News Release

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IHS MARKIT GLOBAL STEEL USERS PMI™

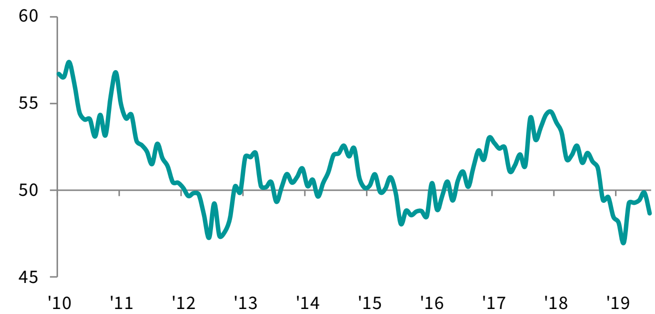
Deterioration in steel-using industry gathers pace

KEY FINDINGS

New orders fall solidly in July

Output and employment down

Selling charges rise at fastest rate in nine months



The start of the third quarter saw a renewed drop in output levels among global steel-using firms, as the rate of deterioration in overall business conditions accelerated for the first time in five months. Demand fell at a solid pace, leading to weaker input buying and lower stock levels. However, selling charges rose at the quickest rate since last October.

The seasonally adjusted Global Steel Users Purchasing Managers Index™ (PMI) – a composite indicator designed to give an accurate overview of operating conditions at manufacturers identified as heavy users of steel – fell from 49.8 in June to 48.7 in July, signalling a quicker deterioration in operating conditions, albeit still modest overall.

On average, steel-using companies reduced output over the month. The rate of contraction was marginal but still the most marked since March. In line with the recent trend, European users recorded the most prominent fall in production of all key regions, followed by Asian and US users respectively. This also marked the sharpest contraction among US steel-using firms for two years.

Demand

The renewed fall in production often arose from a solid and quicker decline in new orders in July, according to global panellists. Latest data extended the downturn to ten consecutive months, as the rate of decrease accelerated to the sharpest since February.

Notably, European steel users reported the greatest drop in demand since June 2012, which respondents related to slower economic activity and reduced car production. Meanwhile, US and Asian steel users saw new orders fall after modest increases in July. Some firms noted the impact of escalated tariffs, while others linked this to a lack of client demand.

Capacity

Global steel users continued to report increasing capacity in July, with stocks of purchases falling marginally as a result of a drop in input buying. This notably led to the first shortening of lead times since November 2012. Firms also reduced backlogs at a faster rate than in June.

Meanwhile, employment decreased further, as a decline at Asian and European steel users more than offset an increase at US users.

Prices

Concurrently, output prices were raised at a faster pace in July. Despite remaining marginal, the rate of inflation was the quickest since last October. However, European users reported the weakest uptick in charges for nearly three years, in line with a deeper downturn in new orders.

Input cost inflation was relatively unchanged from June, with higher raw material prices reportedly driving the increase.

PMI™ By IHS Markit

COMMENT

David Owen, Economist at IHS Markit said:

"Steel-using companies reported subdued business conditions in July, as the PMI lost some of its recovery over the past few months. Output levels were down slightly as demand fell on the back of a quicker decline in export sales.

"Notably, it was only the second time in just under seven years where falling production was recorded in all of the three key monitored regions: Europe, Asia and the US, as sales also decreased across all regions. While Asian businesses were the most vocal in attributing this to the increase in US tariffs, firms in the US were also affected, with new export orders dropping sharply. As with recent months, European steel users remained stuck in a steep downturn as woes in the automobile industry and continuing Brexit uncertainty acted as drags on the sector.

"Disruptions to the global supply of iron ore this year have placed some tailwinds on steel prices, particularly in July. However, falling demand for steel goods, as shown by the PMI, has began to feed through into a slump in prices. This is likely to continue; global new orders for steel products have not risen in ten months, and the outlook - with the US placing further tariffs on China in September - does not look bright."

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Methodology
The Global Steel Users PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in manufacturers identified as heavy users of steel. 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 steel 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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About PMI
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. To learn more go to ihsmarkit.com/products/pmi.html.

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