinnati PMI	61.2	61.2	↑	Same	4
New Orders	40	48	↑	Slower	3
Backlog of Orders	28	17	↑	Faster	3
Production	44	40	↑	Faster	4
Employment	28	17	↑	Faster	4
Vendor Deliveries	-16	-13	↓	Faster	3
Raw Material Inventories	12	0	↑	Faster	1
Finished Goods Inventories	-32	-9	↓	Faster	4
Composite Price Index	36.3	25.0	↑	Faster	11

*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, 24, 48, 40)

The New Orders index in April was slightly lower than in the previous month; nevertheless, this decrease came after an impressive 100 point improvement over the previous year. In fact, this is actually the first two-month stretch with index values over forty since the spring of 2006. Fifty-six percent of replies indicated new orders were "up" (52 in March), twenty-eight percent indicated "the same" (44 in March) and sixteen percent reporting "down" (4 in March). It has now been positive for the last four months, suggesting that this expansion may persist.

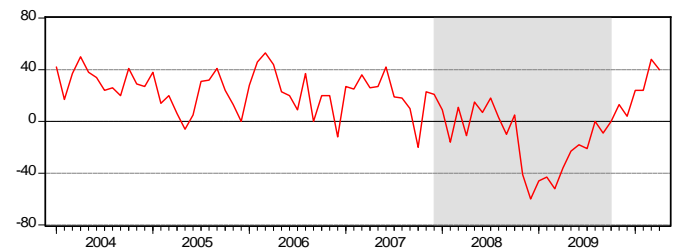


Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3

(-18, 12, 17, 28)

The backlog of orders index increased for the third consecutive month in April; of these three increases, however, the greatest was the winter increase. This index measures the gap between orders and the ability of manufacturers to meet those orders with their current employment levels; sustained growth in the backlog of orders is a pre-requisite to job growth. This month's result came from 44 percent of respondents reporting "up" (30 percent in March), 40 percent reporting "the same" (57 in March), and 16 percent reporting "down" (13 in March).

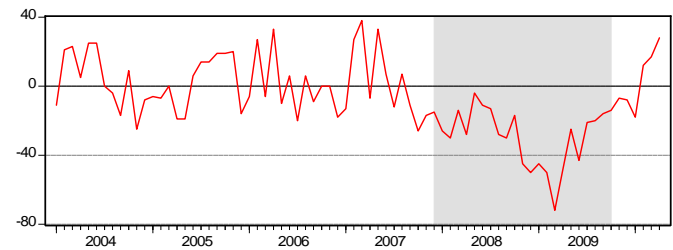


Figure 3. Backlog of Orders

PRODUCTION - Fig. 4

(3, 21, 40, 44)

The production index for April rose slightly to positive 44, representing a new peak on its current upward climb and the highest value since February 2007. Fifty-six percent of respondents reported production as "up" (44 in March), thirty-two percent reported "the same" (52 in March), and twelve percent reported "down" (4 in March). The production index has been zero or higher for the last six months.

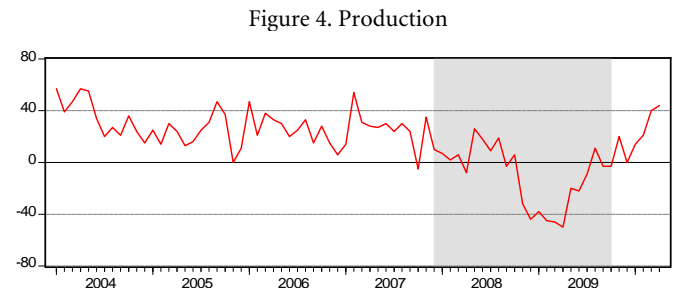


Figure 4. Production

EMPLOYMENT - Fig. 5
(-3, 4, 17, 28)

The employment index has been at zero or above for six months, with a three-month rise through April. It is currently at twenty-eight. Thirty-six percent of respondents reported increased employment (26 percent in March), fifty-six percent of the respondents reported employment remained the same (65 percent in March), and eight percent reported decreased employment (9 percent in March). Note that this is merely a *change* in employment, not an overall level of employment. Expectations have been that this indicator would lag the rest of the recovery; because of the harsh climate for jobs in 2009, the overall number of jobs in the Cincinnati MSA today is about the same as it was in February of 2003.

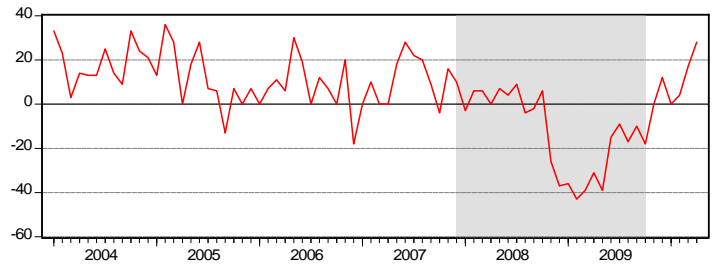


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(5, -8, -13, -16)

The vendor delivery performance index fell back below zero this month, continuing a decline from September 2009's mini-peak; it measured -16 in April, the lowest value since October 2006. Four percent of respondents reported faster deliveries (0 in March), seventy-six percent of survey respondents this month reported delivery times as the "same" (87 percent in March), and twenty percent reported slower delivery times (13 in March). Unlike other indicators, this one had been positive every month beginning with October 2008, and was above zero for the entirety of the recession.

