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IHS MARKIT GLOBAL STEEL USERS PMI™

PMI down to five-month low

KEY FINDINGS

Production rises, but only marginally

New orders fall at fastest rate for five months

Job numbers drop at quickest pace since August 2016

Business conditions at global steel users continued to deteriorate in January, latest PMI™ survey data revealed, led by a further reduction in new orders and falling job numbers. Production levels rose for the fifth month running, though only marginally, alongside a renewed cut to input purchases. Higher raw material prices meanwhile encouraged a modest rise in output charges.

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 – edged down slightly from 49.7 in December to 49.6 in January, pointing to a second successive deterioration in the health of the global steel-using industry. The index fell to its lowest for five months, and signalled a marginal rate of decline.

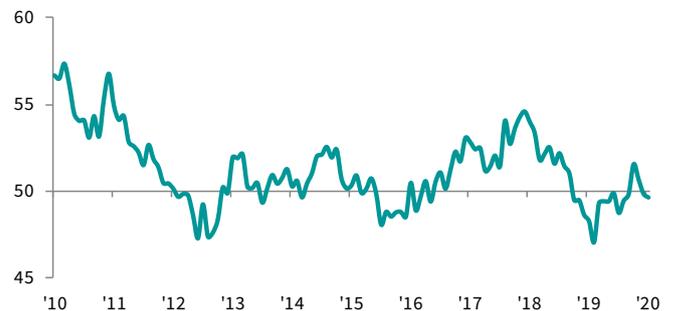
On the positive side, production at global steel users expanded for the fifth month running in January, although the rate of growth slowed to a subdued pace overall. Asian steel users reported a weaker rise in output since December, whereas US users saw a slight improvement. Notably, European manufacturers using steel registered the softest downturn for nine months.

Demand

The slowdown in output growth came amid a further drop in new orders at global users of steel in January. Moreover, the rate of decline quickened slightly from December to the

Global Steel Users PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

sharpest for five months. Respondents linked the fall in new business to lower customer demand.

Export sales also remained weak in January, with total new orders from abroad falling for the twenty-first month in a row and at a faster pace. Asian users notably saw the first drop in export volumes since September 2019.

Capacity

The decline in job numbers gathered pace at the start of the year, with firms relating this to lower new orders. In fact, the rate of contraction was the quickest since August 2016. Nevertheless, steel users lowered backlogs at a modest pace in January.

There was also a renewed, albeit slight, fall in input buying at global steel manufacturers. Meanwhile, stocks of both purchases and finished goods continued to tighten.

Prices

The rate of input price inflation accelerated to a solid pace in the first month of the year, as firms saw a stronger rise in raw material prices, including steel. As a result, output charges increased for the second consecutive month, with the modest uplift being the quickest since October 2018..

COMMENT

David Owen, Economist at IHS Markit said:

"Steel users started the new year with another slight decline in operating conditions, according to the Global Steel Users PMI. The headline index fell from 49.7 in December to 49.6 in January, with a slower rise in production and steeper reductions in new orders and employment contributing to the slight drop. Only a softer contraction in input stocks and renewed pressure on vendor lead times helped to balance out the downward pressure."

"Notably, Asia's steel-using industry, which constitutes a large proportion of global steel consumption, failed to grow for the first time in six months. This was partly due to a steep drop in new orders at Japanese manufacturers, observed each month since the rise in sales tax in October 2019, whilst slowing growth momentum at steel users in China appears to have compounded the issue."

"February data is likely to show further weakness in Asia as the toll from the coronavirus outbreak is fully realised. With China being a key location for many supply chains, including the steel-using industry, a marked drop in production may reverberate worldwide in the coming months."

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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.