CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

February 2010

PRESS RELEASE

Important: Do Not Release Until
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SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of February 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 February shows economic recovery in the Tri-State area.

The Purchasing Managers Index – Cincinnati measured 54.1 in February, the highest value since the beginning of the recession. Any index value above 50 represents an increase in purchasing activity and expectations.

The **Backlog of Orders Index** rose above *zero* for the first time in thirty months, while the **Production Index** rose from 14 to 21. The **Employment index** rose to *positive* 4; it has not been negative since October 2009.

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

The Cincinnati Purchasing Management Index (PMI) was 54.1 in February; a year ago at this time, it was at 35.7, a number so dismal that the meager improvements of the next few months were celebrated as achievements, even while the economy continued to contract. PMI has been over 50 for three out of the last four months, the first such stretch since the summer of 2008. The national January index value was 58.4; the national February 2009 index is not available as of this writing. A value of PMI above 50 indicates economic expansion.

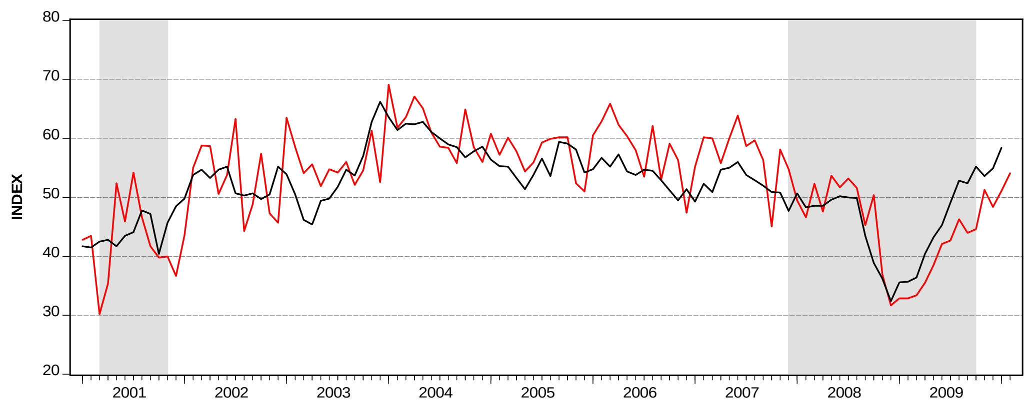


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Results from this month's survey of purchasers in the Cincinnati area show strong, continued evidence of an economic recovery: the trajectories of major indicators are clearly toward economic growth, with all of them up strongly since October of 2009. The **Cincinnati PMI** rose farther above the all-important 50 line, settling at 54.1; the last time it was higher was December 2007, which was declared *ex post* as the very beginning of the recession: what a ride we have had in twenty-six months since then! Note that—while other indices are unadjusted, PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce. Most respondents reported increasing prices, but the rate at which they are increasing has slowed since last month. The Employment index, which represents a purchaser's view of the labor market that is attracting much attention lately, rose to *positive* four. It has not been negative since October 2009.

Dollars spent in purchasing was 12, down somewhat from the month before. The **new orders** index stayed constant at 24, while the **production index** rose from 14 to 21. The index for **backlog of orders** finally rose above *zero*; it had been negative since the summer of 2007, falling to -18. The last time it was positive was August of 2007. The index for **inventories of finished** goods rose significantly, climbing from -34 to -20; it has been positive only once since December of 2008. The **equipment price** index fell from 8 to 4. The **commodity price** index fell to 28, which is below its three-year moving average. Rising prices have been a worry since last summer, but our price indices have eased off of the high values they reached late in 2009. The federal reserve now has the ability to pay interest on deposits banks have with it: will this additional tool help to control the rising tide of inflation that worries so many?

