

CINCINNATI REPORT ON BUSINESS

NAPM-CINCINNATI AFFILIATED WITH THE INSTITUTE FOR SUPPLY MANAGEMENT

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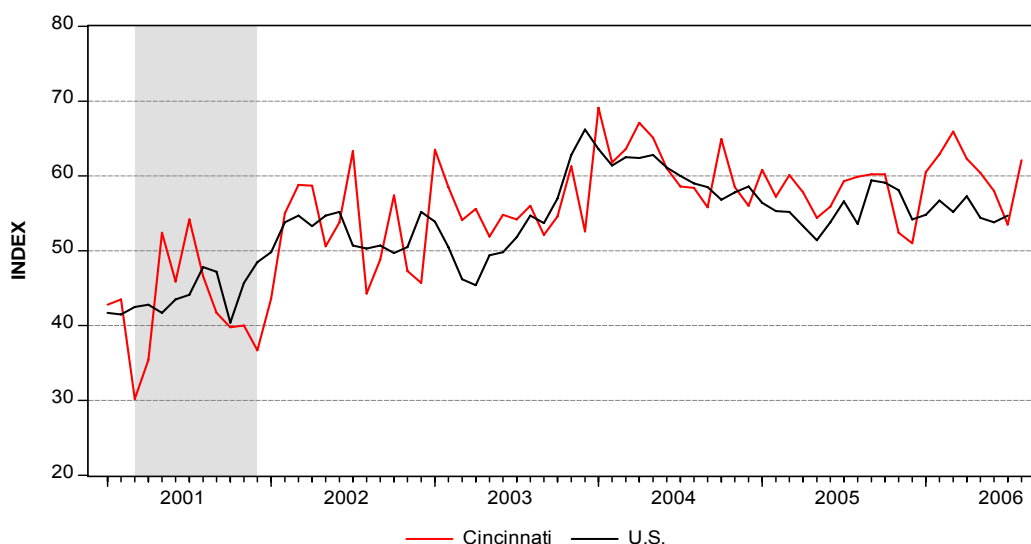
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For Further Information
Contact:

Thomas J. Zinn, Director,
Applied Economics
Research Institute,
Department of Economics,
University of Cincinnati,
1606 Crosley Tower,
Cincinnati, Ohio 45221-0371
Telephone: 513.556.0791
zinttj@ucmail.uc.edu
<http://www.artsci.uc.edu/economics/institute/index.html>

The National Association of Purchasing Management-Cincinnati Report on Business for the Month of August 2006

The Cincinnati Purchasing Management Index (PMI) increased 8.6 percentage points to 62.1 in August from 53.5 in July. The August increase marks a reversal in the decline of the PMI that began in April of this year. A year ago, the Cincinnati PMI measured 59.9 or 2.2 percentage points beneath the August 2006 number.



Note: The recession is indicated by the bar

Figure 1. Cincinnati PMI vs. ISM-PMI

HIGHLIGHTS

The Greater Cincinnati Report on Business for the month of August reflects an accelerating increase of expansion in the 15 county Greater Cincinnati regional economy. The **Purchasing Managers Index - Cincinnati**, a barometer of current business conditions, climbed 8.6 percentage points above the July index to a reading of 62.1 for the month of August. The increase in the Cincinnati PMI is the first increase in the monthly index since March of this year and places the cur-

rent index 2.2 percentage points above the same month a year ago.

The rate of increase in the **Composite Price Index - Cincinnati** surged upward in August reaching a record level of 49.8. Any index value that exceeds zero represents an increase in average prices. Members reported sharply higher price increases for services compared to July along with accelerating increases in commodity and equipment prices. The per-

centage of purchasing managers reporting higher service prices more than doubled in August compared to July.

Production, Employment, New Orders, and Backlogs

Survey respondents report production continued to increase at a somewhat higher rate in August than during July as the **Production Index** increased from 25 in July to 33 in August. In August 2005,

the production index measured 31. The **Employment Index** for August increased to 12 as a larger percentage of respondents reported employment stable at the same level as the preceding month and a smaller percentage of responses indicated lower staffing levels. The **New Orders Index** for the month of August reversed the fall that began in April as the index value increased significantly from 9 to 31. The trend (number of months the index moved in the current direction) lengthened to 8. The **Backlog of Orders** remains capricious and adheres to the monthly up down cycle that started in January of this year.

