

# Global manufacturing

## Global price pressures: not just food and oil

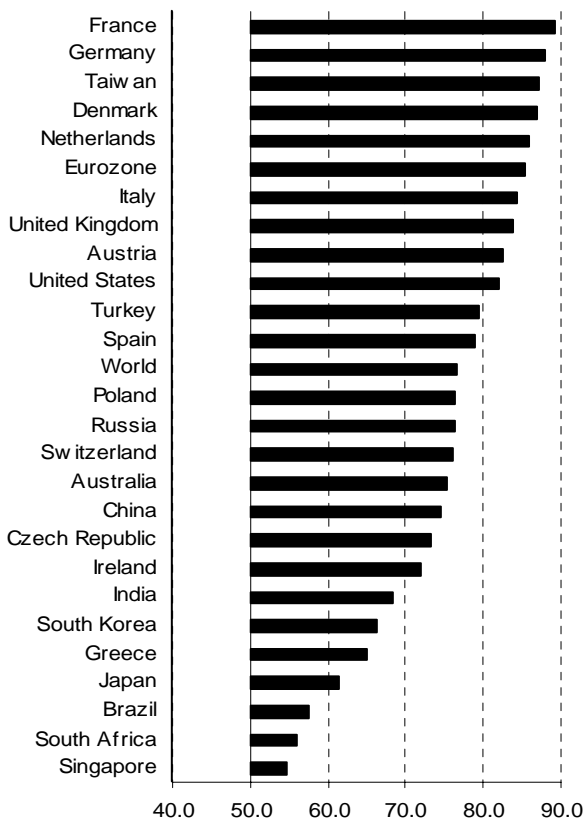
### Purchasing managers report further surge in input prices

The JP Morgan Global Manufacturing PMI – compiled by Markit – signalled a further sharp acceleration of input price inflation in February, with prices rising at the fastest rate since July 2008. The increase was the third-strongest monthly rise since data were first available at the start of 1998.

Rates of increase quickened across 22 of the 26 countries for which data are currently available, with series record highs registered across most Eurozone nations, with Greece and the Republic of Ireland the two exceptions, as well as India and Taiwan. Rates of increase also accelerated in the US and China.

### National PMI Manufacturing Input Price Indices

DI, sa, 50 = no change



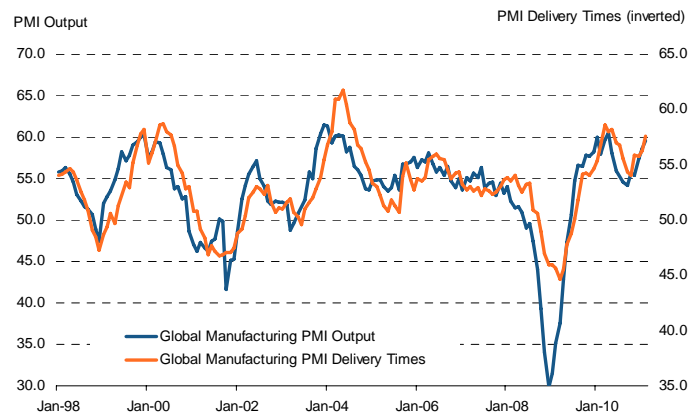
Sources: Markit, ISM, JP Morgan.

The stronger rate of inflation signalled by the Global PMI reflects rising raw material, food and energy costs. Brent crude is currently trading at \$115 a barrel, as unrest in the Middle East and North Africa (MENA) shows no sign of ending. *The Economist* Commodity Price Index continues to hover close to its series record, while the UN measure of global food prices hit a new height in February amid reports that governments were hoarding food supplies. Meanwhile, the price of copper – a benchmark industrial metal – remains in touch of its all-time high of \$10,190 a tonne seen mid-February.

### Suppliers increasingly able to hike tariffs

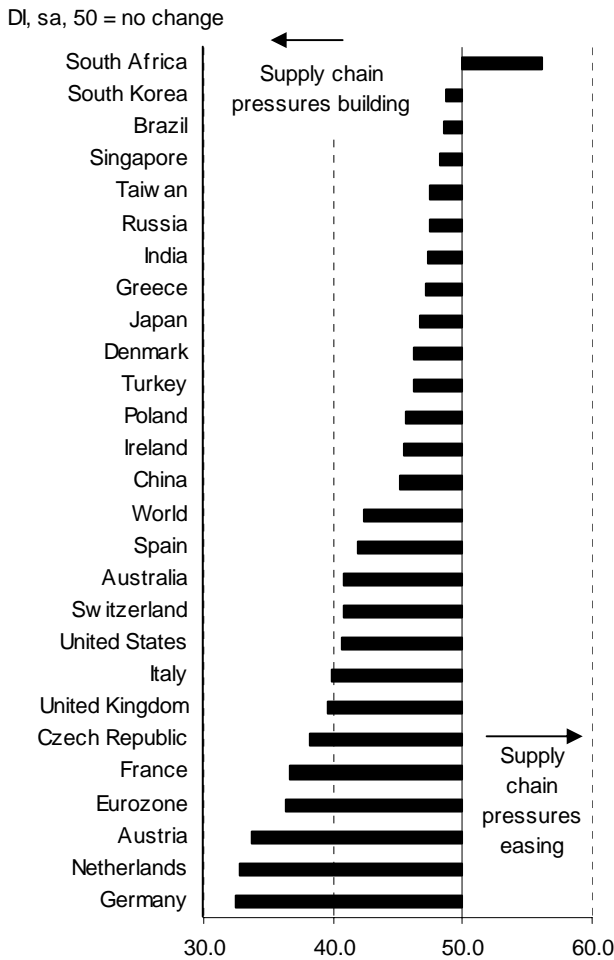
However, PMI survey data provide strong evidence that rising cost pressures also reflect the growing imbalance between supply and demand for raw materials. As global growth has accelerated, the rising demand for inputs at the world's factories has led to shortages of many goods, which in turn has meant suppliers have been increasingly able to push up the prices they charge manufacturers. A measure of these imbalances is the Global PMI Suppliers' Delivery Times Index, which is currently signalling the most widespread incidence of supply chain delays in nine months, with the number of delays at levels rarely seen in the history of the PMI survey.

