

## An Optimistic End to a Volatile Quarter

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As expected, the February decline in the region's PMI index was indeed temporary. In March, the regional PMI rebounded and recovered by more than what it lost in February. Although, the rebound was expected, the size of the rebound exceeded our earlier expectations, suggesting that the manufacturing expansion remains somewhat strong, at least stronger than what was expected a month ago. However, the three month moving average remains below the levels seen in QII – QIV:2010, implying that the manufacturing activity, although remains expanding, does so at a lower rate than during the course of 2010. We also need to note that the March jump followed a meltdown in February, suggesting that this was not acceleration in the trend, but rather merely a return to it.

### 3-month moving average PMI (seasonally adjusted)

QI	2010			2011 QI
	QII	QIII	QIV	
54	56.2	54	56.4	53.3

The regional PMI reached the seasonally adjusted mark of 60.9, a level that is just slightly above the November reading (the last time we had the PMI exceed 60). Noteworthy is the fact that the employment index remains the softest in our group of individual indicators, suggesting that the expansion remains weak in terms of job creation.

Strength was seen in all indicators, but particularly strong performance was seen in the region's production indicators (Production, New Orders).

The production index reached its highest level during the course of this expansion, 68.6. More than half of our survey responders (53%) indicated higher levels of production activity, and only 20% of survey responders indicated reduced production levels in March. This is a very significant rebound not only from the previous month, but during the course of the ongoing economic recovery.

New Orders also appear to have rebounded in March. 40% of our survey responders indicated higher levels of new order activity, suggesting that the rebound from the soft February period may have some strength going forward.

Soft performance was seen in the region's Employment indicator. Although the employment index increased by nearly 9 points in March (from 41.6 to 50.4), the level of the index remained significantly below the 56.5 mark seen in January. This is the only indicator in which the March rebound failed to erase the effect of February. Our survey does not indicate a loss of manufacturing employment, but rather a near zero employment growth. 73% of our survey responders indicated constant employment levels since February, and only 13% indicated higher levels.

Commodity prices continue to remain a significant concern. Our Commodity Price index reached 83.4, a level not seen since the peak of energy costs in July of 2008. Our survey responders clearly indicate

concern over high commodity price inflation. This behavior of commodity prices suggests that a sizable acceleration in inflation at the retail level may be only 2 -4 months away. This is of particular concern, as the household sector continues to deal with high unemployment.

The indicators suggest that the manufacturing sector of the Buffalo – Niagara Falls region continued to expand in the first quarter of 2011, but at levels below those of 2010. Our indicators suggest a slight deceleration in growth in the first quarter of 2011, but nevertheless a continued and somewhat strong expansion. However, the expansion continues to remain weak in terms of job creation. In addition, commodity price concerns appear to have returned to their peaks of 2008.

The general economic performance appears to be addicted to monetary policy, which in turn creates significant commodity inflation. It will be interesting to observe the next few months as the quantitative easing part II comes to its end. Ultimately it seems that the Fed will create another program of monetary expansion and extend the purchases of bonds, but there may be a time interval between the end of the quantitative easing part II and the start of quantitative easing part III, and if that occurs, we may see some negative volatility in the markets and in the real sector's economic activity, but for now, we are happy to see that our region's manufacturing sector ended the first quarter of 2011 on a positive note.

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