

CINCINNATI REPORT ON BUSINESS

ISM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

August 2011

PRESS RELEASE

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SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of August 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 59.3 in August, indicating vigorous economic expansion for the Greater Cincinnati Area Manufacturing sector.

The **Production** and **New Orders Indices** reported dramatic downward movements; their values (New Orders 26.2 & Production 29.7). Worries about prices diminished again slightly as the **Composite Price Index** fell to 37.1.



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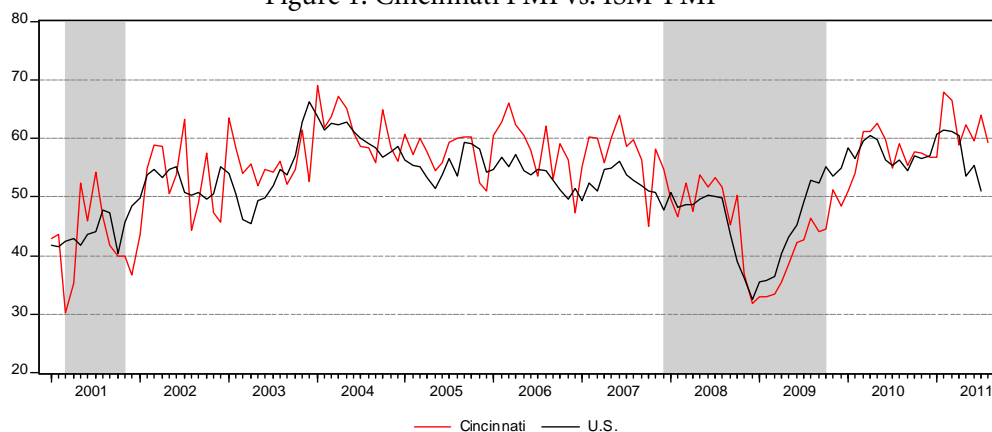
(Financial Sponsorship for compiling the data and publishing this Report provided by Duke Energy)



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

The Cincinnati Purchasing Management Index (PMI) was 59.3 in August. This reading represents continued expansion for Manufacturing in the Cincinnati MSA. The national July index value was 50.9; the national August index value is not yet available. PMI is seasonally adjusted as prescribed by the Dept. of Commerce.

Figure 1. Cincinnati PMI vs. ISM-PMI



Note: Recessions are indicated by grey bars

HIGHLIGHTS

August saw a definite slowing in the pace of expansion for the Cincinnati economy. The Cincinnati PMI measured 59.3, exactly equalling the average PMI since December 2009. The decrease from 63.9 to 59.3 represents the second largest drop in the past twelve months. Similar slowing is reported by the [Federal Reserve 4th district Beige Book](#) for July. The production index decreased from 53 to 30; this dramatic decrease was rivaled by that of the new orders index, which fell from 52 to 26; this is the second month this year that both of these indices have seen large drops, and readers should refer to our April report about what this could mean. The employment index fell to 25, ending a remarkable string of six straight months above thirty. Most other indices were down, including the Dollars spent by purchasing index, which, at 42, is below the

moving average for the previous eighteen months. The index for backlog of orders fell to 4 (its high for the year is 24), while the index for vendor deliveries came in at -17. Inventory measures were mixed: Raw Material Inventories were reported as expanding by slightly more respondents (Positive 8), while Finished Good Inventories were at minus 17. The inventory figure reported for calculation of the PMI was negative 4. If growth in new orders returns to the pace in previous reports, we will see continued hiring; otherwise, any increase will simply be met out of inventories, with little effect on the upstream economy. With regard to prices, the composite price index declined a third month in a row, falling to 37; the last time it was lower was November of 2010, although it is above every value between then

and late summer of 2008 (65+); political will does not seem to exist for additional fiscal or monetary stimulus, meaning upward pressure on prices should be minimal until rapid economic growth resumes. The index for equipment prices fell to 42, while service prices fell fifteen points to 24. A year ago they were 8 and 11 respectively. The domestic purchasing index fell a great deal to 42, which is below the 12 month moving average. Buying elsewhere in the Americas fell to 15, while the index for buying from across the Atlantic was 8. Buying from across the Pacific actually rose to 36. There has been no shortage of disappointing national economic news lately, with downward revisions to forecast GDP growth for the rest of 2011. This will hurt Cincinnati's ability to sell to other parts of the county.

