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IHS Markit South Korea Manufacturing PMI®

Manufacturing sector deteriorates at faster pace in September

Key findings

Challenging conditions persist, prompting output cutbacks

Employment reduced at sharper rate amid subdued outlook

Export orders stabilise, but domestic demand pulls sales lower

The business environment in South Korea's manufacturing economy remained challenging in September as weaker demand and a subdued outlook prompted production and employment cutbacks. Latest survey data signalled a focus to reduce operating costs, with purchasing activity and inventory levels falling. In order to stimulate sales, output charges were discounted for the ninth time in the past ten months.

The South Korea Manufacturing Purchasing Managers' Index™ (PMI®) recorded below 50.0 for a fifth month running in September, signalling further contraction in the manufacturing economy. At 48.0, the headline index was lower than in August (49.0) and indicative of a modest deterioration in the business environment.

With the exception of April's fractional improvement, South Korean goods producers have signalled weaker economic health in every month since November 2018.

While latest survey data showed a stabilisation in export order volumes, the overall demand picture remained negative, as total new sales declined for the eleventh month in succession. The decrease was faster than in August, but less intense than the average seen across the current sequence of contraction. Panellists attributed weak demand to tough conditions within the domestic economy. Furthermore, there were mentions of falling sales to clients in Europe, Japan and China, but the entrance into new foreign markets helped offset this, according to anecdotal evidence.

Sluggishness within the domestic economy was a key contributing factor behind another month-on-month decline in production at South Korean manufacturers in September. There were also particular mentions of lower output at automobiles and electronics goods producers. Overall, the contraction

continued...

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 manufacturing economy remained under pressure at the end of the third quarter, reflecting challenging conditions both at home and externally. Notably, the stabilisation in export demand did not coincide with any improvement in the total new orders index, which fell further, indicating that external weakness has started to spill over into domestic markets.

"Forward-looking indicators such as employment and business confidence, the only measure of sentiment within the PMI survey, both showed little hope for a recovery to ensue any time soon. Jobs were cut at the fastest rate in nearly one-and-a-half years, while expectations of a slowing Korean economy held the outlook down at a subdued level.

"Overall, latest survey data suggest that if spillover effects from the global growth slowdown are manifesting themselves in the domestic economy, the Bank of Korea may soon have to follow the current global trend of looser monetary policy."

was solid and extended the downturn which commenced in November 2018.

Challenging conditions domestically and expectations of a continuation in the global trade slowdown held business confidence down at a subdued level in September. This was despite the Future Output Index rising for a second month running and coming further up from July's record low.

With current output levels declining and expectations subdued, firms looked to trim costs during the latest survey period. Employment at South Korean manufacturers declined at the fastest rate since May 2018 as the rate of job shedding accelerated since August.

Businesses were also able to simultaneously reduce inventories and clear backlogs of work, with anecdotal evidence indicating that existing stocks of finished goods were used to meet orders pending shipment. Furthermore, buying activity was trimmed amid weaker inflows of new work. Subsequently, stocks of purchases fell.

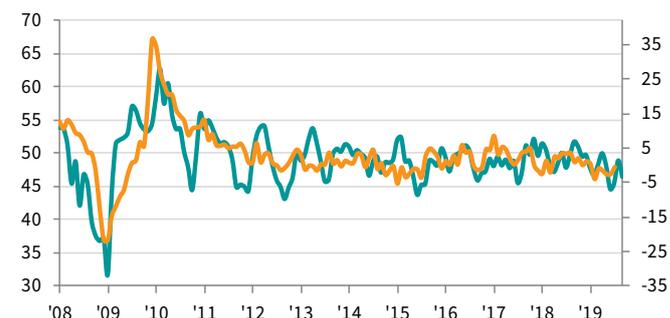
Lastly, prices data pointed to diverging trends, as output charges were cut despite rising input costs. Imported materials rose in price as a result of weakness in the won, according to firms. That said, the rate of inflation was mild overall and softer than the historical trend. Output charges were cut as part of efforts to stimulate demand.

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.

September 2019 data were collected 12-20 September 2019.

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.