Table 1. The Cincinnati Economy at a Glance

| Index | Series index August | July | Direction | Rate of change | Trend* |
|----------------------------|------------------------|-------|-----------|-------------------|--------|
| Cincinnati PMI | 62.1 | 53.5 | ↑ | Faster | 44 |
| New Orders | 31.0 | 9.0 | ↑ | Faster | 8 |
| Backlog of Orders | 6.0 | -20.0 | ↑ | Slower | 1 |
| Production | 33.0 | 25.0 | ↑ | Faster | 9 |
| Employment | 12.0 | 0.0 | ↑ | Faster | 1 |
| Vendor Deliveries | -33.0 | 0.0 | ↓ | Faster | 1 |
| Raw Material Inventories | -34.0 | -38.0 | ↓ | Slower | 5 |
| Finished Goods Inventories | -27.0 | 0.0 | ↓ | Faster | 1 |
| Composite Price Index | 49.8 | 31.6 | ↑ | Faster | 35 |

*Number of months moving in current direction

DETAILS

The index numbers indicate the NET CHANGE (number reporting UP from last month minus the number reporting DOWN). For each indicator, in parenthesis, is the average for the last three years on the left followed by indices for the last three months, with the last month to the right.

NEW ORDERS - Fig.2

(26, 20, 9, 31)

The rate of increase in new orders in August reversed the decline that began in April as the new orders index significantly advanced from 9 in July to 31 in August. The increase largely resulted from a smaller percentage of survey respondents reporting declines and approximately an equal percentage of total replies indicating order volume remained the same.

BACKLOG OF ORDERS - Fig.3

(2, 6, -20, 6)

The pattern of monthly up down swings in the backlog of orders that began in January 2006 continued to be reflected in the August data as the index number increased from -20 in July to a positive 6 in August.

PRODUCTION - Fig.4

(29, 20, 25, 33)

After declining throughout the second quarter of 2006, the production index continued

the increase that began in July rising from 25 to the August level of 33. The current reading is 2 percentage points above the August index a year ago. August marks the

“After declining throughout the second quarter of 2006, the production index continued the increase that began in July”

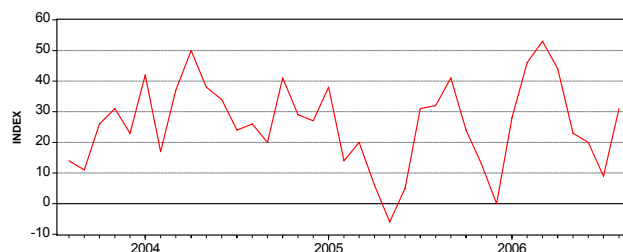


Figure 2. New Orders

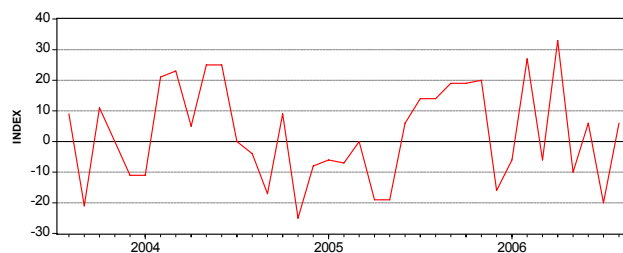


Figure 3. Backlog of Orders

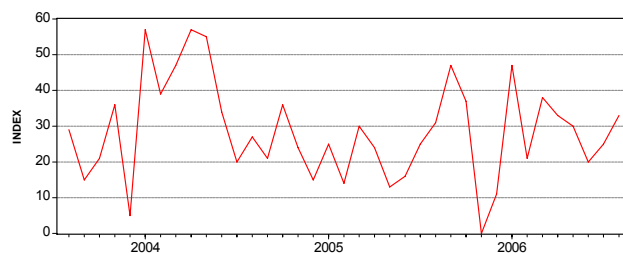


Figure 4. Production

9th month the production index has trended upward.

EMPLOYMENT - Fig. 5 (13, 19, 0, 12)

The employment index increased to 12 in August. The data suggest firms added to their payrolls to match output increases of July and August. A year ago, the employment index equaled 6. The increase in the rate of change in the employment index corresponds to a year over year annual increase in total non farm employment in the Greater Cincinnati region of 1 percent.

