CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

March 2010

PRESS RELEASE

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SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of March 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 March shows robust economic expansion in the Tri-State area.

The Purchasing Managers Index – Cincinnati measured 61.2 in March, the highest value since the summer of 2006. Any index value above 50 represents an increase in purchasing activity and expectations.

The **Employment index** rose from *positive* 4 to 17; it has not been negative since October 2009. Buying from across the Atlantic has been decreasing relative to buying from other geographic areas. In a contrast with national trends, the **Inventories index** showed a decrease in inventories.

National Association of Purchasing Management
Cincinnati

UNIVERSITY OF Cincinnati

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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 March 2010

The Cincinnati Purchasing Management Index (PMI) was 61.2 in March; a year ago at this time, it was at 33.4. During the past year, we have seen economic improvements in every respect except the labor market (see below). Now, PMI has been over 50 for every month of the current year, the first such stretch since Jan.-Mar. 2007. The national February index value was 56.5; the national March 2009 index is not available as of this writing. A value of PMI above 50 indicates economic expansion.

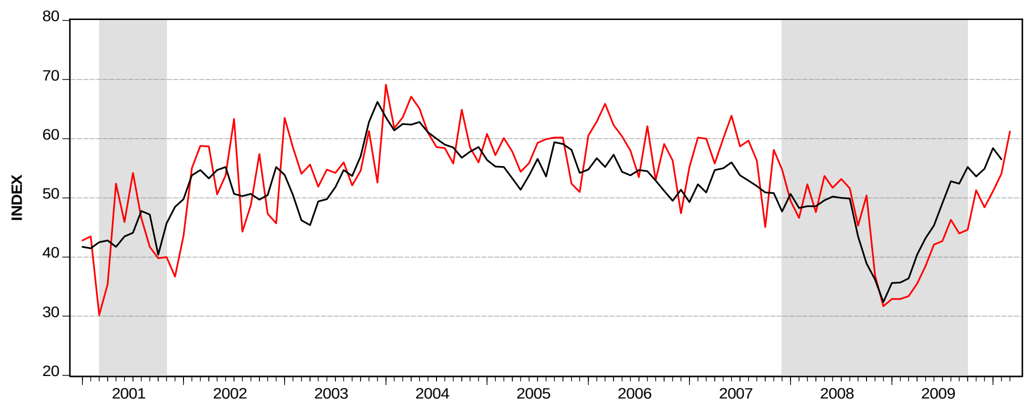


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Results from this month's survey of purchasers in the Cincinnati area show robust economic recovery: the trajectories of important indicators are positive, with all of them up strongly during the course of the first quarter of 2010. The **Cincinnati PMI** rose to 61.2; this is the highest reported figure since August 2006. Note that—while other indices are unadjusted—the Purchasing Managers' Index is seasonally adjusted as prescribed by the U.S. Department of Commerce. There are concerns building over rising prices; while we saw a drop-off during winter of 2010, the rate of price increase is now higher even than in the holiday shopping season. The Employment index rose to *positive* seventeen, suggesting that purchasers are aggressively seeking new resources and labor; much public attention is on how quickly the labor market will come back during the next few months. The Employment index has not been negative since October 2009.

Boosted by strong expectations, the **Dollars spent in purchasing** index increased to 35, a significant boost in the growth of purchasing activity when compared to the month before. The **new orders** index and **production index** also increased substantially. The index for **backlog of orders** remained above *zero*; the last time it was positive before February of this year was August of 2007. The index for **inventories of finished** goods rose as well; it has been positive only once since December of 2008. The **equipment price** index rose, as did the **commodity price** index. This report is starting to show rising prices beginning late in 2009. The extent to which these rising prices become a problem for the recovery will be determined by many factors beyond the control of those in Cincinnati, including the behavior of the Federal Reserve with regard to monetary policy.

