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IHS MARKIT GLOBAL STEEL USERS PMI™

PMI signals mild deterioration in operating conditions

KEY FINDINGS

Output falls fractionally...

...as new orders decline at weakest rate in six months

Selling charges reduced again

May survey data signalled another slight deterioration in manufacturing conditions among global steel users. Production levels dropped marginally amid a further fall in demand. Firms responded by discounting their selling charges for the second month running.

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 – increased from 49.3 in April to 49.5 in May, indicating a marginal deterioration in operating conditions.

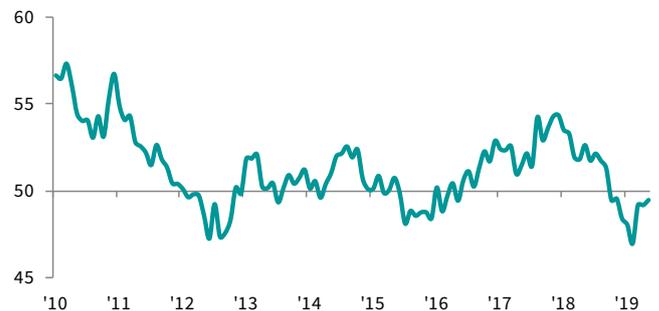
Output across the global steel-using industry contracted only fractionally in May. The seasonally adjusted index ticked up to its highest in the current eight-month run of decline, as Asian users notably sustained activity levels recorded in April. Also, US users reported a renewed increase in output, alongside faster sales growth.

Concurrently, latest data showed that the downturn at European steel users deepened. The drop in output was solid and the quickest since December 2012.

Demand

New orders for goods from steel-using companies fell slightly in May, recording the slowest decline in six months. This was partly due to a softer drop in foreign sales.

Global Steel Users PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Regional data showed that the easing was driven by a weaker fall in demand among Asian users. Additionally, US users reported a modest increase in new orders that was faster than that seen in April.

By comparison, European users saw the sharpest fall in new orders for almost seven years in May. Panellists often linked this to weak domestic economies, Brexit-related de-stocking and continued disruption in the automotive industry.

Capacity

Employment at global steel users decreased in May, with the rate of contraction unchanged from the previous month amid extended demand weakness. Nevertheless, firms were able to reduce backlogs, albeit marginally.

Meanwhile, producers extended the period of weaker input buying in May, marking the sixth consecutive monthly fall in purchases. The decline was the fastest since February, and precipitated another reduction of stocks.

Prices

Input price inflation remained cool, dipping to the softest in five months amid reports of lower metal prices. This allowed global steel users to reduce their selling charges again, albeit at only a fractional rate. The fall was concentrated at Asian users, while European users reported the weakest inflation in 31 months.

COMMENT

David Owen, Economist at IHS Markit said:

"Steel users reported only a slight deterioration in operating conditions in May, helped by softer declines in output and new orders. Regional data highlighted that production levels were broadly sustained at Asian users in May, while US users saw renewed output growth.

"By contrast, the downturn among steel users in Europe deepened, with the output and new orders sub-indices dropping to over six-year lows. Firms still cited weakness in the automotive industry which fed through into the wider economy. Some panellists noted that customers were de-stocking after the delay to Brexit, leading to fewer new orders.

"Prices were impacted again, as global steel users reduced their output charges for the second consecutive month. Profit margins should remain stable though, as soft demand and new trade fears led to lower steel prices, reducing overall input cost inflation.

"Whilst the slowdown has eased in recent months, the recently announced tariff hikes are likely to hinder business sentiment and possibly fuel further declines in demand. Future data releases will reveal how businesses progress throughout the year."

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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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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.