

# CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

**May 2011**

## PRESS RELEASE

**Important: Do Not Release Until  
12:01 a.m. Tuesday, May 31, 2011**

**SUBJECT:** Report on Business Conditions for Greater Cincinnati for the month of May 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 **Purchasing Managers Index** – Cincinnati measured 62.3 in May. This value indicates continued economic expansion.

The **Composite Price Index** continued its climb to 62; this value has not been exceeded since the energy price spike in the summer of 2008. The **Employment index** stayed at 38, and is continuing its best four-month run in the past decade.



# CINCINNATI REPORT ON BUSINESS

**NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT**

**National  
Association of  
Purchasing  
Management**

**Cincinnati**

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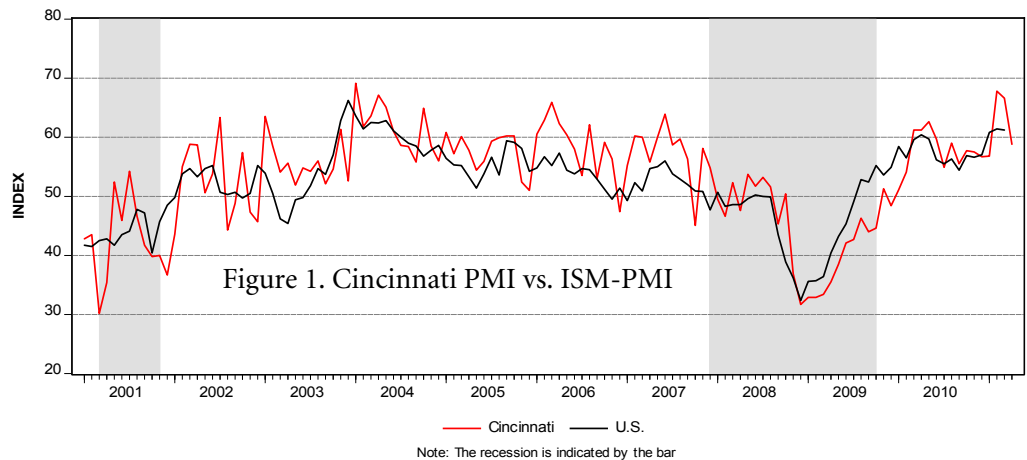
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(Financial Sponsorship for compiling the data and publishing this Report provided by Duke Energy)



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

The Cincinnati Purchasing Management Index (PMI) was 62.3 in May. This value is a sign of economic expansion in area manufacturing, although there was less of a consensus across indicators this month than in the previous two. The national April index value was 60.4; the national May index is not available as of this writing.



## HIGHLIGHTS

The Cincinnati economy continues to expand, and this robust expansion has spread to the labor market. The Cincinnati PMI returned above the lofty 60.0 line, settling at 62.3. A value above 50 indicates economic expansion, while we have been above 60 for three out of the past four months. PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce; other indices are unadjusted. The employment index has extended a remarkably solid run above thirty for four consecutive months. The Dollars spent by purchasing index increased from 67 to 71 this month, which is a quite lofty level. However, the rate of expansion has slowed in some cases: the new orders index decreased to 19, lower than any of

the preceding 9 months. The index for backlog of orders fell to positive 19, although this is still remarkably high even for a period of economic growth. The production index increased from 25 to 38. The employment index stayed high at 38, where it has now been for three consecutive months; this is the highest four-month run for this index since AERI began compiling the report. Most Inventory measures rebounded, suggesting that hiring has finally started to become sufficient to keep up with new business that firms are attracting. Inventories of finished goods fell to -21, as did raw material inventories. With regard to prices, the composite price index continued to increase: it is now at 62, which is approaching the

levels attained in Summer 2008. The index for equipment prices stayed essentially constant at 43; service prices rose dramatically, from 38 to 57. A year ago they were 19 and 21, respectively. The domestic purchasing index increased, measuring 60; buying elsewhere in the Americas fell to 9; two months ago it was 60. The index for buying from across the Atlantic was 17, while buying from across the Pacific was 23. The weakening of the dollar has made our exports more competitive, but it also makes life harder for those who buy foreign materials. For now, however, the manufacturing sector in Cincinnati continues its expansion.

