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IHS Markit South Korea Manufacturing PMI®

Manufacturing PMI signals sustained expansion in March

Key findings

Sustained, but softer rises in output and new orders

Employment levels rise at fastest pace since May 2013

Survey-record increase in output prices amid supply-chain issues

Data were collected 12-23 March 2021.

Firms operating in the South Korean manufacturing sector indicated a sustained improvement in operating conditions in March. Both output and new order volumes continued to expand at a strong pace, despite softening slightly from the previous survey period. The additional pressure on capacity meant that firms increased employment levels at the quickest pace in close to eight years. That said, supply-chain disruption persisted throughout the first quarter of 2021, leading to a survey-record rise in output prices as firms partially passed increased costs on to clients.

At 55.3 in March, the seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) was unchanged from February, indicative of a strong improvement in the health of the manufacturing sector. The latest figure kept the PMI® at the highest reading since April 2010.

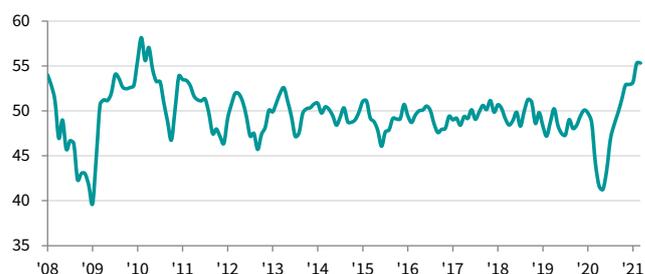
March data pointed to a strong increase in manufacturing output, albeit one that was slower than that seen in February. As a result, production levels rose for the seventh time in as many months. Firms commonly associated higher output with increased orders for new products, with demand improving notably in the automotive sector.

Complementing the rise in output, South Korean manufacturers signalled an expansion in new order inflows for the sixth consecutive month in March. Despite easing from February's near-11 year high, the rate of growth remained strong overall. Survey respondents often commented that incoming business was bolstered by a continued recovery in client confidence, particularly in external markets. New export orders increased for the sixth month in a row, and at the fastest pace for four months. Panel members suggested that the recovery in demand was notable in key markets such as China, India and the US.

As pressure on existing capacity built throughout March, firms signalled a renewed expansion in employment levels. While modest overall, the rate of job creation was the quickest since May 2013. This pressure on capacity was highlighted by backlogs of work

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 continued to report a sustained improvement in operating conditions in March, continuing the trend seen throughout the first quarter of 2021. The latest Manufacturing PMI signalled a further improvement in the health of the sector, driven by strong, albeit softer, growth in output and new orders. Firms also reported that new business inflows from external clients in particular increased further in March, and at the fastest pace since November 2020.

"That said, South Korean goods producers signalled that price pressures had continued to intensify throughout March as supply-chain disruption remained widespread. Average cost burdens increased at the second-sharpest pace on record as firms widely reported higher raw material costs. Manufacturers looked to partially pass the increased costs to clients, resulting in the steepest rise in output prices since the survey began in April 2004.

"South Korean manufacturers continued to signal strong optimism as the rollout of COVID-19 vaccinations began and demand for new products accelerated. IHS Markit currently estimates industrial production will expand 2.7% in 2021."

increasing for the fifth month running, and at the fastest pace since January 2020.

Latest data pointed to a further acceleration in input cost inflation faced by South Korean manufacturers. Input price pressures intensified in March, with costs rising at the steepest pace since January 2008. Moreover, the latest reading of the seasonally adjusted Input Prices Index was the second-highest since the survey began in April 2004, as businesses widely reported sharp rises in the cost of raw materials. Concurrently, output prices increased at a survey-record pace as firms sought to pass these higher costs on to customers.

South Korean manufacturers noted that input buying continued at a strong pace in the latest survey period. At the same time, stocks of raw materials and semi-finished goods increased in March. Firms commonly attributed the additional purchase and holding of inputs to efforts to protect against delays to shipments amid ongoing supply-chain disruption. Average vendor performance deteriorated at a marked pace throughout the first quarter of 2021.

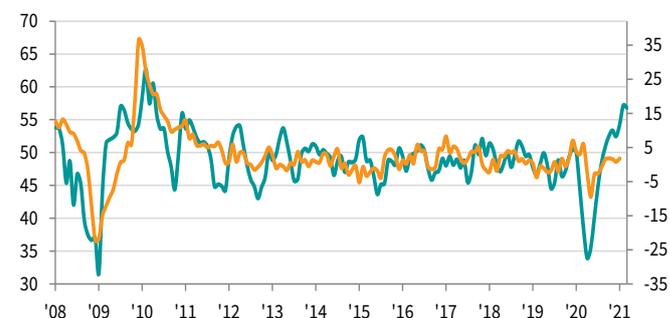
Looking ahead, South Korean goods producers were strongly optimistic regarding the outlook for activity over the coming year. Businesses cited hopes that demand would continue to gain momentum, leading to higher production volumes, particularly for newly launched products.

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.

March 2021 data were collected 12-23 March 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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