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CINCINNATI REPORT ON BUSINESS

ISM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

November 2011

PRESS RELEASE

Important: Do Not Release Until
12:01 a.m. Wednesday, November 30, 2011

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of October 2011. This report covers the level of business activity in the Greater Cincinnati Area only — Ohio, Northern Kentucky and Southeastern Indiana. Please note that this IS NOT the national report, which is available from the Institute for Supply Management.

ISSUED: On the last business day of each month by the Economics Center, Department of Economics, University of Cincinnati in collaboration with the Institute for Supply Management-Cincinnati.

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Growth by the manufacturing sector in Cincinnati continued to slow, with the **Purchasing Managers Index – Cincinnati** measuring 54.9 for November. This disappointing value included decreases for many of the indices tracked by this report.

The **New Orders Index** continued a multi-month slide, landing at an index value of -14; the **Backlog of Orders** index fell below *zero* as well. The **Production index** fell to 10, a value lower than any since 2008.

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(Financial Sponsorship for compiling the data and publishing this Report provided by Duke Energy)

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The National Association of Purchasing Management-Cincinnati Report on Business for the Month of November 2011

The Cincinnati Purchasing Management Index (PMI) was 54.9 in November. This reading represents slowing economic growth in the Cincinnati MSA. The national October index value was 50.8; the national November index value is not yet available. PMI is seasonally adjusted as prescribed by the Dept. of Commerce.

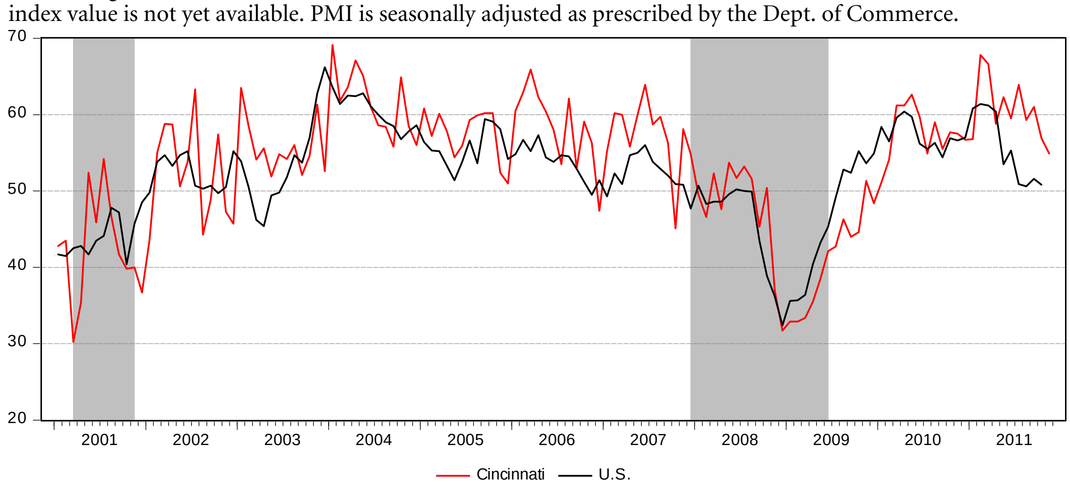


Figure 1. Cincinnati PMI vs. ISM-PMI (Shaded areas indicate recessions)

HIGHLIGHTS

The **Cincinnati PMI** measured 54.9 in November, a value that is the lowest in over a year and one that represents a slowing in the growth of manufacturing in Cincinnati's economy. As in the previous month, almost every economic index decreased; in a clear worsening from the previous month, two major ones fell back into negative territory. Seasonal weights are used to adjust the PMI as indicated by the US Dept. of Commerce; all other index values are unweighted. The **new orders** index fell to -14. This dismal level was also achieved by the **backlog of orders index**, although the drop in the former was more precipitous. The **production index** fell to 10.