Production, Employment, New Orders, and Backlog of Orders

While all of the major indicators showed declines this month, the level of expansion still remained comfortably positive. However, the margin of safety for many of these indicators has decreased:

The New Orders and Production indices both decline more than 20 points; this is the first time this year that has been true, and it is making the remarkable growth in August seem like an illusion.

The Backlog of Orders index reached a post-recession peak of 31 a year ago this month. Since April 2011, it has steadily decreased. Whether these backlogs indicate fewer orders building up, or they could indicate that more hiring has finally enabled firms to meet these orders is clear from the other numbers: it is at least somewhat demand-driven. Will this decrease in demand continue in the coming months? With the end of summer, we are accustomed to a slight seasonal drop-off, but that normally happens from August going into September. These results are therefore a cause for caution.

Table 1. The Cincinnati Economy at a Glance

Index	Aug	Jul	A'10	Direction	Rate of Change	Trend*
Cincinnati PMI	59.3	63.9	59.0	↓	slower	19
New Orders	26	52	36	↓	slower	20
Backlog of Orders	4	9	31	↓	slower	5
Production	30	53	38	↓	slower	20
Employment	25	36	14	↓	slower	10
Vendor Deliveries	-17	-18	-14	↑	faster	19
Raw Material Inventories	8	-17	-4	↑		1
Finished Goods Inventories	-17	-17	-21	↑		3
Composite Price Index	37	45	18	↓	slower	27

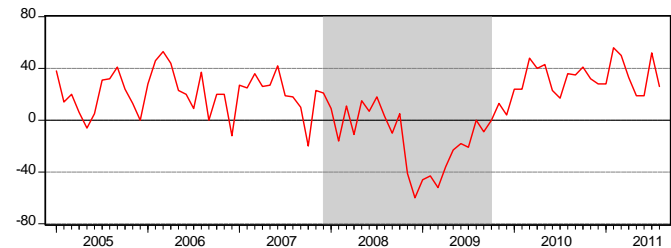
DETAILS

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 (9, 19, 52, 26)

In the month of August, the New Orders index sky decreased from 52 to 26. This is a little lower than the value of the index one year ago, when it was 36. Forty-two percent of replies indicated new orders were “up” (65 in July), forty-two percent indicated “the same” (22 in July) and sixteen percent of respondents indicated “down” (13 in July). This month’s value is slightly lower than most reported values within the last year. The level of the current month’s figure still represents growth in manufacturing, though slower than most of the past year.

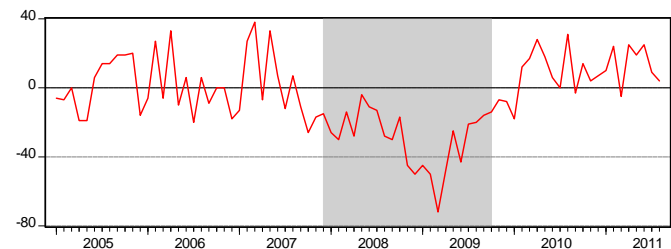
Figure 2. New Orders



BACKLOG OF ORDERS - Fig. 3 (-8, 25, 9, 4)

The Backlog of Orders index reflected a slight decrease in demand for companies’ work in August, with an index value that decreased again just five points from that of the previous month, but remained positive. The breakdown of respondents was twenty-five percent of respondents reporting “up” (35 percent in July), fifty-four percent reporting “the same” (39 in July), and twenty-one percent reporting “down” (26 in July). A year ago this index was 31. Since then it has been prevalently positive, but is showing decline over the past few months.

