CINCINNATI REPORT ON BUSINESS

ISM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

June 2011

PRESS RELEASE

Important: Do Not Release Until
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SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of June 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 Applied Economics Research Institute, 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 59.5 in June. While this value indicates continued economic expansion, the pace of expansion has slowed from the spring.

The **Inventory Index** was reported to be almost exactly *zero*; this equilibrium came from a drop in new orders together with an increase in hiring: the **Employment index** rose even higher to 44; it has been above 30 for the last five months. Worries about prices were not reported to be any greater than in previous months; the **composite price index** was 52.3.

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

The Cincinnati Purchasing Management Index (PMI) was 59.5 in June. While there are signs of deceleration, this value indicates continuing growth in area manufacturing. The national May index value was 53.5; the national June index is not available as of this writing.

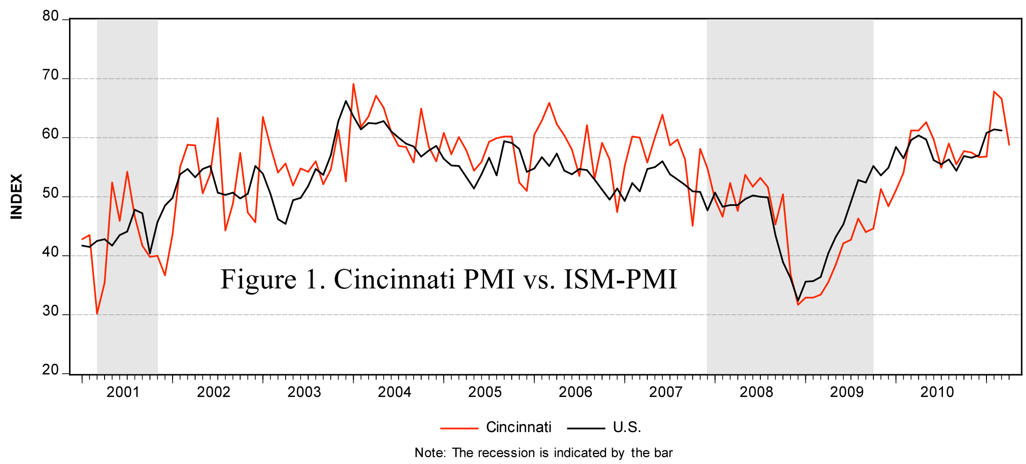


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

Business expansion continued in the Cincinnati economy during the month of June. The **Cincinnati PMI** measured 59.5, just short of the lofty 60.0 line. A value above 50 indicates economic expansion. While substantially above this threshold, 59.5 represents only the fourth highest index value this year. PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce; other indices are unadjusted. The **employment** index increased to 44, the highest value the index has achieved since 2001. The **Dollars spent by purchasing** index decreased from 71 to 56; the previous time there was this sharp a decrease was Fall of 2010, when the index fell from 52 to 24. While we don't believe this month's decline indicates anything problematic, we must note the rate of expansion has slowed or stayed even in many other indices: the **production index** decreased from 38 to 25. The **new orders index** remained at 19, tied for second lowest value of the past year. The index for **backlog of orders** rose to 25; only two other times in the past two years has it been higher. The **index for vendor deliveries** climbed from -33 to -12, meaning that vendors are making their deliveries more quickly. Most Inventory measures stayed around *zero* suggesting that growth in orders is not outstripping hiring of new production resources. **Inventories of finished goods** fell to -12, while **raw material inventories** actually increased to *positive* 13; the inventory figure reported for calculation of the PMI was *positive* 0.5. With regard to prices, the **composite price index** declined to 52.3, which is close to the median value for 2011. Summer 2008 saw the index routinely above 65, which is a level not reached yet in this current cycle. The index for **equipment prices** nudged downward from 43 to 30, while **service prices** shrank back to 50. A year ago they were 13 and 13, respectively, while **commodity prices** (now 69) were at 37. The **domestic purchasing** index measuring 56, which is quite close to last month's value; buying **elsewhere in the Americas** rose to 25; it had declined after averaging 36 over a four month period this winter. The index for buying from across the **Atlantic** was 12, while buying from across the **Pacific** was a lofty 50. Despite worries about a weaker dollar in the future, buyers for Cincinnati manufacturers are bullish.

