

Global prices

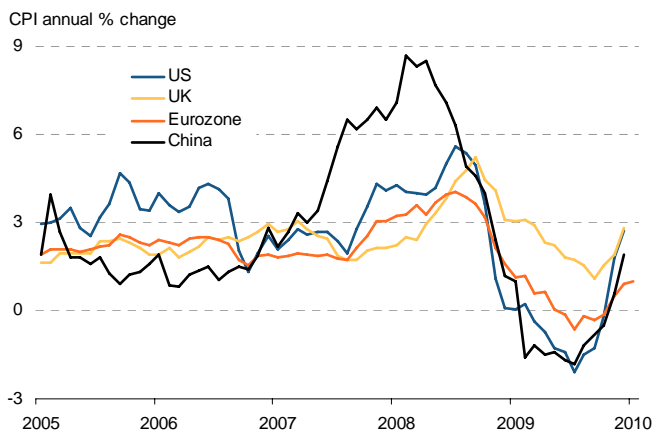
Consumer prices spike higher, with supply-chain delays fuelling further price pressures in January

Consumer inflation moves higher

Sharp upturns in the annual rates of consumer price inflation in the US, China and the UK were reported in December, and PMI survey data suggest further upward pressure on prices can be expected in early-2010.

Headline inflation hit a 14-month high of 2.7% in the US in December and the rate of increase in the UK jumped from 1.9% to 2.9%, a nine-month peak and the greatest monthly increase in the rate since 1991. China posted a 1.9% rise in consumer prices in December, the fastest pace in over a year, followed by a similarly solid increase of 1.5% in January. Meanwhile, an 11-month high of 1.0% was seen in the Eurozone at the end of 2009.

Consumer price inflation



Source: Ecwin.

Buying of inputs by manufacturers surges, putting pressure on supply chains

Upturns in inflation had been expected by central bankers on the grounds that commodity prices, notably oil, have risen sharply compared to the crisis-induced lows seen a year ago. However, current rates of inflation are generally stronger than had been anticipated, and forecasts for inflation in 2010 for emerging markets were revised up in January's poll of economists by Reuters. In its latest *Inflation Report*, the Bank of England also raised its inflation forecast, suggesting headline inflation

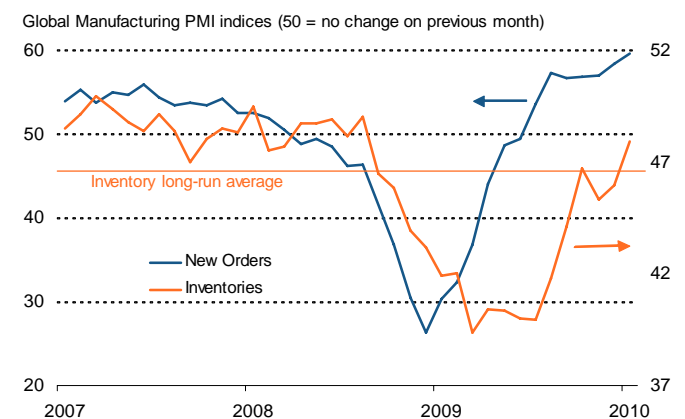
will peak at well over 3% in 2010, but stressed that the rate would fall again.

One reason to believe inflation will continue to rise is the growing imbalance between supply and demand. Surging manufacturing growth around the world is driving up demand for raw materials, and January PMI data suggest that supply shortages are driving many prices higher.

Emerging market manufacturers raised their purchases of inputs to the greatest extent yet recorded by the PMI surveys, and their suppliers' delivery times lengthened for the seventh month running as a result. Developed world manufacturers are likewise starting to restock: purchases rose at the fastest rate for 15 years in the UK.

As a consequence, the Global PMI's index of inventories of goods purchased for use in production – compiled by Markit on behalf of JPMorgan – moved above its long-run average in January. This serves to highlight the boost to economic growth that is currently being received from the inventory cycle and the pressure this is having on pipeline inflation.