### Global supply chain pressures



Source: Markit.

### PMI Suppliers' Delivery Times



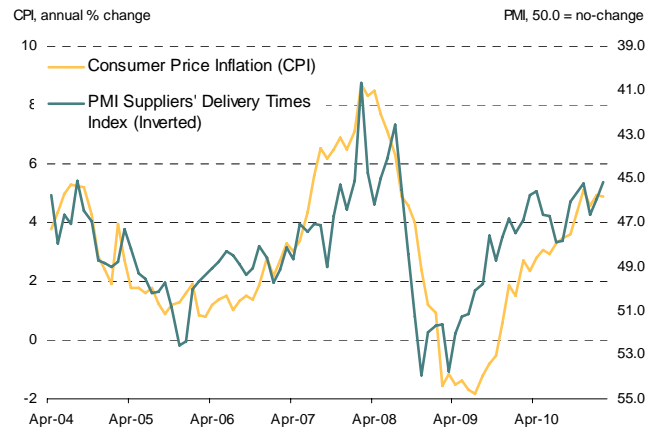
Sources: Markit, ISM, JP Morgan

Highlighting the extent of supply chain bottlenecks in the global economy, the average time taken by suppliers to deliver inputs to manufacturers lengthened across 24 of the 25 countries monitored by the PMI surveys, and for which data are available, during February. Countries in the euro area saw particularly marked deteriorations in vendor performance, with Germany recording the most pronounced lengthening of lead times, followed by the Netherlands and Austria. In general, emerging markets recorded fewer incidences of delays, though rates of lengthening quickened across all four BRIC nations, with China recording the joint-fastest deterioration in more than two-and-a-half years.

According to PMI numbers, the feed through of supply chain pressures to the headline rate of consumer price inflation has been particularly evident in China, as sky-high demand for raw materials has amplified the ability of suppliers to push up the prices they charge manufacturers. The Suppliers' Delivery Times Index

has acted as a reliable guide for underlying price pressures in China, highlighting the fall in consumer prices in the wake of the financial crisis and the subsequent pick up since mid-2009.

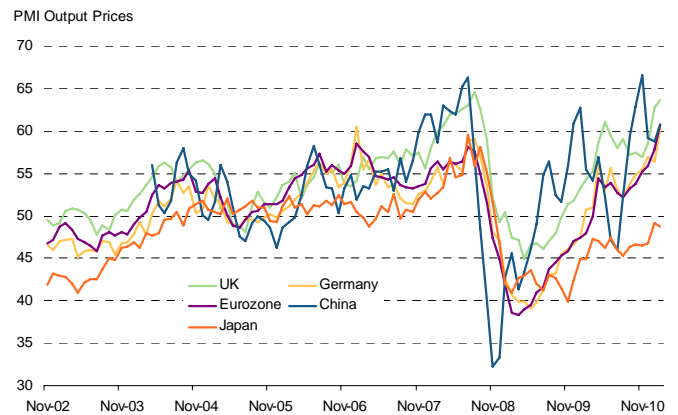
### China: supply chain factors and inflation



Sources: Markit, NBS.

Manufacturers are also reporting increased success in passing higher costs on to clients through higher charges at the factory gate. The European PMI surveys have already shown manufacturers' selling prices rising at record, or near-record rates, across the majority of nations in the single currency bloc.

### Factory gate prices



Source: Markit.

This trend is also evident across the globe, with nearly all countries for which PMI data are available recording an increase in factory gate charges during February. Japan was the only exception (data are not currently available for the US).

### Little evidence of inflation feeding through to higher wages

Although the pass through of higher costs along the supply chain will concern policymakers at central

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banks, especially in countries where consumer price inflation is currently running above trend such as the UK (4.0% versus 2.0% target) and the Eurozone (2.4% versus 2.0% target), underlying inflationary pressures still remain relatively weak due to the absence of wage pressures. Ultimately, the emergence of these effects will determine whether the current spike in inflation, driven in part by supply chain factors, turns into something more long lasting and damaging.

To find out how to receive PMI data, please contact [economics@markit.com](mailto:economics@markit.com)

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