

CINCINNATI REPORT ON BUSINESS

ISM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

December 2011

PRESS RELEASE

**Important: Do Not Release Until
12:01 a.m. Thursday, December 29, 2011**

- SUBJECT:** Report on Business Conditions for Greater Cincinnati for the month of October 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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FOR FURTHER INFORMATION CONTACT:

Dr. Benjamin Passty
Research Assistant Professor
Department of Economics
University of Cincinnati
1605 Crosley Tower
Cincinnati, OH 45221-0371
513.556.0791
Benjamin.Passty@uc.edu
<http://www.business.uc.edu/economics/>
follow us on twitter: @economicimpact

ISM-Cincinnati
<http://www.napm-c.org/>

PO Box 54777
Cincinnati, OH 45254
513.385.4144

Duke Energy
Director of Load Forecasting
Office Code DEC39B

550 South Tryon Street
Charlotte, NC 28202



The Cincinnati Purchasing Management Index (PMI) measured 60.1 in December, signifying improved manufacturing growth in the Cincinnati MSA.

The New Orders Index rebounded, turning from last month's negative result to an index value of positive 35. Both the Production index and the Backlog of Orders index rebounded from the month before as well.



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For Further Information Contact:

Dr. Benjamin Passty,
The Economics Center
Department of Economics,
90 W Daniels St.
Cincinnati, Ohio 45221-0223
phone: 513.291.ECON
benjamin.passty@uc.edu
<http://www.economicresearch.org>
twitter: @economicimpact

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

The Cincinnati Purchasing Management Index (PMI) measured 60.1 in December, signifying improved economic growth in the Cincinnati MSA. The national November index value was 52.7; the national December index value is not yet available.

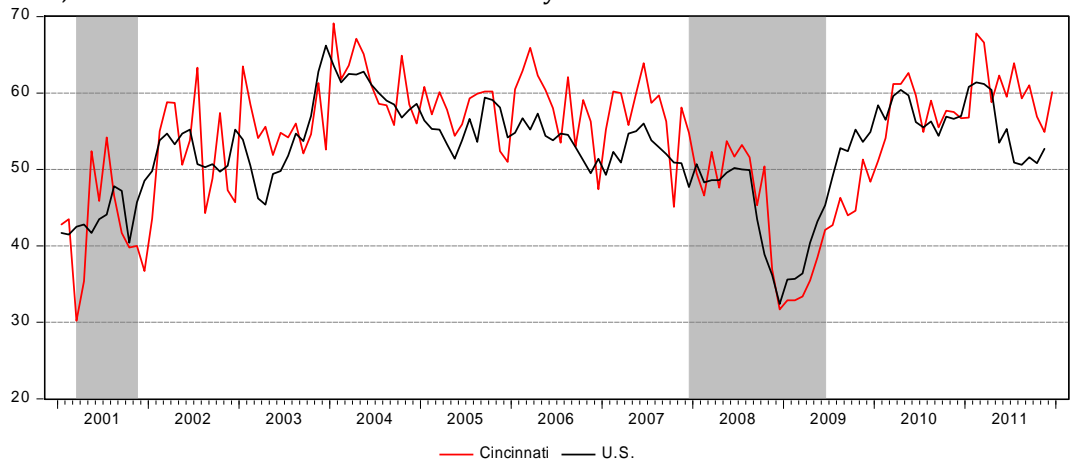


Figure 1. Cincinnati PMI vs. ISM-PMI (Shaded areas indicate recessions)

HIGHLIGHTS

The ISM-Cincinnati Purchasing Manager's Index measured 60.1 in December, a figure representing an acceleration of manufacturing growth in the Cincinnati area. This month saw many of our economic indicators return to levels suggesting vigorous growth. Seasonal weights are used to adjust the PMI as prescribed by the US Dept of Commerce; all other index values are unweighted. The **new orders** index rebounded to *positive* 35, after a horrific stretch of four months in which the average value was below 10. The **production** index rose from 10 to 20.

The **employment** index rose from 19 to 47. This represents the highest value the index has achieved this decade, and it comes on the heels of national jobs reports in which the unemployment rate dropped below 9.0% for the first time since early 2009. The **dollars spent by purchasing** index rose from 33 to 40; despite this increase, it is below its one year average by more than ten points. The **backlog of orders** index rose from minus 14 to zero. None of the past six readings have been higher than July's anemic value of positive 9.

