

# NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT-BUFFALO INC.

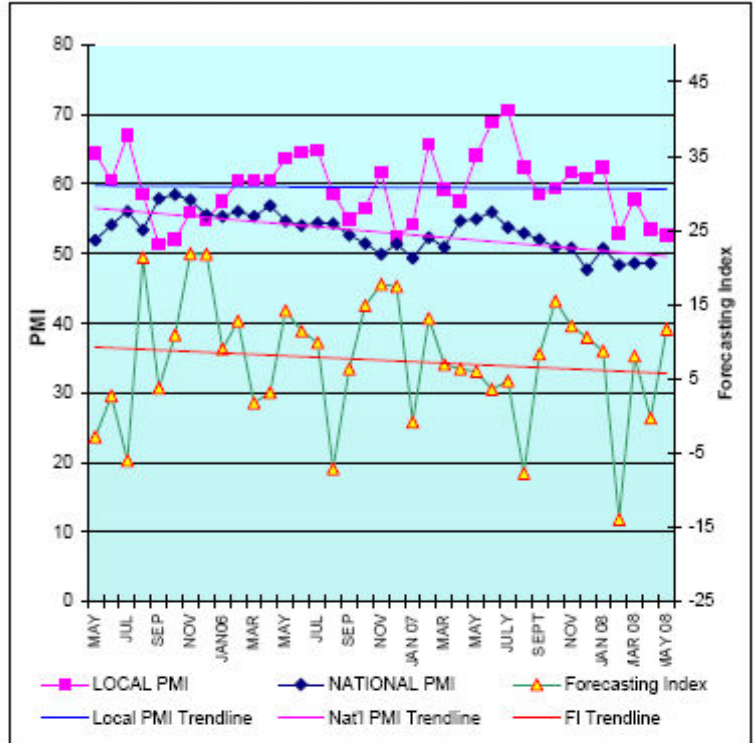
## May 2008 Business Survey Monthly Comparison Report

Submitted by: Arthur Aramino, Chairman Business Survey Committee

### The Purchasing Managers' Index

Overall the change in the PMI from April to May was small. The non-seasonally adjusted PMI lost 1.6 points settling at 54.2, and the seasonally adjusted index lost only .8 points to 52.6. The Production Index jumped 10.5 points to 60.5 while the Inventories Index fell 10.6 to 42.1. New Orders and Vendor Deliveries remained steady at their April levels, and the Employment Index fell as employers made few adjustments to their workforce levels. Commodity prices continue to rise as the cost of raw materials and transportation related to petroleum prices steadily increase. The Forecasting Index, which is the difference between New Orders and Inventories, increased from -0.4 to 11.7 indicating that inventories are more in line with the level of new orders.

According to the Institute for Supply Management (ISM), the average national PMI for January through April (49.1%) corresponds to a 2.5% increase in real GDP. When the PMI is above 50% the manufacturing economy is generally expanding, when it drops below the 50% mark, the economy is considered to be contracting. A PMI over 41.1%, over a period of time, means the overall economy is generally expanding, and below 41.1%, it is generally declining.



### This Month, (Seasonally Adjusted)

|             | <u>Index</u> | <u>Direction</u> | <u>Rate of change</u> |
|-------------|--------------|------------------|-----------------------|
| Production  | 58.0         | Growing          | From Contracting      |
| New Orders  | 53.8         | Growing          | Faster                |
| Prices      | 84.2         | Increasing       | Faster                |
| Inventories | 42.1         | Contracting      | From Growing          |
| Employment  | 49.4         | Contracting      | From Growing          |
| Deliveries  | 59.6         | Slowing          | Slower                |
| Mfg Sector  | 52.6         | Growing          | Slower                |

### Items in Short Supply

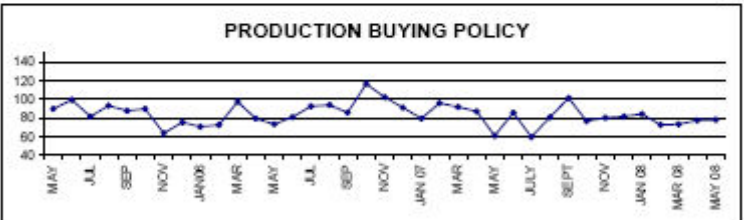
Power train and transmission product, speed reducers, hydraulic pumps and motors.

