

# CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

## January 2011

### PRESS RELEASE

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**SUBJECT:** Report on Business Conditions for Greater Cincinnati for the month of January, 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 56.8 in January. Its continuance above fifty demonstrates continued manufacturing expansion, evidenced by all major indicators, including the new orders index, which measured 28.

The Composite Price Index edged up to 43. This was led by the surge in commodity prices, the rise in which should be a source of concern.



# CINCINNATI REPORT ON BUSINESS

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

**National  
Association of  
Purchasing  
Management**

**Cincinnati**

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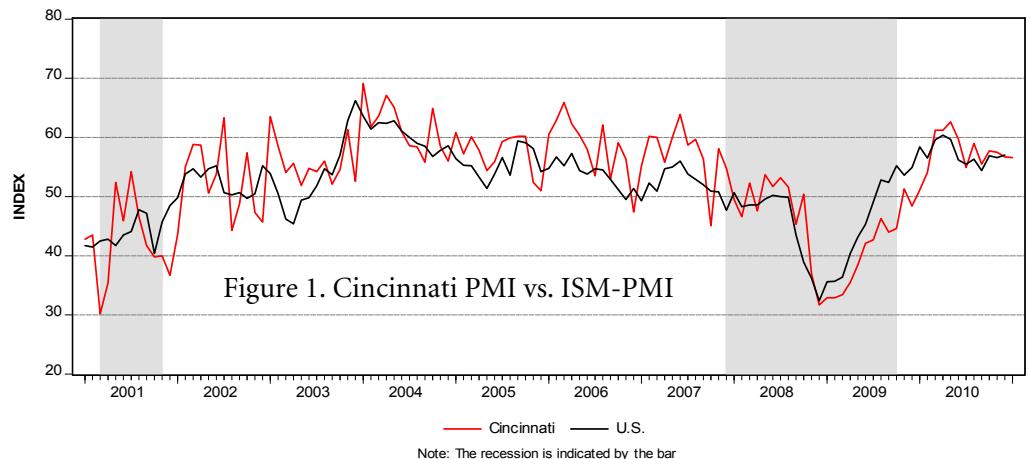
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## The National Association of Purchasing Management-Cincinnati Report on Business for the Month of January 2011

The Cincinnati Purchasing Management Index (PMI) was 56.8 in January. 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 December index value was 57; the national January index is not available as of this writing. A value of PMI above 50 indicates economic expansion.



## HIGHLIGHTS

The start of a new year brought a marginal increase of PMI after two months of moderate decline. The Cincinnati PMI decrease slightly to 56.8 (December's value was 56.7). This value marks the thirteenth consecutive month the PMI has been over fifty, something that has not occurred since December of 2006. PMI is seasonally adjusted as prescribed by the U.S. Department of Commerce; other indices are unadjusted. This expansion in business activity gives us reason to be optimistic about what lies ahead. There was little change in the indicators from the month before, with no principal indicator moving more than 7 points in any direction. Usually the results of the Christmas season are taken as a verdict of the year: by all accounts, those results are positive.

The Dollars spent by purchasing index increased to 46 from 40 and remains significantly higher than its 36-month moving average of 16. The new orders index remained the same, holding steady at 28. The production index dipped from 35 to 30; this is a very small change not unlike the stability this index saw in March-May of 2010. The index for backlog of orders rose slightly for the second consecutive month to 10 from 7; we anticipate that an increase in this will be the signal that employment (16 this month) will pick up speed. Inventories of finished goods remain firmly below zero at -22. The index for equipment prices increased to 25 from 21; service prices marginally increased to 30 from 29. The commodity price index rose moderately to 73 after two months of significant increases.

While the increase was moderate this index value still remains historically high. The raw material inventories index showed some rebound, returning upwards to negative 29. That index has now been negative for nine straight months. We are hopeful that the speed of employment growth will increase as inventories reach depletion. The domestic purchasing index gained speed, rising from 32 to 37. The index for buying from across the Atlantic shrank to 31, still far above the dismal -16 that is the moving average of the last few years. After falling back to 13 from 27, last month, buying from across the Pacific recovered slightly, rising again to 15.