Production, Employment, New Orders, and Backlog of Orders

While still positive, the New Orders index has shown some moderation of late. While still indicative of an expansion of new business, the index value of 19--repeated for a second month--seems disappointing. What has happened in its series in the past that can give us some clue to what lies ahead?

It is our contention that at least a portion of this is random variation: for example in winter of 2004, there was an inexplicable month below 20 that was otherwise surrounded by robust growth (average PMI for 2004 = 60.5). In 2005 and 2006 there were negative(!) values each year, although the scale's flirtation with the *zero* line was sporadic and brief in each of these instances.

The strength of other indicators maintained the PMI at a high level even when growth in new orders flatlined before; that appears to be what happened this month, although we encourage readers to be wary if there is an extended run below 25 for the **new orders index**; we saw such a run in late 2007/early 2008.

Table 1. The Cincinnati Economy at a Glance

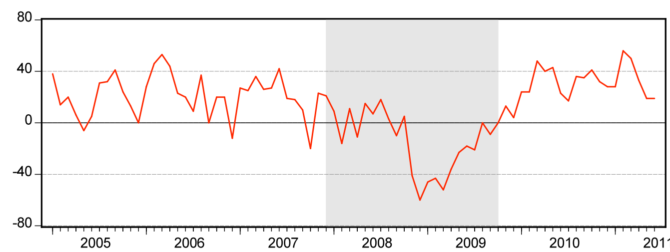
Index	June	May	J'10	Direction	Rate of Change	Trend*
Cincinnati PMI	59.5	62.3	56.2	↑	slower	17
New Orders	19	19	23	↑	same	18
Backlog of Orders	25	19	6	↑	faster	3
Production	25	38	34	↑	slower	18
Employment	44	38	20	↑	faster	8
Vendor Deliveries	-12	-33	-28	↓	slower	17
Raw Material Inventories	13	-4	-8	↑		1
Finished Goods Inventories	-12	0	-3	↓		1
Composite Price Index	52.3	62	21.0	↑	slower	25

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.

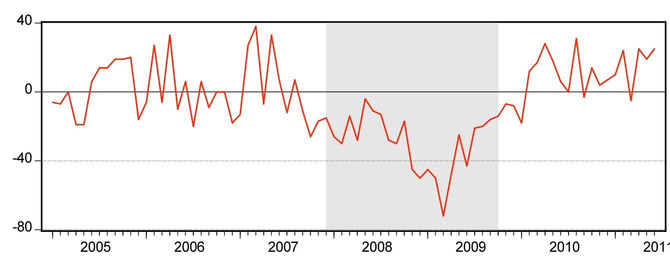
NEW ORDERS - Fig. 2
(8, 33, 19, 19)
In the month of June, the New Orders index remained at 19 for a second straight month in a row. This is still below the value of the index one year ago, when it was above 36. Forty-four percent of replies indicated new orders were "up" (38 in May), thirty-one percent indicated "the same" (43 in May) and twenty five percent of respondents indicated "down" (19 in May). While the unchanged monthly value is clearly below past data, the level of the current month's figure still represents economic expansion.

Figure 2. New Orders



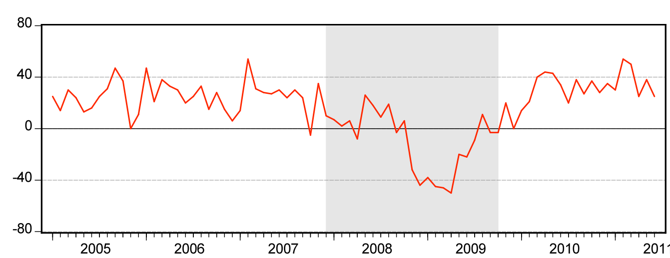
BACKLOG OF ORDERS - Fig. 3
(-9, 25, 19, 25)
The Backlog of Orders index reflected growing demands for companies' work in June, with an index value that increased six points from that of the previous month. The breakdown of respondents was thirty-eight percent of respondents reporting "up" (38 percent in May), fifty percent reporting "the same" (43 in May), and thirteen percent reporting "down" (19 in May). A year ago this index was 6, and since then it's been mainly positive.

