

# Asia

## Mind the gap: Asia's inflation pipeline has further to run

*Input costs across Asia rose sharply in April amid the war in the Middle East and surging energy prices. While output prices also increased accordingly, analysis of PMI<sup>®</sup> data suggests that companies are not passing on rapid cost increases in full. The gap between what firms are paying and what they are charging has important implications for inflation and interest rates.*

*Input costs rose across all 12 Asian manufacturing economies surveyed in April, the bulk of which are emerging markets. Taiwan, Myanmar and South Korea posted the steepest rates of inflation. With the sole exception of Malaysia, output price inflation remained well below that seen for input costs in every country, signalling that firms are absorbing a meaningful share of the rising cost burden.*

*Analysis of the PMI indices to normalise the gap between input costs and output prices can help us to judge the extent to which firms are either absorbing cost increases or passing them through to customers.*

*Historical analysis of PMI data during the energy shock following Russia's invasion of Ukraine suggests it took on average 13 months for cost-charge gaps to normalise across Asia's private sector. On that basis, we are likely to see current cost increases passed through to customers for some time to come.*

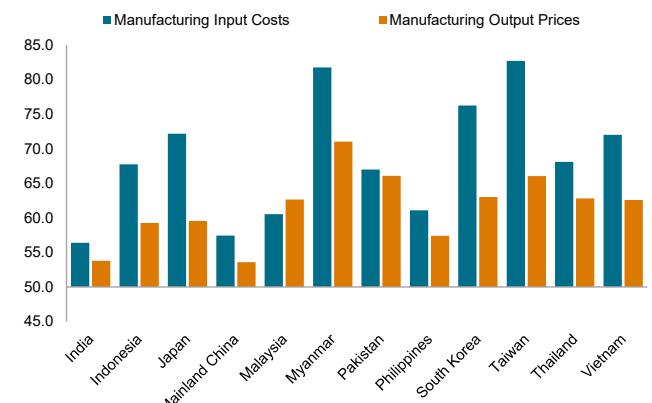
### What the latest PMI data show

Every month, businesses across Asia are asked whether their input costs rose, stayed the same, or fell compared to last month. The same question is asked about the prices they charge their customers. Looking at the April manufacturing sector results, we saw historically steep increases in input costs across all economies monitored, led by emerging markets such as Taiwan, Myanmar and South Korea. Notably, double-digit monthly rises in input cost indices were registered in Japan, Myanmar and Thailand, whereas above-long-run average rates of inflation were noticed across the board.

What stood out in April was the persistent gap between what companies are paying and what they are charging. In nearly every economy, the rate of increase in output prices

was well below input cost inflation. This means companies are absorbing a large part of their additional cost burdens rather than passing them fully on to clients.

**April PMI inflation data**



Data Compiled: April 2026  
Source: HBL, HSBC, RatingDog, S&P Global PMI.  
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For the three Asian economies for which S&P Global produce both manufacturing and services PMI data (India, Japan and Mainland China), the picture is nuanced. Service providers faced less intense cost pressure than manufacturers but they were also showing a similar reluctance, or inability, to pass costs on in full.

The delayed pass-through of higher costs may sound like a relief for consumers and policymakers, and in the short term it is, but it also means a stock of unabsorbed cost pressure is building up in the system. History tells us that this pressure eventually gets released – the question is when and by how much.

### Why does it take so long?

The time lag between cost increases and price rises is not simply a matter of businesses being slow to react. Several structural factors could explain why the gap persists. Firstly, many companies operate under fixed-price contracts for weeks, months or even a year at a time. They cannot raise prices immediately even if they want to. Secondly, in competitive markets, the first firm to raise prices risks losing customers. Businesses often wait to see

what competitors do before moving. Demand naturally plays an important role – when customers are under cost pressure themselves, they know that price rises may cost them sales. They absorb costs to protect volumes.

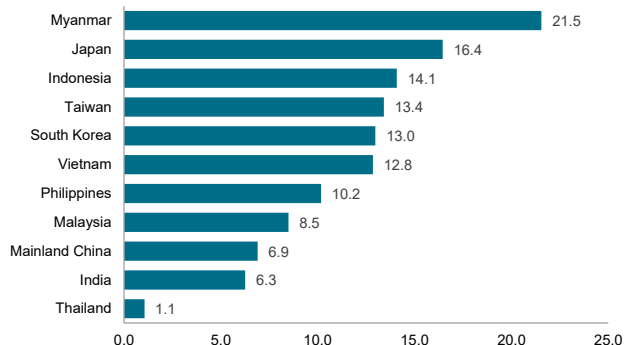
Once conditions allow (that is, when costs stay elevated long enough), or when competitors move, prices can rise quickly as firms try to recover lost margins. This is the 'pipeline release' that central banks watch closely.

## The pass-through story: what history tells us

To understand what the current gap between input costs and output prices means in practice, we looked at what happened last time costs surged dramatically – when Russia's invasion of Ukraine in February 2022 triggered one of the sharpest energy and commodity price shocks in modern history.

A review of PMI data from 2022 to 2024 showed important findings. Same-month peaks and cross-correlation analysis revealed that Asian firms were passing through costs almost simultaneously, but incompletely. Companies reacted quickly, with the share of survey respondents reporting a rise in input costs and the share lifting output prices both moving up concurrently. Far more businesses signalled rising costs than were raising prices, however, creating a gap which, at its peak, reached double digits in the majority of countries tracked.