The **employment** index fell to 19, its second-lowest number of the year. The **Dollars spent by purchasing** index fell from 43 to 33, its lowest value for more than a year. The index for **backlog of orders** ended its run of months at 4 by falling 18 points to -14. A curious anomaly was the **index for vendor deliveries** falling to -29. The pace of inventory expansion was generally declining back towards zero-growth, with the **Raw Material Inventories** index all the way to *zero*, while **Finished Good Inventories** rose from *zero* to ten; this index is in the midst of a remarkable mini-expansion, with a third consecutive improvement. With regard to prices, the **composite price index** declined to 21, which is forty-two points below the recent peak achieved in the spring of 2011. The index for **equipment prices** fell to 10, while **service prices** index fell to 24. With regard to geographic buying, the **domestic purchasing** index fell to 38, one of the lowest values of the past year. Buying **elsewhere in the Americas** stayed at *zero* growth, while the index for buying from across the **Atlantic** fell to *negative* 9; it hadn't been negative since early 2010. Buying from across the **Pacific** rose slightly to 17, the third-lowest value of this year. Initial holiday spending reports suggest growth; for Cincinnati manufacturing, however, this has clearly been a difficult month.

Production, Employment, New Orders, and Backlog of Orders

With so many indices giving up ground, readers are undoubtedly mired in pessimism. After averaging 27 over the previous four months, the *negative* **new orders index** value is certainly problematic. That the **backlog of orders index** would be negative is less strange (it had a nearly three-year stay below *zero*), although the timing may also be inconvenient (that three year period began in late 2007).

The most unusual decline was that of the **index for vendor deliveries** falling to -29; because improvements in this index figure negatively into the PMI number, this actually improved that figure substantially, and--because they are weighted less--largely cancelled out the decrease in **new orders**.

Can Cincinnati see a **PMI** below 50 in the near future? According to the ISM, three other regional reports (Austin, Boston, Denver) reported economic contraction in the month of September. More may experience this in the immediate term.

Table 1. The Cincinnati Economy at a Glance

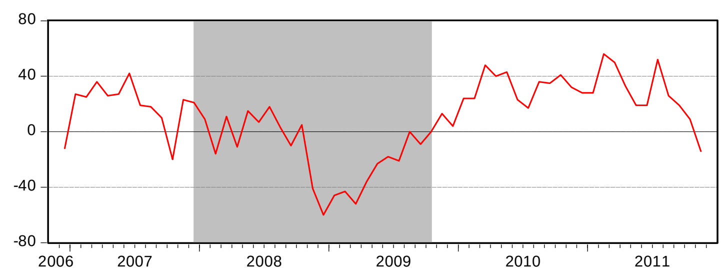
Index	Nov	Oct	N'10	Direction	Rate of Change	Trend*
Cincinnati PMI	54.9	56.9	57.5	↑	slower	22
New Orders	-14	9	32	↓		1
Backlog of Orders	-14	4	4	↓		1
Production	10	17	28	↑	slower	23
Employment	19	28	22	↑	slower	13
Vendor Deliveries	-29	-5	-22	↓	slower	22
Raw Material Inventories	0	18	-27	↑	slower	4
Finished Goods Inventories	10	0	-32	↔		—
Composite Price Index	21	32	32	↑	slower	30

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.

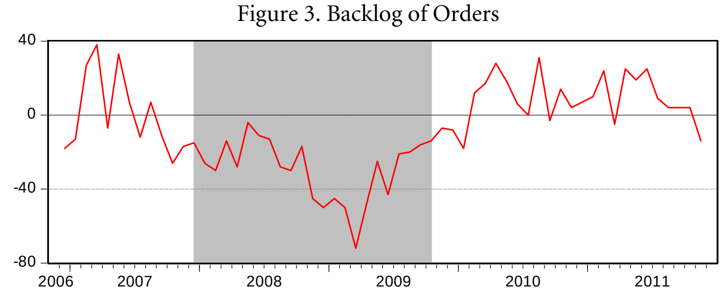
NEW ORDERS - Fig. 2
(11, 19, 9, -14)
The New Orders index decreased again this month from 9 to -14. This is the lowest value of the index since July '09, when it was *negative* 21. Thirty-three percent of replies indicated new orders were "up" (35 in October), nineteen percent indicated "the same" (39 in October) and forty-eight percent of respondents indicated "down" (26 in October). This month's value marks five straight months of decline. The current month's figure indicates a contraction in new orders for the manufacturing sector of Greater Cincinnati.

