Cincinnati Report on Business

NAPM-Cincinnati Affiliated with the Institute for Supply Management

March 2011

PRESS RELEASE

Important: Do Not Release Until
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SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of March 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 66.6 in March. This marks the first time since 2004 that Cincinnati PMI was above 65 for two consecutive months, showing promise for continued strong economic activity. The **Dollars Spent Purchasing index** was 77, equaling its peak in the spring of 2010.

The **Composite Price Index** declined slightly to 51.3. The **Employment index** was 38, surpassing last month's six year high mark.

UNIVERSITY OF Cincinnati

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

National Association of Purchasing Management

Cincinnati

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

The Cincinnati Purchasing Management Index (PMI) was 66.6 in March. The value of this month's index promises further economic progress in 2011. The last time the Cincinnati PMI was below 50 was in 2009. The national February index value was 61.4, which corresponds to a 6.6% increase in Real GDP" annually, according to the Institute for Supply Management; the national March index is not available as of this writing.

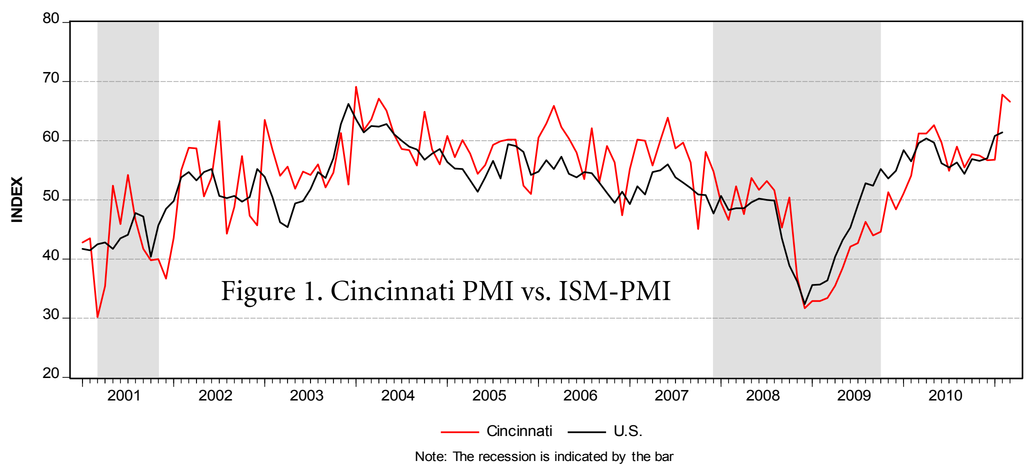


Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

In the month of march, many indicators showed continued economic growth; while this month continued the remarkable gains in production and new orders that we saw in previous few months, there were some measures that showed weakness. The **Cincinnati PMI** decreased, but it stayed at a level indicating economic expansion. Its current value of 66.6 is considerably greater even than that during the rapid growth of the spring of 2010, and it owes a debt to the improving labor market for this increase. PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce; other indices are unadjusted. We warned last month that many of the indicators had only been higher one or two other times since AERI began compiling the *Report.* It appears currently that This dramatic growth has continued for at least one more month. The **Dollars spent by purchasing** index increased from 68 to 77; no recent month exists in which it has been higher. The **new orders** fell back slightly to 50, while the **production index** also settled at 50; both of these were over 40 for three consecutive months during the spring of 2010; we could be in the middle of a comparable quarter. The index for **backlog of orders** fell below *zero*; it had been *positive* for five straight months. The **employment** index stayed high at 36; this is the first time that this measure has been above 30 twice in a row since AERI began compiling the report. **Inventories of finished goods** rose to -4, while pressure continued to build within prices: the index for **equipment prices** increased from 32 to 41; **service prices** fell off, regressing to 31. The **raw material inventories** returned to *negative* territory, with a fall to -4. We had advocated for the pressure on inventories leading to hiring, and this seems to have happened: the backlogs of orders and inventories are shrinking, but this is coupled with rising employment, which we take as a sign of strength. The **domestic purchasing** index climbed again, this time to 64; buying **elsewhere in the Americas** also rebounded; it ended March at 60, even exceeding its lofty peak in summer of 2007. The index for buying from across the **Atlantic** increased to 40, while buying from across the **Pacific** rose to 46. A weaker dollar may boost the foreign indices, but other measures indicate the US has also been increasing exports this time: a healthy recovery seems finally to have begun in Cincinnati.

