IHS Markit
South Korea Manufacturing PMI®

Manufacturing output plummets in March

Key findings

Production falls sharply due to COVID-19 outbreak
Demand sinks as global pandemic hits order books
Supply chain disruptions intensify; employment falls

Latest survey data highlighted the negative economic impact that the coronavirus disease 2019 (COVID-19) had on South Korean manufacturers during March. Supply chain paralysis and plummeting order book volumes led to the strongest decline in goods production since the beginning of 2009, far exceeding that seen in February as the COVID-19 outbreak was upgraded to a global pandemic.

Meanwhile, output expectations over the next 12 months sank to the lowest on record as firms mentioned concern that business conditions would fail to recover. Labour market stress was also apparent as employment decreased at the strongest rate since the global financial crisis, while supply chain disruptions intensified.

The South Korea Manufacturing Purchasing Managers Index™ (PMI®) fell to 44.2 in March, down from 48.7 in February, signalling the strongest deterioration in manufacturing business conditions since the beginning of 2009.

March survey data pointed to a steep and accelerated reduction in output volumes across the South Korean manufacturing sector. Production schedules were impacted by simultaneous supply-side and demand-side disruptions, according to firms. Consequently, output decreased at the strongest rate in over 11 years.

To the supply-side, the latest survey pointed to the greatest lengthening in input delivery times since May 2004. Air freight issues, staff and material shortages at vendors, factory shutdowns in China and quarantine procedures led to substantial difficulties in acquiring key inputs, in turn restricting manufacturing output.

There were also employment-related hindrances in March. Workforce numbers fell at the fastest pace since December 2008 as foreign workers returned to their native countries or staff were either made redundant or voluntarily resigned.

Comment

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

"Not so long ago, South Korea was one of the countries worst hit by the outbreak of COVID-19. That said, although South Korea has succeeded in "flattening the curve" (at the time of writing), it has still succumbed to a substantial economic shock. This largely reflects the openness of South Korea's economy, which shares large bilateral trade with the likes of China, Japan and the US.

"Manufacturing production fell at the sharpest rate since early 2009 during March, reflecting intensified supply chain disruption and a stronger negative demand shock as aggregate orders fell substantially. On the export side, anecdotal evidence suggested that firms in the automotive industry were particularly hurt by a weaker global economic picture."

"On a positive note, there were sparse mentions of outright factory shutdowns. South Korea's success in suppressing the spread of COVID-19 increases the chances of the domestic economy recovering at a quicker rate than otherwise. That said, given its heavy exposure to trade and the global economic cycle, the worst for manufacturers may yet be to come."
To the demand side, surveyed companies observed weaker orders from both domestic and external markets in March. Total demand plummeted overall, falling at the steepest rate since January 2009. Export sales also declined at the strongest rate in just over 11 years, with firms operating in the automotive sector among those reporting a lack of foreign demand. China, Japan and the US were among the countries driving the drop in exports.

Looking ahead, South Korean goods producers were negative towards the prospects for output over the coming 12 months. A number of firms were concerned that a recession caused by COVID-19 could have a long-lasting negative impact on the economy. Overall, businesses were the most pessimistic since expectations were first recorded in April 2012.

With demand deteriorating and difficulty in sourcing materials intensifying, purchasing activity and stock volumes both fell during March. That said, there were some reports of firms successfully shipping finished goods to clients.

Elsewhere, survey data pointed to an accelerated decrease in output prices charged by firms, in part linked to lower oil prices and efforts to stimulate sales. Input costs rose modestly in March, with inflation easing slightly despite reports of higher import prices.