

## CINCINNATI REPORT ON BUSINESS

ISM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

### September 2011

### PRESS RELEASE

**Important: Do Not Release Until  
12:01 a.m. Friday, September 30, 2011**

- SUBJECT:** Report on Business Conditions for Greater Cincinnati for the month of September 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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The **Purchasing Managers Index** – Cincinnati measured 61 in September, indicating sustained economic expansion for the Greater Cincinnati Area Manufacturing sector.

The **New Orders Indices** reported downward movement again, while **Production** rose slightly; their values (New Orders 19.2 & Production 32.2). Worries about prices diminished slightly as the **Composite Price Index** fell to 33, the lowest value over the last year.



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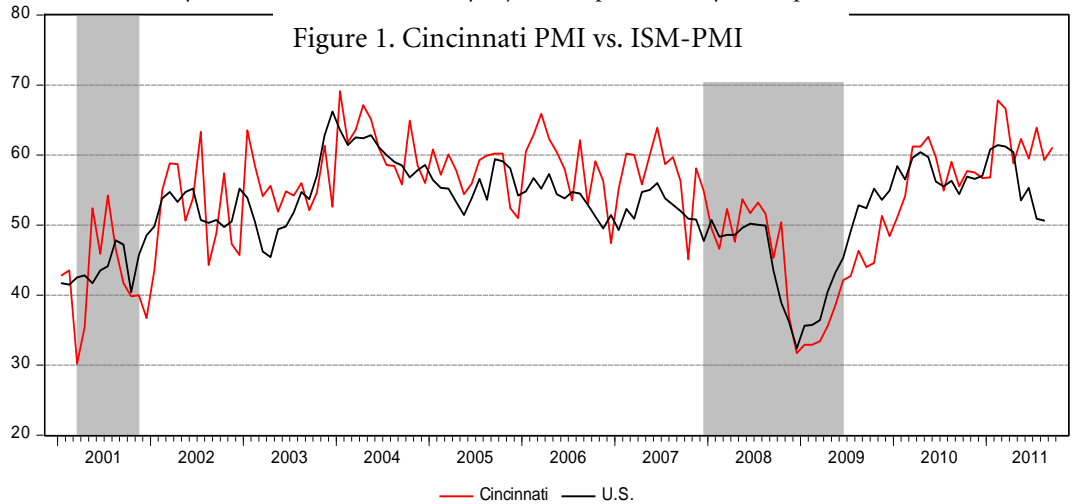
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### The National Association of Purchasing Management-Cincinnati Report on Business for the Month of September 2011

The Cincinnati Purchasing Management Index (PMI) was 61 in September. This reading represents continued economic growth in the Cincinnati MSA. The national August index value was 50.6; the national September index value is not yet available. PMI is seasonally adjusted as prescribed by the Dept. of Commerce.



### HIGHLIGHTS

September saw an increase in the rate of growth for manufacturing in Cincinnati economy. The Cincinnati PMI measured 61.0, exceeding the average PMI during the recovery period that began in earnest in late 2009. The increase from 59.3 to 61 is small, so our rhetoric will be measured in describing changes from last month. The production index slightly rose from 30 to 32; the new orders index fell from 26 to 19, and the rest of the year looks positively turbulent in comparison, with January 2011 the last month that there was so little change in these indicators. The employment index rose to 33 from 25; it has now been above thirty for seven out of the nine months this year. Most other indices saw slight increases, including the Dollars spent by purchasing index, which, at 46, is at its highest point since the beginning of the summer.

The index for backlog of orders remained at 4 (it's only been lower one other time this year), while the index for vendor deliveries improved to come in at -9 (of course improvements here are not necessarily a sign of economic strength). Inventory measures showed improvement across the board: Raw Material Inventories expanded significantly, rising thirty points to 38 (this was the largest increase of any index number), while Finished Good Inventories rebounded from minus 17 to minus 4. The inventory figure reported for calculation of the PMI was positive 17. With regard to prices, the composite price index declined a fourth month in a row, falling to 33; the last time it was lower was Summer of 2010; these price declines are unanticipated, and continued monitoring is certainly in order.

