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IHS Markit South Korea Manufacturing PMI®

Manufacturing PMI at highest since February 2011

Key findings

Output increases at fastest pace in a decade

Purchasing activity rises at quickest rate since April 2010

Sentiment at highest level since April 2014

Data were collected 12-21 January 2021.

Businesses operating in the South Korean manufacturing sector indicated a further improvement in operating conditions at the start of the new year, with output rising at the fastest pace since February 2011 in January. In order to keep pace with stronger output and rising demand, firms increased buying activity at the fastest rate in nearly 11 years. As a result, South Korean manufacturers signalled strong optimism in their outlook for activity over the coming 12 months, with business expectations rising to their highest since April 2014.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) rose to 53.2 in January from 52.9 in December, marking the strongest improvement in the health of the manufacturing sector since February 2011. The pace of expansion was solid overall, and highlighted the sustained recovery of the South Korean manufacturing economy following disruption caused by the coronavirus disease 2019 (COVID-19) pandemic throughout much of 2020.

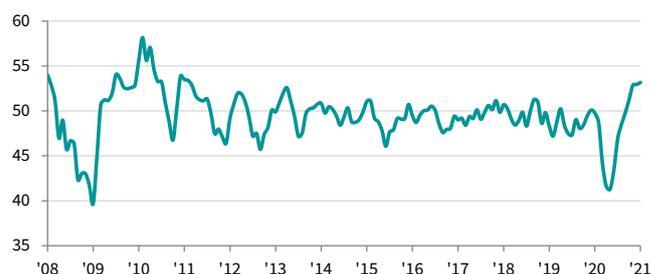
January data pointed to a solid increase in manufacturing output, and one that was quicker than that seen in December. As a result, production levels rose at their fastest pace since February 2011. Firms commonly associated higher output with increased orders from both domestic and foreign clients, notably in key industries including automobiles and technology.

Complementing the rise in output, South Korean manufacturers signalled an expansion in new business for the fourth consecutive month in January. Despite slowing for the second month running, the rate of growth remained solid overall. Panel members often commented that new order inflows were bolstered by orders for new products along with anticipated further improvements in economic conditions. Moreover, stronger client demand extended to international clients, as new export orders also increased for the fourth month in a row.

On the other hand, a renewed reduction in employment levels weighed on the overall health of the South Korean manufacturing

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:

"South Korean manufacturers began 2021 in a similar vein to the way the previous year ended. The latest Manufacturing PMI indicated a sustained improvement in the health of the sector, with the strongest expansion in the manufacturing sector for close to a decade.

"The overall improvement at South Korean manufacturers was driven by solid growth in output - the strongest seen since February 2011, and the fifth rise in succession. Firms also reported that new business inflows from domestic and international clients continued to increase in January, albeit at a slower pace than December.

"In order to keep pace with strengthening production and demand, manufacturers reported a substantial increase in input purchasing activity, although this was also related to significant supply chain disruption leading to delays in receiving inputs.

"Manufacturers in South Korea continued to signal strong optimism for the year ahead, as the impacts of COVID-19 dissipate further, and demand for new products gathers momentum. IHS Markit currently forecasts industrial production to expand 2.4% in 2021."

sector. The rate of job shedding was modest overall, and reversed the slight improvement recorded in December. According to anecdotal evidence, the non-replacement of voluntary leavers was a key factor behind lower employment. That said, backlogs of work increased for the third month running, indicative of pressure on capacity as output and new orders continued to rise.

South Korean manufacturers highlighted a sharp rise in input buying in the latest survey period, resulting in the fastest rise in purchasing activity since April 2010. Stocks of purchases and semi-finished goods also increased marginally in January. Firms sometimes attributed the additional purchase and holding of inputs to increasing supply chain disruption. Average vendor performance deteriorated for the fifteenth month running. Moreover, suppliers' delivery times lengthened to the greatest extent since the peak of the pandemic in April.

Latest data pointed to an acceleration in input cost inflation faced by South Korean manufacturers. Input price pressures intensified in January, and rose at the steepest pace for three years. Manufacturers widely reported sharp rises in the cost of raw materials and logistics. Concurrently, output prices increased at the quickest pace since June 2018 as firms sought to pass higher costs on to clients.

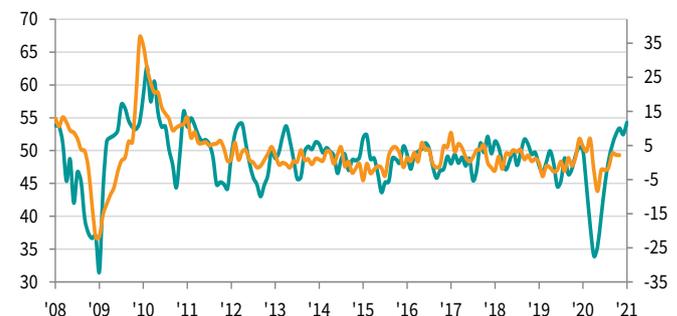
Looking ahead, manufacturers in South Korea were strongly optimistic regarding the outlook for activity over the coming 12 months, with 40% of respondents predicting an expansion in output. Businesses cited hopes that new orders would continue to gain momentum, leading to higher production.

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.

January 2021 data were collected 12-21 January 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. ihsmarkit.com/products/pmi.html