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IHS Markit South Korea Manufacturing PMI®

Growth in manufacturing sector softens further in August

Key findings

Renewed reduction in production levels

New order growth eases to ten-month low

Business confidence strengthens

Data were collected 12-20 August 2021.

South Korean manufacturing firms saw growth momentum in business conditions ease again during August. While firms noted that incoming business continued to rise, there was a renewed contraction in output levels, the first in a year. Firms often attributed this to rising COVID-19 cases across South Korea and in key external markets, though manufacturers noted that sustained supply chain disruption and material shortages, particularly for semiconductors, had dampened demand across the sector. That said, businesses displayed stronger confidence regarding their outlook for activity over the coming 12 months.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) dipped from 53.0 in July to 51.2 in August, signalling a more modest improvement in the health of the manufacturing sector. The latest increase extended the current sequence of expansion to 11 months, though the rate of growth was the softest since October 2020.

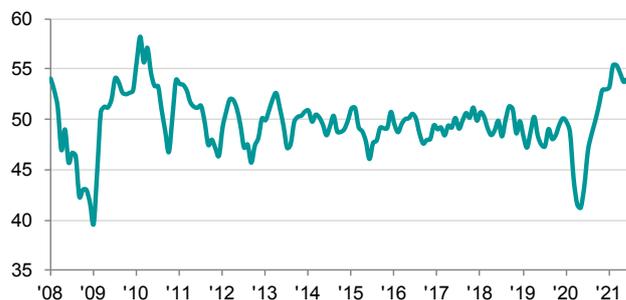
Surging infections and material shortages contributed to the first reduction in production levels at South Korean manufacturers since August 2020 in the latest survey period. That said, the pace of contraction was only marginal.

New orders among South Korean manufacturers rose further in August. That said, the overall pace of expansion eased to the softest for ten months. Respondents linked higher sales to improved client demand, though confidence was dampened by the surge in virus infections. Likewise, growth of foreign demand for South Korean manufactured goods eased to a marginal pace midway through the third quarter, with firms citing that higher demand in key export markets such as the US and Japan had been partially offset by rising COVID-19 cases and sustained shortages of raw materials, especially in the Asia-Pacific region.

South Korean goods producers also noted a further rise in employment levels in August, as businesses took on additional staff to prepare for incoming orders. However, the rate of job

continued...

South Korea Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Usamah Bhatti, Economist at IHS Markit, said:

"August data marked a significantly softer improvement in the health of the South Korean manufacturing sector, as the latest Manufacturing PMI painted a different picture to the previous quarter. A renewed rise in virus infections and severe, sustained supply chain disruptions, notably in the key semiconductor market dampened operating conditions midway through the third quarter of 2021.

"As a result, South Korean firms recorded a contraction in output levels for the first time in 12 months in August. Positively, new order inflows continued to rise, however the pace of growth eased to the softest since October 2020. External demand also rose at a softer pace, as demand from key export markets like the US and Japan was partially offset by rising case numbers across the wider Asia-Pacific region.

"Firms commonly noted that global shortages of raw materials and freight capacity, notably in the semiconductor market had led to weaker readings across the majority of indices, yet businesses remained confident that this would pass, and activity would rise over the next 12 months. South Korean manufacturers commented that this recovery would be aided by the dissipation of the pandemic, which would help to reduce supply chain bottlenecks. IHS Markit currently estimates that industrial production will rise by 6.1% in 2021."

creation was only fractional, and was partially offset by the non-replacement of voluntary leavers as firms looked to reduce costs. Indications of pressure on capacity also rose, as backlogs of work increased for the tenth month in a row, though firms highlighted that some pressure stemmed from the instability of raw material supply.

Manufacturers noted a softer expansion in purchasing activity in August, which pushed the respective seasonally adjusted index to the lowest reading for 11 months. Firms associated additional purchases to incoming new orders as well as protection against supply chain disruption, as supplier delivery times lengthened sharply once again. As a result, firms were prone to drawing down existing holdings of pre-production inventories and finished goods amid replenishment difficulties.

August data signalled further rises in average cost burdens at South Korean manufacturers. The pace of input cost inflation eased from July, yet remained sharp as firms noted widespread increases in raw material prices. The slightly softer rise in cost burdens contributed to a slowing of inflation of factory gate charges. However, this was from a record increase in the previous survey period.

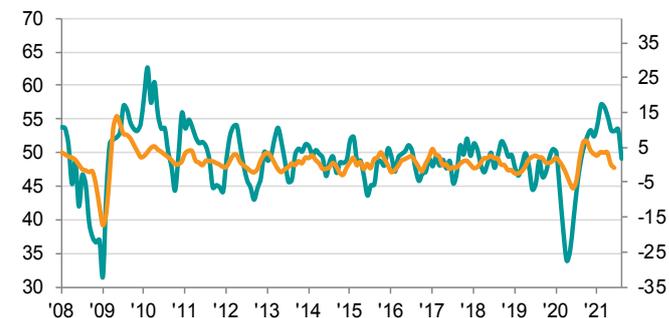
Looking ahead, business optimism rose as firms continued to forecast a rise in output over the coming 12 months. Manufacturers predicted that a wider economic recovery from the pandemic would also aid improvements in global supply chains.

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.

August 2021 data were collected 12-20 August 2021.

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.
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