With regard to inventories, the Cincinnati area is showing a continued decline: many of the firms that got caught with too much inventory in the holiday season of 2008 have worked hard to minimize their exposure since then; nevertheless, restocking of inventories contributed significantly to national GDP growth during the fourth quarter of 2009: in Cincinnati, inventories were last reported as increasing during the summer of 2008. With respect to geographic buying patterns, we see improvement everywhere but across the Atlantic: the **domestic purchasing** index rose to 31, while buying elsewhere in the Americas was at 20; meanwhile, the index for buying from across the **Atlantic** fell back to -10, probably because of fears about the Euro, while the index for buying from across the **Pacific** rose to 40. This last number will change significantly if there is motion with regard to Chinese *renminbi*.

Production, Employment, New Orders, and Backlog of Orders

In this space in the previous months, we have urged readers to pay careful attention to those indicators that may have the highest impact in forecasting true economic recovery. With the improvements in New Orders, Production, and Backlog of Orders already noted, we are finally starting to see an uptick in employment, something we probably all want to happen: the Employment index has moved solidly and strongly into expansion territory. The **Composite Price Index – Cincinnati** measured 25.0 in March; it has now surpassed the peak it reached during the Holiday rush in December 2009. Any index value above zero represents an increase in average prices.

Table 1. The Cincinnati Economy at a Glance

Index	Series Index Mar.	Feb.	Direction	Rate of Change	Trend*
Cincinnati PMI	61.2	54.1	↑	Faster	3
New Orders	48	24	↔	Faster	2
Backlog of Orders	17	12	↑	Faster	2
Production	40	21	↑	Faster	3
Employment	17	4	↑	Faster	3
Vendor Deliveries	-13	-8	↓	Faster	2
Raw Material Inventories	0	-16	↔	Slower	1
Finished Goods Inventories	-9	-20	↓	Slower	3
Composite Price Index	25.0	9.7	↑	Faster	10

*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, 24, 48)
After holding steady in February, the New Orders index rose significantly during the month of March; it is one hundred points above where it was a year ago. Fifty-two percent of replies indicated new orders were "up" (40 in February), forty-four percent indicated "the same" (44 in February) and four percent reported "down" (16 in February). The last time the index was higher was January of 2003; together with the fact that it has now been positive for the last four months, there is ample reason to believe that this expansion may persist.

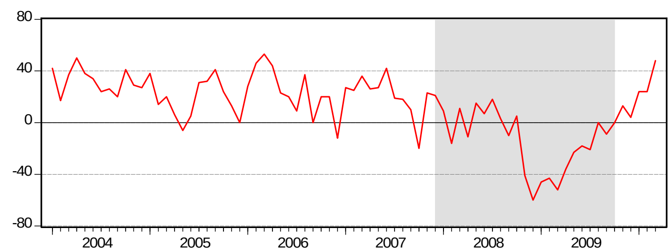


Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3
(-19, -18, 12, 17)
The backlog of orders index increased modestly in the month of March; long-time readers will note that the positive values for the last two months followed two and a half years of negative values. The last time it was positive before that stretch was August 2007. This month's result came from 30 percent of respondents reporting "up" (26 percent in February), 57 percent reporting "the same" (64 in February), and 13 percent reporting "down" (12 in February).

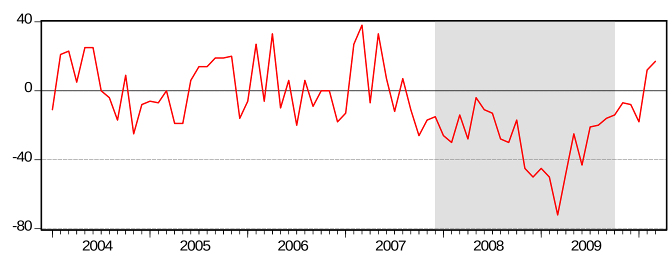
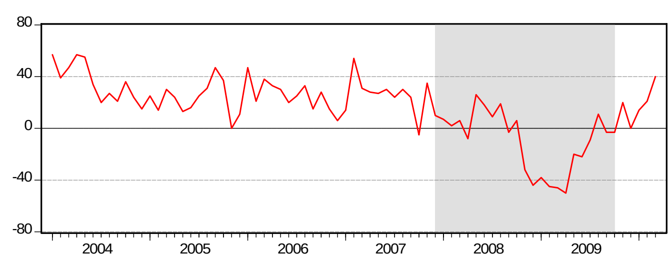