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

Throughout 2010, we have insisted that a steady and robust recovery began late in the previous year. To make this recovery more apparent to our readers, we have included the comparison with the same month one year earlier in the table to the right: the results are striking.

The backlog of orders for many companies was still decreasing a year ago. Considerable progress can be seen in employment as well as production. To the list of other major increases, we must now add prices: each price index has seen a major run up, and the worries about the impact that QE2 will have on the money supply and long-term strength of the dollar are gaining traction in economic discourse.

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

Index	Series Index			Direction	Rate of Change	Trend*
	Jan.	Dec.	J'10			
Cincinnati PMI	56.8	56.7	51.1	↑	Slower	12
New Orders	28	28	24	↑	N/A	13
Backlog of Orders	10	7	-18	↑	Faster	4
Production	30	35	14	↑	Slower	13
Employment	16	21	0	↑	Slower	3
Vendor Deliveries	-14	-10	0	↓	Faster	12
Raw Material Inventories	-29	-33	-25	↓	Slower	9
Finished Goods Inventories	-22	-29	-34	↓	Slower	13
Composite Price Index				↑	Faster	20
	43.0	40.3	13.0			

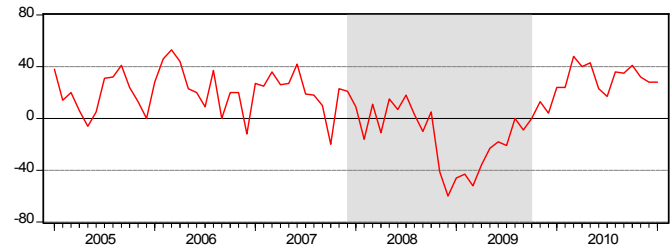
**DETAILS**

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  
(3, 32, 28, 28)

The New Orders index stayed level at January's value of 28. While this represents a slight improvement since January 2010, the index has been much higher during the intervening year. Forty-four percent of replies indicated new orders were "up" (46 in December), forty percent indicated "the same" (36 in December) and eighteen percent indicated "down" (18 in December). Continued growth of New Orders Index is *sine qua non* for business expansion.

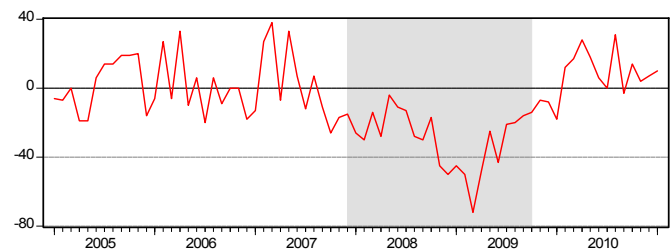
Figure 2. New Orders



**BACKLOG OF ORDERS** - Fig. 3  
(-14, 4, 7, 10)

In December the Backlog of Orders index rose slightly from 7 to 10; since its ground-breaking month of August 2010 (index value: 31), this index has listlessly continued within a stone's throw of stagnation, with an average of only *positive* 6 over the last five months. Until the index shows significant increases, there will be little motivation to increase employment. The breakdown of respondents was twenty-six percent of respondents reporting "up" (25 percent in December), fifty-eight percent reporting "the same" (57 in December), and sixteen percent reporting "down" (18 in December). In January 2010 the index measured *negative* 18, which was the last month of a stretch of more than two years in which this index was negative.

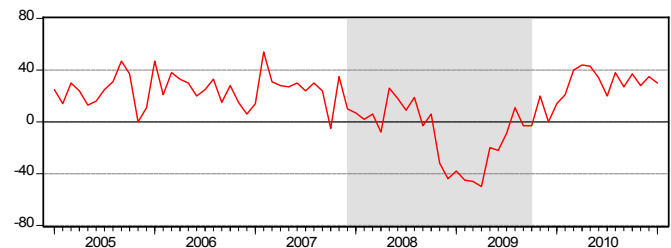
Figure 3. Backlog of Orders



**PRODUCTION** - Fig. 4  
(6, 28, 35, 30)

The Production index retreated from 35 to a value of 30. A year ago the index measured *positive* 14, and during the last twelve months it averaged 36, with every single month being 21 or higher. Forty-two percent of respondents reported production as "up" (46 in December), forty-six percent reported "the same" (43 in December), and twelve percent reported "down" (11 in December).

