

## CINCINNATI REPORT ON BUSINESS

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

**October 2011**

### PRESS RELEASE

**Important: Do Not Release Until  
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- 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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**ISM—Cincinnati, Inc.**

The Purchasing Managers Index – Cincinnati measured 56.9 in October, a value that represents slowing expansion for the Greater Cincinnati Area Manufacturing sector.

The New Orders Index reported downward movement to an index value of 9; the Production index also fell. Buying attention shifted from abroad to at home, with the Domestic Purchasing Index rising to 54.



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

The Cincinnati Purchasing Management Index (PMI) was 56.9 in October. This reading represents slowing economic growth in the Cincinnati MSA. The national September index value was 51.6; the national October index value is not yet available. PMI is seasonally adjusted as prescribed by the Dept. of Commerce.

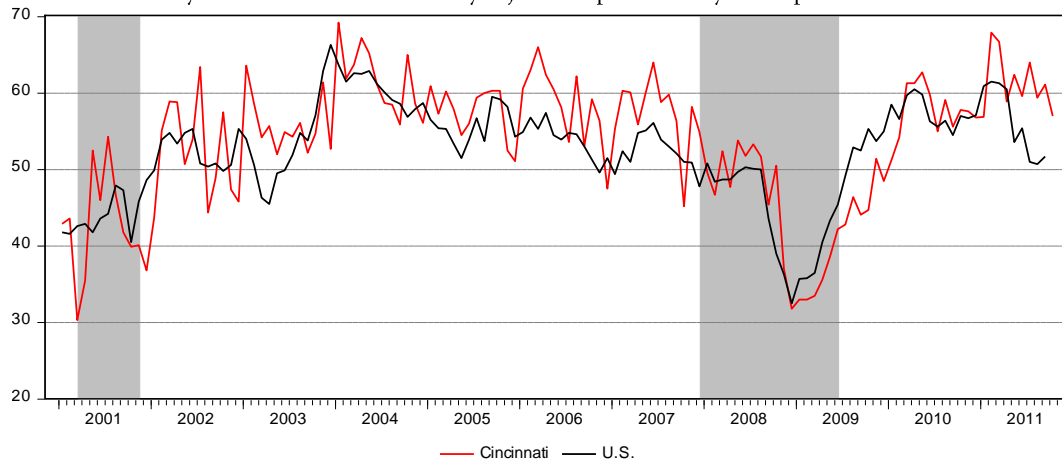


Figure 1. Cincinnati PMI vs. ISM-PMI (Shaded areas indicate recessions)

### HIGHLIGHTS

The Cincinnati PMI measured 56.9 in October, a value that is lower than all but one month out of the previous year and one that represents a slowing in the growth of manufacturing in Cincinnati's economy. This downshifting was representing by decreases in nearly all of the economic indices. The production index fell to 17; the new orders index fell to 9 (it hasn't been lower since December 2009). The employment index changed little in comparison, settling near its 12-month average at 27. The Dollars spent by purchasing index was remarkably stable, falling from 46 to 43. The index for backlog of orders continued at 4 (it's been there for 3 consecutive months),

while the index for vendor deliveries rose to -5 (improvements in this index figure negatively into the PMI number). The pace of inventory growth was generally declining, with the Raw Material Inventories index falling to 18, while Finished Good Inventories rose from minus 4 to zero. The latter of these constituted a peak (finished good inventories have not been positive since summer 2009), while the former was a reversion to trend. With regard to prices, the composite price index declined for yet another consecutive month, falling to 32; this is much lower than the peak of 62 reached in the spring of this year. The index for

equipment prices stayed level at 27, while service prices fell slightly to 35. Perhaps the brightest spot in the report, the domestic purchasing index rose substantially to 54; it was at this value or higher during much of the early part of 2011. Buying elsewhere in the Americas fell to zero growth, while the index for buying from across the Atlantic fell to 7. Buying from across the Pacific also declined to 15, tying the lowest value of this year. Reports from the Cleveland Federal Reserve Bank Beige Book indicated "modest" growth in manufacturing. As we prepare for the holiday spending, general media focus will shift from manufacturers to consumers.