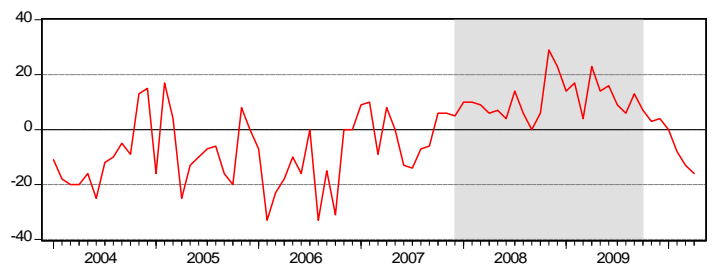


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(10, 12, 35, 56)

The monthly index measuring changing dollar amounts spent by regional purchasers increased substantially in April, rising to the lofty level of fifty-six; this is still 102 points above the trough during the summer of 2009. Sixty-five percent of respondents indicated increased spending (44 percent in March), twenty-six percent reported no change (48 percent in March), and nine percent indicated decreased spending (9 percent in March). This indicator has improved for six consecutive months. Note that this scale measures a rate of change, i.e. continued increase in purchasing activity. This survey item is unable to distinguish between an increase in spending due to rising prices and an increase in demand.

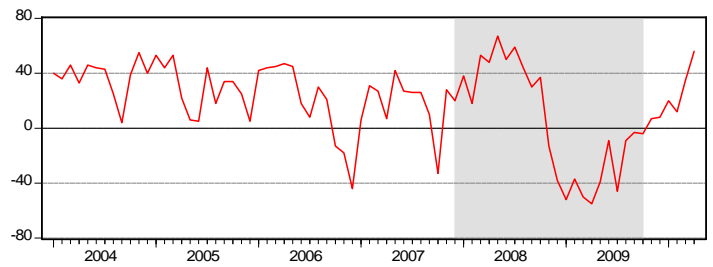


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(32, 20, 40, 56)

The commodity price index increased in April, rising to 56. This scale has now been positive for the last nine months--although this is the highest value--and this has happened in the midst of much public discussion about the fear of inflation because of the substantial fiscal stimulus; it was still higher than this (astronomically high, at least 70) during the run-up in gas prices in summer 2008. Sixty percent of respondents reported higher prices (44 percent in March), thirty-six percent reported the "same" (52 percent in March), and four percent reported lower prices (4 in March).

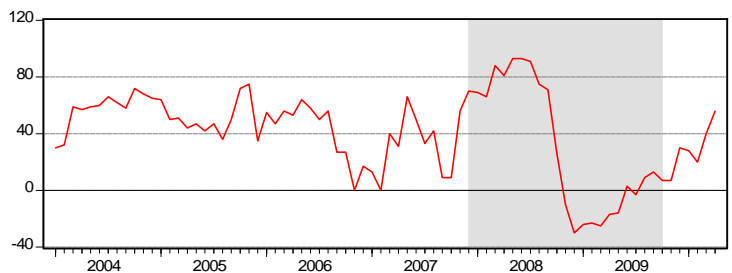


Figure 8. Commodity Prices

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, 4, 22, 28)

The service price index rose slightly in April, with an index value of *positive* twenty-eight. This was caused by 32 percent of respondents reporting increases, 64 percent reporting no change in prices and 4 percent reporting price decreases. This figure represents a high over the past twelve months.

EQUIPMENT PRICES

(21, 5, 13, 25)

This month, the equipment price index rose from thirteen to twenty-five. Twenty-nine percent of respondents reported increases, sixty-seven percent reported no change, and four percent of respondents reported decreases. All three indices of prices have been positive since late in 2009.

RAW MATERIAL INVENTORIES

(-16, -16, 0, 12)

The raw material inventories index also increased this month: it measured *positive* twelve. This index has not had a sustained positive period since the fall of 2007. Thirty-three percent of the reports indicated increased inventories, forty-six percent

reported “no change”, and twenty-one percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES

(-6, -20, -9, -32)

During 2009, the finished goods inventories index was *zero* or below- for all but one month: it has plunged back into negative territory, with a value for April 2010 of *negative* 32. This was caused by twelve percent of respondents indicating increased inventories, forty-four percent reporting the same, and forty-four percent reporting finished goods inventories as “down”.

BUYING PATTERNS

DOMESTICALLY

(9, 16, 31, 52)

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, 9, 20, 36)

ACROSS THE ATLANTIC

(-20, 0, -10, 0)

ACROSS THE PACIFIC

(5, 9, 40, 55)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Metals - aluminum, copper, *nickel, steel; *electric motors, *gasoline, *sugar

Down are: Wheat, *soy oil

In short supply: Pandemic supplies, *radioisotopes, *nickel shot, *rail crops, *busheling

*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	56	32	12
New Orders	56	28	16
Backlog Of Orders	44	40	16
Employment	36	56	8

Index	Up	Same	Down
Prices for Commodities	60	36	4
Prices for Services	32	64	4
Prices for Equipment	29	67	4
Dollars Spent by Purchasing	65	26	9

Index	Up	Same	Down
Raw Materials	33	46	21
Finished Goods	12	44	44

Index	Quicker	Same	Slower
Deliveries	4	76	20

Change in the amount spent	Up	Same	Down
Domestically	60	32	8
For Firms Purchasing Internationally			
Elsewhere in the Americas	36	64	0
Across the Atlantic	9	82	9
Across the Pacific	55	45	0

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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