Figure 4. Production



**EMPLOYMENT** - Fig. 5  
(-3, 22, 21, 16)

The Employment index decreased disappointingly in January; it slid to a value of 16, its lowest value since October 2010, when it was actually below zero. Twenty-eight percent of respondents reported increased employment (32 percent in December), sixty percent of the respondents reported employment remained the same (57 percent in December), and twelve percent reported decreased employment (11 percent in December). Expectations from many sources are for an improving picture to employment in 2011; for that to come true, there will have to be 50,000 new jobs created to restore us to where we were in 2007.

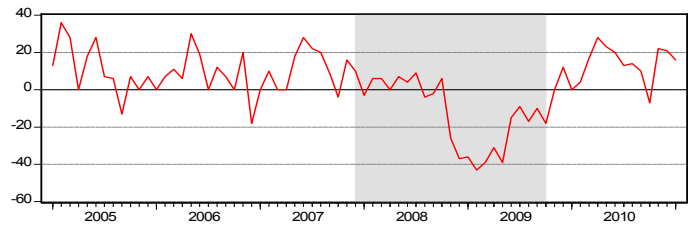


Figure 5. Employment

**VENDOR DELIVERY PERFORMANCE** - Fig. 6  
(1, -22, -10, -14)

The vendor delivery performance index continued its decline, falling to *negative* fourteen in January. These decreases in new orders are generally good news to the extent that they represent vendors having more orders than they can process rapidly (we have noted previously that this indicator was positive for the duration of the recession). Two percent of respondents reported faster deliveries (4 percent in December), eighty-two percent of survey respondents this month reported delivery times as the “same” (82 percent in December), and sixteen percent reported slower delivery times (14 percent in December).

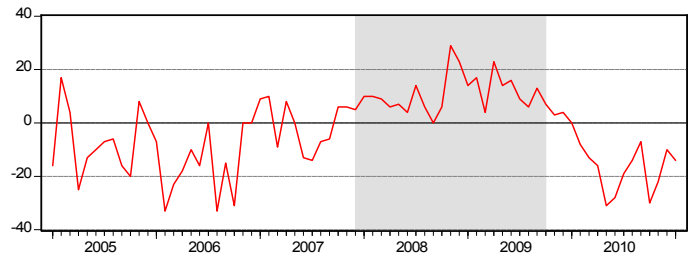


Figure 6. Vendor Delivery Performance

**DOLLARS SPENT BY PURCHASING** - Fig. 7  
(16, 44, 40, 46)

The index measuring dollar amounts spent by regional purchasers rose this month, meaning that it has been forty or higher for three straight months, and it has averaged nearly forty-two over the past twelve months. Between November 2008 and January 2010, it was never over ten, and often negative. Fifty-eight percent of respondents indicated increased spending (54 percent in December); thirty percent reported no change (32 percent in December), while twelve percent indicated decreased spending (14 percent in December). Some of this rise is attributable to the recent rise in prices that has been displayed.

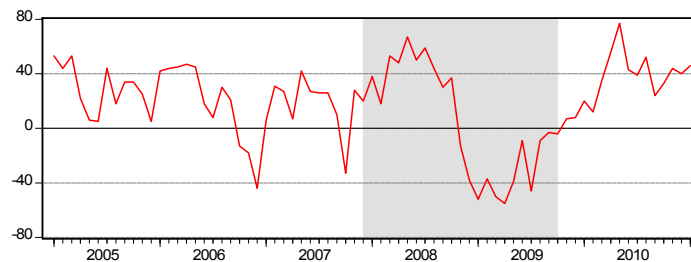


Figure 7. Dollars Spent By Purchasing

**COMMODITY PRICES** - Fig. 8  
(33, 53, 71, 74)

After two substantial monthly increases, the commodity price index has grown frighteningly high, peaking at 74 this month; this price index has returned to that rarified level attained in summer 2008. It's important to note that this index is based on how many purchasers are seeing increases rather than on the magnitude of those increases, the latter of which is still not comparable to that dramatic summer. Seventy-one percent of respondents reported higher prices (57 percent in December), twenty-nine percent reported the “same” (39 percent in December), and zero percent reported lower prices (4 percent in December).