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

That so many indicators should decline at one time may seem like the gathering of economic storm clouds to many readers. Growth in new orders has declined for four straight months. This actually happened earlier this same year (February through May) before rebounding to a lofty level of 52.

The difference between earlier this year and now is that the other indicators were more robust then than they are now. In April, Production bottomed at 25 (currently at 17). The backlog of orders index averaged 15 during that period (it's under 5 now).

Why do these other indices clue us into the New Orders index? Because consumers who feel flush will be more likely to spend, while producers who feel flush are more likely to make the investments that will lead to long-term growth. Early in the spring, we wrote confidently that the decline in New Orders was temporary: we also urged readers to watch it carefully in case troubling signs emerged.

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

Index	Oct	Sep	O'10	Direction	Rate of Change	Trend*
Cincinnati PMI	56.9	61	57.7	↑	slower	21
New Orders	9	19	42	↑	slower	22
Backlog of Orders	4	4	14	↑	Same	6
Production	17	32	37	↑	Slower	22
Employment	28	33	-7	↑	Slower	12
Vendor Deliveries	-5	-9	-30	↓	Slower	21
Raw Material Inventories	18	38	-16	↑	slower	3
Finished Goods Inventories	0	-4	-33	↔		—
Composite Price Index	32	33	30	↑	slower	29

## DETAILS

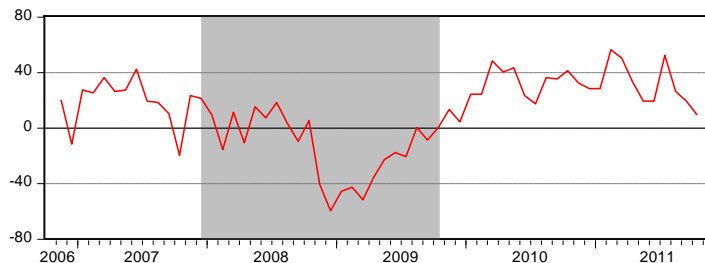
The index numbers reported here indicate the NET CHANGE (number of respondents in each category reporting UP for this month ending minus the number reporting DOWN). For each indicator, from left to right in parentheses, is the average for the last three years followed by indices for the last three months, ending with the current month index.

### NEW ORDERS - Fig. 2

(10, 26, 19, 9)

The New Orders index decreased again this month from 19 to 9. This is still much lower than the value of the index one year ago, when it was 42. Thirty-five percent of replies indicated new orders were "up" (46 in September), thirty-nine percent indicated "the same" (27 in September) and twenty-six percent of respondents indicated "down" (27 in September). This month's value marks four straight months of decline. The current month's figure indicates very slight growth in manufacturing, though this is the lowest value since December 2009.

Figure 2. New Orders

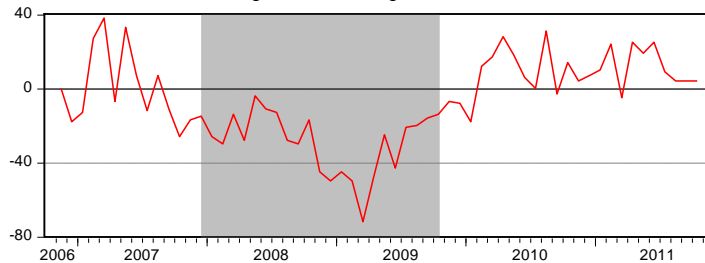


### BACKLOG OF ORDERS - Fig. 3

(-6, 4, 4, 4)

The Backlog of Orders index remained unchanged in October. The breakdown of respondents was thirty percent of respondents reporting "up" (27 percent in September), forty-four percent reporting "the same" (50 in September), and twenty-six percent reporting "down" (23 in September). While remaining positive, this leading indicator still shows a slow decline over the last 5 months. This continuing trend might predict a decline in future hiring.

