News Release

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IHS Markit
South Korea Manufacturing PMI®

Manufacturing downturn deepens in April

Key findings

Production falls at fastest rate since January 2009

Export demand plummets amid lockdowns in key foreign markets

Reduced operating rates at suppliers lead to further input shortages

Data were collected 7-22 April 2020.

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 IndexTM (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-

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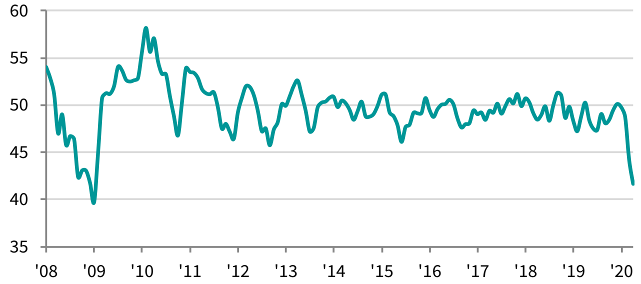
South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Joe Hayes, Economist at IHS Markit, said:

"South Korea's export-driven economy suffered immensely during April. We're seeing manufacturing production falling at the strongest rate since the global financial crisis.

"This doesn't come as any surprise, the key reason behind this is plummeting global demand and this was to be expected given the drastic measures taken so far around the world to stem the COVID-19 pandemic. Particular sectors look more vulnerable than others, however. Panel member reports suggest that automobile-related industries are being hit particularly hard by shutdowns overseas such as in North America and Europe, while severe supply chain dislocations mean that factories that do stay open are operating below capacity.

"Although China, South Korea's biggest export market, appears to be slowly re-opening for business, it's clear this will be far from sufficient to offset the severe weakness elsewhere. It's certainly going to be a challenge for South Korean policymakers to prop up an economy that's so reliant on global trade."

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.

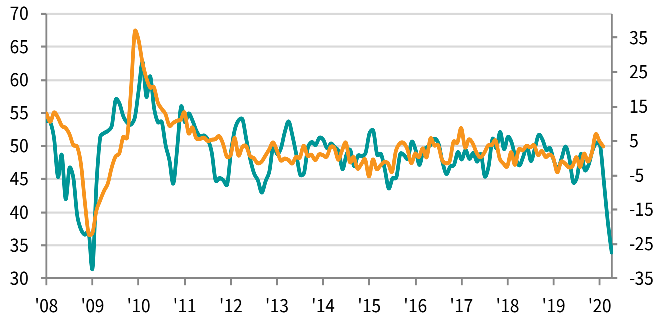
However, despite lower demand for inputs, costs increased amid reports of shortages, lower competition between vendors and unfavourable exchange rate movements. Nevertheless, output charges were reduced.

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.

PMI Output Index
sa, >50 = growth since previous month

Manufacturing production
%3m/3m



Sources: IHS Markit, KOSTAT.

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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.

About PMI

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.
ihsmarkit.com/products/pmi.html.