VENDOR DELIVERY PERFORMANCE - Fig. 6 (-9, -16, 0, -33)

As reflected by the vendor performance index, deliveries, according to Cincinnati purchasing managers, slowed during August as the number of respondents reporting slower deliveries jumped 23 percentage points. Purchasers may want to note the sluggish performance relative to planned orders of raw materials.

DOLLARS SPENT BY PURCHASING - Fig. 7 (31, 18, 8, 30)

The monthly index capturing dollar amounts spent by regional purchasers increased at a significantly faster rate in August rising to 30 from 8 the previous month. In August 2005, the dollars spent index equaled 18. Survey replies for August showed an almost 50 percent decline in purchasers reporting a smaller dollar volume of purchases.

COMMODITY PRICES (50, 58, 50, 56)

The rate of increase in commodity prices reversed direction in August and increased following slowing growth rates in June and July. Members pointed to higher prices for

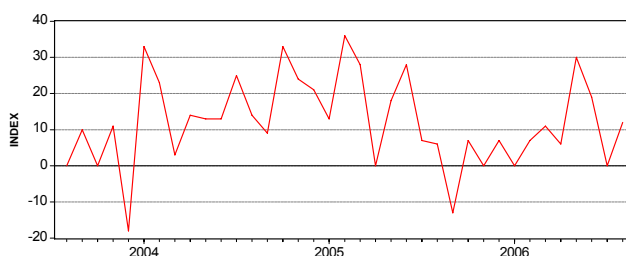


Figure 5. Employment

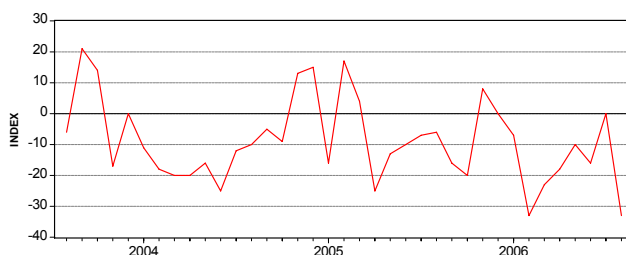


Figure 6. Vendor Delivery Performance

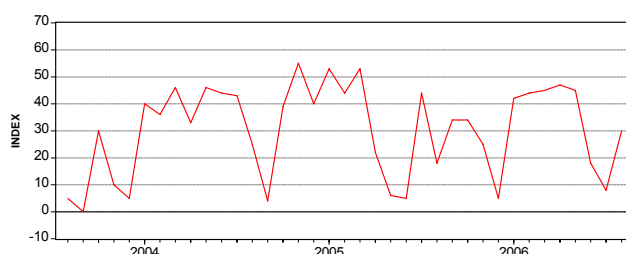


Figure 7. Dollars Spent by Purchasing

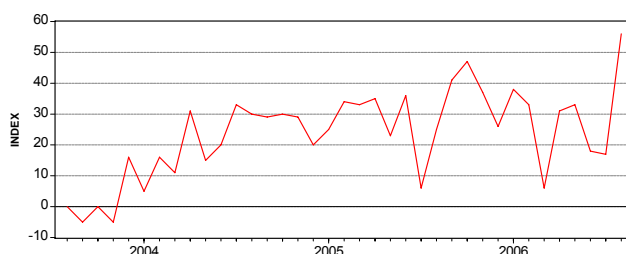


Figure 8. Service Prices

aluminum, electric motors, stainless steel, energy, copper wire, and energy.

SERVICE PRICES - Fig. 8 (24, 18, 17, 56)

The rate of increase in service prices surged upward in August. The net percentage change, defined as the difference between those replies reporting increases less those reporting decreases, increased from 17 in July to 56 in August. This is the highest index value for service prices since the Cincinnati survey began in 1982.

EQUIPMENT PRICES (19, 18, 27, 37)

The rate of increase in equipment prices continued to accelerate during the month of August. The current index level is 19 percentage points above the equipment price index a year ago.

RAW MATERIAL INVENTORIES (-9, -42, -38, -34)

The index measuring changes in raw material inventories equaled -34 in August. As suggested in the July survey, the change may reflect stepped up production rates; the increase in August output

"This is the highest index value for service prices since the Cincinnati survey began in 1982"

seems to confirm some working off of inventory. Future months will reveal how the expected slowing of regional business activity impacts material inventories. Slower vendor deliveries coupled with changes in raw material inventories merit watching.

