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IHS Markit South Korea Manufacturing PMI®

PMI rises to seven-month high as downturn loses strength

Key findings

New product launches alleviate manufacturing downturn

New orders fall, but to weaker extent than earlier in the year

Employment and prices cut as business outlook remains murky

According to November survey data, there were signs that the manufacturing downturn in South Korea lost further steam as the headline PMI rose to a seven-month high on the back of weaker reductions in output and employment. Furthermore, although new orders remained in decline, the drop was relatively soft compared to the average seen across the first three quarters of the year.

Meanwhile, output prices were reduced and business sentiment slipped to near-neutrality. Although renewed growth in purchasing activity was recorded, stocks were depleted.

The South Korea Manufacturing Purchasing Managers' Index™ (PMI®) rose to 49.4 in November, from 48.4 in October, its highest mark since April and indicative of a weaker deterioration in business conditions faced by South Korean goods producers. Furthermore, the headline PMI has now risen in successive months for only the second time this year, tentatively hinting at improvements in some areas of the manufacturing economy.

A principal factor leading to the rise in the headline index was output. Although production volumes were lower than in October, the reduction was the weakest since April as a number of panellists, particularly in automotive and electronic sectors, as well as along related supply chains, noted that new product launches had helped to partially offset demand-driven challenges.

Another month-on-month decrease in new business was registered by South Korean manufacturers in November. Although the fall was slightly stronger than in October, it was weak in relation to the average rate of decline seen during the first three quarters of 2019. There were, as was the case with output, mentions that new product launches had helped to soften the overall deterioration in demand.

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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:

"Latest Manufacturing PMI data for South Korea showed reason to be a bit more optimistic for goods producers, with new product launches in the automotive and electronics sectors providing a lift to output volumes at these firms and those in related supply chains. This helped ameliorate some of the domestic and external headwinds in November that have hindered the sector in the year-to-date.

"Furthermore, although new orders continued to drop, declines in October and November were notably softer than seen over the first three quarters of the year. Encouragingly, survey data has also so far shown little detrimental impact of the breakdown in relations between Japan and South Korea.

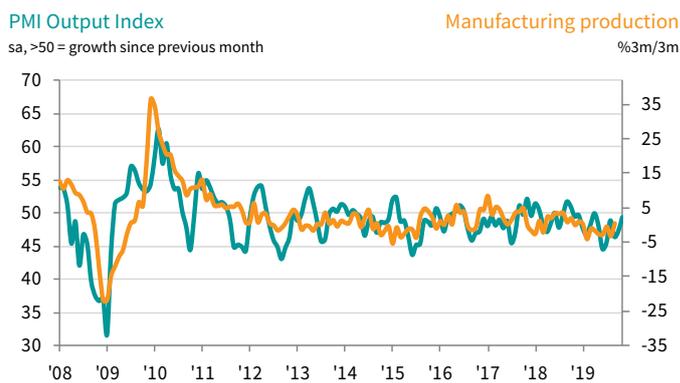
"Overall, the PMIs for October and November suggest that firms are starting to build momentum as we head into 2020."

There was little contribution from external markets in November, with survey data pointing to broadly unchanged volumes of new export orders. While some panellists recorded growth amid improved sales to China, Vietnam and the American continents, declines were seen in Japanese, Indian and Hong Kong markets.

The continued drop in sales, as well as cost-cutting measures, voluntary resignations and difficulties in finding suitably-skilled staff led employment in South Korea's manufacturing sector to fall for the seventh month running in November. However, the rate of job shedding was only marginal and the weakest seen across the current sequence of contraction. Continued job losses coincided with the first rise in backlogs of work since August 2018.

Meanwhile on the price front, selling charges were discounted for a third month in a row as firms sought to stimulate sales and boost competitiveness. This was despite unfavourable exchange rate variation leading to a faster rise in operating costs.

Finally, there was a notable change with regard to the business outlook over the next 12 months, with sentiment falling to near-neutral territory amid negative expectations towards domestic and external economic conditions.



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.

November 2019 data were collected 12-21 November 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.