### Comments from the survey respondents:

- "It's very hard to keep up with all the price increases."
- "Steel prices continue to rise with longer lead times."
- "Commodity prices are spiraling higher over very short time frames. Difficult to pass on to end users as once the selling price is adjusted higher, another cost increase shows up."
- "Steel scrap/surcharges going crazy. Unpredictable."

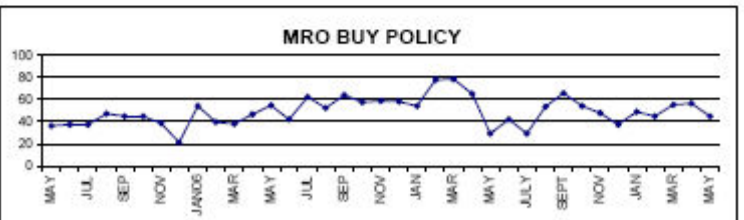
### PRODUCTION BUYING POLICY

The survey respondents are reporting the days-ahead commitments for production material is an average 78 days. Last month this average was 77 days.



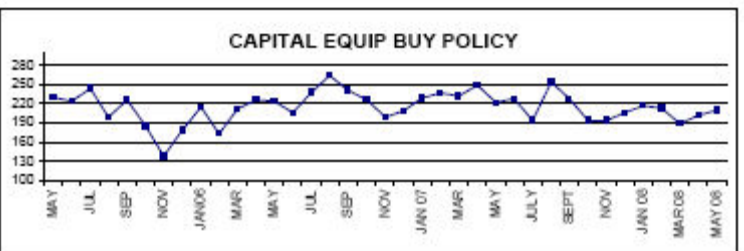
### MRO BUYING POLICY

This month the respondents are reporting an average of 45 days ahead for MRO supplies. Last month the average was 57 days.



### CAPITAL EQUIPMENT BUYING POLICY

The local manufacturers are looking out 210 days and making commitments for capital equipment. Last month the average was 202 days.

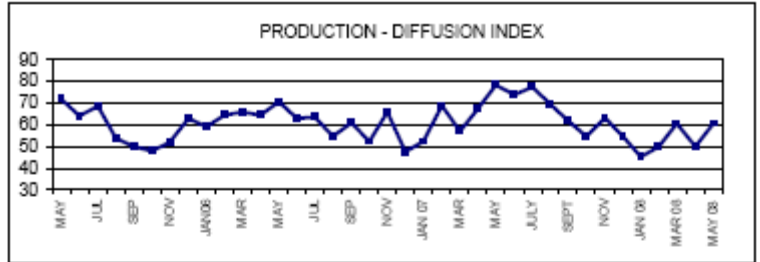


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**Not Seasonally Adjusted**

**The Production level was:**

|     | HIGHER | SAME  | LOWER | INDEX | LAST Yr. |
|-----|--------|-------|-------|-------|----------|
| May | 36.8%  | 47.4% | 15.8% | 60.5  | 78.3     |
| Apr | 26.3%  | 47.4% | 26.3% | 50.0  | 67.4     |

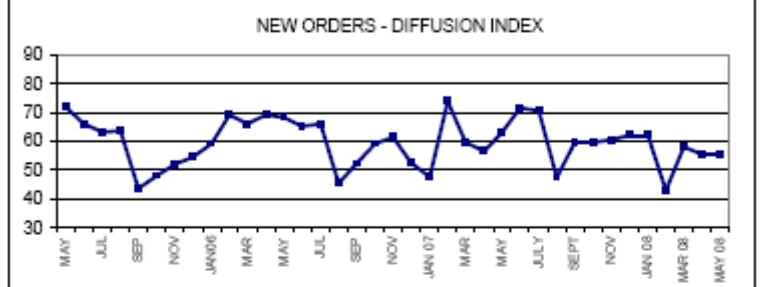
The Production Index rebounded 10.5 points in May as 36.8% of the respondents reported higher production levels.