Figure 3. Backlog of Orders

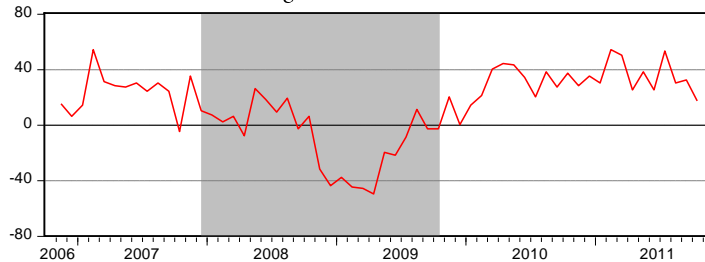


### PRODUCTION - Fig. 4

(13, 30, 32, 17)

The Production index decreased significantly in October. The decline is cautionary for this indicator, but not cause for concern just yet as its still above the 3 year moving average. Thirty percent of respondents reported production as "up" (50 in September), fifty-seven percent reported "the same" (32 in September), and thirteen percent reported "down" (18 in September).

Figure 4. Production



**EMPLOYMENT** - Fig. 5  
(5, 25, 33, 28)

The Employment index decreased from 33 to 28, but still convincingly around thirty. Thirty-one percent of respondents reported increased employment (41 percent in September), sixty-five percent of the respondents reported employment remained the same (50 percent in September), and four percent reported decreased employment (9 percent in September). The figures show that employment in the manufacturing sector of Greater Cincinnati is still in comfortable expansion.

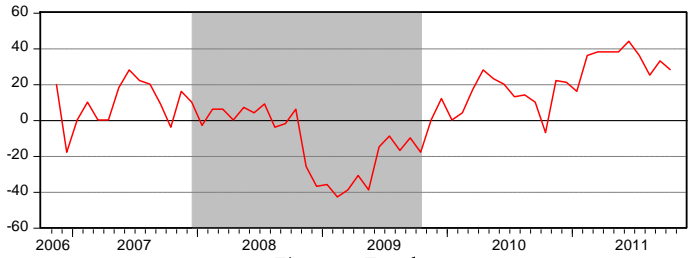


Figure 5. Employment

**VENDOR DELIVERY PERFORMANCE** - Fig. 6  
(-6, -17, -9, -5)

The vendor delivery index remains below zero. The index climbed again to *negative* five this month, and it has now been zero or negative for twenty-one straight months. Four percent of respondents reported faster deliveries (9 percent in September), eighty-seven percent of survey respondents this month reported delivery times as the “same” (73 percent in September), and nine percent reported slower delivery times (18 percent in September).

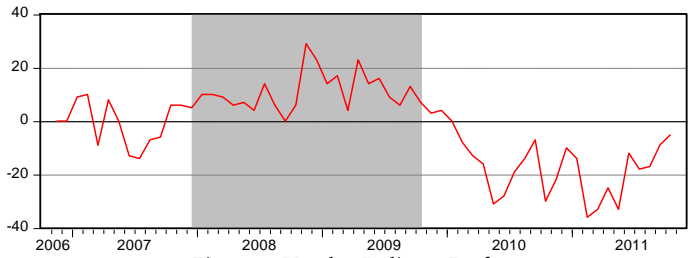


Figure 6. Vendor Delivery Performance

**DOLLARS SPENT BY PURCHASING** - Fig. 7  
(19, 42, 46, 43)

The index measuring dollar amounts spent by regional purchasers decreased to 43. This index value has been consistent for the past four months. Fifty-five percent of respondents indicated increased spending (55 percent in September); thirty-six percent reported no change (36 percent in September), while nine percent indicated decreased spending (9 percent in September).

