

Increases in Input Prices Appear to Wind Down

PRM-PMI survey participants also respond to five additional questions on business conditions relating to Prices Paid, Customers' Inventories, Backlogs, and New Export Orders. In this Supplement, we present the results of Question 8 related to Prices Paid.

This question asks whether the average level of prices on net (weighted by their proportion) paid by manufacturers in Puerto Rico for inputs rose, fell, or stayed the same with respect to the previous month.

This allows for the calculation of the Prices Paid diffusion index. A reading of this index above the threshold value of 50 suggests an increase in the inputs prices paid by manufacturing establishments in Puerto Rico with respect to the previous month.

Since May 2010, the Prices Paid index has been consistently above the threshold level indicating that most participants paid more for their inputs every month for 29 months consecutively (See graph below *Prices Paid Diffusion Index*).

As this index is not seasonally adjusted, seasonal behavior is not only expected, but actually visible from the chart, with peaks in March and April, and troughs in October and November.

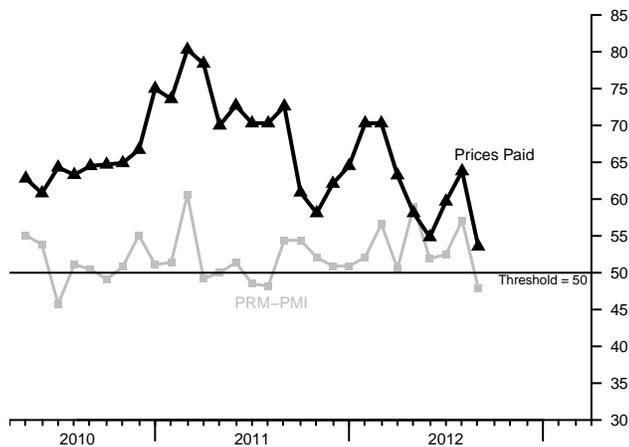
To gauge the comparability of the Prices Paid diffusion index with other similar indexes, we examined data from the US-PMI survey of the Institute for Supply Management, as well as data from two Federal Reserve Districts: Empire State Manufacturing Survey (New York) and the Business Outlook

Survey (Philadelphia).

The four indexes show a similar pattern. Both Federal Reserve districts' Prices Paid diffusion indexes have been above the threshold value since May 2010. Only the Prices Paid diffusion index of the Institute for Supply Management dipped below in just 6 of the 29 months. Moreover, the Puerto Rico Prices Paid diffusion index has been above the corresponding index from the US-PMI survey from June 2011 to August 2012. (See graph *Prices Paid – other areas*).

The four time series also exhibit a similar seasonal pattern. Even when the data exhibit seasonal behavior, there appears to be a slight downward trend in the value of the Prices Paid diffusion indexes during the second half of 2011 and the first half of 2012.

Prices Paid Diffusion Index
 (not seasonally adjusted)



Prices Paid – other areas
 (not seasonally adjusted)