**New Orders were reported:**

|     | HIGHER | SAME  | LOWER | INDEX | LAST Yr. |
|-----|--------|-------|-------|-------|----------|
| May | 36.8%  | 36.8% | 26.3% | 55.3  | 63.0     |
| Apr | 31.6%  | 47.4% | 21.1% | 55.3  | 56.6     |

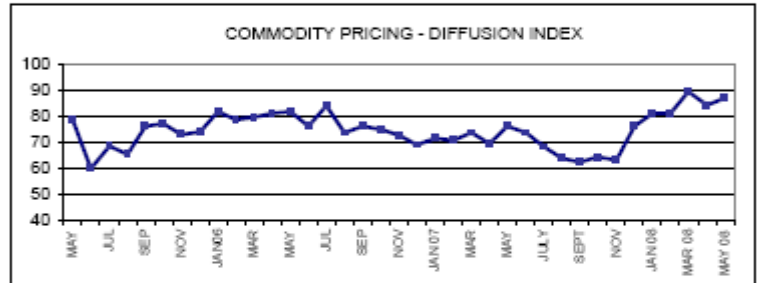
The New Order index was unchanged as the number of respondents reporting an increase in New Orders was matched by the number reporting fewer New Orders.



**Commodity Prices are:**

|     | HIGHER | SAME  | LOWER | INDEX | LAST Yr. |
|-----|--------|-------|-------|-------|----------|
| May | 78.9%  | 15.8% | 5.3%  | 86.8  | 76.1     |
| Apr | 73.7%  | 21.1% | 5.3%  | 84.2  | 69.6     |

The Commodity Price index rose 2.6 points in May as 5.2% more respondents reported higher prices than in April.



**Inventories of purchase goods were:**

|     | HIGHER | SAME  | LOWER | INDEX | LAST Yr. |
|-----|--------|-------|-------|-------|----------|
| May | 15.8%  | 52.6% | 31.6% | 42.1  | 56.5     |
| Apr | 31.6%  | 42.1% | 26.3% | 52.7  | 47.8     |

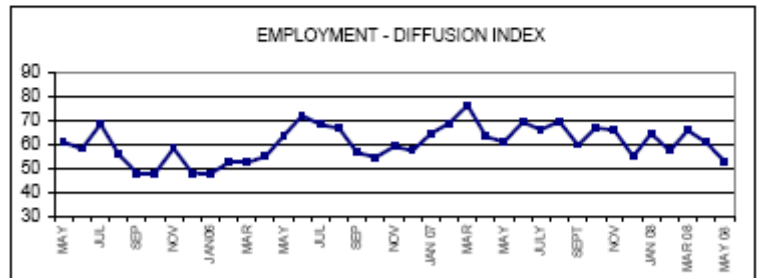
The Inventories Index dropped 10.6 points to 42.1 as the level of new orders remains fairly flat over the past 2 months.



**Employment levels were:**

|     | HIGHER | SAME  | LOWER | INDEX | LAST Yr. |
|-----|--------|-------|-------|-------|----------|
| May | 21.1%  | 63.2% | 15.8% | 52.7  | 60.9     |
| Apr | 31.6%  | 42.1% | 26.3% | 60.6  | 63.1     |

The Employment Level Index declined for the second straight month as employers are generally maintaining their current levels. The number reporting higher employment levels still exceeds the number reporting lower employment levels.



**Vendor deliveries were:**

|     | SLOWER | SAME   | FASTER | INDEX | LAST Yr. |
|-----|--------|--------|--------|-------|----------|
| May | 21.1%  | 73.7%  | 5.3%   | 60.5  | 60.9     |
| Apr | 21.05% | 78.95% | 0.0%   | 60.5  | 58.7     |

The Vendor Deliveries index remained unchanged at 60.5. A reading above 50.0 indicates slower deliveries and longer lead times, generally due to higher customer demand.