The index for equipment prices fell to 27, while service prices rose to 37. A year ago they were slightly lower at 21 and 31 respectively. The domestic purchasing index fell to 36; it has not been this low in nearly two years, although it is still above the two-year moving average. Buying elsewhere in the Americas remained at 15, while the index for buying from across the Atlantic increased to 15. Buying from across the Pacific actually declined to 36. National news lately has focused on a proposed jobs plan that would fund infrastructure in the Cincinnati area: while the injection of federal money would have a ripple effect on the regional economy, the creation of economic value will also depend on the ultimate quality/usability of whatever is installed.

## Production, Employment, New Orders, and Backlog of Orders

Given that there was very little change in many of our indicators between the previous month and this month, we believe this to be a fundamental time to remind readers that the index values here represent growth rates, not levels. The PMI value, for example, represents healthy economic expansion?

Why are economists so focused on growth? This is because many of the goods and services that improve our lives are transient items that diminish as they are used (notable exceptions are items referred to as “durable goods”, such as cars—you can think of the transient good as being the gasoline, while the capital good as being the car).

Inventories occupy an odd nether-region between the two: they are transient goods being held in reserve, meaning that adding to them counts as capital investment, but they can get used up extremely quickly without producing something independent.

Growth matters because our economic system depends on being able to produce flows of many of these goods; the positive growth numbers in this month’s report mean that Cincinnati manufacturing is doing exactly that at a healthy pace, at least for the moment.

### Table 1. The Cincinnati Economy at a Glance

Index	Sep	Aug	S'10	Direction	Rate of Change	Trend*
Cincinnati PMI	61	59.3	55.4	↑	faster	20
New Orders	19	26	35	↓	slower	21
Backlog of Orders	4	4	-3	↓	—	5
Production	32	30	27	↑	faster	21
Employment	33	25	10	↑	faster	11
Vendor Deliveries	-9	-17	-6	↑	faster	20
Raw Material Inventories	38	8	-14	↑		2
Finished Goods Inventories	-4	-17	-34	↑		4
Composite Price Index	33	37	30	↓	slower	28

## 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 (10, 52, 26, 19)

In the month of September, the New Orders index decreased again, but this time only slightly from 26 to 19. This is still lower than the value of the index from one year ago, when it was 35. Forty-six percent of replies indicated new orders were “up” (42 in August), twenty-seven percent indicated “the same” (42 in August) and twenty-seven percent of respondents indicated “down” (16 in August). This month’s value adds to a streak of three months of decline. This level of the current month’s figure still represents growth in manufacturing, though slower again than most of the past year.

### BACKLOG OF ORDERS - Fig. 3 (-7, 9, 4, 4)

The Backlog of Orders index remained unchanged in September. The breakdown of respondents was twenty-seven percent of respondents reporting “up” (25 percent in August), fifty percent reporting “the same” (54 in August), and twenty-three percent reporting “down” (21 in August). While sustaining a positive value, this leading indicator has shown a slow decline over the last 4 months. This continuing trend might predict a decline in future hiring.

### PRODUCTION - Fig. 4 (12, 53, 30, 32)

The Production index increased just two points in September. This steadiness shows positive stability expansion in this important indicator. Fifty percent of respondents reported production as “up” (42 in August), thirty-two percent reported “the same” (46 in August), and eighteen percent reported “down” (12 in August).