Figure 3. Backlog of Orders



PRODUCTION - Fig. 4
(10, 25, 38, 25)
The Production index retreated substantially in April, sliding from 50 to 25. In May, it managed to gain significantly, expanding to 38. In June this index returned to 25. While our worries from April and this month have not been realized, this decrease is still substantial. Forty-four percent of respondents reported production as "up" (48 in May), thirty-eight percent reported "the same" (43 in May), and nineteen percent reported "down" (10 in May).

Figure 4. Production



EMPLOYMENT - Fig. 5
(2, 38, 38, 44)

The Employment index has now enjoyed five consecutive months above thirty, the longest apparent stretch since AERI started compiling these data. The ability of the recovery to produce a healthy labor market was a source of frustration, even though a year ago, we were in the midst of several consecutive months of expansion according to this index. Nevertheless, this current streak is remarkable in how widespread it is among survey respondents. Forty-four percent of respondents reported increased employment (43 percent in May), fifty-six percent of the respondents reported employment remained the same (52 percent in May), and zero percent reported decreased employment (5 percent in May).

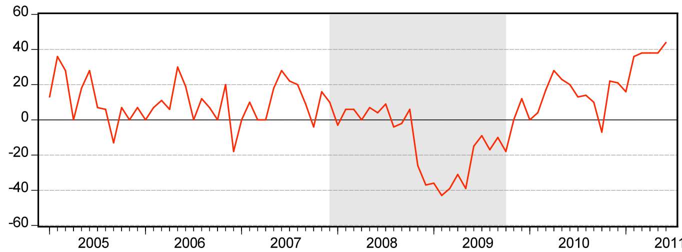


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(-4, -25, -33, -12)
The vendor delivery index continued below *zero*. It has now been zero or negative for eighteen straight months. The index rose to *negative* twelve this month. Thirteen percent of respondents reported faster deliveries (0 percent in May; this has been true for six months out of the last eight), sixty-three percent of survey respondents this month reported delivery times as the "same" (67 percent in May), and twenty-five percent reported slower delivery times (33 percent in May). The switch into negative of this index during the time of recovery is still not a coincidence: vendors need to manage more orders now, and many of them have fewer resources with which to do so than they did in the expansion era of 2007.

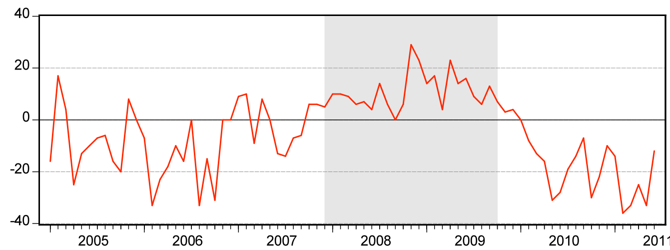


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(19, 67, 71, 56)

The index measuring dollar amounts spent by regional purchasers has now been fifty or higher for five consecutive months. The index value of 56 this month is lower than the post-recession high of 71 achieved in May, but still higher than the average over the past year. This index value measured 43 a year ago. Sixty-nine percent of respondents indicated increased spending (81 percent in May); nineteen percent reported no change (10 percent in May), while thirteen percent indicated decreased spending (10 percent in May).

