Copper users see mild growth in July

KEY FINDINGS

- PMI above 50.0 amid growth in output and new orders
- Demand increases for first time since October 2019
- Lead times lengthen solidly as vendors struggle to improve capacity

Business conditions at global copper users improved for the first time in eight months in July, latest PMI data showed. Firms raised production solidly as countries eased coronavirus restrictions further, while demand picked up slightly since June.

The seasonally adjusted Global Copper Users Purchasing Managers Index™ (PMI) – a composite indicator designed to give an accurate overview of operating conditions at manufacturers identified as heavy users of copper – rose from 49.0 in June to 50.7 in July, signalling the first improvement in the health of the global copper-using industry since November 2019.

The expansion was supported by rises in both output and new orders at the start of the third quarter, as firms made steps to increase capacity as lockdown measures were eased further. Production levels grew at the strongest pace in nearly two years, with copper users in Europe registering the fastest increase of all three monitored regions.

Demand

New business levels rose only marginally in July, but nonetheless marked the first upturn for nine months. European and US copper users saw higher demand, whereas Asian users reported an eighth successive decline. Of the firms indicating an increase, many commented that customer confidence had improved as restrictions were loosened.

New orders from overseas continued to fall, although the latest drop was the softest seen this year so far. Panellists highlighted that demand from a number of foreign markets remained weak.

Capacity

Higher sales at copper-using companies led to a slight rise in work outstanding during July. This led some firms to hire new workers, however workforces continued to be reduced overall as several respondents cited efforts to cut costs.

At the same time, purchases of inputs rose for the first time in over a year, although the rate of growth was marginal. Stocks of inputs fell further, but at a slower pace than in June.

Delivery times continued to lengthen in July, with the rate of deterioration little-changed from June. Some panellists mentioned that suppliers struggled to accommodate higher input demand. A shortage of raw materials was also noted.

Prices

Input prices increased sharply in July amid a rise in freight costs. The rate of inflation was the sharpest seen for 21 months. As a result, output charges rose for the first time since February.
Comment

David Owen, Economist at IHS Markit said:

“Copper-using firms reported the first increase in production levels since the start of the COVID-19 crisis in July, as demand levels tentatively improved and consumer confidence strengthened. Increases in output were seen across all three key regions, although Asian users still saw a fall in new business.

“Export demand is yet to improve, although the rate of decline did slow for the third consecutive month. As more countries ease back restrictions, firms could see a pick-up in foreign new orders.

“The rise in sales led copper users to purchase more inputs. However, this placed some pressure on suppliers as vendor capacity remained low, leading to a further lengthening of delivery times. Some firms also struggled to acquire the necessary inputs, signalling that the pandemic is still hurting global supply chains. With freight costs consequently rising, input costs increased at the fastest pace in 21 months, leading some firms to raise output charges.”

Methodology

The Global Copper Users PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in manufacturers identified as heavy users of copper. 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 copper 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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