Figure 2. New Orders

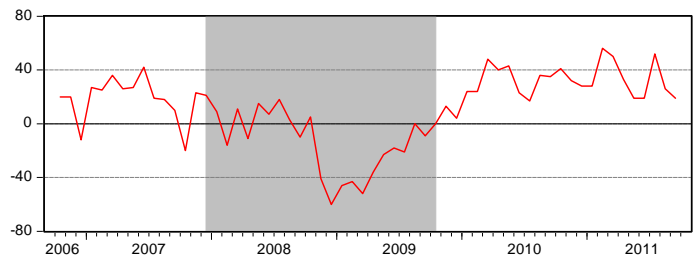


Figure 3. Backlog of Orders

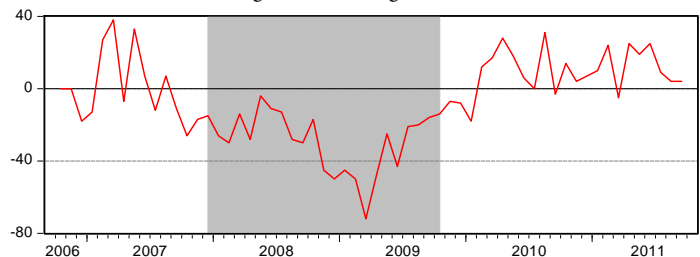
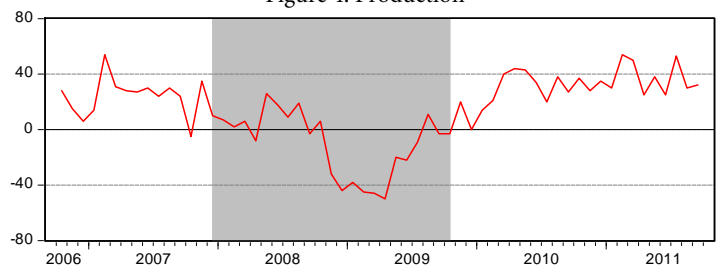


Figure 4. Production



**EMPLOYMENT** - Fig. 5  
(5, 36, 25, 33)

The Employment index increased slightly to 33, back above thirty like it has been for most of the year. The figures show that employment in the manufacturing sector of Greater Cincinnati is still in comfortable expansion. Forty-one percent of respondents reported increased employment (33 percent in August), fifty percent of the respondents reported employment remained the same (59 percent in August), and nine percent reported decreased employment (8 percent in August). The figures show that employment in the manufacturing sector of Greater Cincinnati is still in comfortable expansion.

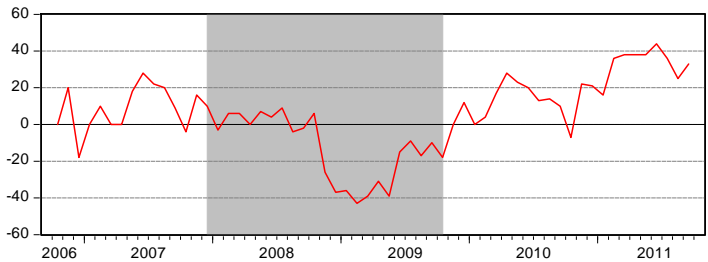


Figure 5. Employment

**VENDOR DELIVERY PERFORMANCE** - Fig. 6  
(-6, -18, -17, -9)

The vendor delivery index remains below zero. The index jumped a fair amount to *negative* nine this month, and it has now been zero or negative for twenty straight months. Nine percent of respondents reported faster deliveries (4 percent in August), seventy-three percent of survey respondents this month reported delivery times as the “same” (75 percent in August), and eighteen percent reported slower delivery times (21 percent in August).

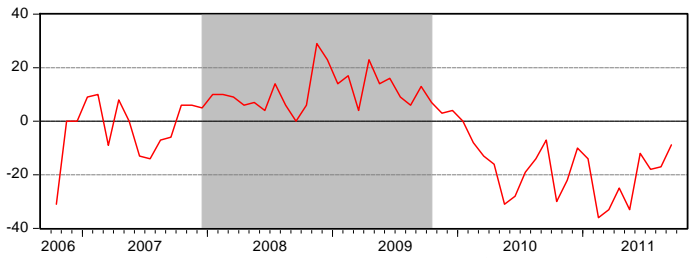


Figure 6. Vendor Delivery Performance

**DOLLARS SPENT BY PURCHASING** - Fig. 7  
(19, 44, 42, 46)

The index measuring dollar amounts spent by regional purchasers increased slightly to 46. This index value measured 24 a year ago. Fifty-five percent of respondents indicated increased spending (50 percent in August); thirty-six percent reported no change (42 percent in August), while nine percent indicated decreased spending (8 percent in August).

