Impact of COVID-19 on aluminium users shifts to the US and Europe

KEY FINDINGS

- PMI up to 49.4 due to stabler, but still weak, Asian industry
- Large drops in output and new orders in the US and Europe
- Input costs fall for first time in over four years

With the coronavirus disease 2019 (COVID-19) spreading to the US and Europe in March, aluminium users in those regions saw massive reductions in output and new orders, latest PMI data showed. Supply chains worldwide continued to falter, though lower raw material prices helped to ease overall input costs.

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 45.4 in February to 49.4 in March, indicating a slight decline in operating conditions at the end of the first quarter.

At the regional level, Asian aluminium users saw a marginal improvement since February, when operating conditions deteriorated rapidly due to the COVID-19 outbreak in China. With the virus spreading to Europe and the US more recently, those regions registered sharp falls in activity in March. Headline PMIs masked this downturn somewhat due to longer delivery times, which is normally indicative of intensifying economic activity.

**Demand**

New work received by global users of aluminium continued to fall sharply during March, as the virus pandemic curbed client demand further. However, the rate of decline weakened due to a much softer fall recorded at Asian manufacturers. In comparison, US and European users saw the largest drops in sales since May 2009 and March 2009 respectively.

New foreign orders also decreased at a steep rate in the latest survey period. As with total sales, the overall decline was nonetheless weaker than in February.

**Capacity**

Global supply chains continued to perform poorly in March as more countries announced lockdowns to stop the spread of COVID-19. As such, aluminium users saw a further sharp increase in delivery times. Input purchases declined, prompting another, albeit weaker, reduction in stock levels.

Employment fell at the softest pace for four months in March, reflecting improving job numbers in Asia. In contrast, European aluminium users saw the greatest drop in workforces since August 2009.

**Prices**

Falling raw material and oil prices led to the first decline in input costs for over four years in March. However, this was partly offset by supply shortages, such that the overall decrease was only marginal.

Aluminium-using firms meanwhile reduced output prices for the second month running, with respondents citing lower costs and efforts to improve demand. The rate at which charges fell was only slight though.
COMMENT

David Owen, Economist at IHS Markit said:

“A rise in the Aluminium Users PMI to 49.4 may suggest that the decline began to soften already in March. However, this figure should be taken in the context of lagging regional trends in the response to COVID-19. The outbreak has only begun to hit the US and Europe in the latest month, with both suffering greatly from falls in both production and new orders. Meanwhile, Asia data signalled a slight recovery as its PMI rebounded back above 50.0 and thus greatly boosted overall figures. That said, this represented the change since February, which saw the greatest one-month downturn since the financial crisis. Thus, Asian aluminium users remain in a weak position.

“Businesses also faced another steep increase in delivery times in March, which is likely to hurt production in the months ahead as countries remain in lockdown. With the US/China trade war pausing in January, firms were relatively hopeful of a recovery in 2020, but it is increasingly looking like the sector will suffer an even starker downturn this year.”