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

The remarkable stretch that the employment index has had during the past four months has been mentioned repeatedly by this publication. It should be particularly noteworthy that anything like this unprecedented run failed to materialize during periods of similar economic expansion. In 2004, the PMI was routinely above 60, and New Orders and Production surpassed 50 several times, yet employment never gained the kind of ground that it seems to have lately.

One possible explanation is the failure of our indicators to signal depth in addition to breadth. It is possible that there is indeed new employment going on at a lot of firms, but they are each only adding one or two positions.

A second possibility is that the job cuts that were suffered in 2009 were much deeper than in the prior recession that began the decade. Finally, it's possible that the upswing in hiring in anticipation of the summer has been timed differently; while most industries see increased demand, we only seasonally adjust for this in calculating the PMI, not in the individual components, such as the employment index.

## Table 1. The Cincinnati Economy at a Glance

Index	Series Index			Direction	Rate of Change	Trend*
	May	Apr	M'10			
Cincinnati PMI	62.3	58.8	62.6	↑	Faster	16
New Orders	19	33	43	↑	Slower	17
Backlog of Orders	19	25	18	↑	Slower	2
Production	38	25	43	↑	Faster	17
Employment	38	38	23	↑	N/A	7
Vendor Deliveries	-33	-25	-8	↓	Faster	16
Raw Material Inventories	-4	-21	-8	↓	Slower	3
Finished Goods Inventories	0	-21	-8	-	Slower	0
Composite Price Index	62	54.7	33.7	↑	Faster	24

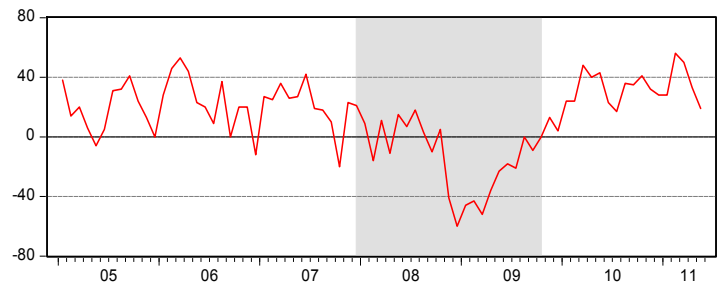
## DETAILS

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 (7, 50, 33, 19)

In the month of May, the New Orders index fell significantly for a second straight time, ending the month at 19. This is below the value of the index one year ago, when it was above 40. Thirty-eight percent of replies indicated new orders were "up" (58 in April), forty-three percent indicated "the same" (17 in April) and nineteen percent of respondents indicated "down" (25 in April). While the change is clearly toward the negative, the level of the current month's figure still represents economic expansion.

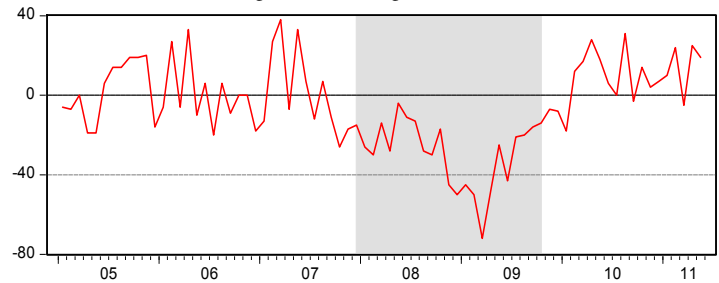
Figure 2. New Orders



### BACKLOG OF ORDERS - Fig. 3 (-10, -5, 25, 19)

The Backlog of Orders index reflected growing demands for companies' work in May, with an index value that changed little from that of the previous month. The breakdown of respondents was thirty-eight percent of respondents reporting "up" (42 percent in April), forty-three percent reporting "the same" (42 in April), and nineteen percent reporting "down" (17 in April). A year ago this index was 18, and since then it's been almost exclusively positive.