Figure 3. Backlog of Orders

PRODUCTION - Fig. 4
(2, 14, 21, 40)

The production index for March rose significantly from positive 21 to positive 40; this newly attained peak is 86 points above where it was in March 2009, and the highest value since February 2007. Forty-four percent of respondents reported production as "up" (38 in February), fifty-two percent reported "the same" (46 in February), and four percent reported "down" (17 in February). The production index has not been negative since October 2009; readers should note that this positive index value represents an expansion in production.

Figure 4. Production



EMPLOYMENT - Fig. 5
(-4, 0, 4, 17)

The Employment index rose solidly into positive territory, closing at 17, the highest index value in nearly three years. Twenty-six percent of respondents reported increased employment (20 percent in February), 65 percent of the respondents reported employment remained the same (64 percent in February), and 9 percent reported decreased employment (16 percent in February). Increases in employment are a sign that purchasers expect the improvement in orders to be sustained in the near future, particularly given the significant costs associated with making a new hire. For this reason, this has been the indicator that most authorities expected to lag the rest of the recovery.

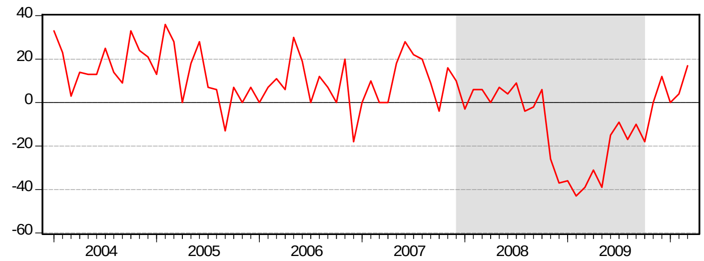


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(6, 0, -8, -13)
The vendor delivery performance index remained negative for a second straight month, continuing a decline from September 2009's mini-peak. Not a single respondent reported faster deliveries this month (compared to four percent in February), while eighty-seven percent of survey respondents this month reported delivery times as the "same" (84 percent in February), and thirteen percent reported slower delivery times (12 in February). Unlike other indicators, this one had been positive every month beginning with October 2008, and was above zero for the entirety of the recession. Persistent changes in employment should make it more realistic for employers to meet their obligations and raise this index over the coming months.

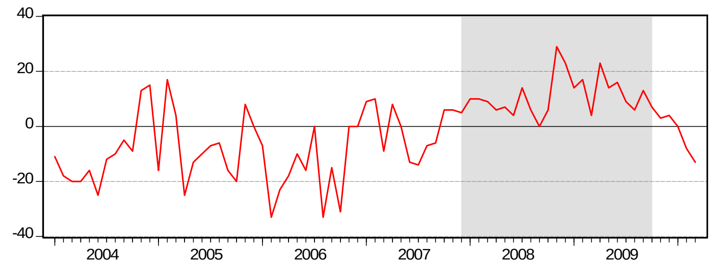


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(9, 20, 12, 35)

After a slight pullback in February, the monthly index measuring changing dollar amounts spent by regional purchasers increased substantially in March, rising to thirty-five. Forty-four percent of respondents indicated increased spending (40 percent in February), forty-eight percent reported no change (32 percent in February), and nine percent indicated decreased spending (28 percent in February). This indicator has now improved in seven out of the previous ten months.