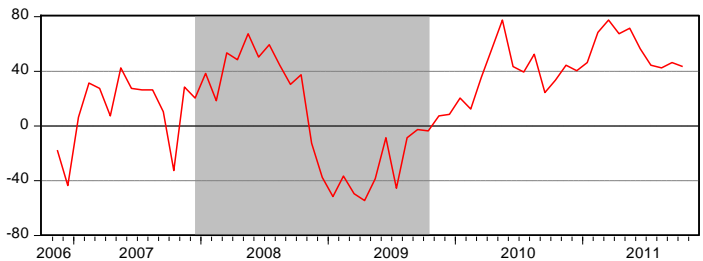


Figure 7. Dollars Spent By Purchasing

**COMMODITY PRICES** - Fig. 8  
(30, 45, 38, 36)

Commodity prices lowered once more during the month of October. The new value of 36 is the lowest value since June 2010. Fifty-two percent of respondents reported higher prices (50 percent in September), thirty-one percent reported the “same” (36 percent in September), and seventeen percent reported lower prices (14 percent in September).

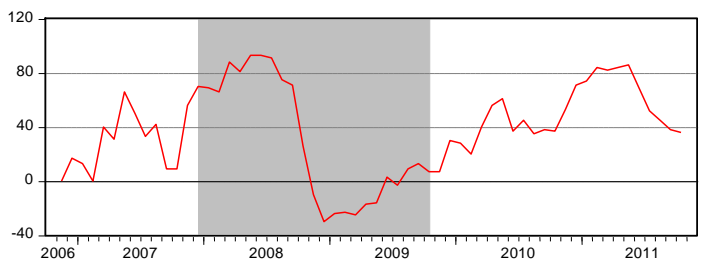


Figure 8. Commodity Prices

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

(18, 24, 39, 36)

The service price index fell to 36 after a four-month high of 39 in September. This month's value was designated by 35 percent of respondents reporting increases, 65 percent reporting no change in prices, and 0 percent of respondents reporting price decreases. This index has been *positive or zero* for 26 months.

## EQUIPMENT PRICES

(16, 42, 29, 28)

The equipment price index held almost constant this month, decreasing from 29 in September to 28 in October. Thirty-one percent of respondents reported increases, 65 percent reported no change, and four percent of respondents reported decreases. This index reports the lowest value since January 2011.

## RAW MATERIAL INVENTORIES

(-14, 8, 38, 18)

The raw material inventories index fell considerably in October to 18. This index has a three month average of 21. 32 percent of the reports indicated increased inventories, 54

percent reported "no change", and 14 percent of respondents indicated decreases.

## FINISHED GOODS INVENTORIES

(-17, -17, -4, 0)

The finished goods inventories index remained *negative* again this month, but increased closer to zero. 17 percent of respondents indicated increased inventories, 66 percent reported the same, and 17 percent reported them "down".

## BUYING PATTERNS

### DOMESTICALLY

(16, 42, 36, 54)

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

### ELSEWHERE IN THE AMERICAS

(0, 15, 15, 0)

### ACROSS THE ATLANTIC

(-10, 8, 15, 7)

### ACROSS THE PACIFIC

(9, 36, 46, 15)

## GENERAL COMMENTS BY PURCHASING MANAGERS

### Noticeable Price Changes

**Up are:** Electronic Parts, Stainless Steel Goods, Cotton Goods, \*Plastic Resins, \*Nickel, \*Asian Imported Metal and Rubber Parts, \*Silicon Carbide, and \*Teflon.

**Down are:** Steel, \*Gasoline, \*Iron Ore, \*Copper, and Aluminum

**In short supply:** \*Teflon, \*Pharmaceuticals, \*Furan Binder, \*Capacitors, \*Chicken, \*Peanuts, \*Hydrochloric Acid, \*Medical Packs, 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	30	57	13
New Orders	35	39	26
Backlog Of Orders	30	44	26
Employment	30	65	5

Index	Up	Same	Down
Prices for Commodities	52	31	17
Prices for Services	35	65	0
Prices for Equipment	30	65	5
Dollars Spent by Purchasing	52	39	9

Index	Up	Same	Down
Raw Material Inventories	32	55	13
Finished Goods Inventories	17	66	17

Index	Quicker	Same	Slower
Deliveries	4	87	9

Change in the amount spent	Up	Same	Down
Domestically	59	36	5
For Firms Purchasing Internationally			
Elsewhere in the Americas	15	70	15
Across the Atlantic	15	77	8
Across the Pacific	29	57	14

### 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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