Figure 2. New Orders



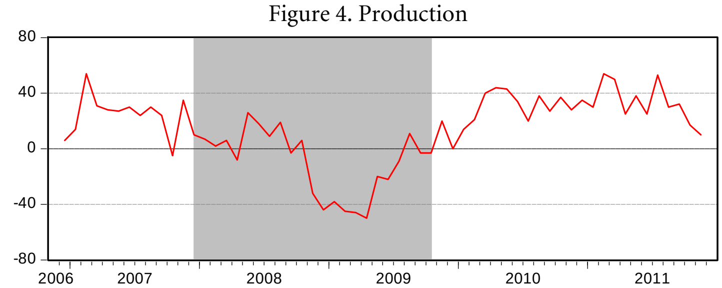
BACKLOG OF ORDERS - Fig. 3
(-6, 4, 4, -14)
The Backlog of Orders index fell considerably in November to *negative* 14. The breakdown of respondents was nineteen percent of respondents reporting "up" (30 percent in October), forty-eight percent reporting "the same" (44 in October), and thirty-three percent reporting "down" (26 in October). The switch to a negative value for this leading indicator follows a trend of slow decline over the last 6 months. Because this index demonstrates co-movement with the New Orders Index historically, a continuation of this index below *zero* might predict a decline in future hiring.

Figure 3. Backlog of Orders



PRODUCTION - Fig. 4
(14, 32, 17, 10)
The Production index decreased again in November. This decline represents 3 straight months of decline for this indicator. The value also marks the lowest value for this indicator since December '09. Thirty-eight percent of respondents reported production as "up" (30 in October), thirty-three percent reported "the same" (57 in October), and twenty-nine percent reported "down" (13 in October).

Figure 4. Production



EMPLOYMENT - Fig. 5
(6, 33, 28, 19)

The Employment index decreased from 28 to 19. Twenty-four percent of respondents reported increased employment (31 percent in October), seventy-one percent of the respondents reported employment remained the same (65 percent in October), and five percent reported decreased employment (4 percent in October). The figures show that employment in the manufacturing sector of Greater Cincinnati is still in comfortable expansion, as the value remains around or above twenty for ten consecutive months.

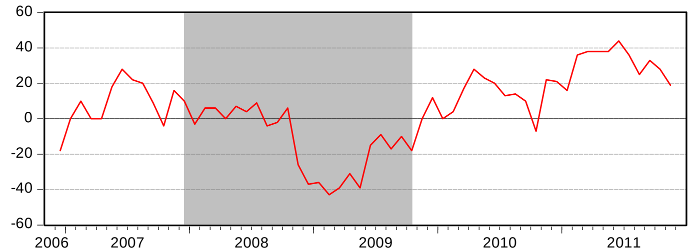


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(-8, -9, -5, -29)
The vendor delivery index remains below *zero*. The index dropped significantly to *negative* twenty-nine this month, and it has now been *zero* or negative for twenty-two straight months. Ten percent of respondents reported faster deliveries (4 percent in October), fifty-two percent of survey respondents this month reported delivery times as the "same" (87 percent in October), and thirty-eight percent reported slower delivery times (9 percent in October).

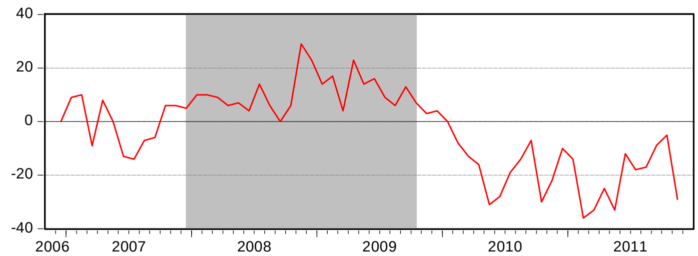


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(21, 46, 43, 33)

The index measuring dollar amounts spent by regional purchasers decreased to 33. This index value has been consistent in the short term, but it is now substantially below its twenty-four month moving average of 44. Forty-eight percent of respondents indicated increased spending (52 percent in October); thirty-eight percent reported no change (39 percent in October), while fourteen percent indicated decreased spending (9 percent in October).