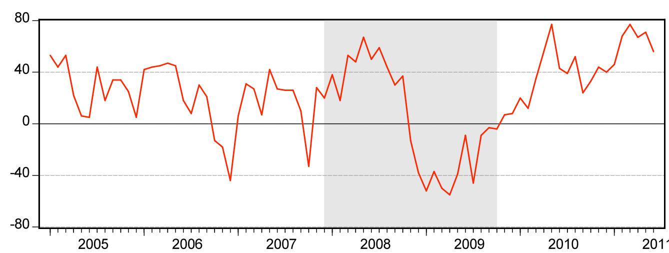


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(33, 84, 86, 69)
Commodity prices stayed high during the month of June, continuing an upward trend dating back to the depths of the recession, but slightly lower than last month. The new value of 69 is lower than the previous values we have presented in this space over the last six months. Expansion of the labor market means that newly-employed consumers can show more confidence in their spending, which should increase upwards pressure on prices even more. Seventy-five percent of respondents reported higher prices (86 percent in May), nineteen percent reported the "same" (14 percent in May), and six percent reported lower prices (0 in May). Fall of 2010 was the last time more than 10 percent of our respondents reported decreasing prices.

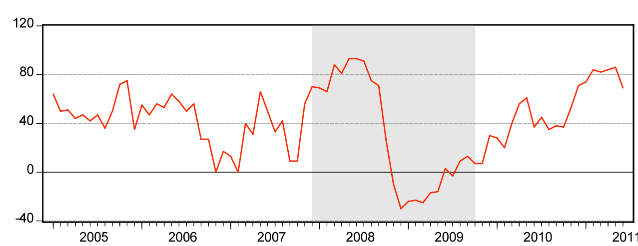


Figure 8. Commodity Prices

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
(20, 38, 57, 50)

The service price index remained significantly high in June. The last time it was higher was late summer 2008. This consistency in value was caused by 50 percent of respondents reporting increases, 50 percent reporting no change in prices, and no respondents reporting price decreases. This index has been *positive* or *zero* for 23 months.

EQUIPMENT PRICES
(17, 42, 43, 38)

The equipment price index changed only slightly, falling to 38 from 43 in June. 44 percent of respondents reported increases, 50 percent reported no change, and 6 percent of respondents reported decreases. This index has not been negative since the spring of 2009.

RAW MATERIAL INVENTORIES
(-17, -21, 4, 13)

The raw material inventories index rose again for the second consecutive month in the *positive* from 4 in May to 13 this month. 38 percent of the reports indicated increased inventories, 38 percent reported "no change", and 25 percent of respondents indicated decreases. Inventory increases can be a consequence of firms finally increasing hiring.

FINISHED GOODS INVENTORIES
(-15, -21, 0, -12)

The finished goods inventories index returned to negative from *zero* to *negative* 12. 13 percent of respondents indicated increased inventories, 63 percent reported the same, and 25 percent reported them "down".

BUYING PATTERNS

DOMESTICALLY
(16, 55, 60, 56)

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

ELSEWHERE IN THE AMERICAS
(-2, 17, 9, 25)

ACROSS THE ATLANTIC
(-12, 31, 17, 12)

ACROSS THE PACIFIC
(6, 23, 23, 50)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Electric Motors, Gasoline, Plastics, Steel, Bronze, Carbon Steel Pipe, Blended Acids, Food, *Fans, *Rubber, *Paper, and*Freight Costs.

Down are: *Nickel, *Copper, and Stainless Steel.

In short supply: Petroleum related products and products necessary for molded metal casting, such as Furfural Alcohol.

*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	44	38	19
New Orders	44	31	25
Backlog Of Orders	38	50	13
Employment	44	56	0

Index	Up	Same	Down
Prices for Commodities	75	19	6
Prices for Services	50	50	0
Prices for Equipment	44	50	6
Dollars Spent by Purchasing	69	19	13

Index	Up	Same	Down
Raw Material Inventories	38	38	25
Finished Goods Inventories	13	63	25

Index	Quicker	Same	Slower
Deliveries	13	63	25

Change in the amount spent	Up	Same	Down
Domestically	56	38	6
For Firms Purchasing Internationally			
Elsewhere in the Americas	25	75	0
Across the Atlantic	25	63	13
Across the Pacific	50	50	0

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 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. Financial sponsorship is generously provided by Duke Energy.

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 Institute for Supply Management-Cincinnati.*