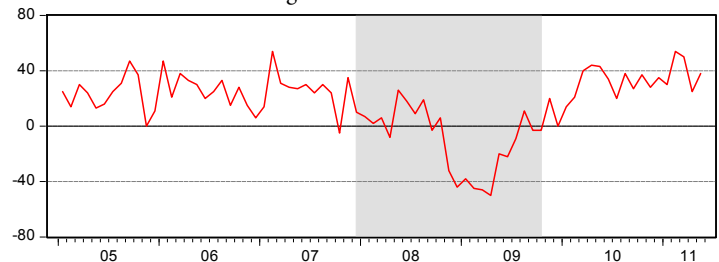
Figure 3. Backlog of Orders



### PRODUCTION - Fig. 4 (10, 50, 25, 38)

The Production index retreated substantially in April, sliding from 50 to 25. This month, it managed to gain significantly, expanding to 38. While our worries from the previous month have not been realized, there is still the decrease in other indicators. Forty-eight percent of respondents reported production as "up" (42 in April), forty-three percent reported "the same" (42 in April), and ten percent reported "down" (17 in April).

Figure 4. Production



**EMPLOYMENT** - Fig. 5  
(1, 38, 38, 38)

The Employment index has now enjoyed four 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-three percent of respondents reported increased employment (46 percent in April), fifty-two percent of the respondents reported employment remained the same (46 percent in April), and five percent reported decreased employment (8 percent in April).

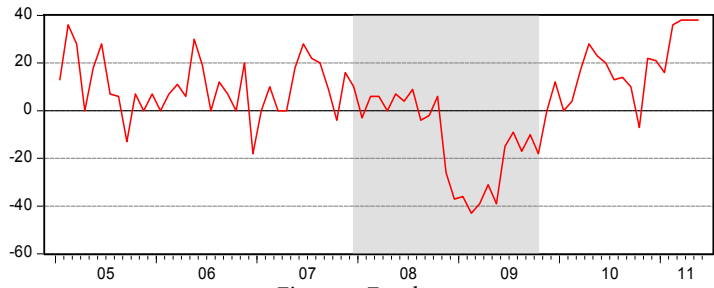


Figure 5. Employment

**VENDOR DELIVERY PERFORMANCE** - Fig. 6  
(-4, -33, -25, -33)

The vendor delivery continued below zero. It has now been zero or negative for seventeen straight months. The index slid to *negative* thirty-three this month. No respondents reported faster deliveries (0 percent in April); this has been true for five months out of the last eight), sixty-seven percent of survey respondents this month reported delivery times as the “same” (75 percent in April), and thirty-three percent reported slower delivery times (25 percent in April). The switch into negative of this index during the time of recovery is no coincidence: vendors need to manage more orders now, and many of them have fewer resources with which to do it than they did in the expansion era of 2007.

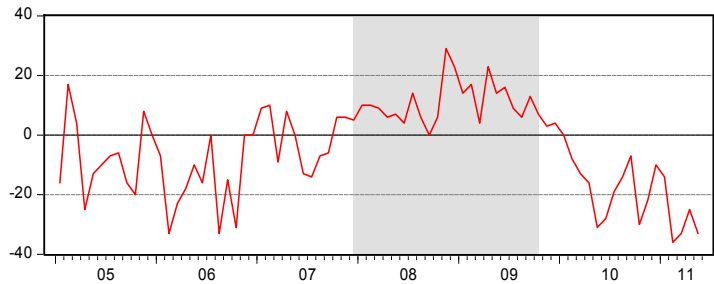


Figure 6. Vendor Delivery Performance

**DOLLARS SPENT BY PURCHASING** - Fig. 7  
(19, 77, 67, 71)

The index measuring dollar amounts spent by regional purchasers has now been sixty or higher for four consecutive months. The index value of 71 this month is greater than the pre-recession high of 67 achieved in the spring of 2008. When the index measured 77 a year ago, it was a significant outlier at that time; this value has been achieved as recently as March of this year. Eighty-one percent of respondents indicated increased spending (75 percent in April); ten percent reported no change (17 percent in April), while ten percent indicated decreased spending (8 percent in April).