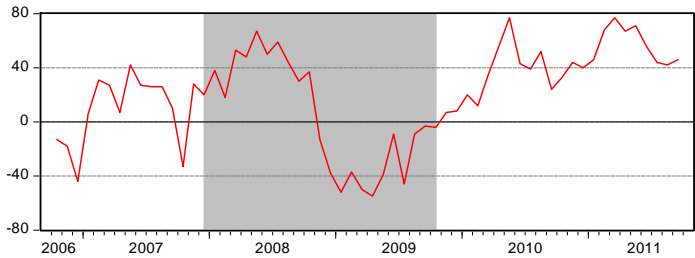


Figure 7. Dollars Spent By Purchasing

**COMMODITY PRICES** - Fig. 8  
(30, 52, 45, 38)

Commodity prices lowered once more during the month of September. The new value of 38 is the lowest value since August 2010. Fifty percent of respondents reported higher prices (62 percent in August), thirty-six percent reported the “same” (21 percent in August), and fourteen percent reported lower prices (17 percent in August).

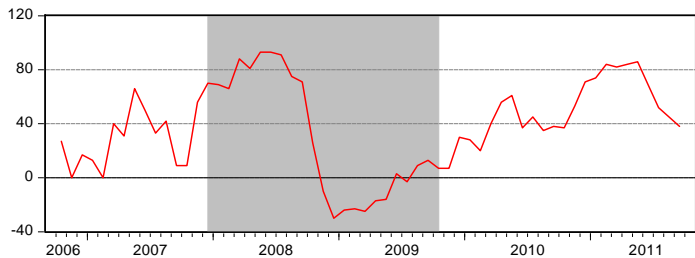


Figure 8. Commodity Prices

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, 24, 39)

The service price index returned to 39 after a month at 24 in August. This index value is a return to normal. This month's value was designated by 46 percent of respondents reporting increases, 46 percent reporting no change in prices, and 9 percent of respondents reporting price decreases. This index has been *positive* or *zero* for 25 months.

## EQUIPMENT PRICES

(16, 44, 42, 29)

The equipment price index dropped dramatically this month, from 42 in August to 29 in September. Thirty-two percent of respondents reported increases, 64 percent reported no change, and five percent of respondents reported decreases. This index reports the lowest value since January 2011.

## RAW MATERIAL INVENTORIES

(-15, -17, 8, 38)

The raw material inventories index rose considerably in September to 38. This index has not moved this high this quickly since 2005! 46 percent of the reports indicated

increased inventories, 36 percent reported "no change", and 8 percent of respondents indicated decreases.

## FINISHED GOODS INVENTORIES

(-16, -17, -17, -4)

The finished goods inventories index remained *negative* again this month, but increased closer to zero. 23 percent of respondents indicated increased inventories, 50 percent reported the same, and 27 percent reported them "down".

## BUYING PATTERNS

### DOMESTICALLY

(15, 61, 42, 36)

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

### ELSEWHERE IN THE AMERICAS

(0, 33, 15, 15)

### ACROSS THE ATLANTIC

(-11, 13, 8, 15)

### ACROSS THE PACIFIC

(9, 33, 36, 46)

## GENERAL COMMENTS BY PURCHASING MANAGERS

### Noticeable Price Changes

**Up are:** Electronic Parts, Stainless Steel Goods, Cotton Goods, \*Asian Imported Metal and Rubber Parts, and \*Teflon.

**Down are:** Steel and Aluminum

**In short supply:** \*Silicon Carbide, \*Pharmaceuticals, \*Pork, \*Turkey, \*Peanuts, \*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.

### 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.*

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## STATISTICAL SUMMARY

Replies as a Percent of Total Replies

Index	Up	Same	Down
Production	50	32	18
New Orders	46	27	27
Backlog Of Orders	27	50	23
Employment	41	50	9

Index	Up	Same	Down
Prices for Commodities	50	36	14
Prices for Services	46	46	9
Prices for Equipment	32	64	5
Dollars Spent by Purchasing	55	36	9

Index	Up	Same	Down
Raw Material Inventories	46	36	8
Finished Goods Inventories	23	50	27

Index	Quicker	Same	Slower
Deliveries	9	37	18

Change in the amount spent	Up	Same	Down
Domestically	50	36	14
For Firms Purchasing Internationally			
Elsewhere in the Americas	23	69	8
Across the Atlantic	23	69	8
Across the Pacific	46	54	0