The reported **raw material inventories** index rose to -16 from -25; only once out of the last fifteen months has either inventory index number been above zero. Many of the firms that got caught with too much inventory in the holiday season have worked hard to minimize their exposure since then; nevertheless, restocking of inventories contributed significantly to GDP growth during the fourth quarter of 2009. With respect to geographic buying patterns, we see only minor changes: the **domestic purchasing** index stayed at 16, while buying elsewhere in the Americas was at 9; meanwhile, the index for buying from across the **Atlantic** improved to zero, while the index for buying from across the **Pacific** fell to 9. The domestic purchasing index has now been positive for four consecutive months, a clear sign of recovery to come.

Production, Employment, New Orders, and Backlog of Orders

When looking for the signs of recovery, we tend to focus on New Orders, Production, and Employment. All of these have now been positive or zero for a quarter, suggesting that the recovery is under way. In this space last month, we urged readers to watch the Backlog of Orders series closely. Remarkably, that index turned positive for the first time in 30 months, suggesting that firms' ability to meet their orders is finally lagging behind the inflow of new orders! For those watching for signs of recovery, this is one of them. If Orders continue to come at this pace, firms will soon have to increase employment—something we probably all want to happen—in order to keep up. The **Composite Price Index – Cincinnati** measured 9.7 in February; it has been positive for nine consecutive months, although it is below the peak it reached during the Holiday rush in December. Any index value above zero represents an increase in average prices.

Table 1. The Cincinnati Economy at a Glance

Index	Series Index Feb.	Jan.	Direction	Rate of Change	Trend*
Cincinnati PMI	54.1	51.1	↑	Faster	2
New Orders	24	24	↔	Slower	1
Backlog of Orders	12	-18	↑	Slower	1
Production	21	14	↑	Faster	2
Employment	4	0	↑	Faster	2
Vendor Deliveries	-8	0	↓	Faster	1
Raw Material Inventories	-16	-25	↓	Slower	18
Finished Goods Inventories	-20	-34	↓	Slower	3
Composite Price Index	9.7	13.0	↑	Slower	9

*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, 4, 24, 24)
The New Orders index in February held steady at a value of 24, after having fallen back slightly in January. The last time the index was higher was June of 2007; it is now eighty-four points above the bottom reached in at the end of 2008. Forty percent of replies indicated new orders were "up" (41 in January), forty-four percent indicated "the same" (41 in January) and sixteen percent reporting "down"(17 in January). It has now been positive for the last four months, suggesting that this expansion may persist.

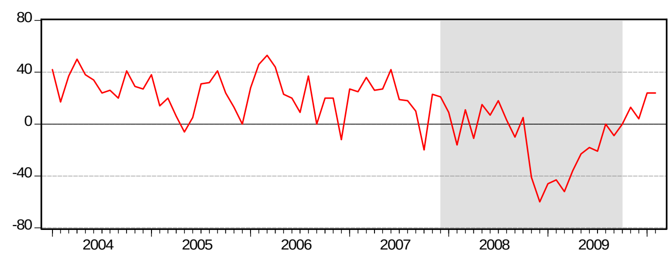


Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3
(-19, -8, -18, 12)
After two months of decreases, the backlog of orders index increased in February; it is remarkable that this increase was the first positive value of the series in two and a half years. The last time it was positive was August 2007. This month's result came from 26 percent of respondents reporting "up" (10 percent in January), 64 percent reporting "the same" (62 in January), and 12 percent reporting "down" (28 in January).

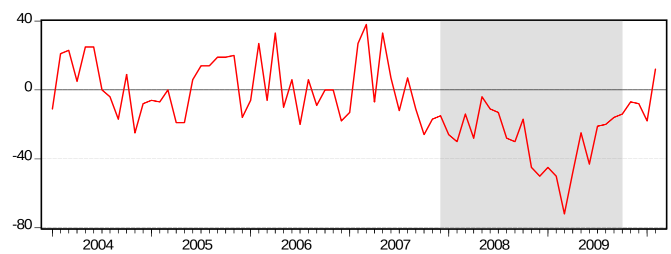
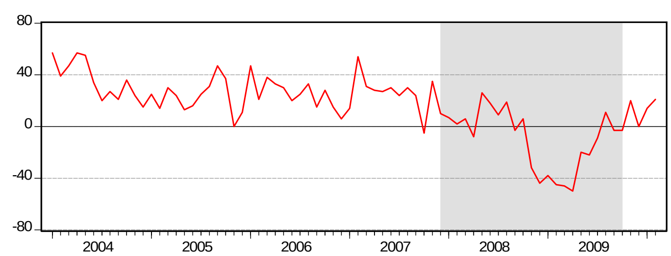