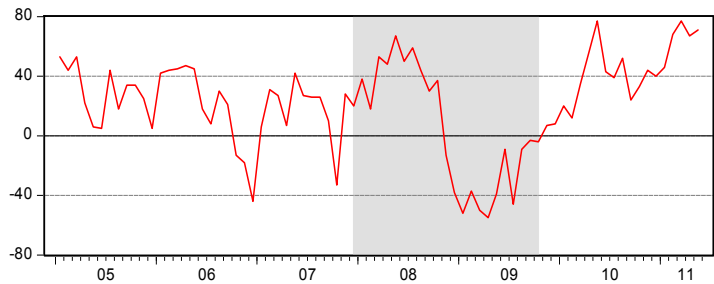


Figure 7. Dollars Spent By Purchasing

**COMMODITY PRICES** - Fig. 8  
(34, 82, 84, 86)

Commodity prices stayed high during the month of May, continuing an upward trend dating back to the depths of the recession. The new value of 86 is higher even than the high values we have routinely presented in this space over the last six months. Expansion of the labor market means that job-seekers can show more confidence, which should increase pressure on prices even more. Eighty-six percent of respondents reported higher prices (88 percent in April), fourteen percent reported the “same” (8 percent in April), and zero percent reported lower prices (4 in April). Fall of 2010 was the last time more than 10 percent of our respondents reported decreasing prices.

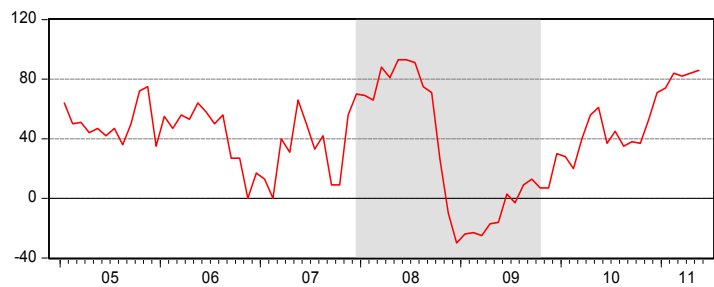


Figure 8. Commodity Prices

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

(21, 31, 38, 57)

The service price index increased significantly in May. The last time it was higher was late summer 2008. This change was caused by 57 percent of respondents reporting increases, 43 percent reporting no change in prices, and no respondents reporting price decreases. This index has been *positive* or *zero* for 22 months.

## EQUIPMENT PRICES

(17, 41, 42, 43)

The equipment price index changed only slightly, rising to 43; this current stretch of three months above forty is higher than anything since autumn of 2008. 48 percent of respondents reported increases, 48 percent reported no change, and 5 percent of respondents reported decreases. This index has not been negative since the spring of 2009.

## RAW MATERIAL INVENTORIES

(-18, -4, -21, 4)

The raw material inventories index rose from *negative* 21 to *positive* 4 this month. Fourteen percent of the reports indicated increased

inventories, seventy-six percent reported “no change”, and ten percent of respondents indicated decreases. Inventory increases can be a consequence of firms finally increasing hiring.

## FINISHED GOODS INVENTORIES

(-15, -4, -21, 0)

The finished goods inventories index returned from -21 to *zero*, the highest index value in eighteen months. Twenty-nine percent of respondents indicating increased inventories, 43 percent reporting the same, and 29 percent reporting them “down”.

## BUYING PATTERNS

### DOMESTICALLY

(15, 64, 55, 60)

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

### ELSEWHERE IN THE AMERICAS

(-3, 60, 17, 9)

## ACROSS THE ATLANTIC

(-13, 40, 31, 17)

## ACROSS THE PACIFIC

(5, 46, 23, 23)

## GENERAL COMMENTS BY PURCHASING MANAGERS

### Noticeable Price Changes

**Up are:** Copper, Electric Motors, Gasoline, Plastics, Steel, Carbon Steel Pipe, Blended Acids, Food, \*Bronze, and \*Nickel.

**Down are:** Stainless Steel.

**In short supply:** Cotton, Linear motion devices (Bearings and ballscrews), Steel, Tubing, Black Pepper, and Onions.

\*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	48	43	10
New Orders	38	43	19
Backlog Of Orders	38	43	19
Employment	43	52	5

Index	Up	Same	Down
Prices for Commodities	86	14	0
Prices for Services	57	43	0
Prices for Equipment	48	48	5
Dollars Spent by Purchasing	81	10	10

Index	Up	Same	Down
Raw Material Inventories	14	76	10
Finished Goods Inventories	29	43	29

Index	Quicker	Same	Slower
Deliveries	0	67	33

Index	Up	Same	Down
Change in the amount spent Domestically	60	30	10
For Firms Purchasing Internationally			
Elsewhere in the Americas	17	75	8
Across the Atlantic	17	83	0
Across the Pacific	31	62	8

### 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. Financial sponsorship is 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 National Association of Purchasing Management-Cincinnati.*

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