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Markit Economics Research

09/09/2009

Global manufacturing prices

Input prices rise in August, led by US and China

- **Worldwide manufacturing input prices rise for first time in 11 months in August.**
- **Sharply higher prices seen in the US, China and Russia.**
- **Cost increases start to feed through to output prices.**

The Input Prices Index from the Global Manufacturing PMI, compiled by Markit on behalf of JPMorgan, rose above the 50.0 no-change level in August, signalling an increase in producers' average raw material prices for the first time in 11 months.

The increase in prices reflected a growing ability for suppliers to raise their rates as demand for raw materials continued to rise (worldwide manufacturing output expanded at the fastest pace for over three years in August).

A key indicator of the scope for suppliers to raise their prices is the PMI Suppliers' Delivery Times Index, which measures the time it takes suppliers to provide inputs to manufacturers and reflects how busy they are. These lead times lengthened for the second successive month in August, and to the greatest extent for 13 months. As suppliers become busier, their need to offer discounts to sell stock diminishes, and the recent increase in manufacturers' input prices reflects this movement to a sellers' market.

A rise in average input prices which is accompanied by longer delivery times therefore indicates the existence of demand-pull inflationary pressures. A rise in the input prices index which is not accompanied by longer deliveries tends to reflect other factors, such as the spike in oil prices in 2007-08 (see charts 1 and 2). While higher oil prices have undoubtedly been a contributory factor behind the recent rise in the PMI Input Prices Index (crude has risen to $72 per barrel from a recession-low of $39), the role of supply-chain/demand-pull price pressures should not be ignored.

Chart 1: Global supplier delivery times and prices

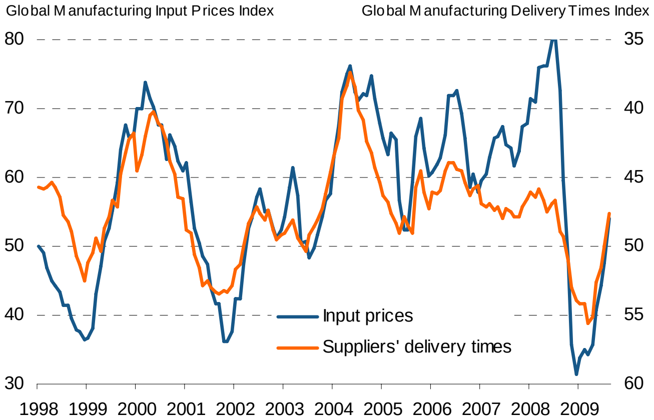
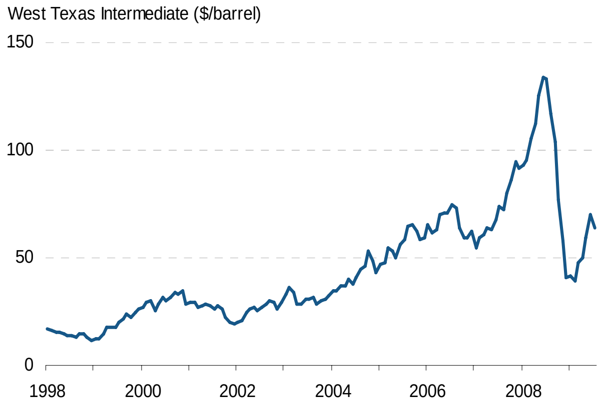


Chart 2: Oil price



Further upward pressure on manufacturing prices in coming months is meanwhile signalled by the Backlogs of Work Index, which provides an indication of capacity utilisation (see chart 3). Any increase in the Backlogs Index tends to be followed by rising price pressures and vice versa.

China and the US saw input prices rise at the steepest rates for 13 and 12 months respectively (and prices are also on the rise in India, Russia, Turkey, Switzerland, Greece and Poland). Rates of decline have meanwhile slowed in the UK, the Eurozone and Japan (see chart 4).

Chart 3: Manufacturing capacity and prices

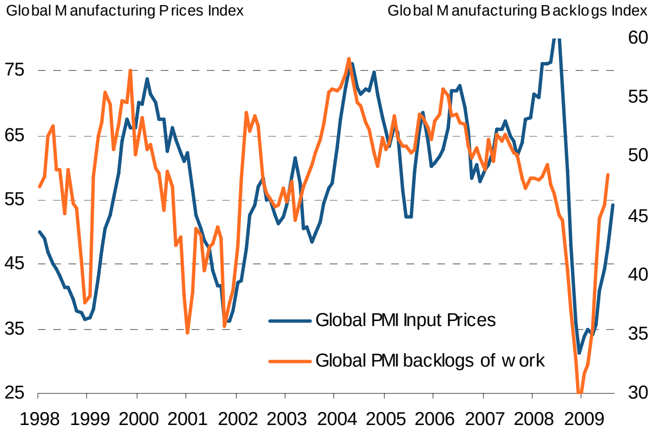
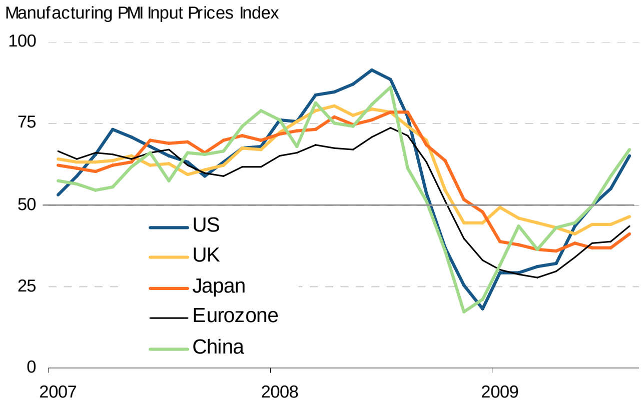


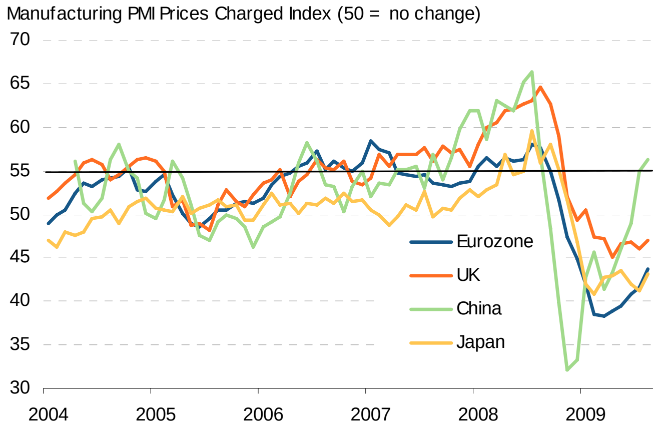
Chart 4: Manufacturers' input prices



Selling prices still falling, but for how long?

There is also some evidence to suggest that manufacturers' selling prices have begun to rise, especially in China, as pricing power is restored. (See chart 5, note that a PMI measure of manufacturers' output prices is not available from the ISM survey in the United States).

Chart 5: Manufacturers' selling prices



However, while rising producer prices can highlight the early development of inflationary pressures, they do not necessarily translate into higher consumer price inflation. Other factors may offset raw material price rises, or weak demand may prevent the pass-through of higher supply chain prices. It should be remembered though that it is higher interest rates which are used to help subdue demand and prevent this pass-through.

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