South Korea's manufacturing downturn worsened at the start of the second quarter, according to the latest PMI survey. Production volumes fell at the fastest rate since January 2009, with the decline outpacing that seen in March, as factory shutdowns both domestically and abroad led to a sharp drop in demand. Employment fell further as companies restructured to reduce costs.

To the supply side, there was evidence of dislocations intensifying as delivery times lengthened to the greatest extent in almost 16 years. Elsewhere, firms continued to run down their stocks, while output prices were discounted in an effort to drive sales.

The South Korea Manufacturing Purchasing Managers Index (PMI®) fell to 41.6 in April, from 44.2 in March, to signal a sharper deterioration in business conditions faced by goods producers. Overall, the headline index fell to a level not seen since the global financial crisis and was consistent with a sharp decline in the health of the manufacturing economy.

Latest survey data continued to highlight the negative economic impact from the global coronavirus disease 2019 (COVID-19) pandemic. New orders placed with South Korean manufacturers fell substantially as a result of factory closures both domestically and overseas. Total intakes of new work fell at the strongest pace since January 2009.

The impact on new export business was also severe, according to the latest data. New orders from abroad fell at the sharpest rate recorded in 16 years of data collection. A number of panel members suggested that shutdowns in Europe and North America had severely impacted demand for automobile-related products. Firms also mentioned difficulty in shipping items to parts of Asia such as Japan, Taiwan and India.

Production suspensions also led to further issues on the supply-
side in April. Input delivery times lengthened to the sharpest extent in almost 16 years as factory closures across the supply chain, transport restrictions and logistic problems with air freight prevented the timely delivery of inputs.

Purchases and stocks of raw materials and semi-finished items fell when compared to the previous month. Lower operating requirements led firms to cut input buying and inventories. However, despite lower demand for inputs, costs increased amid reports of shortages, lower competition between vendors and unfavourable exchange rate movements. Nevertheless, output charges were reduced.

In a bid to cut costs, manufacturers downsized their workforces during April. According to anecdotal evidence, a number of firms restructured, while others opted to freeze hiring and not replace voluntary leavers. Overall, the rate of job shedding was the joint-strongest on record, equal with November 2005.

Looking ahead, businesses took an even more pessimistic view than in March. The outlook sank to its most negative since the series began in 2012. A number of firms were uncertain over when the global economy would begin to recover. Approximately 42% of firms expect output to fall over the next 12 months, compared to 24% foreseeing growth.

Contact

Joe Hayes
Economist
IHS Markit
T: +44 1491 461 006
joseph.hayes@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

Methodology

The IHS Markit South Korea Manufacturing PMI® is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

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.

April 2020 data were collected 7-22 April 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information (“data”) contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers’ Index® and PMI® are either registered trade marks of Market Economics Limited or licensed to Market Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.