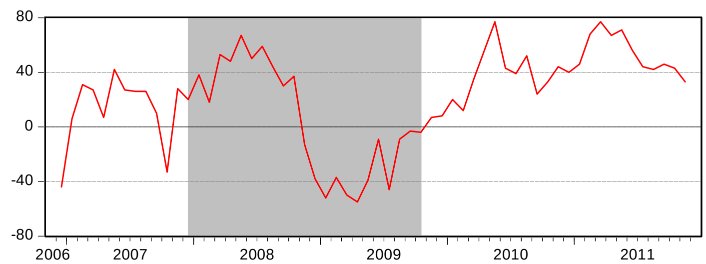


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(31, 38, 36, 29)
Commodity prices lowered once more during the month of November. The new value of 29 is the lowest value since February 2010. Forty-three percent of respondents reported higher prices (52 percent in October), forty-three percent reported the "same" (31 percent in October), and fourteen percent reported lower prices (17 percent in October).

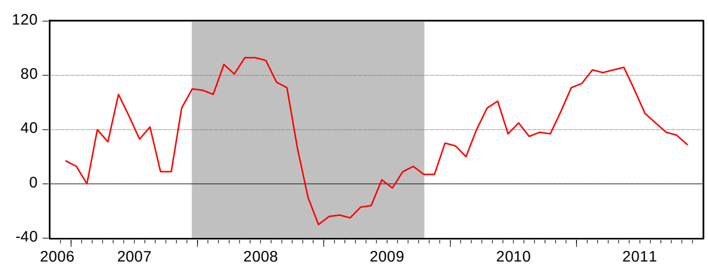


Figure 8. Commodity Prices

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
(18, 39, 36, 25)

The service price index fell to 25 in November, its lowest value since March. This month's value was designated by 24 percent of respondents reporting increases, 76 percent reporting no change in prices, and 0 percent of respondents reporting price decreases. This index has been *positive* or *zero* for 27 months.

EQUIPMENT PRICES
(16, 29, 28, 10)

The equipment price index decreased from 28 in October to 10 in November. Fourteen percent of respondents reported increases, 81 percent reported no change, and five percent of respondents reported decreases. This index reports the lowest value since August 2010.

RAW MATERIAL INVENTORIES
(-14, 38, 18, 0)

The raw material inventories index fell considerably again in November to *zero*. 29 percent of the reports indicated increased inventories, 43 percent reported "no change", and 29 percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES
(-16, -4, 0, 10)

The finished goods inventories index increased again this month to 10. This marks the first time this index has been positive in 28 months. 38 percent of respondents indicated increased inventories, 33 percent reported the same, and 29 percent reported them "down".

BUYING PATTERNS

DOMESTICALLY
(17, 36, 54, 38)

The following percentages consider only those firms that buy internationally; they show continued economic expansion of a global reach.

ELSEWHERE IN THE AMERICAS
(1, 15, 0, 0)

ACROSS THE ATLANTIC
(-9, 15, 7, 9)

ACROSS THE PACIFIC
(10, 46, 15, 17)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Electronic Parts, Stainless Steel Goods, Plastic Resins, Nickel, Asian Imported Metal and Rubber Parts, Silicon Carbide, and Teflon.

Down are: Steel, Gasoline, Copper, and Aluminum

In short supply: Teflon, Pharmaceuticals, Capacitors, Chicken, Peanuts, *Black Pepper, Hydrochloric Acid, and Electrical Parts.

*indicates a change from the previous report; occasionally goods in this list appear multiple times because of aggregation of many separate reports.

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

Index	Up	Same	Down
Production	38	33	29
New Orders	33	19	48
Backlog Of Orders	19	48	33
Employment	24	71	5

Index	Up	Same	Down
Prices for Commodities	43	43	14
Prices for Services	24	76	0
Prices for Equipment	14	81	5
Dollars Spent by Purchasing	48	38	14

Index	Up	Same	Down
Raw Material Inventories	29	43	29
Finished Goods Inventories	38	33	29

Index	Quicker	Same	Slower
Deliveries	10	52	38

Change in the amount spent	Up	Same	Down
Domestically	48	43	10
For Firms Purchasing Internationally			
Elsewhere in the Americas	18	64	18
Across the Atlantic	18	55	27
Across the Pacific	33	50	17

Why This Report is Produced

The Greater Cincinnati Report on Business provided by the Institute for Supply Management-Cincinnati (ISM-C), prepared and reported by the Economics Center, 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. Financial sponsorship is generously provided by Duke Energy.

Issued: *On the last business day of each month by the Economics Center, Department of Economics, University of Cincinnati (formerly the Applied Economics Research Institute) in collaboration with the Institute for Supply Management-Cincinnati.*