Production, Employment, New Orders, and Backlog of Orders

We have had two months of phenomenal business expansion. However, the breadth of recovery that we saw in early 2010 was also remarkable, and that breadth came with some remarkable economic outcomes.

Manufacturing has lost about 40,000 jobs since the sector peaked in size in 2000; however, it's clear that the sector continues to be in vibrant expansion, with job numbers stabilizing and the indications in this report for expansion.

During 2009, the decreasing **backlog of orders** index was a sign of weakness; it indicated how new orders were being met with existing assets. Now, the decrease indicates that new productive factors, including capital and labor are being found and activated. As the **composite price index** rises, we anticipate employers will look to lock in wages now before they go up under future inflationary pressure.

Table 1. The Cincinnati Economy at a Glance

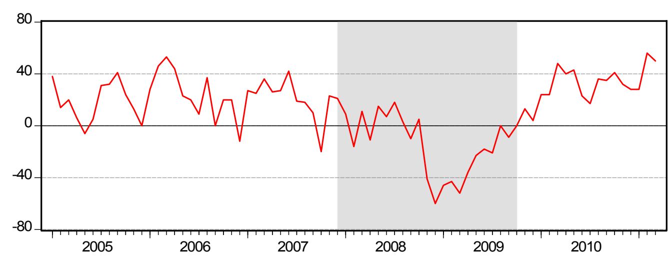
Index	Series Index Mar.	Feb.	M'10	Direction	Rate of Change	Trend*
Cincinnati PMI	66.6	67.8	61.2	↑	Faster	14
New Orders	50	56	48	↑	Slower	15
Backlog of Orders	-5	24	17	↑	Slower	1
Production	50	54	40	↑	Slower	15
Employment	38	36	17	↑	Faster	5
Vendor Deliveries	-33	-36	-13	↓	Slower	14
Raw Material Inventories	-4	0	0	↓	Faster	1
Finished Goods Inventories	-4	-20	-9	↓	Slower	15
Composite Price Index	51.3	53.3	25.0	↑	Slower	22

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.

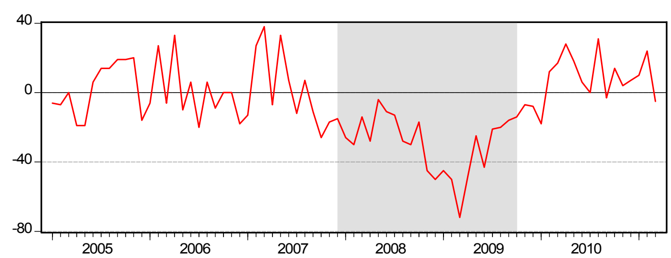
NEW ORDERS - Fig. 2
(6, 28, 56, 50)
The New Orders index gave back some of its earlier gains, falling to 50. This is slightly higher even than the optimistic value of 48 that was reported one year ago. Sixty-four percent of replies indicated new orders were "up" (56 in February), twenty-three percent indicated "the same" (44 in February) and fourteen respondents indicated "down" (0 in February). While the index has not been negative since September of 2009, two consecutive months of fifty or higher is quite exceptional.

Figure 2. New Orders



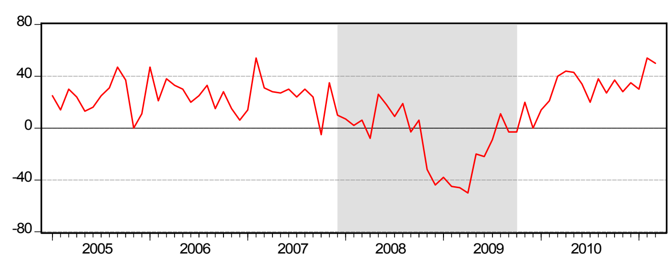
BACKLOG OF ORDERS - Fig. 3
(-13, 10, 24, -5)
In March, the Backlog of Orders index followed its pattern of slight increases with a substantial tumble. This fall back into negative territory is the first time the index has been negative in seven months. The breakdown of respondents was twenty-seven percent of respondents reporting "up" (40 percent in February), forty-one percent reporting "the same" (44 in February), and thirty-two percent reporting "down" (16 in February). Both new orders (positively) and employment (negatively) affect producers' backlogs; because new orders are increasing, we interpret this decrease to be a healthy sign of increased employment rather than a sign of faltering orders.

