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IHS MARKIT GLOBAL ALUMINIUM USERS PMI™

Aluminium users face further steep decline in operating conditions

KEY FINDINGS

Falls in output and new orders remain sharp in May...

... despite easing from April

Job numbers slide for sixth month running

Global users of aluminium recorded another steep deterioration in business conditions in May, although rates of decline in both output and new orders eased from April as some countries relaxed coronavirus disease 2019 (COVID-19) restrictions. Nevertheless, cuts to employment and purchases remained sharp, with output charges also falling as firms saw a slight drop in total cost pressures.

The seasonally adjusted Global Aluminium Users Purchasing Managers Index™ (PMI) – a composite indicator designed to give an accurate overview of operating conditions at manufacturers identified as heavy users of aluminium – rose from 43.8 in April to 45.5 in May, to signal a softer deterioration in operating conditions midway through the second quarter. That said, the overall decline remained sharp and one of the fastest seen since early-2009.

Aluminium users reported a slower fall in output during May, as production was less hindered by emergency public health measures to deal with COVID-19. Nevertheless, the drop in output was steep and broad-based across the key regions.

Asia was the only region to record a faster fall in output than in April, albeit only modest overall. Meanwhile, European and US users both saw severe declines in activity as COVID-19 restrictions largely remained, although rates of reduction eased from April amid efforts to restart some industrial sectors.

Global Aluminium Users PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Demand

New orders received by global aluminium users fell for the sixth month running in May, with the rate of decline sharp as global demand failed to recover. This was in part due to a solid drop in export orders as a result of the COVID-19 pandemic. However, the rate at which overall new orders decreased was softer than in April.

Capacity

As was the case for new orders, aluminium-using firms continued to lower employment in May, now seen in each month since last December. The latest cut to workforces was solid and reportedly driven by factory closures and reduced workloads. Despite this, companies were able to reduce backlogs further in the latest survey period.

Meanwhile, firms continued to face disruption to the delivery of input goods, highlighted by a fifth successive increase in lead times. The overall lengthening was sharp, albeit softer than the average for this sequence. Concerns with supply chains and client demand led firms to make steep adjustments to purchased goods inventories.

Prices

Input prices fell for the third consecutive month in May, although the rate of decline eased to a marginal pace. Firms meanwhile made further cuts to output prices to try and rebuild order book volumes.

COMMENT

David Owen, Economist at IHS Markit said:

"The Global Aluminium Users PMI remained in a disappointing position in May, despite ticking up to 45.5 from April's recent nadir of 43.8. Across the board, aluminium-using firms faced further downturns in production levels and new orders, which led to another round of job shedding as the recovery path from COVID-19 remains unclear.

"Much depends on global demand conditions and the ability of key regions to rejuvenate industrial sectors during a recovery period. Countries emerging from lockdowns, particularly in Europe, are placing a strong emphasis on industry by allowing manufacturers to speedily return to work, hoping this will lead to a rebound in output and jobs.

"However, an even trickier task will be to strengthen both export demand and supply chains, made problematic by ongoing flare-ups of COVID-19 around the globe. For instance, Brazil is reporting a sharp rise in cases which could lead to some supply problems for companies sourcing from Brazilian aluminium producers."

CONTACT

IHS Markit

David Owen
Economist
T: +44 207 064 6237
david.owen@ihsmarkit.com

Katherine Smith
Public Relations
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

Methodology

The Global Aluminium Users PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in manufacturers identified as heavy users of aluminium. The sample is selected from IHS Markit's global PMI survey panels, covering over 40 countries.

Survey responses are weighted by country, based on national aluminium consumption figures sourced from IHS Markit's Pricing & Purchasing Service. Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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