

Nikkei South Korea Manufacturing PMI[®]

New orders hit by domestic and external demand weakness during May

Key points:

- New business drops at fastest pace in three months
- Panellists report poor sales to Chinese and Japanese markets
- Business confidence drops to 33-month low

Data collected May 13th – 22nd

Following some signs of stabilisation in the South Korean manufacturing sector during April, latest survey data revealed a renewed deterioration in the health of the goods-producing economy in May. Output was cut back as demand conditions became increasingly challenging, with domestic and export markets remaining fragile. In line with lower production, firms reduced purchasing activity, inventories and staffing levels.

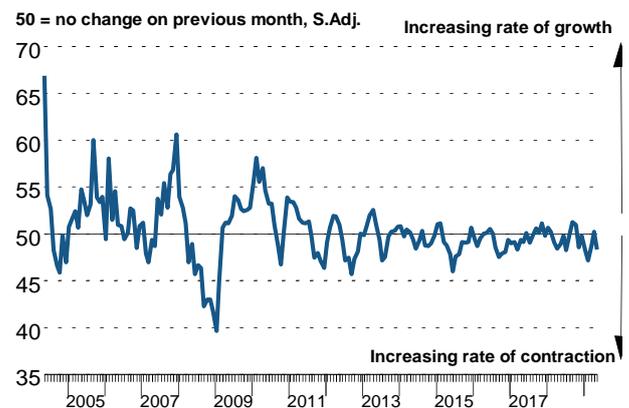
With current conditions turning less favourable, firms pared back their expectations for the year ahead, with business confidence dipping to the lowest since August 2016.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – declined to a three-month low of 48.4 in May, from 50.2 during April, indicating tougher business conditions for South Korea's goods producers.

A key reason for the downturn in the manufacturing sector was weakness in demand. Latest survey data pointed to a faster decline in new order intakes, which firms attributed to fragile conditions in both domestic and major export markets. There were reports that slowdowns in automobile- and semi-conductor-related industries had impacted sales.

Difficult trading with foreign clients in Japan, China and other parts of Asia was cited by panellists in May. New export orders fell for the tenth successive month, with the reduction gathering pace since the previous month. Falling volumes of new work led companies to cut production back. Output levels were broadly stable in April, but declined modestly during May.

Nikkei South Korea Manufacturing PMI



Sources: Nikkei, IHS Markit

Decreased goods production led South Korean manufacturers to reduce staffing levels in May for the sixth time in seven months. According panellists, fewer workloads led some workers to voluntarily resign. Despite the loss in workforce numbers, backlogs of work declined in May for a ninth month in a row. That said, the rate of depletion was the softest since January.

Purchasing activity stagnated in May, following increases in the two preceding months. As a result, pressure on supply chains was less intense than seen in April, with average lead times lengthening only marginally. With output requirements diminishing, firms showed reluctance towards holding stock, scaling back inventories of both inputs and finished goods.

Weakness in demand filtered through to pricing decisions, with reports from panel members suggesting that clients had asked for discounts. Output charges fell in May for the sixth consecutive month, with the rate of deflation picking up since April. That said, input prices continued to rise solidly.

Weakness in current operating conditions filtered through to business sentiment, with future output expectations at their least positive for 33 months, partly reflecting concern towards key export

markets as well as the automobile and semi-conductor industries.

Comment:

Commenting on the South Korean Manufacturing PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

“The South Korea Manufacturing PMI falling to a three-month low in May reflected a deterioration in economic conditions both domestically and externally. Panellists reported struggles within the crucial automobile and semi-conductor industries, while weak exports due to slowdowns at large trading partners such as China and Japan supported inventory, production and employment cutbacks.

“Given the recent re-escalation of trade tensions between the US and China, as well as no real signs of the downturn in the global trade cycle bottoming out, South Korean manufacturers are facing extreme difficulties. Subsequently, firms moderated their expectations, leading business confidence to dip to its lowest since August 2016.”

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Notes to Editors:

The early June releases of May data from the Asia PMI series will be the final releases to carry Nikkei branding.

The Nikkei South Korea Manufacturing *PMI*[®] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size, based on the industry contribution to GDP. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, and Transport. Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei South Korea Manufacturing *PMI*[®] is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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