

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

January 2010

PRESS RELEASE

**Important: Do Not Release Until
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SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of January 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 December shows a regression from last month's gains.

**National
Association of
Purchasing
Management**

Cincinnati

The Purchasing Managers Index – Cincinnati measured 51.1 in January, the second time in three months it has been above 50. Any index value below 50 represents a decrease in purchasing activity and expectations.

The New Orders Index rose from 4 to 24, while the production index rose from zero to 14. The Employment index returned to zero; it had been positive for the first time since the remarkable collapse of the local economy in December 2008.

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

The Cincinnati Purchasing Management Index (PMI) was 51.1 in January; a year ago at this time, it was at a near-record low of 32.9. The goal was just to break 40; now it has been over 50 for two out of the last three months, the first such stretch since August-October of 2008. The national December index value was 55.9; the national January 2009 index is not available as of this writing. A value of PMI above 50 indicates economic expansion.

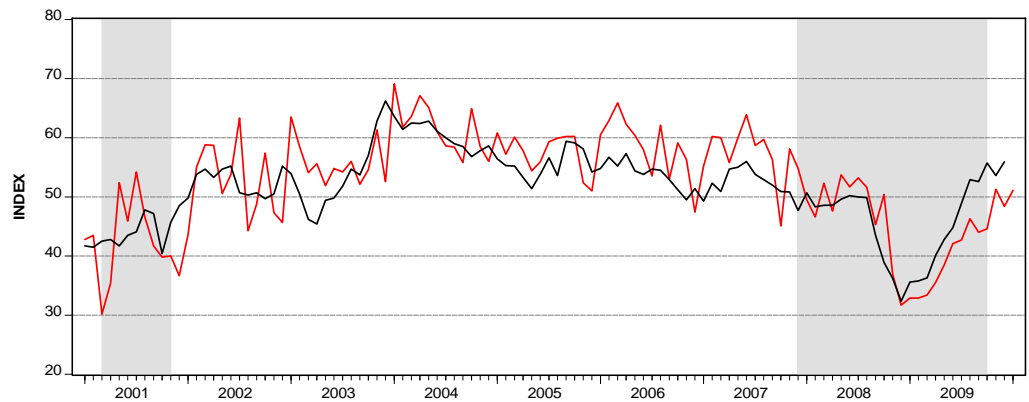


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Last month, we characterized the data from participants in the Greater Cincinnati Report on Business (ROB) monthly survey of purchasing managers as showing “a general hiccup in [the] recovery.” This month, it seems that we are moving in the right direction again: the trajectories of major indicators were mixed in the short term. Our longer term trend, however, is clearly upwards. All of the major indicators are up strongly since October. The Cincinnati PMI rose above the all-important 50 line. This indicates economic expansion. Most respondents reported increasing prices, but the rate at which they are increasing may be slower than expected last month. The all-important Employment index was a source of disappointment, falling back to zero and missing an opportunity to be positive for two consecutive months, something it has not done since June and July of 2008.

Note that—while other indices are unadjusted, PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce. **Dollars spent in purchasing** was 20, up significantly from the month before. The **new orders** index also rose sharply from 4 to 24. The **production index** rose from zero to positive 14. The index for **backlog of orders** continued its negative streak, falling to -18. The last time it was positive was August of 2007. The index for **inventories of finished goods** stayed nearly level, falling from -31 to -34; it has been positive only once since December of 2009. 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 hopefully the reduction in all major price indices will alleviate some of that concern.

The reported **raw material inventories** index fell very slightly to -25; only once out of the last fourteen 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. With respect to geographic buying patterns, we saw major improvement in all respects: domestic buying rose from 4 to 18; buying elsewhere in the Americas rose from -40 to 6; the index for buying from across the Atlantic also improved, as did the index for buying from across the Pacific (the former by 25 points, the latter by 48). The **domestic purchasing** index rose to positive 10; this is the first time it has been positive in more than a year. We are optimistic that domestic purchasing being positive for three consecutive months is a 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. The last of these constitutes the biggest disappointment this month, falling back to zero after giving a glimmer of hope by being positive last month. However, an under-rated indicator is the backlog of orders. We have repeatedly noted its lengthy negative streak in this publication. As it approaches two and a half years of being negative, the question becomes: can a recovery proceed before this indicator shows signs of growth? Readers will note that the new orders series became very volatile in late 2007, right around when the backlog series began this long negative streak. We believe that the former causes the latter, but we urge readers to watch this series in the next few months. The Composite Price Index – Cincinnati measured 13.0 in January; it has been positive for eight consecutive months. Any index value above zero represents an increase in average prices, and some respondents are now reporting significant worries about further price increases.