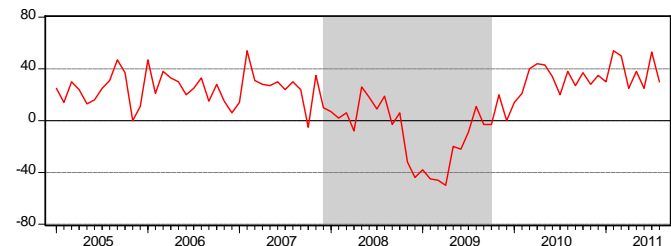
Figure 3. Backlog of Orders



PRODUCTION - Fig. 4 (11, 25, 53, 30)

The Production index decreased in August from 53 to 30. This drop shows a return to the normative positive “business as usual” mid 20s and 30s figures we have observed over the past year or so. This shows positive expansion, but this is not as encouraging as last month’s figure suggested. Forty-two percent of respondents reported production as “up” (57 in July), forty-six percent reported “the same” (39 in July), and twelve percent reported “down” (4 in July).

Figure 4. Production



EMPLOYMENT - Fig. 5
(4, 44, 36, 25)

The Employment index decreased slightly to 25, after six straight months above 30. This still indicates we are in the midst of a continuing expansion period according to this index. It is of note that the figures of the last few months have not been equaled since February 2005. Thirty-three percent of respondents reported increased employment (41 percent in July), fifty-nine percent of the respondents reported employment remained the same (55 percent in July), and eight percent reported decreased employment (5 percent in July). This figure, while slightly lower than the lofty above 30, indicates good growth in manufacturing employment in the region.

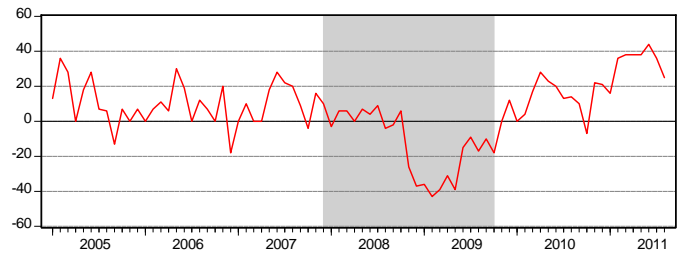


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(-5, -12, -18, -17)

The vendor delivery index continued below zero. The index rose one point to *negative* seventeen this month, and it has now been zero or negative for nineteen straight months. Four percent of respondents reported faster deliveries (5 percent in July), seventy-five percent of survey respondents this month reported delivery times as the “same” (73 percent in July), and twenty-one percent reported slower delivery times (23 percent in July).

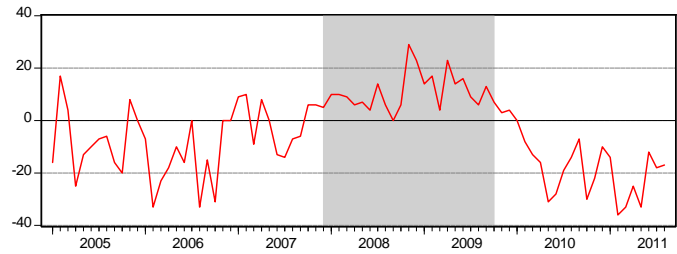


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(19, 56, 44, 42)

The index measuring dollar amounts spent by regional purchasers decreased slightly again to 42. This index value is lower than all reported figures in 2011. This index value measured 52 a year ago. Fifty percent of respondents indicated increased spending (61 percent in July); forty-two percent reported no change (22 percent in July), while eight percent indicated decreased spending (17 percent in July).

