

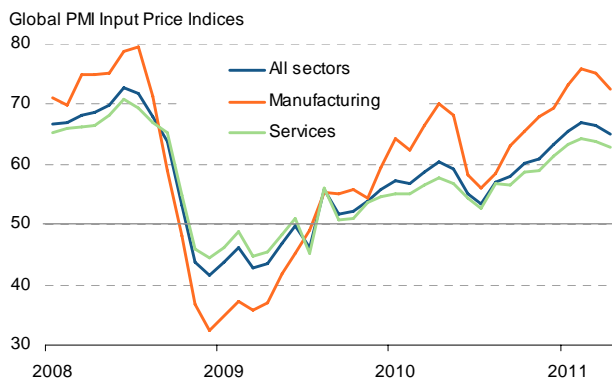
Global inflation

Price pressures ease to four-month low

- **Global input price inflation slowed for the second month running in April.**
- **Near-record delivery delays could drive future price rises, but weakened demand helps drive down commodity prices.**
- **Uncertainties cloud inflation outlook.**

The JPMorgan Global PMI, compiled by Markit from national business surveys of manufacturing and service sector business conditions, showed input costs continuing to rise at a steep pace in April. However, the rate of increase slowed for the second month running to show the weakest increase in costs since last December.

Global Input Prices



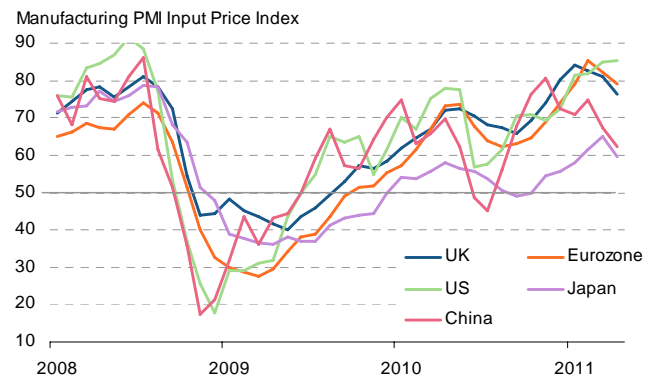
The overall rate of input price inflation signalled by the PMI rose to the highest since August 2008 in February as high oil, food, metals and other commodity prices pushed up firms' costs. But the recent easing adds to evidence that the latest spike in inflationary pressures may prove transitory, as hoped by central banks such as the Bank of England and European Central Bank.

Rates of input cost inflation slowed in both manufacturing and services for the second month running in April, hitting four-month lows in both cases. The former continued to see the steeper rate of increase, although this in part reflects the fact that the manufacturing measure relates purely to inputs

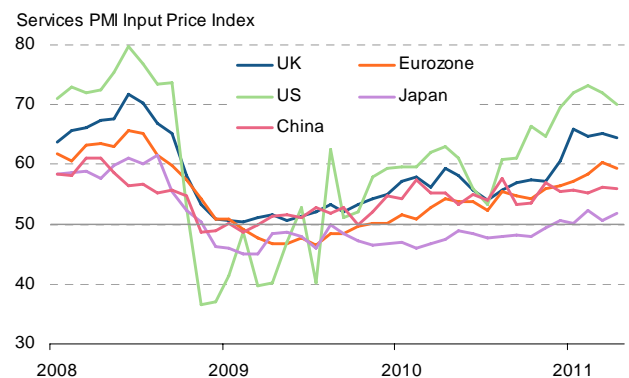
purchased for use in the production process, whereas the services measure includes all costs. The latter therefore includes wages and salaries, the rate of inflation of which has generally been subdued by high unemployment rates in the developed world since the global recession. The absence of such 'second-round' inflationary effects, whereby higher prices feed through to wages, has been one of the main reasons why central banks in the developed world have argued that the current spike in inflationary pressures should prove short-lived.

PMI data also show that the cooling in price pressures is broad-based world-wide, with manufacturing and service sector input price inflation easing in all G4 developed economies and all 'BRIC' emerging nations with the exceptions of services in Russia and Japan and the US manufacturing sector.