Table 1. The Cincinnati Economy at a Glance

Index	Series Jan.	Index Dec.	Direction	Rate of Change	Trend*
Cincinnati PMI	51.1	48.4	↑	Faster	1
New Orders	24	4	↑	Slower	3
Backlog of Orders	-18	-8	↓	Faster	29
Production	14	0	↑	Slower	1
Employment	0	12	↔	Faster	1
Vendor Deliveries	0	4	↔	Slower	1
Raw Material Inventories	-25	-24	↓	Faster	17
Finished Goods Inventories	-34	-31	↓	Faster	2
Composite Price Index	13.0	17.7	↑	Slower	8

*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, 13, 4, 24)

The New Orders index in January rose to a value of positive 24, after having fallen back slightly in December. 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-one percent of replies indicated new orders were “up” (31 in December), forty-one percent indicated “the same” (42 in December) and seventeen percent reporting “down”(27 in December). During the first three months of 2009, the new orders index averaged *negative* 47; it has now been positive for the last three months, suggesting that this expansion may persist. Note that discrepancies in rounding may cause the totals to not add to 100.

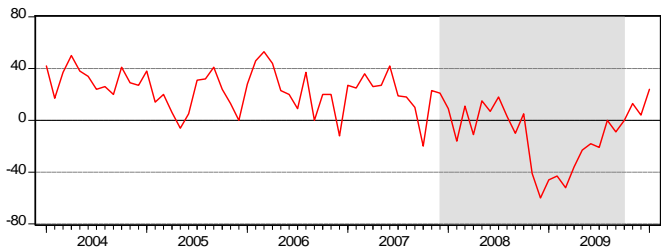


Figure 2. New Orders

BACKLOG OF ORDERS - Fig. 3

(-18, -7, -8, -18)

The backlog of orders index decreased for the second straight month; this month it receded very slightly, the last time it was lower was August 2009. This month’s result came from 10 percent of respondents reporting “up” (19 percent in December), 62 percent reporting “the same” (54 in December), and 28 percent reporting “down” (27 in December).

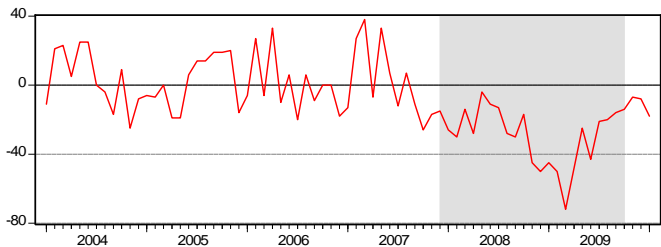


Figure 3. Backlog of Orders

PRODUCTION - Fig. 4

(3, 20, 0, 14)

After giving back some of its spectacular gains in December, the production index for January rose significantly to *positive* 14. Thirty-one percent of respondents reported production as “up” (24 in December), fifty-two percent reported “the same” (52 in December), and seventeen percent reported “down” (24 in December). The maximum index value in this 36 month period was 54, reached in February, 2007. The production index has been -3 or higher for the last six months.

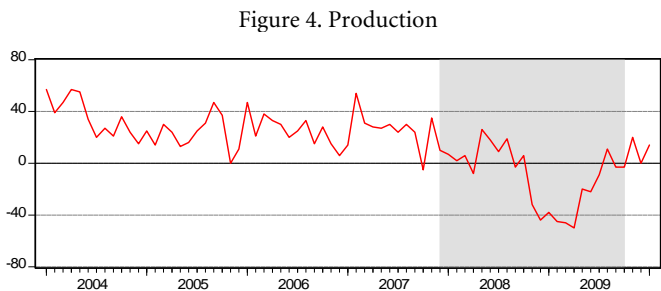


Figure 4. Production

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

In the previous month's report, we emphasized the importance of the Employment index finally regaining positive territory. This month, it seems to have given it back, returning from December's value of *positive* 12 to *zero*. While 14 percent of respondents reported increased employment (35 percent in December), 72 percent of the respondents reported employment remained the same (42 percent in December), and 14 percent reported decreased employment (23 percent in December). Most reported economic outlooks suggest it will take five years or more for the labor market to return to full strength. It is possible that December's gains were related to the holiday rush.

VENDOR DELIVERY PERFORMANCE - Fig. 6
(7, 3, 4, 0)

The vendor delivery performance index is *zero* this month, declining slightly after several months in the low single digits. Seven percent of respondents reported faster deliveries (8 in December), eighty-six percent of survey respondents this month reported delivery times as the "same" (89 percent in December), and seven percent reported slower delivery times (4 in December). Unlike other indicators, this one has been positive every month beginning with October 2008.

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

The monthly index measuring changing dollar amounts spent by regional purchasers increased significantly in January, rising twelve points to *positive* twenty. Forty-one percent of respondents indicated increased spending (39 percent in December), thirty-eight percent reported no change (31 percent in December), and twenty-one percent indicated decreased spending (31 percent in December). This indicator has improved for six out of the last eight months, beginning with its disastrous -39 index value in May 2009.

COMMODITY PRICES - Fig. 8
(31, 7, 30, 28)

The commodity price index decreased slightly in January. Note that this scale measures a rate of change, i.e. continued rising prices. This scale has now been positive for seven out of the last eight months; the last time it was anything comparable to December and January's values was in October 2008. Thirty-five percent of respondents reported higher prices (42 percent in December), fifty-nine percent reported the "same" (46 percent in December), and seven percent reported lower prices (12 in December).

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.