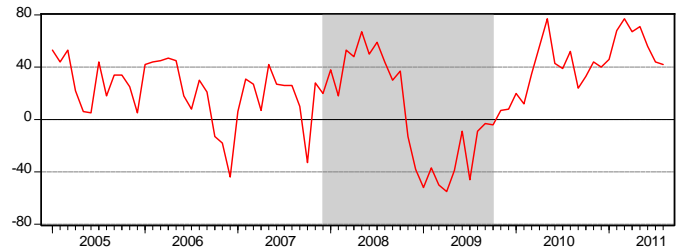


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(31, 69, 52, 45)

Commodity prices lowered significantly during the month of August. The new value of 45 is the lowest value we have presented in this space since November 2010. It should be noted that this index is still much higher than its three year moving average. Sixty-two percent of respondents reported higher prices (61 percent in July), twenty-one percent reported the “same” (30 percent in July), and seventeen percent reported lower prices (9 percent in July).

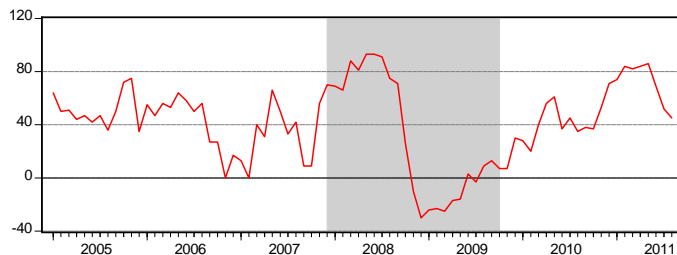


Figure 8. Commodity Prices

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
(19, 50, 39, 24)

The service price index dropped dramatically to 24 from 39 in July. This index value has hovered well above thirty all of 2011, so this is the first drop below 30 this year. This month's value was initiated by 33 percent of respondents reporting increases, 58 percent reporting no change in prices, and 9 percent of respondents reporting price decreases. This index has been *positive or zero* for 24 months.

EQUIPMENT PRICES
(17, 38, 44, 42)

The equipment price index changed only slightly again this month, dropping from 44 in July to 42 in August. Forty-two percent of respondents reported increases, 58 percent reported no change, and zero percent of respondents reported decreases. This index has lingered around high 30s low 40s since January 2011.

RAW MATERIAL INVENTORIES
(-18, 13, -17, 8)

The raw material inventories index rose in August back to a positive value. 25 percent of the reports indicated increased inventories,

58 percent reported "no change", and 17 percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES
(-17, -12, -17, -17)

The finished goods inventories index remained *negative* again this month, but unchanged. 13 percent of respondents indicated increased inventories, 58 percent reported the same, and 29 percent reported them "down".

BUYING PATTERNS
DOMESTICALLY
(15, 50, 61, 42)

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

ELSEWHERE IN THE AMERICAS
(-1, 25, 33, 15)

ACROSS THE ATLANTIC
(-11, 12, 13, 8)

ACROSS THE PACIFIC
(7, 50, 33, 36)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Electronic Parts, *Plastic Products, Stainless Steel Goods, Cotton Goods, *Soy, *Soybean Oil, *Wheat, *Pork, *Chicken, and *Beef.

Down are: Steel, Aluminum, and *Feeder Chemical Stocks.

In short supply: Raw Materials in general, Drives, Capacitors, and *Integrated Circuit Boards.

*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	42	46	12
New Orders	42	42	16
Backlog Of Orders	25	54	21
Employment	33	59	8

Index	Up	Same	Down
Prices for Commodities	62	21	17
Prices for Services	33	58	9
Prices for Equipment	42	58	0
Dollars Spent by Purchasing	50	42	8

Index	Up	Same	Down
Raw Material Inventories	25	58	17
Finished Goods Inventories	13	58	29

Index	Quicker	Same	Slower
Deliveries	4	75	21

Change in the amount spent	Up	Same	Down
Domestically	54	33	13
For Firms Purchasing Internationally			
Elsewhere in the Americas	23	69	8
Across the Atlantic	15	77	8
Across the Pacific	43	50	7

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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