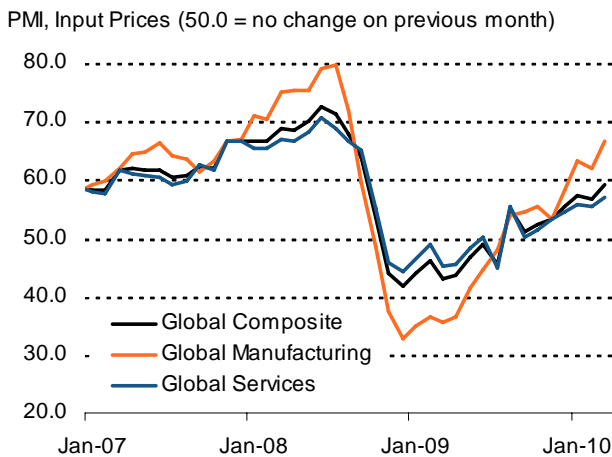


Global prices

Global input price inflation hits one-and-a-half year high

PMI survey data for March showed that average input costs rose across manufacturing and services at the fastest rate since September 2008, driven up in particular by a steep increase in prices paid for inputs by manufacturers.

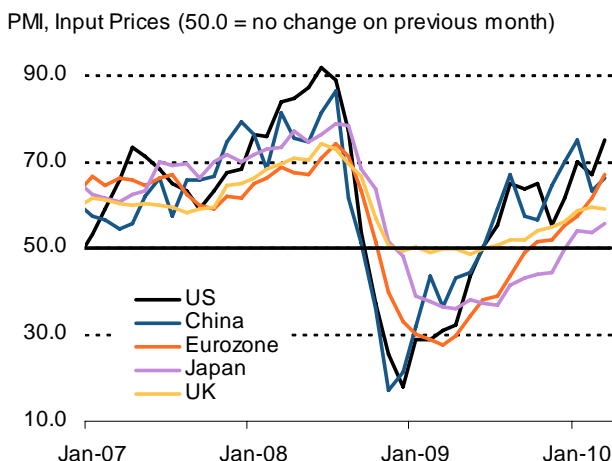
Global PMI Input Prices by Sector



Sources: Markit, JPMorgan.

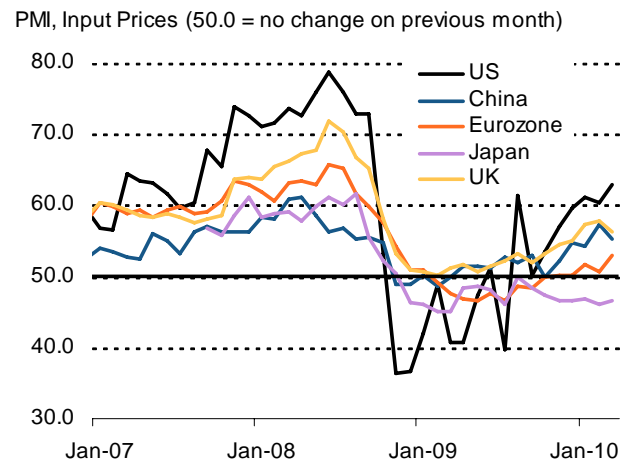
Manufacturers' input prices rose at the fastest rate since August 2008 while costs in the service sector (which include wages and salaries as well as rents etc.) rose at the sharpest pace since September 2008.

Manufacturing PMI Input Prices by Nation



Sources: Markit, JPMorgan, ISM.

Services PMI Input Prices by Nation



Sources: Markit, JPMorgan, ISM.

Among the major world economies, rates of cost inflation are in most cases at their highest levels since the onset of the global recession, but are still well below pre-recession peaks.

The US saw the fastest rates of inflation for both manufacturing purchase prices and service sector costs in March. US manufacturing input price increases were the steepest since August 2008, while inflation of non-manufacturing costs hit an 18-month high. Both rates also stayed above their respective long-run averages. Although easing from recent highs, rates of cost inflation in the Chinese manufacturing and service sectors were also above the long-term trends.