Figure 3. Backlog of Orders



PRODUCTION - Fig. 4
(8, 30, 54, 50)
After a substantial increase in February, the Production index retreated slightly, sliding from 54 to 50. The previous time it had been this high (winter 2007), the index fell much farther in the following month. The index has not been negative since the fall of 2009. Fifty-six percent of respondents reported production as "up" (54 in February), thirty-two percent reported "the same" (44 in February), and nine reported "down" (0 in February).

Figure 4. Production



EMPLOYMENT - Fig. 5
(-1, 16, 36, 38)

The Employment index continued at its high level of last month, settling at thirty-eight; this more than exceeds last month's value, which had been higher than any since the winter of 2005. Forty-three percent of respondents reported increased employment (44 percent in February), fifty-two percent of the respondents reported employment remained the same (48 percent in February), and five percent reported decreased employment (8 percent in February). We attribute the decline in backlog of orders to these increases.

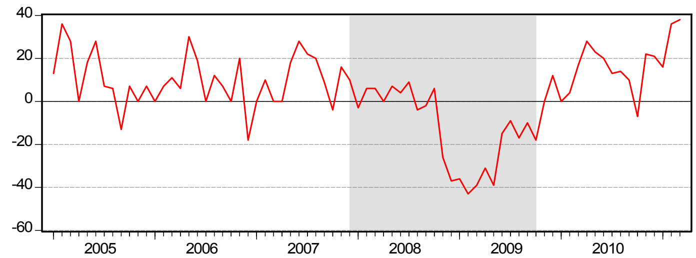


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(-2, -14, -36, -33)
The vendor delivery performance index has now been zero or negative for fifteen straight months; this month it rose slightly to *negative* thirty-six, which is considerably below the average of -19 during this period. No respondents reported faster deliveries (0 percent in February; this has been true for three months out of the last six), sixty-seven percent of survey respondents this month reported delivery times as the "same" (64 percent in February), and thirty-three percent reported slower delivery times (36 percent in February).

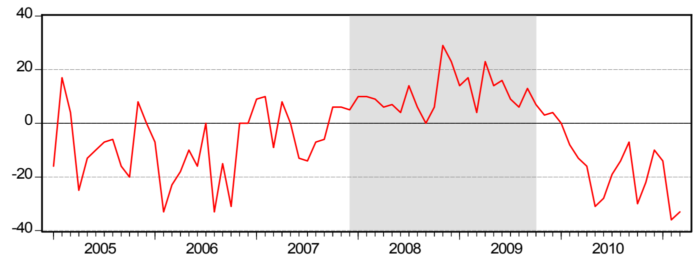


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(18, 46, 68, 77)

We saw a remarkably high value for the index measuring dollar amounts spent by regional purchasers this month. It has now averaged nearly 50 over the last twelve months, and this month equals the peak achieved in the spring of 2010. Eighty-two percent of respondents indicated increased spending (76 percent in February); fourteen percent reported no change (16 percent in February), while five percent indicated decreased spending (8 percent in February). There are many reasons (besides overt economic expansion)—including anticipated inflation and the sudden extension of the Bush-era tax cuts—that may be resulting in purchasers getting this dramatic green light for their buying activities.