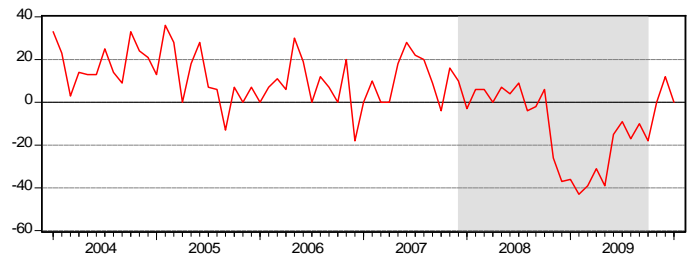


Figure 5. Employment

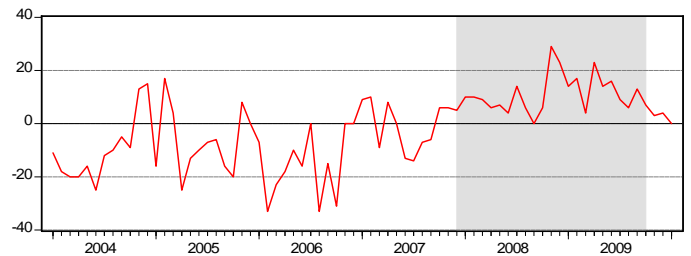


Figure 6. Vendor Delivery Performance

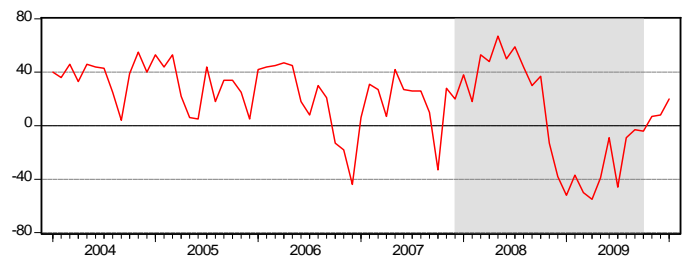


Figure 7. Dollars Spent By Purchasing

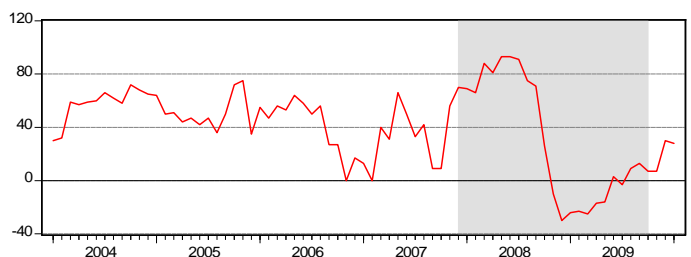


Figure 8. Commodity Prices

SERVICE PRICES

(21, 4, 15, 7)

The service price index fell in January, with an index value of *positive* seven. This was caused by 10 percent of respondents reporting increases, 86 percent reporting no change in prices and 3 percent reporting price decreases. Its high value of 2009 was 15, which was reached in the final month.

EQUIPMENT PRICES

(21, 14, 8, 4)

The equipment price index had alternated between zero and *positive* 14 for four months; in December, it measured 8, and it has now declined to 4. Eleven percent of respondents reported increases, eighty-two percent reported no change, and seven percent of respondents reported decreases. All three measures of prices decreased in the month of January, which they also did in October 2009.

RAW MATERIAL INVENTORIES

(-16, -35, -24, -25)

The raw material inventories index changed very little this month: in fact, it has been remarkably stable during the fallout from the economic crisis, not straying more than ten points from this value since December 2008.

Eighteen percent of the reports indicated increased inventories, thirty-nine percent reported “no change”, and forty-three percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES

(-4, 0, -31, -34)

During 2009, the finished goods inventories index was *zero* or below- for all but one month: its current motion has been deeply negative, with a value for January 2010 of *negative* 34. This was caused by 7 percent of respondents indicating increased inventories, 52 percent reporting the same, and 41 percent reporting finished goods inventories as “down”.

BUYING PATTERNS

DOMESTICALLY

(7, 10, 4, 18)

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

(-9, -5, -40, 6)

ACROSS THE ATLANTIC

(-20, -22, -36, -11)

ACROSS THE PACIFIC

(6, 5, -36, 22)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: *Aluminum, *copper, *nickel, *motors fractional/motion products, steel, *paper, *resins, *chicken, *beef, *wheat, *soy

Down are: *Beef, *acids, *furan binder

In short supply: Pandemic supplies, chicken wings, *soy, *specialty metals

*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	31	52	17
New Orders	41	41	17
Backlog Of Orders	10	62	28
Employment	14	72	14

Index	Up	Same	Down
Prices for Commodities	35	59	7
Prices for Services	10	86	3
Prices for Equipment	11	82	7
Dollars Spent by Purchasing	41	38	21

Index	Up	Same	Down
Raw Materials	18	39	43
Finished Goods	7	52	41

Index	Quicker	Same	Slower
Deliveries	7	86	7

Change in the amount spent	Up	Same	Down
Domestically	32	54	14
For Firms Purchasing Internationally			
Elsewhere in the Americas	17	72	11
Across the Atlantic	0	89	11
Across the Pacific	33	56	11

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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