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IHS MARKIT GLOBAL STEEL USERS PMI™

Solid rise in new orders drives expansion in October

KEY FINDINGS

New order growth strengthens

Output rises at fastest rate in 15 months

Input costs increase only fractionally

For the first time in over a year in October, global steel users reported an improvement in operating conditions, driven by a solid increase in new orders that was mainly felt by Asian businesses. Output rose at an accelerated pace and input buying grew marginally, but job numbers continued to decline. Selling prices increased only slightly, as cost inflation cooled to its softest in over three-and-a-half years.

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 – posted at 51.5 in October, rising above the 50.0 no-change mark for the first time since September 2018 to signal a moderate improvement in operating conditions.

Growth was centred on Asian steel users, where the rate of improvement strengthened to a 22-month high. On the other hand, US users saw a fourth successive monthly deterioration in operating conditions, while European firms observed the sharpest decline in over ten years.

Demand

Ending a 12-month sequence of contraction, the volume of new orders at global steel users increased solidly during October. Again, this was concentrated on Asian companies, and related to stronger market demand.

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



Source: IHS Markit.

Whilst global new orders rose, work received from foreign clients continued to decrease. That said, the rate of decline was the weakest since June.

Capacity

Steel users responded to the uplift in sales with a solid increase in production, one that was markedly faster than in September and the quickest seen for 15 months. Despite this, employment levels decreased marginally, as a number of panellists were unable to replace voluntary leavers. Backlogs thus rose for the first time in 13 months.

Purchasing activity rose at the quickest pace since August 2018, although the rate of growth was still subdued overall. Due to a sharper increase in production, stocks of inputs fell for the second month running.

Prices

Selling prices rose during October, although the rate of inflation remained marginal. Mark-ups at Asian and US steel users came as European users kept charges unchanged in a bid to boost demand.

Firms also enjoyed an easing of input cost inflation, which dropped to a fractional pace that was the least marked in the current 44-month sequence. This was mainly linked to a weakening of steel prices, which counteracted rises for other raw materials.

COMMENT

David Owen, Economist at IHS Markit said:

"Steel-using manufacturers worldwide awaiting a recovery in the market were rewarded in October, as the Global Steel Users PMI moved into expansion territory for the first time since September 2018. Output increased for the second month running, and at a notably steeper rate as new orders grew solidly. New export orders continued to decline, however, as has now been the case for the past year-and-a-half.

"The rebound was not widespread, instead centred on Asian industry, particularly China which accounts for a large proportion of global steel consumption. Policies designed to give the domestic manufacturing sector a boost have paid off, with companies reporting a sharp increase in production levels. Meanwhile, US and European steel users continued to report deteriorating operating conditions. It remains to be seen whether the upturn in Asia can lead to a recovery in other markets, especially amid a weak trading environment."

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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.