Rising demand for raw materials

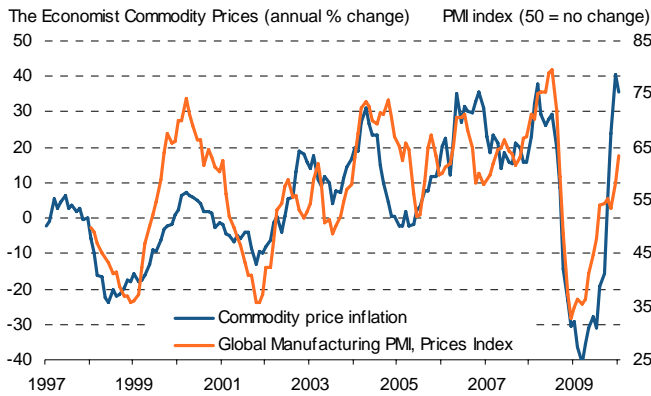


Sources: Markit, ISM, JPMorgan.

The Global Manufacturing Input Prices Index has risen sharply alongside the development of delivery delays, hitting a 17-month high of 63.4 in January. Manufacturing input prices rose at the fastest rate since

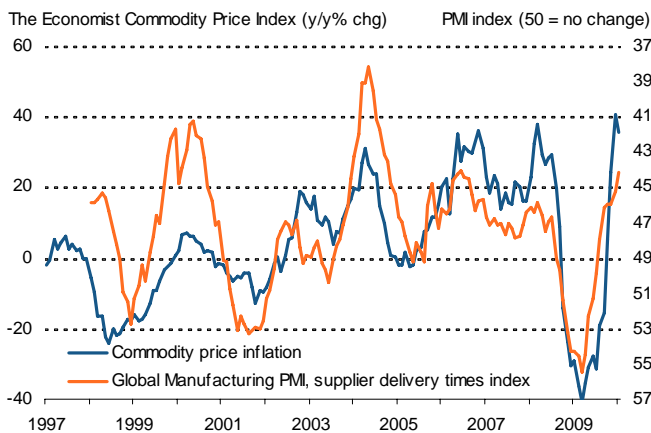
August 2008 in the US, July 2008 in China and September 2008 in the Eurozone. Prices even rose in Japan, up for the first time in 14 months.

PMI Input Costs and Global Commodity Prices



Sources: Markit, ISM, JPMorgan, The Economist.

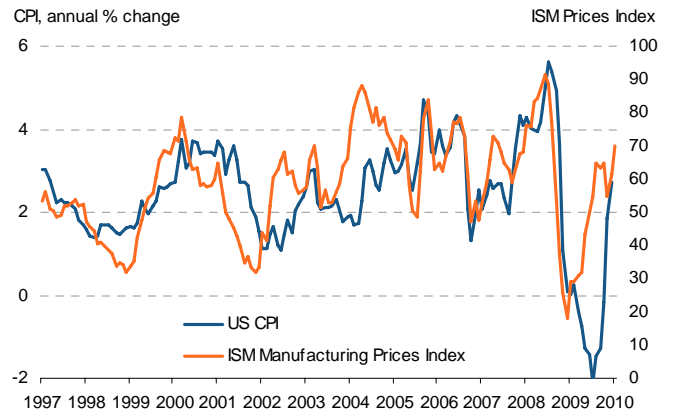
PMI Delivery Delays and Global Commodity Prices



Sources: Markit, ISM, JPMorgan, The Economist.

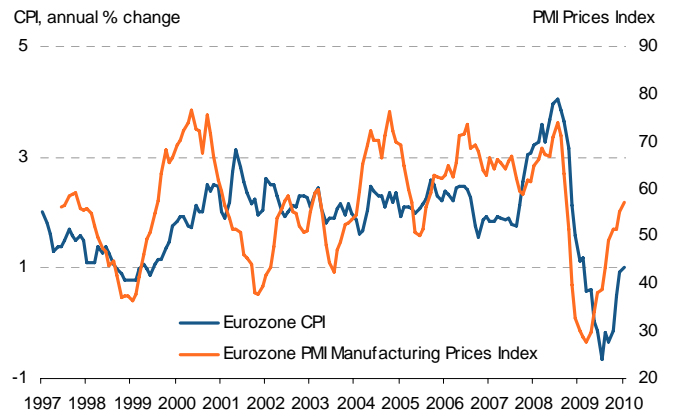
Analysis of PMI data in the US and the Eurozone illustrates that higher manufacturing prices tend to feed through to rising consumer prices sooner or later. A further up-tick in inflation is clearly signalled. Similar relationships can be observed for other countries.

US PMI data and consumer price inflation



Sources: ISM, Ecwin.

Eurozone PMI data and consumer price inflation



Sources: Eurostat, Markit.

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