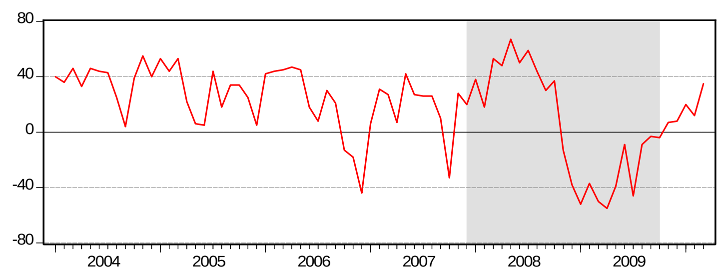


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(31, 28, 20, 40)
The commodity price index increased to 40 in March. While initially negative during the worst of the credit crisis, this scale has now been positive for nine out of the last ten months; the last time it was anything comparable to February and March's values was in October 2008. Prior to that month, the index was astronomically high (at least 70). Forty-four percent of respondents reported higher prices (36 percent in February), fifty-two percent reported the "same" (48 percent in February), and four percent reported lower prices (16 in February).

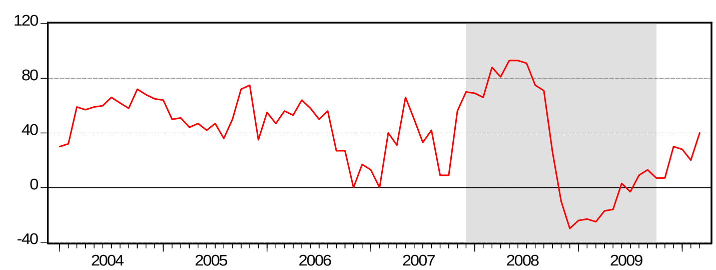


Figure 8. Commodity Prices

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, 7, 4, 22)

The service price index rose in March, with an index value of *positive* twenty-two; the last time it was higher was October 2008. This was caused by 22 percent of respondents reporting increases and 78 percent reporting no change in prices. Its lowest value during the past twelve months was -14.

EQUIPMENT PRICES
(21, 4, 5, 13)

While the equipment price index had varied little during the previous few months—measuring between *zero* and *positive* 14—it did return to the upper end of that range in March. Eighteen percent of respondents reported increases, seventy-seven percent reported no change, and five percent of respondents reported decreases. The last time any of our price measures has been negative was July 2009.

RAW MATERIAL INVENTORIES
(-17, -25, -16, 0)

The raw material inventories index improved somewhat this month, rising to *zero*, well above its average over the last thirty-six months. Eighteen percent of the reports indicated increased inventories, sixty-four percent reported "no change", and eighteen percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES
(-5, -34, -20, -9)

During 2009, the finished goods inventories index was *zero* or below- for all but one month: this year has continued this trend, with a value for March 2010 of *negative* 9. This was caused by thirteen percent of respondents indicating increased inventories, 65 percent reporting the same, and 22 percent reporting finished goods inventories as "down".

BUYING PATTERNS

DOMESTICALLY
(7, 18, 16, 31)

The following percentages consider only those firms that buy internationally; compared to previous months, they show definite improvement from the depths of a serious global downturn that was evident in previous months.

ELSEWHERE IN THE AMERICAS
(-10, 6, 9, 20)

ACROSS THE ATLANTIC
(-20, -11, 0, -10)

ACROSS THE PACIFIC
(5, 22, 9, 40)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Aluminum, copper, steel, paper, toner, beef, soy, *brass, *computer memory, *fractional motors, *stainless steel, *sutures

Down are: Carbon steel, *chicken, *wheat

In short supply: Pandemic supplies - masks, gloves, gowns

*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.

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STATISTICAL SUMMARY

Replies as a Percent of Total Replies

Index	Up	Same	Down
Production	44	52	4
New Orders	52	44	4
Backlog Of Orders	30	57	13
Employment	26	65	9

Index	Up	Same	Down
Prices for Commodities	44	52	4
Prices for Services	22	78	0
Prices for Equipment	18	77	5
Dollars Spent by Purchasing	44	48	9

Index	Up	Same	Down
Raw Materials	18	64	18
Finished Goods	13	65	22

Index	Quicker	Same	Slower
Deliveries	0	87	13

Change in the amount spent	Up	Same	Down
Domestically	44	44	13
For Firms Purchasing Internationally			
Elsewhere in the Americas	20	80	0
Across the Atlantic	0	90	10
Across the Pacific	40	60	0