

European Consumer Prices

PMI data point to easing of European consumer price inflation

Key findings

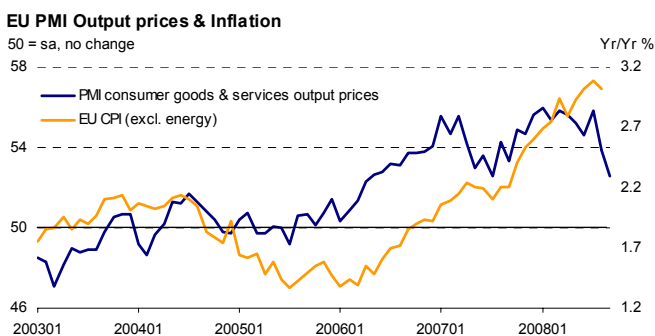
- **Consumer sector PMI data signal easing of underlying inflation in September.**
- **Pricing power restricted by falling demand.**

Consumer sector price inflation eases

Markit's Purchasing Managers' Index (PMI) data for European Union countries have indicated a moderation in the underlying trend of consumer price inflation in recent months.

PMI data cover manufacturers and service providers, and detailed analysis by sector allows an insight into trends in average prices charged for consumer-oriented goods and services, as shown in chart 1, where the PMI index is plotted against the official measure of consumer price inflation for the European Union (excluding energy, as energy is not covered by the PMI).

Chart 1: PMI prices charged and consumer price inflation in the European Union



In September, the composite PMI index of prices charged for consumer goods and services pointed to the weakest rate of inflation since July of last year, the rate of increase running well below that seen throughout the rest of the year-to-date.

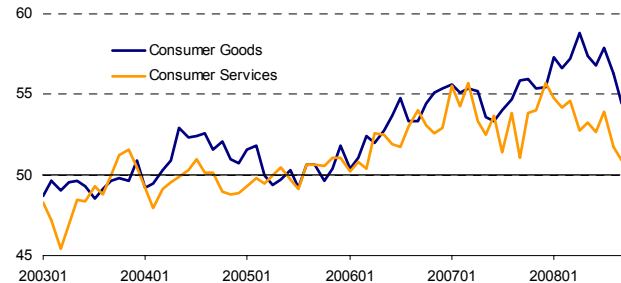
Prices charged by manufacturers of consumer goods rose at the slowest pace for fourteen months, while

prices charged by service providers showed the lowest rate of inflation since March 2006, easing to near-stagnation.

Chart 2: PMI sector output price indices

EU PMI Prices Charged Index

50 = sa, no change



Pricing power limited by weak demand

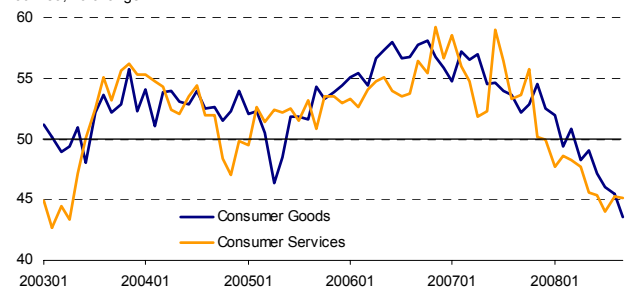
Companies participating in the PMI surveys commonly attributed the easing in selling price inflation to slower growth of input costs (input prices rose at the slowest rates for nine and eleven months in EU manufacturing and services respectively in September), but also to reduced pricing power due to weak demand from both businesses and consumers.

Weak consumer demand was reflected in a drop in new orders at EU consumer goods manufacturers for the sixth month running in September, with the rate of decline the fastest since the PMI survey began in January 1998. Meanwhile, incoming new business in the consumer services sector declined for the tenth month.

Chart 3: PMI sector new business indices

EU PMI New Business Index

50 = sa, no change



Travel companies report profit pressures

Companies in the travel & leisure sector reported particular difficulties, with the absolute difference between the input and output price indices in September the greatest of all sectors covered by the PMIs, suggesting that soaring fuel costs (particularly in airlines) are placing intense pressure on margins at a time when consumers are cutting back on luxuries such as holidays.

Food & drink sector price inflation at three-year low

Within the consumer goods industry, the most notable downward trend in inflation was in food & beverage. Here, output prices increased at the weakest rate for over three years in September, a marked turnaround from rapid inflation in the first half of 2008. This index has moved lower continuously since February; a further fall in October would most likely take it below 50.0, thereby signalling falling prices.

Falling prices already evident in Spain and France

By country, the extent of the easing in inflationary pressures is even more evident. France and Spain are now both seeing overall falls in service sector charges, while prices have stagnated in Italy throughout the third quarter. Upward pressures are still notable in Germany and the UK, but rates of inflation have come down sharply.

Chris Williamson

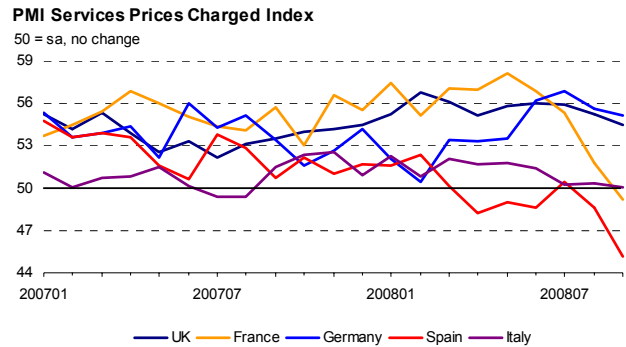
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Chart 4: Services PMI prices charged indices



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