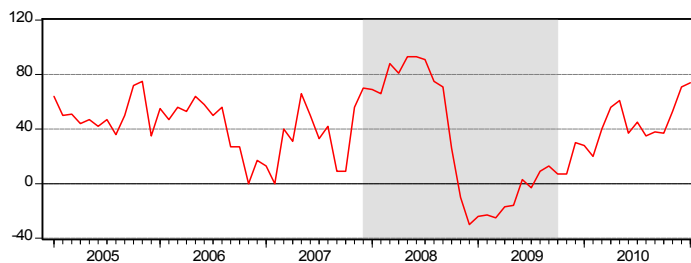


Figure 8. Commodity Prices

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

(22, 21, 29, 30)

The service price index stayed almost level in January. This change was caused by 32 percent of respondents reporting increases, 66 percent reporting no change in prices, and 2 percent of respondents reporting price decreases. This index has been *positive* or *zero* for eighteen months.

## EQUIPMENT PRICES

(18, 21, 21, 25)

The equipment price index nudged up slightly to a value of *positive* 21 in January. 29 percent of respondents reported increases, 67 percent reported no change, and 4 percent of respondents reported decreases. This index has not been negative for twenty months.

## RAW MATERIAL INVENTORIES

(-19, -27, -33, -29)

The raw material inventories index rose slightly in January, climbing to -29 from -33. This index has been mainly negative or *zero* since the fall of 2007 and the subsequent financial crisis, with the recent values representing many vendors cashing in on high commodity process. 13 percent of the reports indicated increased inventories, 46

percent reported “no change”, and 42 percent of respondents indicated decreases.

## FINISHED GOODS INVENTORIES

(-13, -32, -29, -22)

The finished goods inventories index improved for a fourth consecutive month in January, climbing to *negative* 22; all of these improvements have been incremental. This was caused by 8 percent of respondents indicating increased inventories, 62 percent reporting the same, and 30 percent reporting finished goods inventories as “down”.

## BUYING PATTERNS

### DOMESTICALLY

(12, 47, 33, 44)

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

### ELSEWHERE IN THE AMERICAS

(-6, 17, 32, 37)

### ACROSS THE ATLANTIC

(-16, 0, 33, 31)

## ACROSS THE PACIFIC

(4, 27, 13, 15)

## GENERAL COMMENTS BY PURCHASING MANAGERS

### Noticeable Price Changes

**Up are:** Carbon Steel, Copper, Corn, Electric Motors, Ferrosilicon, Furfuryl Alcohol, Gasoline, Iron Ore, Linear Guides, Paper, Silicon Carbide, Soy, Toner, Wheat, \*Plastics, \*Rubber, \*Stainless Steel.

**Down are:** Electrical Components.

**In short supply:** Furfuryl Alcohol, Ferrosilicon, Garlic, Hydrochloric Acid, Iron-Ore, Linear motion devices (Bearings and ball screws), Onions, Silicon Carbide, \*Cotton, \*Pork.

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

## STATISTICAL SUMMARY

Replies as a Percent of Total Replies

Index	Up	Same	Down
Production	42	46	12
New Orders	44	40	16
Backlog Of Orders	26	58	16
Employment	28	60	12

Index	Up	Same	Down
Prices for Commodities	74	26	0
Prices for Services	32	66	2
Prices for Equipment	29	67	4
Dollars Spent by Purchasing	58	30	12

Index	Up	Same	Down
Raw Material Inventories	13	46	42
Finished Goods Inventories	8	62	30

Index	Quicker	Same	Slower
Deliveries	2	82	16

Change in the amount spent	Up	Same	Down
Domestically	58	28	14
For Firms Purchasing Internationally			
Elsewhere in the Americas	41	56	4
Across the Atlantic	39	54	8
Across the Pacific	27	62	12

### 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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