The **vendor delivery** index changed by only a few points, rising to -26. Inventories weakened, with the **raw material inventories** index falling from zero to *minus* 25, and the **finished goods inventories** index falling from 10 to *negative* 40, a value that is certainly the lowest of the past three years. The **composite price** index rose several points to 27. While commodity prices increased only slightly, the **service price index** showed a modest rise from 24 to 30, while the **equipment price index** rose from 10 to 20.

Highlights (Continued)

While the **domestic purchasing** index decreased from 38 to 20, foreign buying showed especially strong growth. Buying from **elsewhere in the Americas** increased from zero to positive 18. Buying from **across the Atlantic** increased from negative 9 to positive 27 and buying from **across the Pacific** increased from 17 to 64, a high exceeded only in winter 2007. In general, foreign buying is made easier by a stronger dollar, particularly when compared to the Euro, which has generated no shortage of worries about its future stability. This report ends will mark two complete years in which the PMI has indicated economic expansion in aggregate. Meanwhile, the national PMI number has flirted with the 50 line, with three recent months measuring just above 50, and five of fourteen regional reports read borderline or contraction as recently as September. Other news reports have suggested that a flood of positive economic news has begun with the holiday shopping season for 2011. While these types of reports tend to be focused more on the retail sector of the economy, we believe the results of this report indicate that Cincinnati Manufacturing has built some positive momentum to start the new year.

Table 1. The Cincinnati Economy at a Glance

Index	Dec	Nov	D'10	Direction	Rate of Change	Trend*
Cincinnati PMI	60.1	54.9	56.6	↑	faster	23
New Orders	35	-14	28	↑		1
Backlog of Orders	0	-14	7	↑		1
Production	20	10	35	↑	faster	24
Employment	47	19	21	↑	faster	14
Vendor Deliveries	-26	-29	-10	↑	slower	23
Raw Material Inventories	-25	0	-33	↓		1
Finished Goods Inventories	-40	10	-29	↓		1
Composite Price Index	27	21	40	↑	faster	31

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 (14, 9, -14, 35)

The New Orders index increased this month from -14 to 35. This is the first increase in value of the index in five months. Fifty-five percent of replies indicated new orders were “up” (33 in November), twenty-five percent indicated “the same” (19 in November) and twenty percent of respondents indicated “down” (48 in November). This month’s value is a significant improvement—indicating an expansion in new orders for the manufacturing sector of Greater Cincinnati—following months of decline in this index.

BACKLOG OF ORDERS - Fig. 3 (-4, 4, -14, 0)

The Backlog of Orders index rose in December to zero. The breakdown of respondents was thirty percent of respondents reporting “up” (19 percent in November), forty percent reporting “the same” (48 in November), and thirty percent reporting “down” (33 in November). The increase to a zero value for this leading indicator is an optimistic turn following a trend of slow decline over the last 6 months. While the change is encouraging, the level is among the lowest of the past two years.

PRODUCTION - Fig. 4 (16, 17, 10, 20)

The Production index increased in December. This upturn, which follows 3 straight months of decline, hopefully foreshadows a return to its loftier levels achieved earlier in 2011 for this indicator. Forty-five percent of respondents reported production as “up” (38 in November), thirty percent reported “the same” (33 in November), and twenty-five percent reported “down” (29 in November).

