South Korea's manufacturing sector continued to face intensely challenging conditions, according to May PMI survey data. Output fell at the second-fastest rate since January 2009, easing only fractionally from that seen in April. Demand for South Korean goods sank sharply once again as below-capacity operating rates at clients reduced their requirements. Panel members reported particular weakness in demand from international markets. Elsewhere, employment fell at the fastest rate in the survey history, while supplier delivery times lengthened markedly as the coronavirus disease 2019 (COVID-19) pandemic continued to disrupt shipments.

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The South Korea Manufacturing Purchasing Managers Index™ (PMI®) fell to 41.3 in May, down from 41.6 seen in April and indicative of a further deterioration in the health of South Korea’s goods-producing economy. Overall, the headline figure signalled the fastest decline in manufacturing sector conditions since the beginning of 2009.

Manufacturing production declined sharply in May, with approximately 44% of surveyed firms recording lower output when compared to April. Overall, the rate of contraction was similar to that seen in the previous month, remaining among the strongest month-on-month downturns seen since data collection began in 2004. The global COVID-19 pandemic remained a key factor weighing on production schedules, according to panelists, leading firms to run their factories well below potential operating rates.

Latest survey data pointed to a further steep drop in new orders placed for South Korean goods in May. Overall demand conditions remained extremely weak, particularly abroad, as extended shutdowns at clients, order cancellations and issues with transportation weighed on sales performances. The rate of

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"Output and new orders continued to sink at rates not seen since the global financial crisis, which firms suggested were consequences of global and domestic economic weakness. The export component of the survey also showed another unprecedented monthly decline in overseas demand.

"The speed at which the global economy, and in turn, global trade, can recover will be a key determinant to the strength of South Korea’s recovery. At this stage, however, it seems unlikely that conditions will allow for a robust pick-up in demand any time soon. Below-capacity operating rates will also essentially cap potential growth in the near-term."

Data were collected 12-20 May 2020.

Commenting on the latest survey results, Joe Hayes, Economist at IHS Markit, said:

"Latest survey data indicate that the scars left behind from this global COVID-19 pandemic are going to take a considerable amount of time to heal for the industrial economies around the world. South Korea, which sits near the forefront of these economies, is still stuck in a deep manufacturing downturn, according to the May PMI survey, despite many of its key trading partners at least partially lifting some of the most stringent restrictions.

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decline in total new business was similar to that seen in April, which was the sharpest in over 11 years. Furthermore, export orders data pointed to another unprecedented monthly drop in overseas demand that was the second-fastest in the survey history.

The latest survey results indicate a further rise in spare operating capacity across the South Korean manufacturing sector, which panel members overwhelmingly attributed to lower demand. In turn, employment fell at an accelerated pace that was the fastest in over 16 years of data collection. While there were some reports of firms restructuring, there were numerous mentions of employees voluntarily resigning or retiring.

Supply-side hindrances also persisted during May, with input delivery times lengthening sharply. According to firms, the COVID-19 pandemic continued to disrupt supply chains heavily, with shipments from overseas vendors facing lengthy delays.

Looking ahead, firms remained pessimistic towards future output prospects. Concern of a protracted economic downturn, followed by a slow recovery, weighed on sentiment.

Lastly, prices data showed further discounts to selling charges. Input prices continued to rise, but the rate of inflation slowed to a ten-month low.

**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.

May 2020 data were collected 12-20 May 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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**About PMI**

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

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