Figure 3. Backlog of Orders

PRODUCTION - Fig. 4
(2, 0, 14, 21)

The production index for February rose significantly to positive 21, a value 66 points above where it was in February 2009, and the highest value since May 2008. Thirty-eight percent of respondents reported production as "up" (31 in January), forty-six percent reported "the same" (52 in January), and seventeen percent reported "down" (17 in January). The maximum index value in this three-year period was 54, reached in February, 2007. The production index has been -3 or higher for the last seven months.

Figure 4. Production



EMPLOYMENT - Fig. 5
(-4, 12, 0, 4)

After giving back its entire *sortie* into positive territory last month, the employment index rose slightly to *positive* four. Twenty percent of respondents reported increased employment (14 percent in January), 64 percent of the respondents reported employment remained the same (72 percent in January), and 16 percent reported decreased employment (14 percent in January). This is the indicator that most authorities expect to lag the rest of the recovery.

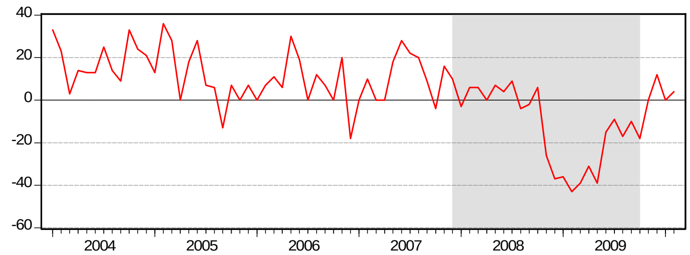


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(6, 4, 0, -8)
The vendor delivery performance index fell back below *zero* this month, continuing a decline from September 2009's mini-peak. Four percent of respondents reported faster deliveries (7 in January), eighty-four percent of survey respondents this month reported delivery times as the "same" (86 percent in January), and twelve percent reported slower delivery times (7 in January). Unlike other indicators, this one had been positive every month beginning with October 2008, and was above zero for the entirety of the recession.

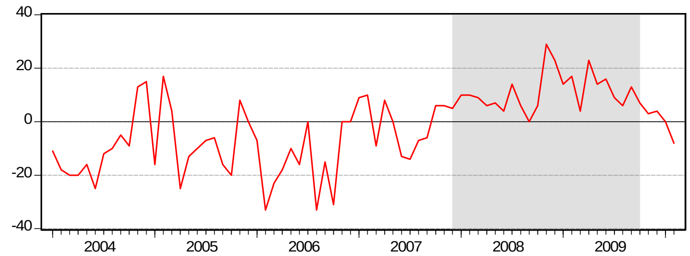


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(9, 8, 20, 12)

The monthly index measuring changing dollar amounts spent by regional purchasers decreased slightly in February, falling to twelve; this is still forty-nine points higher than the index value for February 2009. Forty percent of respondents indicated increased spending (41 percent in January), thirty-two percent reported no change (38 percent in January), and twenty-eight percent indicated decreased spending (21 percent in January). This indicator had improved for six out of the previous eight months, before this slight decrease. Note that this scale measures a rate of change, i.e. continued purchasing activity.