### Manufacturing peak gap from February 2022 to December 2024 (index points)



Data Compiled: April 2026  
 Bars show differences between input costs and output prices indices at their peak.  
 Source: HSBC, RatingDog, S&P Global PMI.  
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PMI price indices measure the breadth of price changes, that is the share of firms reporting increases relative to decreases. The gap between price gauges provides a directional signal about profit margin developments and cost absorption, but not a precise measure of the degree to which cost increases have been monetarily recovered through output prices. Within this constraint, this analysis measures the time taken for the breadth of charges to normalise relative to the breadth of cost increases. Considering the strong correlation between the PMI and

official CPI data, this breadth-based pass-through timeline can be a leading indicator of official PPI and CPI developments.

Given the historical persistence of a gap between the two PMI price gauges, z-scores were calculated to establish a 'back-to-normal' proxy threshold. This gives us a measure whereby a positive reading suggests that firms are absorbing cost increases and taking a hit to margins, whereas periods where the score is below zero suggest some margin rebuilding.

For the z-score calculation, the baseline mean and standard deviation included pre-pandemic data (2016 to 2019). Across Asia's manufacturing industry, the severity of cost absorptions was evidenced through a peak z-score (for the 2022-2024 analysis) of two in May 2022. Particularly striking were the inflation gaps posting more than three times above their historical norms in Indonesia, Japan and South Korea.

### Gap between input costs and output prices (z-score)

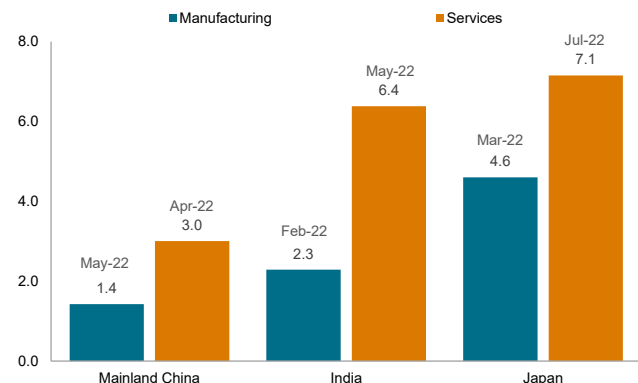


Data Compiled: April 2026  
 Source: HBL, HSBC, RatingDog, S&P Global Market Intelligence.  
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After peaking, the gap across the aggregate Asian manufacturing economy took three months to return to its historical normal, meaning cost pass-through was a gradual process rather than a one-off event. Fast (2-8 months) transfers in India, Mainland China, Malaysia, Myanmar, Philippines, Taiwan and Vietnam compared with medium (11-14 months) pass-through in Japan and South Korea. In Indonesia it took 32 months for the gap to normalise.

We also need to consider the spillover effect of manufacturing inflation to services, which subsequently extends the pass-through period to the wider economy. In Japan's service sector, for example, the peak gap z-score observed in July 2022 took 19 months to normalise. Similarly, it peaked in May 2022 in India, which converged to its historical normal in ten months. A considerably shorter period was recorded in Mainland China, with the gap across the private sector normalising after just three months.

### Peak gap from February 2022 to December 2024 (z-score)



Data Compiled: April 2026  
Source: HSBC, RatingDog, S&P Global PMI.  
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## Implications for central banks: the guard must not drop

Our analysis of the Ukraine episode shows it took an average of 13 months for the cost-price gap to normalise across Asia's private sector if both manufacturing and services are considered. In India and Japan, that process only completed in early-2023 and early-2024 respectively. The current round of cost pressures driven partly by the war in the Middle East and energy price shock is layering on top of a system that has barely had time to normalise.

When companies expect costs to remain elevated, they factor this into pay, pricing and recruitment decisions. Once these expectations become entrenched, they are far more difficult to normalise again.

Central banks worked hard to establish their inflation-fighting credibility over 2022-2024 and may need to look at tightening monetary policy again to try to bear down on inflation in the months ahead.

## Outlook: how long before costs are fully passed through?

Based on the average 13-month pass-through timeline observed during the Ukraine episode, and assuming the current round of cost pressures peaked this April (which is by no means definite), PMI data history suggests that output prices across the region could still be adjusting upwards as late as mid-2027. However, the current environment differs from 2022 in ways that could either accelerate or slow that timeline. Factors that could slow pass-through include weaker demand, rebuilt corporate margins, greater central bank credibility reducing wage-price spiral risk, and cautious consumers being more resistant to price rises.

On the other hand, if energy prices rise sharply from here, or if the Middle East disruption proves more persistent, businesses will have less capacity to absorb costs and could pass them on more quickly. Currency movements

add another challenge, especially for countries that import heavily. If their currencies weaken, import costs will typically rise even further and create extra pressure for faster price increases.

PMI data will remain crucial in revealing not only the extent to which companies are absorbing cost rises versus passing them through to customers, but also the speed and sectoral variations of these pricing decisions across different economies.

## Conclusion

The April 2026 PMI data delivered a consistent message across the economies covered: input costs are rising, output prices are increasing more slowly and the gap between the two is above the norm in almost every case.

This is not a new story, but the persistence of the gap and evidence from the period following the Russian invasion of Ukraine that it can take over a year to normalise, means the inflation story is far from finished.

For businesses, the message is to plan for continued cost pressure and to think carefully about pricing strategy as the competitive window for absorbing costs without raising prices may be narrowing. For investors, the persistence of cost-price gaps is a signal that central banks will need to remain cautious about policy easing.

### Links to more resources

- [Sign up to receive updated commentary in your inbox here.](#)
- [Calendar of upcoming PMI releases](#)
- [Running commentary on the PMI survey findings](#)
- [PMI Frequently Asked Questions](#)
- [Background to the PMIs \(video\)](#)
- [Understanding the headline PMI and its various subindices](#)
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