Figure 2. New Orders

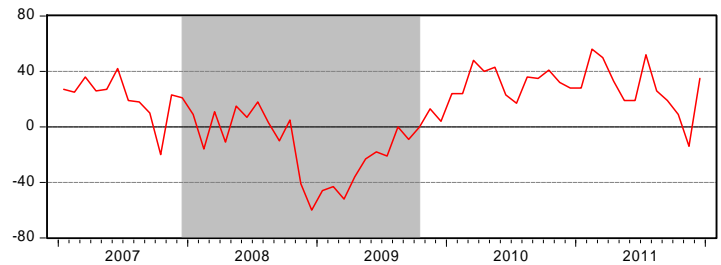


Figure 3. Backlog of Orders

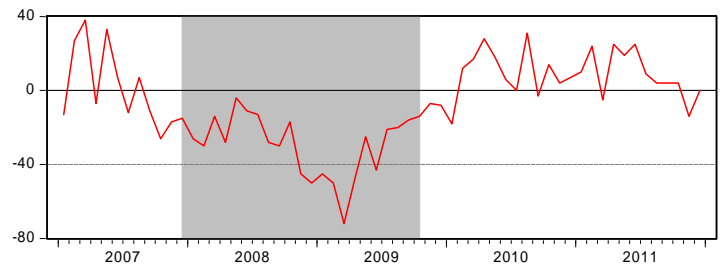
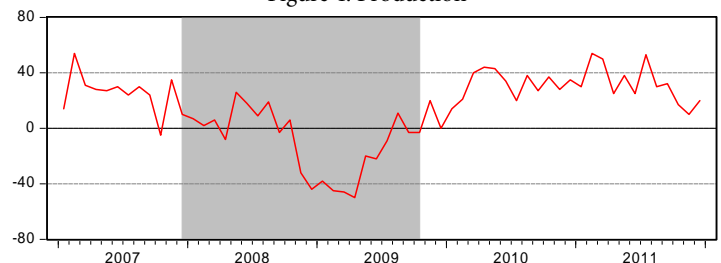


Figure 4. Production



EMPLOYMENT - Fig. 5
(9, 28, 19, 47)

The Employment index increased dramatically from 19 to 47. Forty-seven percent of respondents reported increased employment (24 percent in November), fifty-three percent of the respondents reported employment remained the same (71 percent in November), and zero percent reported decreased employment (5 percent in November). This value is very positive and represents only the second time in a decade that this index has risen above 40. It should be of note that this employment indicator is historically always up in December. The figures also show that employment in the manufacturing sector of Greater Cincinnati is still expanding. This index remains around or above twenty for the eleventh consecutive month.

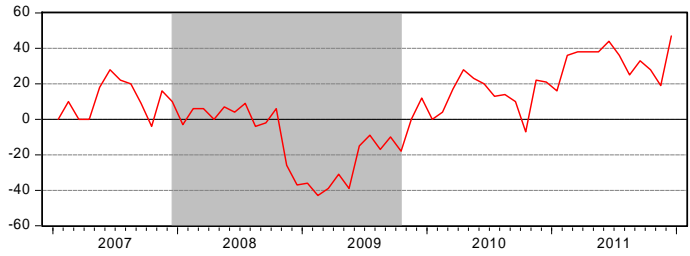


Figure 5. Employment

VENDOR DELIVERY PERFORMANCE - Fig. 6
(-9, -5, -29, -26)

The vendor delivery index remains below zero. The index rose only slightly to *negative* twenty-six this month, and it has now been zero or negative for twenty-three straight months. Eleven percent of respondents reported faster deliveries (10 percent in November), fifty-three percent of survey respondents this month reported delivery times as the “same” (52 percent in November), and thirty-seven percent reported slower delivery times (38 percent in November).

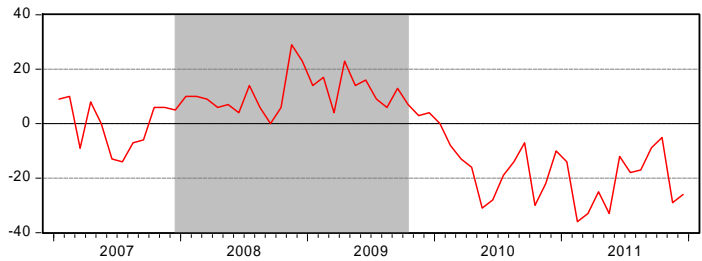


Figure 6. Vendor Delivery Performance

DOLLARS SPENT BY PURCHASING - Fig. 7
(23, 43, 33, 40)

The index measuring dollar amounts spent by regional purchasers increased to 40. This index value has returned to its greatly positive level of above 40, but is still much lower than values we reported earlier in the year. Sixty percent of respondents indicated increased spending (48 percent in November); twenty percent reported no change (38 percent in November), while twenty percent indicated decreased spending (14 percent in November).

