

# UK Producer Prices

## Producer price inflation to weaken further at end of 2008

### Key findings

- **PPI input price inflation to slow to near-stagnation in December.**
- **PPI output price inflation to ease to 4%.**

Today saw the release of the November producer prices indexes (PPI) by the ONS, which reported a deceleration of input price inflation to 7.5% year-on-year, and a corresponding easing in factory gate price increases to 5.1%. These readings were broadly in line with consensus forecasts of 6.7% and 5.2% respectively.

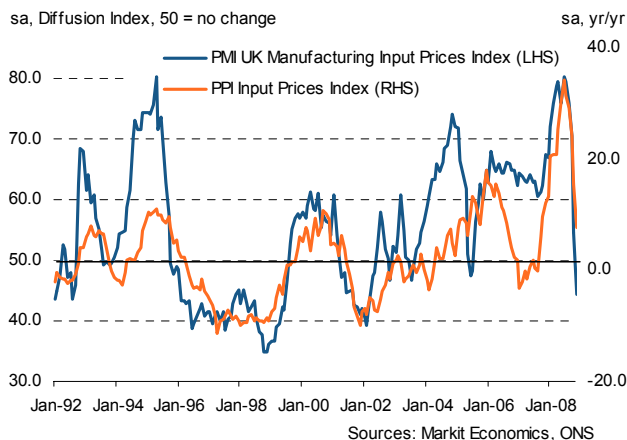
The charts to the right plot the input and output prices indexes from the CIPS/Markit UK Manufacturing PMI survey. These indexes have historically tracked the annual rate of change in the comparable ONS series closely, and tend to move around 1 to 2 months in advance of official data releases.

After hitting a series-record high in mid-2008, to correspond with the peak in the ONS PPI Input Prices Index in June, the PMI Input Prices Index dropped to a six-and-a-half year low in November and pointed to a decline in average purchase prices for the first time since July 2005. This suggests that pipeline deflationary pressures on manufacturing purchase prices are building, and could result in the rate of inflation easing to near-stagnation in December. The principal factors underlying the descent of input cost inflation since mid-year have been the unwinding of oil, metals and other commodity prices.

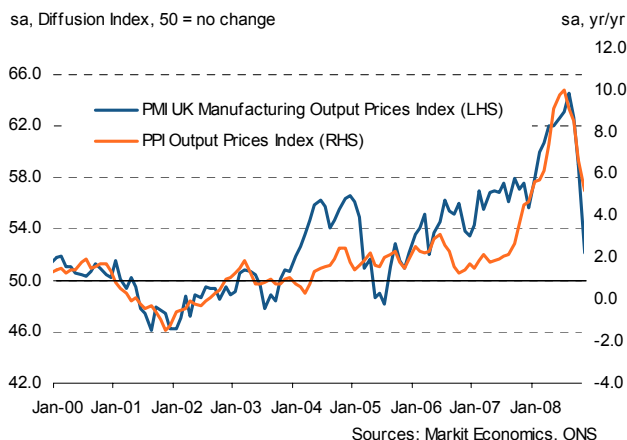
The PMI output prices measure was broadly consistent with the ONS figure of 5.1%. PMI data also indicate that inflation of factory gate prices will ease further in the final month of 2008 to a rate of around 4%. Manufacturers are still passing on previous cost increases to clients, but the downswing in aggregate demand is already hitting their pricing power.

Looking further forward, the easing in pipeline inflationary pressures in the supply-chain indicated by

### UK Producer Prices: Input Costs



### UK Producer Prices: Output Prices



the latest PMI and PPI figures should ultimately lead to a further reduction in headline consumer price inflation (CPI). This is consistent with the findings of the Markit research note released on 1<sup>st</sup> December\*, which found that headline CPI will move back towards the MPC's target rate sooner than previously expected.

\*<http://www.markit.com/information/news/commentary/markit-economics/contentParagraphs/0112/document/UK%20Manufacturing%20PMI%20Nov2008.pdf>

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