The Eurozone saw cost inflation accelerate sharply to its fastest since September 2008, with rates of increase in Germany, France and Italy all the highest during that period. Input prices rose to the greatest extent for 19 and 16 months respectively in Eurozone manufacturing and services. However, while the rate of inflation in Eurozone manufacturing remained well above its long-run trend, the increase in the service sector was moderate by the historical standards of the survey. This dichotomy between manufacturing and services was also observed across the big-four euro area nations.

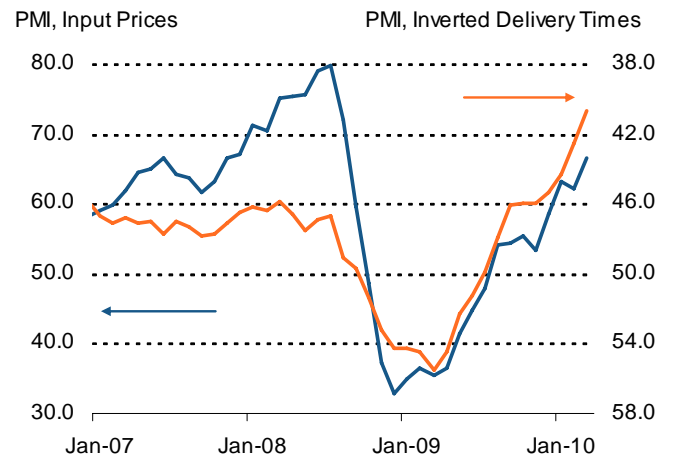
The main exception globally was Japan, where overall costs declined for the 16th month in a row. However, even here, the rate of deflation was the weakest during this period, as service sector cost decreases eased and manufacturing input costs rose at the fastest pace since October 2008.

Therefore, although both global PMI measures of manufacturing input prices and service sector costs are still well below their pre-recession peaks, they have risen strongly from their recession lows and suggest that inflationary pressures are building. This process is occurring much earlier in the recovery than would be expected given the evidence of spare capacity in many major economies.

A clue to this increase in many prices is the lengthening of suppliers' delivery times. A recent surge in demand for inputs by manufacturers has been caused by the rebuilding of inventories which had been slashed aggressively during the downturn. These manufacturing inventories rose globally in March for the first time since December 2006. Inventory rebuilding was already underway in a number of Asian manufacturing sectors. March saw stocks rise for the fourth month running in China, the 13th consecutive month in India and throughout Q1 2010 in Taiwan. Latest PMI data also indicated that US manufacturers added to their holdings for the first time in almost four years, with the rate of increase the sharpest since July 1984.

Suppliers also slashed their inventories during the recession, and are now struggling to meet demand from manufacturers. Moreover, in an ever faster moving technologically-focused world, many inputs become obsolete very quickly, meaning last year's inputs may no longer be required by producers of many high-tech products. Suppliers' production lines need to be restarted or often re-tooled and new staff recruited to make today's inputs. The resulting shortages of inputs relative to surging demand in turn caused delivery times to lengthen sharply, leading to sellers' markets and rising prices for many purchases.

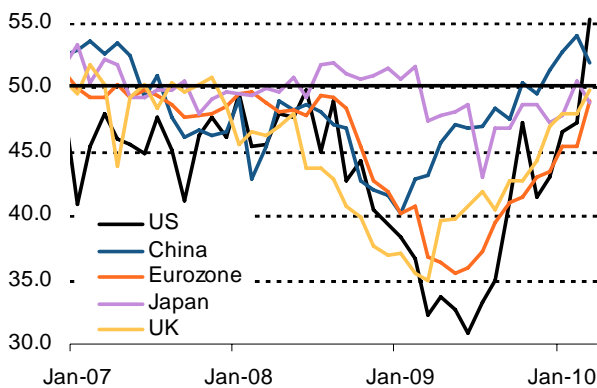
Manufacturing PMI Input Prices vs. Delivery Times



Sources: Markit, JPMorgan, ISM.

Manufacturing PMI Inventories by Nation

PMI, Stocks of Purchases
(50.0 = no change on previous month)



Sources: Markit, JPMorgan, ISM.

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