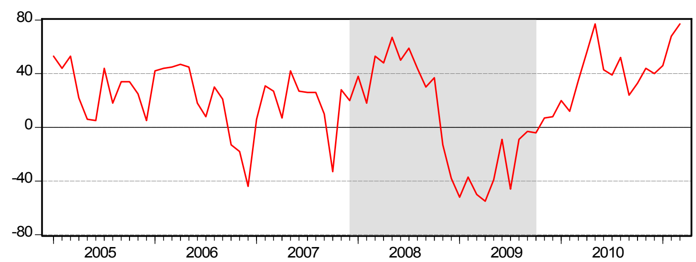


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(34, 74, 84, 82)
The commodity price index maintained its high level at 82 in March, nearly equaling, its highs experienced in the summer of 2008. Many analysts are coming to accept that rising prices will play a role in the future economic outlook, but this dialogue has been going on since the stimulus in winter 2009. Other than in this index and in energy and food sectors, consumers have yet to see anything like what we experienced in the late 1970's. Eighty-two percent of respondents reported higher prices (88 percent in February), eighteen percent reported the "same" (8 percent in February), and *zero* percent reported lower prices (4 percent in February).

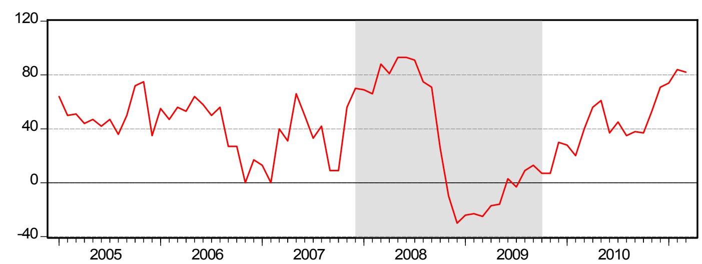


Figure 8. Commodity Prices

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, 30, 44, 31)

The service price index fell back in March, nearly equaling January's index value. This change was caused by 36 percent of respondents reporting increases, 59 percent reporting no change in prices, and 5 percent of respondents reporting price decreases. This index has been *positive* or *zero* for 20 months.

EQUIPMENT PRICES
(18, 25, 32, 41)

The equipment price index continued the steady upward climb that began in Fall of 2010, landing at *positive* 41 in March. 46 percent of respondents reported increases, 50 percent reported no change, and 4 percent of respondents reported decreases. This index has not been negative for twenty-two months.

RAW MATERIAL INVENTORIES
(-18, -29, 0, -4)

The raw material inventories index fell back down below *zero*, ending the month at *negative* 4. 23 percent of the reports indicated increased inventories, 50 percent reported "no change", and 27 percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES
(-14, -22, -20, -9)

The finished goods inventories index ended a steady decline by rising back to -4, its second highest index value since last spring. This outcome came from 23 percent of respondents indicating increased inventories, 50 percent reporting the same, and 27 percent reporting them as "down".

BUYING PATTERNS

DOMESTICALLY
(14, 44, 56, 64)

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

ELSEWHERE IN THE AMERICAS
(-4, 37, 16, 60)

ACROSS THE ATLANTIC
(-14, 31, 15, 40)

ACROSS THE PACIFIC
(5, 15, 31, 46)

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

Index	Up	Same	Down
Production	56	32	9
New Orders	64	23	14
Backlog Of Orders	27	41	32
Employment	43	52	5

Index	Up	Same	Down
Prices for Commodities	82	18	0
Prices for Services	36	59	5
Prices for Equipment	46	50	4
Dollars Spent by Purchasing	82	14	5

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

Index	Quicker	Same	Slower
Deliveries	0	67	33

Change in the amount spent	Up	Same	Down
Domestically	73	18	9
For Firms Purchasing Internationally			
Elsewhere in the Americas	60	40	0
Across the Atlantic	40	60	0
Across the Pacific	46	55	0

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Carbon Steel, Copper, Electric Motors, Gasoline, Plastics, Stainless Steel, Plastic Molding Material*, Nickel*, Furan Binder*, Ferrosilicon*, Silicon Carbide*, Carbon Steel Pipe*, Nitric Acid*, Food*.

Down are: Hydrochloric Acid. (Many respondents expressed humor at the idea that any price might be going down)

In short supply: Castings, Cotton, Drives, Linear motion devices (Bearings and ballscrews), Steel (Stainless steel, structural steel, steel sheets, steel parts), Iron Ore Pellets*, Relays*.

*indicates a change from the previous report; some goods in March appear in multiple lists because of aggregation of multiple reports

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.*