FINISHED GOODS INVENTORIES (3, 28, 0, -27)

Since the build up of inventories of finished goods during June, inventory levels of finished goods have declined. It is likely these changes are linked to future projected sales and production rates. As reflected in the increase in the order backlog index, purchasers seem to be carefully monitoring both indices.

BUYING PATTERNS

These percentages consider only those firms that buy internationally.

- ELSEWHERE IN THE AMERICAS (3, -14, 0, -12)
- ACROSS THE ATLANTIC (-5, 0, -40, 0)
- ACROSS THE PACIFIC (37, 71, 80, 43)
- DOMESTICALLY (30, 13, 17, 18)

GENERAL COMMENTS BY PURCHASING MANAGERS

Noticeable Price Changes

- Up are: Aluminum, corrugated boxes, stainless steel, carbon steel, aluminum sheet

and coil, electric motors, aluminum castings, foam, bubble wrap, paper, gasoline, fractional HP motors, transformers, copper wire, some specialty mfg. items, energy, metallics

- Down are: Copper, ocean freight

- In Short Supply are: Structural steel, some electronic parts, certain parts from China and Asia resulting from longer lead times, foam, fuel

STATISTICAL SUMMARY

Replies as a Percent of Total Replies

General Business

| Index | Up | Same | Down |
|-------------------|----|------|------|
| Production | 33 | 67 | 0 |
| New Orders | 37 | 57 | 6 |
| Backlog Of Orders | 26 | 54 | 20 |
| Employment | 17 | 78 | 5 |

Prices & Spending

| Index | Up | Same | Down |
|-----------------------------|----|------|------|
| Prices for Commodities | 56 | 44 | 0 |
| Prices for Services | 56 | 44 | 0 |
| Prices for Equipment | 37 | 63 | 0 |
| Dollars Spent by Purchasing | 47 | 36 | 17 |

Inventories

| Index | Up | Same | Down |
|----------------|----|------|------|
| Raw Materials | 6 | 54 | 40 |
| Finished Goods | 6 | 61 | 33 |

Deliveries

| Index | Quicker | Same | Slower |
|------------|---------|------|--------|
| Deliveries | 0 | 67 | 33 |

Of those Firms that Purchase Internationally

| Change in the amount spent | Up | Same | Down |
|----------------------------|----|------|------|
| Elsewhere in the Americas | 0 | 88 | 12 |
| Across the Atlantic | 0 | 100 | 0 |
| Across the Pacific | 57 | 29 | 14 |
| Domestically | 29 | 60 | 11 |

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, tells us RIGHT NOW the condition of business in the Greater Cincinnati region. It is a flash pool 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.

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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August 2006

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PRESS RELEASE

Important:

**Do Not Release Until
12:01 a.m. Thursday August 31, 2006**

SUBJECT: Report on Business Conditions for Greater Cincinnati for the month of August 2006.

Please note that this IS NOT the national report. This report covers the level of business activity in the Greater Cincinnati Area only.

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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FOR FURTHER INFORMATION CONTACT:

Thomas J. Zinn
Director of the Applied Economics Research Institute
Department of Economics
University of Cincinnati
1605 Crosley Tower
Cincinnati, Oh 45221-0371
513.556.0791
zinntj@ucmail.uc.edu

The Greater Cincinnati Report on Business for the month of August reflects an accelerating increase of expansion in the 15 county Greater Cincinnati regional economy as the PRODUCTION and EMPLOYMENT Indices increased at a faster rate than in July.

The Purchasing Mangers Index – Cincinnati measured 62.1 in August compared to 53.5 last month for a 8.6 percentage point increase, which marks a reversal in the decline of the PMI that began in April of this year. The index measures 2.2 percentage points above the August 2005 number. Any reading over 50 represents an increase.

The Composite Price Index- Cincinnati - The rate of increase in the **Composite Price Index – Cincinnati** surged upward in August reaching a record level of 49.8. Any index value that exceeds zero represents an increase in average prices. The index for service prices climbed up to 56, the highest value since the Cincinnati survey began in 1982. The rate of increase in commodity prices reversed direction in August and increased by 6 percentage points. The rate of increase in equipment prices continued to accelerate.

New Orders and **Dollars Spent by Purchasing** increased at a faster rate in August and the backlog of orders increased from a negative 20 in July to a positive 6 in August continuing the pattern of monthly up down swings that began in January.