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# IHS Markit South Korea Manufacturing PMI®

## New export orders fall at fastest rate in nearly six years

### Key findings

Domestic and external demand remains fragile

Production cut for ninth successive month

Businesses cast negative outlook for first time in survey history

South Korea's manufacturing sector remained in a fragile condition at the start of the third quarter, according to latest PMI data. Weakness in domestic and external markets led clients to curb demand in July for the ninth successive month. Export orders were particularly weak, falling at the fastest rate since August 2013. The sustained soft patch led businesses to moderate their expectations, which turned negative for the first time since the survey began tracking business sentiment in 2012.

Input buying and stock volumes were also reduced, while firms cut their output prices, as firms expect the domestic and global economic environment to remain challenging.

The South Korea Manufacturing Purchasing Managers' Index™ (PMI®) recorded 47.3 in July (47.5 in June), signalling a marked deterioration by historical standards in the business environment in South Korea's goods-producing sector. In fact, the headline index was only fractionally higher than February's 44-month low.

Latest survey data indicated subdued demand conditions facing manufacturers in South Korea, both domestically and abroad. New export orders dropped at the sharpest rate in almost six years in July. Repercussions from the US-China trade dispute, as well as softer growth at trading partners such as North America, Europe, China and Japan were mentioned by firms. Overall new business inflows also declined, with weakness in the domestic economy reportedly limiting client appetite.

Firms responded to declining new orders by cutting output in July for the ninth successive month. The fall was strong and despite easing, was only slightly weaker than June's cutback, which was the fastest in four years. Concerns towards the state of the domestic economy was also reportedly a factor behind

*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:

"There was no respite for South Korean goods producers at the start of the third quarter, as latest PMI data signalled a deeper downturn in the manufacturing sector. The index was only fractionally above February's near four-year low.

"Demand conditions for South Korean goods remain unfavourable, and escalating tensions with Japan merely add further concern. New export orders shrank at the sharpest rate in almost six years, despite the roll-out of 5G which is expected to inject some life back into Korea's export-driven electronics industry. Weakness in North America, Europe, China and Japan were blamed on laggard foreign sales.

"Forward-looking survey data also paint a bleak picture. Employment, input purchasing and stock levels were all reduced as firms look to trim costs amid downbeat demand forecasts. Subsequently, the business outlook turned negative for the first time since sentiment was tracked in 2012, as firms anticipate trade frictions and a testing domestic economy to persist over the next 12 months."

the decrease in production.

Lacking volumes of new work led businesses to focus their resources on reducing outstanding business, which was depleted at the fastest pace since mid-2015. Existing stocks of finished goods were used to clear backlogs, according to panellists. Post-production inventories were scaled down in July for the sixth month running.

Looking ahead, firms anticipate current challenges to persist. The outlook turned negative in July for the first time since the Future Output Index was inceptioned in 2012. The recent escalation of tensions between Japan and South Korea weighed on sentiment, as well as forecasts of increased competition from China and global economic weakness.

Forward-looking indicators of the survey also depicted a negative picture. Purchasing activity and employment were both reduced in July amid reports of cost-cutting efforts. The fall in staffing numbers was the eighth in the past nine months. Meanwhile, input buying fell at the fastest rate in over four years.

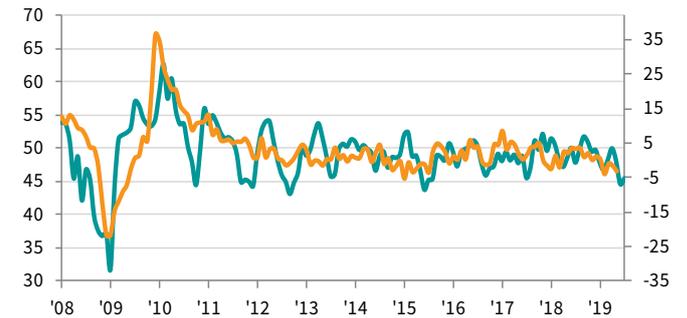
Elsewhere, output prices were reduced in July for an eighth successive month as firms continued efforts to stimulate sales. According to anecdotal evidence, some clients had requested price discounts. Lower charges came despite further increases in operating costs. That said, the rate of input price inflation was only marginal and the weakest in five months.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%3m/3m



Sources: IHS Markit, CSO.

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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.

July 2019 data were collected 12-23 July 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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](https://ihsmarkit.com/products/pmi.html).