

Nikkei South Korea Manufacturing PMI[®]

Manufacturing output falls further in August

Key points:

- Business conditions fail to improve for sixth month in a row
- New orders and employment rise at fractional rates
- Output price inflation eases amid rising competition

Data collected August 13th – 22nd

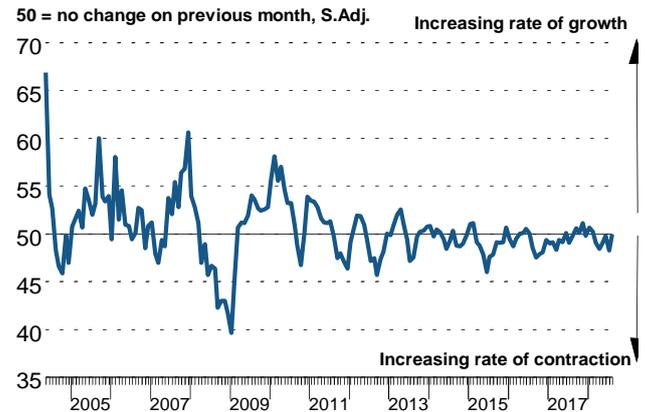
Business conditions worsened to a fractional extent in the South Korean goods-producing sector at the mid-way point of the third quarter. Although output declined, new orders increased, albeit only marginally. Input costs continued to increase markedly, however rising competitive pressures reduced the extent to which firms could pass higher expenses onto their clients. Looking ahead, output expectations were positive overall, however the degree of confidence eased to an 11-month low.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – increased to 49.9 in August from 48.3 in July, indicating another month of deteriorating manufacturing sector business conditions. That said, with the headline figure only just below the 50.0 no-change threshold, the rate of contraction was only fractional. Operating conditions have failed to improve in each of the past six survey periods.

South Korean manufacturers reduced output in August. Poor staff availability and unusually hot weather were cited as factors behind the decrease. That said, the pace of decline was only marginal and eased noticeably from July.

The fall in production came despite the first, albeit only mild, rise in new orders for six months. Panellists mentioned that new product launches had supported an improvement in demand. On the other hand, export sales declined during August. According to anecdotal evidence, firms were struggling to attract new international clients amid softer growth in key foreign markets. Nonetheless,

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Sources: Nikkei, IHS Markit

capacity pressures were apparent, with backlogs of work increasing for the first time since January. The rate of accumulation was only mild, however.

Despite the current weakness in the demand environment, panellists were optimistic that output would rise over the coming year and would be supported by new stronger sales growth. That said, the degree of optimism weakened to the lowest since last September.

Survey data highlighted that firms faced a further month of rising margin pressures. Adverse exchange rate movements in addition to higher raw material and labour costs contributed to strong input price inflation in August. Companies responded by increasing output prices, however the rate of increase was only marginal and eased to a one-year low. Panellists indicated that increased competition had encouraged some price discounting.

Some survey respondents also noted that employment was reduced due to rising staff costs. On the other hand, some firms added to their payrolls to assist with new product launches. Overall, however, workforce numbers were broadly unchanged since July.

Meanwhile, South Korean goods producers cut both stocks of inputs and finished goods, and also reduced their purchasing of inputs in the latest

survey period. According to anecdotal evidence, uncertainty towards the immediate outlook for demand prompted the adjustment to inventories.

Comment:

Commenting on the South Korean Manufacturing PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

“For a sixth straight month, survey data has failed to signal an expansion in South Korea’s manufacturing sector. That said, the rate of decline was only fractional in August. New business rose for the first time since February, but output continued to retract.

“Notably, export orders fell at the sharpest pace in four months, with panellists reporting difficulties in acquiring new customers due to increasing global economic uncertainty. This comes despite weakness in the won.

“There was also evidence that increasing competition had restricted the extent to which firms could pass on higher cost burdens to their clients. Selling prices were raised only marginally in August. As such, inventories were reduced as part of efforts to reduce costs and protect profit margins.”

-Ends-

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Notes to Editors:

The Nikkei South Korea Manufacturing *PMI*® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size, based on the industry contribution to GDP. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, and Transport. Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei South Korea Manufacturing *PMI*® is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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