

# Global economy

## Weaker global growth brings welcome easing of price pressures

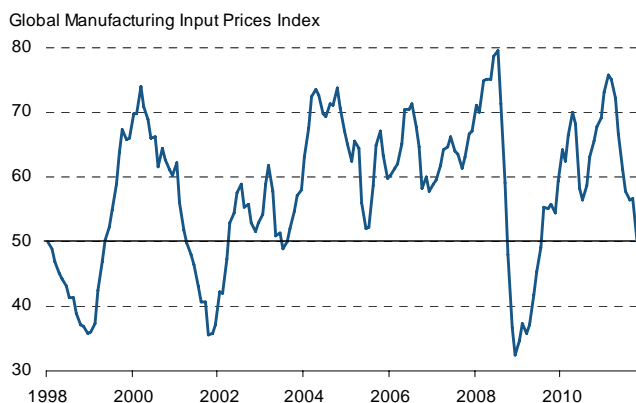
- **Manufacturing PMI signals marginal drop in producer prices, contrasting with surging costs earlier in the year**
- **Lower supplier pricing power linked to weak demand**

October's PMI™ surveys indicated a welcome easing of manufacturing price pressures, which should feed through to lower consumer prices in coming months and help boost growth by alleviating pressure on consumers' squeezed incomes. However, the easing in the rate of inflation reflects slower economic growth, with supply exceeding demand for many commodities, highlighting the fragility of the economic recovery, especially in manufacturing.

### Global input price index lowest since August 2009

The PMIs signalled the weakest global economic growth since the recovery began in August 2009, and the pace of growth has fallen dramatically since earlier in the year. The slowdown has been accompanied by a reduction in manufacturing price pressures. Measured across all manufacturing PMI surveys, input prices fell marginally in October, contrasting markedly with the near record rate of increase seen earlier in the year.

### Global manufacturing input prices



The JPMorgan global manufacturing PMI Input Prices Index, compiled by Markit, fell to 49.9 in October compared to a peak of 75.7 in February and signalling

the first, albeit marginal, drop in producers' raw material costs since July 2009.

The current weakness of price pressures is also noteworthy by the historical standards of the global PMI survey. Prior to the collapse of Lehman, the last time that producer input prices fell was a modest (one-month only) decline during the Iraq War in 2003.

### Lift to economic growth

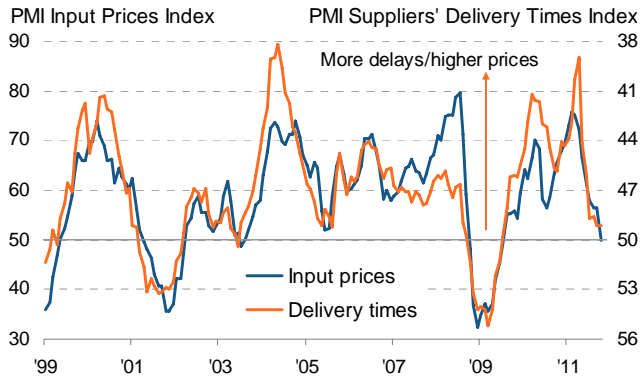
The steep easing in price pressures represents both good and bad news, however. On one hand, rising commodity and raw material prices were a key factor behind high rates of consumer price inflation in recent months. If the easing in the PMI price data feeds through to consumer prices, household incomes will face less of a squeeze as we move into 2012, helping to buoy consumption and provide a much needed lift to economic growth, especially in the developed world.

Lower price pressures also free up the hands of central bank policy makers to stimulate fragile recoveries. Inflation worries have prevented policy loosening in some countries and even caused two hikes in Eurozone interest rates earlier this year.