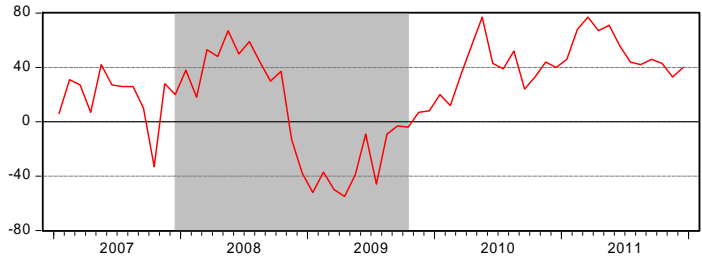


Figure 7. Dollars Spent By Purchasing

COMMODITY PRICES - Fig. 8
(33, 36, 29, 30)

Commodity prices rose just slightly during the month of December. The new value of 30 is still the second lowest value reported since February 2010. Forty percent of respondents reported higher prices (43 percent in November), fifty percent reported the “same” (43 percent in November), and ten percent reported lower prices (14 percent in November).

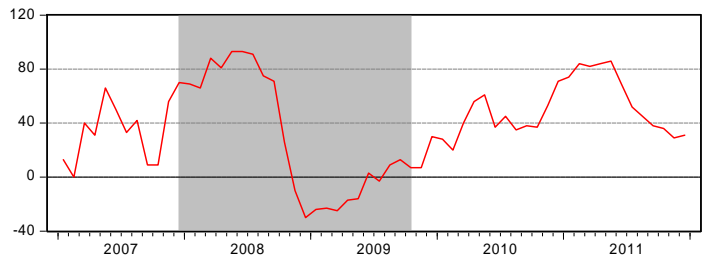


Figure 8. Commodity Prices

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, 36, 25, 30)

The service price index increased to 30 in December. This month's value was designated by 35 percent of respondents reporting increases, 60 percent reporting no change in prices, and 5 percent of respondents reporting price decreases. This index has been *positive* or *zero* for 28 months.

EQUIPMENT PRICES
(16, 28, 10, 20)

The equipment price index increased from 10 in November to 20 in December. Twenty-five percent of respondents reported increases, 70 percent reported no change, and five percent of respondents reported decreases. This index is still reporting a much lower value than reported earlier in the year.

RAW MATERIAL INVENTORIES
(-14, 18, 0, -25)

The raw material inventories index fell considerably again in December to *negative twenty-five*. 15 percent of the reports indicated increased inventories, 45 percent reported "no change", and 40

percent of respondents indicated decreases.

FINISHED GOODS INVENTORIES
(-17, 0, 10, -40)

The finished goods inventories index dropped sharply this month to *negative forty*. This marks a return for this index, as it has been historically *negative*. A positive value for this index would indicate lower sales of finished goods post production. 5 percent of respondents indicated increased inventories, 50 percent reported the same, and 45 percent reported them "down".

BUYING PATTERNS

DOMESTICALLY
(19, 54, 38, 20)

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

ELSEWHERE IN THE AMERICAS
(3, 0, 0, 18)

ACROSS THE ATLANTIC
(-6, 7, 9, 27)

ACROSS THE PACIFIC
(14, 15, 17, 64)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

Up are: Electronic Parts, Stainless Steel Goods, Imported Metal and Rubber Parts, Silicon Carbide, and many finished goods.

Down are: Steel, Gasoline, *Wheat, and Aluminum

In short supply: *Medical Supplies, Pharmaceuticals, Capacitors, *Turkey, Peanuts, *Sugar, and Electrical Parts.

*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	45	30	25
New Orders	55	25	20
Backlog Of Orders	30	40	30
Employment	47	53	0

Index	Up	Same	Down
Prices for Commodities	40	50	10
Prices for Services	35	60	5
Prices for Equipment	25	70	5
Dollars Spent by Purchasing	60	20	20

Index	Up	Same	Down
Raw Material Inventories	15	45	40
Finished Goods Inventories	5	50	45

Index	Quicker	Same	Slower
Deliveries	11	53	37

	Up	Same	Down
Change in the amount spent Domestically	50	20	30
For Firms Purchasing Internationally			
Elsewhere in the Americas	27	64	9
Across the Atlantic	36	55	9
Across the Pacific	64	36	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 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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