Manufacturing input prices



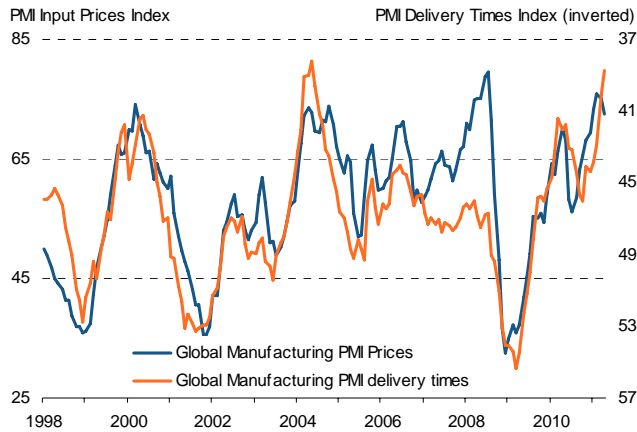
Service sector input prices



Delivery delays hit record high

One area of concern is that the incidence of delivery delays rose to a near-seven year high in April. Longer deliveries tend to feed through to higher prices, as the shortfall of supply relative to demand usually indicates a sellers' market.

Global manufacturing prices and supply chains

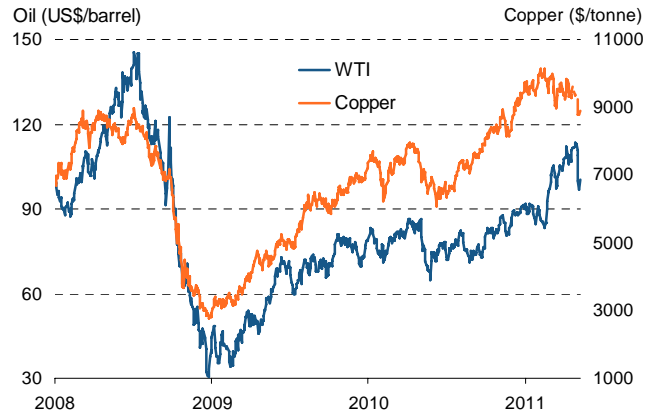


New order growth slows

An increase in inflationary pressures from delivery delays may not necessarily materialise, however. In particular, supply chain delays may ease because disruptions arising from the Japanese earthquake are likely to be gradually resolved in coming months. However, perhaps more fundamentally, demand and supply may come back into balance: the global manufacturing PMI's index of new orders has fallen sharply in the last two months, registering the weakest rate of growth since last September in April.

The slowing in global growth signalled by recent business surveys was a contributory factor behind the recent sell-off in commodities. The sharp sell-off in commodity prices on 5 May drove oil and copper (a benchmark metal for manufacturing) prices down 10% on their peaks seen earlier in the year and, if sustained to any significant extent, should further help to alleviate input price pressures in coming months.

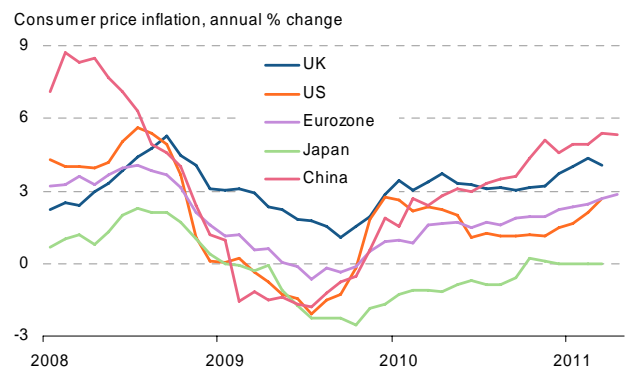
Copper and Oil (West Texas Intermediate)



Inflation outlook muddled by uncertainties

There is some evidence in official data that consumer price pressures may have peaked. Latest data from the UK and China signposted a slowing in their respective headline rates of inflation. Nonetheless, in both cases, inflation rates (of 4.1% and 5.3% respectively) remain above official targets, and headline consumer inflation in the US and the Eurozone has also remained robust in recent months.

Consumer price inflation



However, with questions persisting in terms of the outlook for global growth, commodity prices, the debt crisis in the euro area, the political situation in the Middle East and the still-unknown impact of the Japanese earthquake on supply chains, the outlook for inflation has become even more uncertain.

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