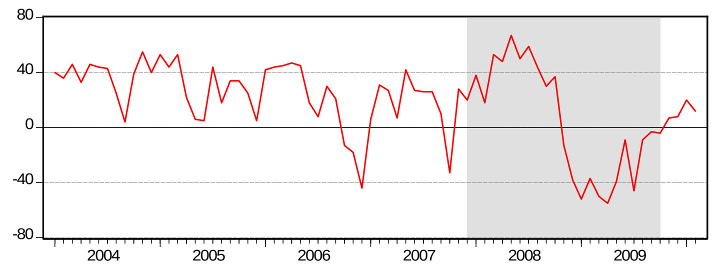


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(31, 30, 28, 20)
The commodity price index decreased in February, falling to 20. This scale has now been positive for eight out of the last nine months, and this has happened in the midst of much public discussion about the fear of inflation; the last time it was anything comparable to January and February's values was in October 2008; prior to that month, the index was astronomically high (at least 70). Thirty-six percent of respondents reported higher prices (35 percent in January), forty-eight percent reported the "same" (59 percent in January), and sixteen percent reported lower prices (7 in January).

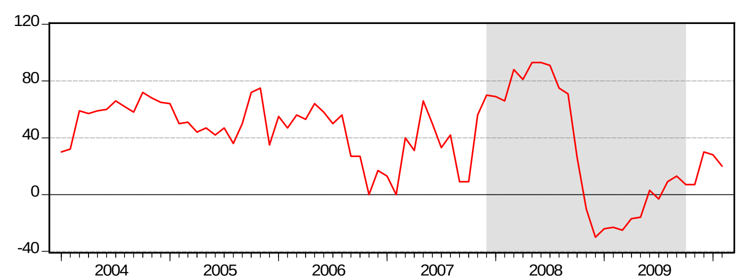


Figure 8. Commodity Prices

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, 15, 7, 4)

The service price index fell slightly in February, with an index value of *positive* four. This was caused by 12 percent of respondents reporting increases, 80 percent reporting no change in prices and 8 percent reporting price decreases. During the past twelve months, it has varied between -14 and *positive* 15.

EQUIPMENT PRICES
(21, 8, 4, 5)

During the past few months, the equipment price index has varied little, measuring between *zero* and *positive* 14; this month it was at five. Thirteen percent of respondents reported increases, seventy-nine percent reported no change, and eight percent of respondents reported decreases. All three indices of prices have been positive for the last four months.

RAW MATERIAL INVENTORIES
(-16, -24, -25, -16)

The raw material inventories index improved somewhat this month: it measured -16, exactly the value of its average over the last thirty-six months. Thirteen percent of the reports indicated increased inventories, fifty-eight percent reported "no change", and twenty-nine percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES
(-5, -31, -34, -20)

During 2009, the finished goods inventories index was *zero* or below- for all but one month: this month it showed some improvement, with a value for February 2010 of *negative* 20. This was caused by eight percent of respondents indicating increased inventories, 64 percent reporting the same, and 28 percent reporting finished goods inventories as "down".

BUYING PATTERNS

DOMESTICALLY
(6, 4, 18, 16)

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, -40, 6, 9)

ACROSS THE ATLANTIC
(-19, -36, -11, 0)

ACROSS THE PACIFIC
(5, -36, 22, 9)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Aluminum, copper, steel, paper, beef, soy, *toner, *freight, *sugar, *polypropylene

Down are: *Natural gas, *copper, *carbon steel

In short supply: Pandemic supplies, chicken wings, *gowns, *syringes

*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	38	46	17
New Orders	40	44	16
Backlog Of Orders	24	64	12
Employment	20	64	16

Index	Up	Same	Down
Prices for Commodities	36	48	16
Prices for Services	12	80	8
Prices for Equipment	13	79	8
Dollars Spent by Purchasing	40	32	28

Index	Up	Same	Down
Raw Materials	13	58	29
Finished Goods	8	64	28

Index	Quicker	Same	Slower
Deliveries	4	84	12

Change in the amount spent	Up	Same	Down
Domestically	32	52	16
For Firms Purchasing Internationally			
Elsewhere in the Americas	27	55	18
Across the Atlantic	18	64	18
Across the Pacific	27	55	18

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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