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IHS MARKIT GLOBAL ALUMINIUM USERS PMI™

Operating conditions slip back into decline in July

KEY FINDINGS

Solid fall in new orders...

... leads to renewed output contraction

Selling prices rise only marginally

After a brief settled period in June, PMI data for July showed operating conditions deteriorating again at global aluminium users. New orders were down as trade conflicts intensified, leading to a fall in production and input purchases, although job numbers grew slightly. Input costs rose at a softer pace, while selling charges increased only marginally.

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 – fell from 50.0 in June to 48.6 in July, signalling that the global aluminium-using industry slipped back into decline in the latest survey period. This marked the strongest deterioration for five months, but was only modest overall.

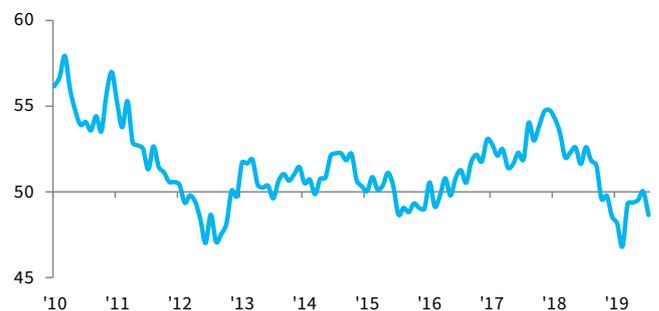
Aluminium users reduced output levels in July, the first time in three months, as notable momentum shifts were recorded in Asia and Europe. Asian users saw a slight drop in production after back-to-back monthly increases in May and June, while European manufacturers reported the sharpest fall in output for nearly seven years.

Demand

A clear factor leading to reduced output was a solid and accelerated fall in new orders at global aluminium users in July. The rate of decrease was the quickest since February, and partly reversed an easing in the downturn over the past few months.

Global Aluminium Users PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Lower demand was recorded in Asia and Europe over the month. Panellists in the former region often linked this to a fall in new export orders, as a result of both US-China and Japan-Korea trade tensions. The latter also noted lower foreign demand while continuing to mention weakness in the automotive industry.

By comparison, new orders received by US aluminium users increased, with the rate of growth quickening for the third month running.

Capacity

Despite the demand slowdown, employment in the global aluminium-using industry improved for the first time since last August, albeit marginally. This was partly linked to the upturn in output during June. Input buying decreased, however, and at the strongest rate in five months. Stocks of both pre- and post-production goods also fell.

Prices

Output price inflation remained soft in July, unchanged from June, as weaker mark-ups at Asian and European firms were countered by a larger increase among US companies. Overall cost burdens meanwhile rose at a slower rate. Respondents noted that higher raw material prices, greater labour costs and weaker currencies, particularly in Europe, were key inflationary factors.

COMMENT

David Owen, Economist at IHS Markit said:

"July saw business conditions among global aluminium-using firms slip back into contraction, as production levels fell for the first time since April. Export sales notably dropped at a solid rate that was the fastest recorded since November 2015, which contributed to a sharper decline in total new orders.

"It was mainly Asian aluminium users who saw a reversal in fortunes. Higher tariffs from the US on Chinese goods in May appeared to catch up to manufacturers, as export sales fell at the sharpest pace this year so far. Some firms also noted an impact from growing Japan-South Korea tensions on demand.

"As such, the announcement from President Trump last week of further tariffs on China will likely hamper aluminium users towards the end of the year. The new tariffs will be implemented from September, with retaliatory measures from China likely. This may place further downward pressure on the Aluminium Users PMI in the final quarter."

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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. To learn more go to ihsmarkit.com/products/pmi.html.