

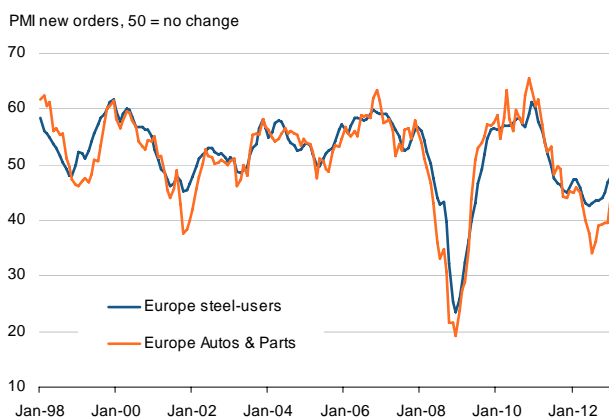
EU auto sector and metals

Using PMI data to analyse auto industry metal demand

- **Downturn in orders at autos producers remains sharper than average for steel using manufacturers**
- **New orders to inventory ratio acts as leading indicator of steel production**

PMI data from Markit can be used to gain an insight into the auto sector's demand for raw materials such as metals and its relative performance to other metal-intensive manufacturers. For example, January data signalled a welcome easing in the pace of decline of new orders received by the Automobiles & Parts sector in Europe to the slowest for almost a year. Nevertheless, the fall was steeper than that registered by steel-users generally across the region, continuing a trend that has been evident over the past 16 months. This ongoing, steeper-than-average, decline suggests the European car industry's demand for steel is likely to remain subdued for some time to come.

European factory order books trends: all steel-users v autos & parts producers



Source: Markit.

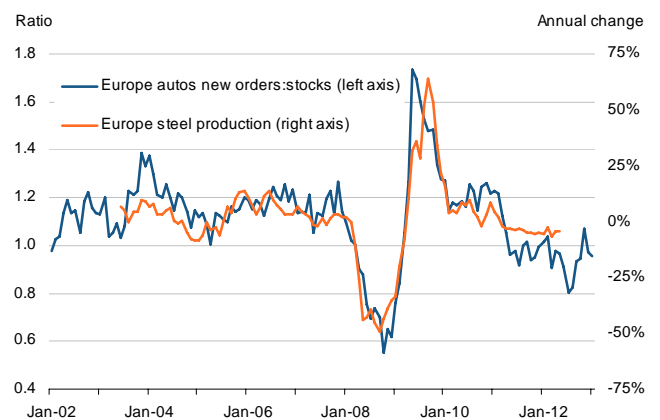
Looking at the relationship between autos producers' new orders and their stocks of purchases gives an indication of the likely demand for raw materials such as steel in coming months. The new orders:stocks ratio acts as a useful leading indicator of steel production; a combination of high new orders and low stocks of purchases points to rising steel output in coming

months; conversely, a combination of low new orders and high stocks suggests a weakening trend.

With a seven-month lead applied to the derived PMI series, the correlation of the PMI orders:inventory ratio with European steel production as measured by MEPS is 0.88.

The ratio currently suggests that production will continue to fall in year-on-year terms until at least mid-2013. However, the current trajectory of the new orders index suggests that, if sustained, the EU autos industry could see demand start to rise again by the spring.

EU Autos PMI New Orders to Stocks of Purchases Ratio (with 7-month lead) v Europe steel production



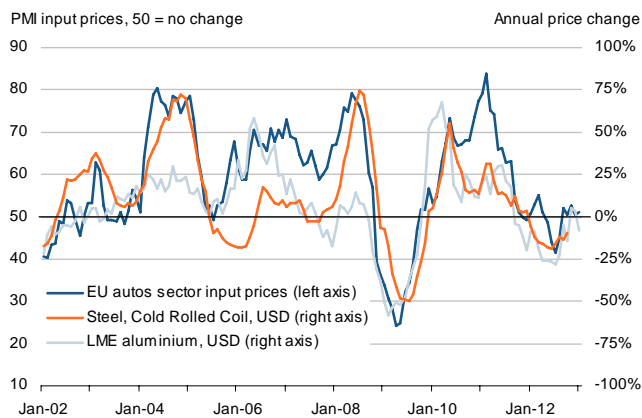
Sources: Markit, World Steel Association via EcoWin.

Input prices and cost of metals

Autos producers' input prices are sensitive to changes in the cost of key metals such as steel and aluminium. The EU Automobiles & Parts input prices series is plotted in the chart overleaf against the annual change in steel and aluminium prices, and shows that spikes in autos producers' costs have frequently coincided with increases in the price of at least one of these metals.

EU auto sector input prices v steel & aluminium prices

For further information on PMI data, please contact economics@markit.com.



Sources: Markit; MEPS and LME via EcoWin.

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