### Supply chain spare capacity

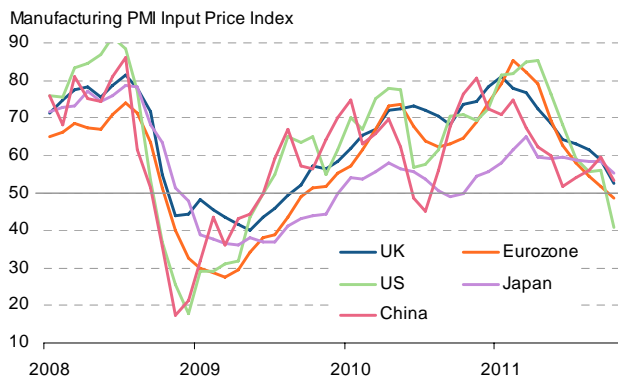
On the other hand, the fall in price pressures reflects weak demand in the world's supply chains. This is illustrated by the length of time it takes suppliers to deliver goods to manufacturers. Longer lead times are generally caused by demand exceeding supply during times of strong growth, giving suppliers more pricing power and allowing them to hike tariffs, and vice versa. A comparison of the global PMI survey Suppliers' Delivery Times Index (inverted in the chart) against the Input Price Index shows how lead times were broadly unchanged in October compared to a near-record lengthening during the growth surge earlier in the year. Put simply, manufacturing is now stagnating globally, meaning producers need fewer inputs, which in turn means suppliers have less pricing power.

### Global manufacturing prices and delivery delays



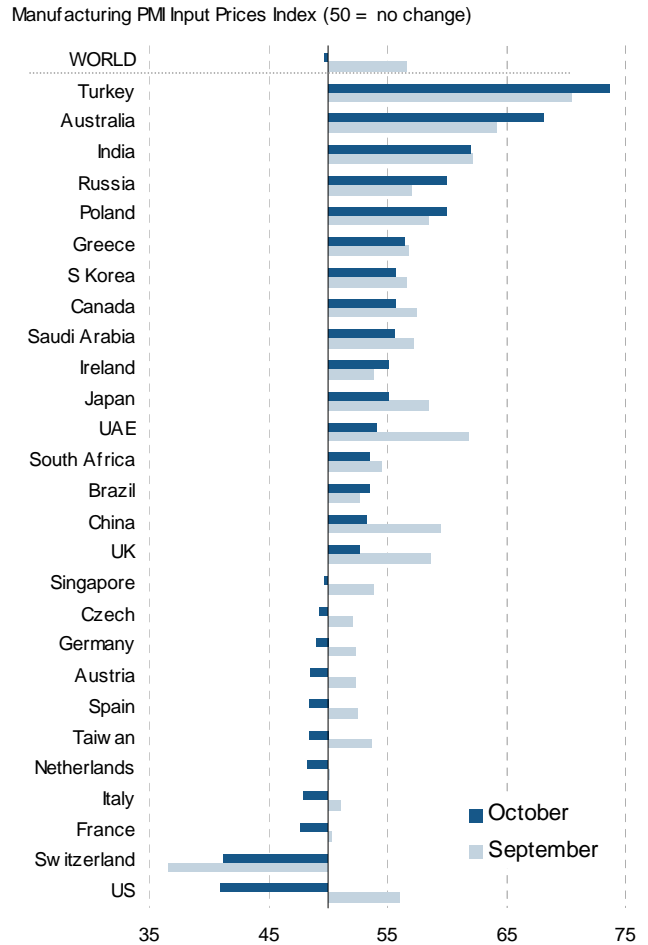
Moreover, if suppliers' stock levels begin to rise due to weaker than anticipated demand, they start offering discounts to reduce inventories to more suitable levels. This is already happening in the US (where a 15-point fall in the index was one of the largest on record) and all of the major Eurozone countries, as well as Taiwan and Singapore. Rates of increase meanwhile cooled in most other countries, notably China, the UK and Canada.

### Manufacturing prices in major economies



Slower rates of producer price inflation were not universal, however, with rates increasing in Russia, Brazil, Turkey, Poland, Ireland, Turkey and Australia.

### Manufacturing input prices by country



Sources: Markit, ISM, JPMorgan, HSBC, Ecwin.

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