

# Global manufacturing prices

## Supplier delivery times hold key to future price trends

### Key findings

- **Suppliers' delivery times reflect demand and supply imbalances, and therefore act as a guide to underlying price pressures.**
- **Delivery times continued to lengthen at a near-record rate in April, but conditions could change rapidly.**

### Supplier delivery times have indicated a steep rise in spare capacity

PMI data show that the amount of spare capacity in the global manufacturing economy has risen sharply since production began falling in June last year.

A key measure of capacity is the time it takes suppliers to deliver goods to manufacturers. If there is spare capacity at suppliers, their warehouse shelves are often full of stock, meaning goods can be delivered to factories promptly. On the other hand, if vendor capacity is stretched, factories may need to wait for suppliers' stocks to be rebuilt before taking delivery.

PMI survey respondents have reported that suppliers' delivery times have now shortened globally on average in each of the seven months to April, with the degree of shortening in recent months far exceeding anything seen previously over the survey's eleven-year history. Suppliers have simply been less busy due to falling demand for inputs and raw materials.

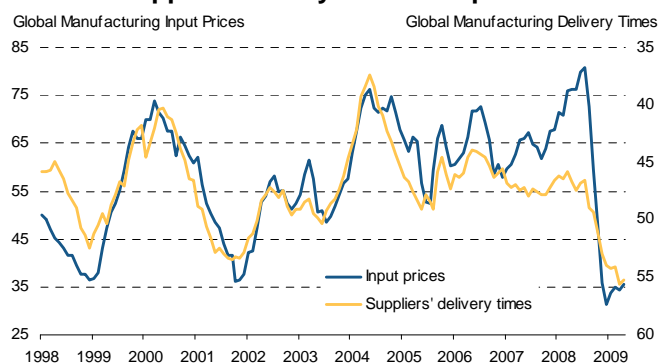
### Prices have fallen in buyers' market

As an indicator of spare capacity, faster deliveries tend to signal falling prices. If suppliers are less busy due to weak demand, they are more inclined to offer discounts to boost sales, i.e. a buyers' market develops. The reverse is true when demand increases and suppliers incur delays, as manufacturers are willing to pay more for timely deliveries and a sellers' market therefore develops. In line with quicker deliveries, manufacturers globally have reported falling input prices for seven successive months, with the rate of decline since

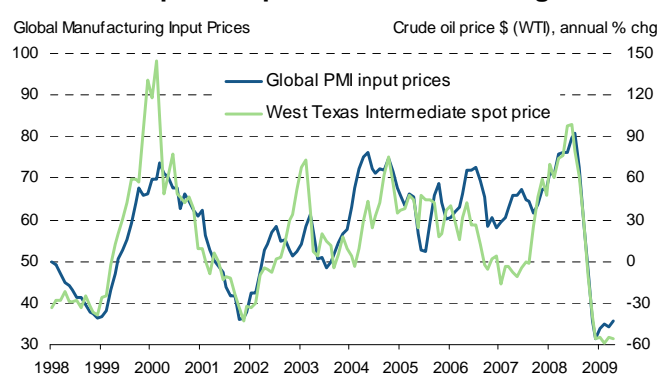
November exceeding anything seen prior to the recent downturn in the history of the survey.

Chart 1 plots the relationship between supplier delivery times (inverted) and manufacturers' input prices. While the correlation is close between 1998 and 2007, the relationship appears to have broken down in 2007 and 2008. This is explained by high oil prices (see chart 2), which rose sharply in late-2007, peaking at \$147 per barrel in the summer of last year. Charts 1 and 3 both suggest that the oil price rise had little to do with underlying supply and demand imbalances, and more to do with speculation. Chart 3 in particular shows that global output growth was already slowing in late-2007, when oil prices began surging, and production was already contracting when prices peaked last summer.

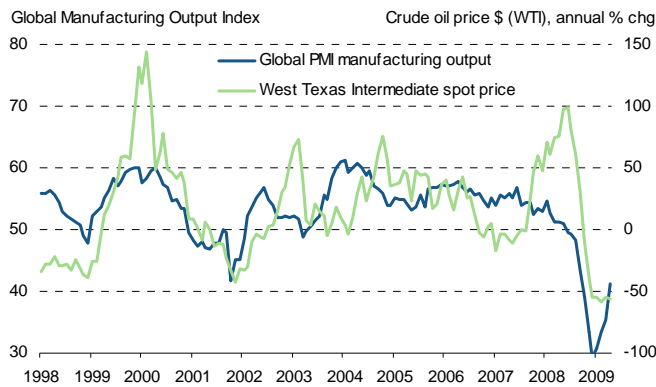
**Chart 1: Supplier delivery times and prices**



**Chart 2: Oil price impact on manufacturing costs**



**Chart 3: Oil prices and manufacturing production**

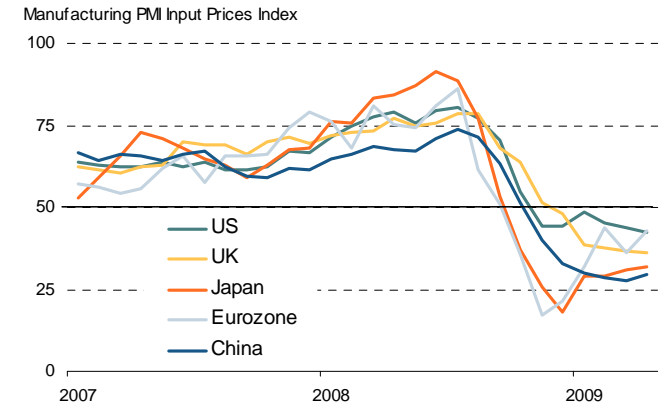


**Price outlook**

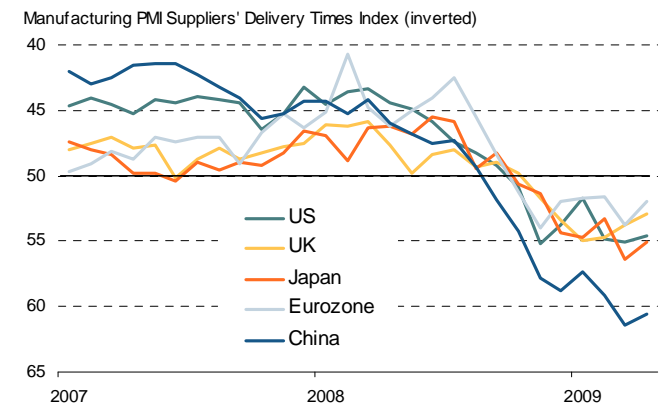
With stock levels having been depleted at record rates in recent months, it is possible that any upturn in final demand could mean shortages quickly develop for key inputs, generating a sellers' market and reversing the recent falls in prices paid for goods by manufacturers. Suppliers' delivery times will therefore provide a crucial early indication of such shortages, and of course also help understand whether commodity price movements are caused by supply and demand fundamentals or other factors.

**Prices and delivery times by selected country**

**Manufacturing input prices**



**Manufacturing delivery times**



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