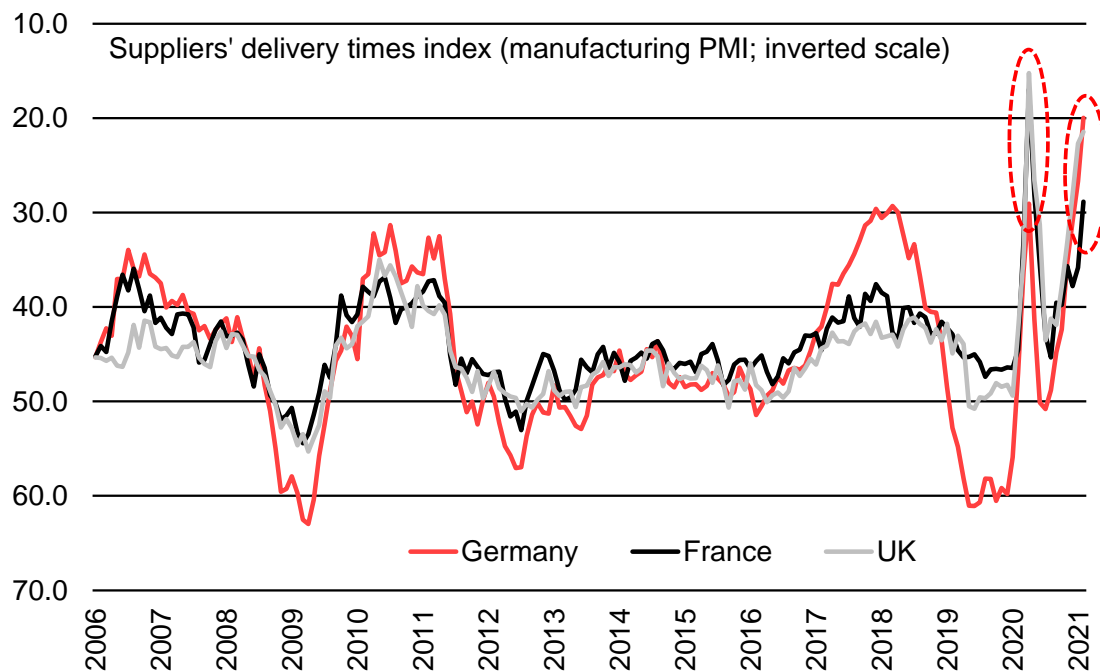


Bottlenecks in supply chains plaguing companies and spurring price pressure



Source: IHS-Markit, UniCredit Research

- While business sentiment among European manufacturers brightened in February, companies have been getting increasingly plagued by bottlenecks in their supply chains again. This can be seen by looking at today's releases of the suppliers' delivery times index included in the manufacturing PMI survey. In Germany, this gauge has even surpassed the levels from spring 2020 when the first lockdown set in. In the UK and France, it is still not record-high by historical standards but surged to unusually elevated levels again.
- The reasons for the latest squeezes are different from the ones last year. At that time, the lockdown also affected the manufacturing sector which brought down activities across many industries and countries. In contrast, during the second lockdown, manufacturing has been kept largely open. In our view, there are global and country-specific reasons for the latest severe bottlenecks in supply chains.
- One major global trigger is the massive shortage in the semiconductor industry which has been increasingly spilling over into other sectors. Chips are highly important components, being used as input and intermediary goods in various sectors worldwide, such as auto, telecommunication, computers and consumer electronics. Another reason is the shortage in freight capacities for goods coming from China. As pointed out in one of our last editions of the [Chart of the Week - Freight costs of European companies soaring](#), about three weeks ago, freight costs for European companies have been surging. Since then, the costs of shipping goods from China to Europe kept rising. Finally, there are country-specific factors. Examples are the new controls imposed for trucks at the German-Czech (and German-Austrian) border which may hamper the flows of input goods, especially for auto parts. For the UK, Brexit is certainly a major driver of the story.
- One important implication of the bottlenecks in supply chains is straightforward. Price pressure for industrial goods has been rising further, as already indicated by increasing input prices for European manufacturers. While some of this might be passed on to consumers, we think that a broad-based and persistent rise in consumer price inflation is unlikely for two reasons. First, supply disruptions ("cost push") are largely a result of the pandemic and are likely to be only a temporary phenomenon. Second, output gaps will remain negative for the time being, especially in the services sector, and therefore limit the scope of demand-pull inflation.

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