

Nikkei South Korea Manufacturing PMI[®]

Headline PMI dips to lowest since June 2015

Key points:

- New orders fall at sharpest rate in almost four years...
- ...leading to stronger production cutbacks
- Firms look to cut costs and reduce output prices

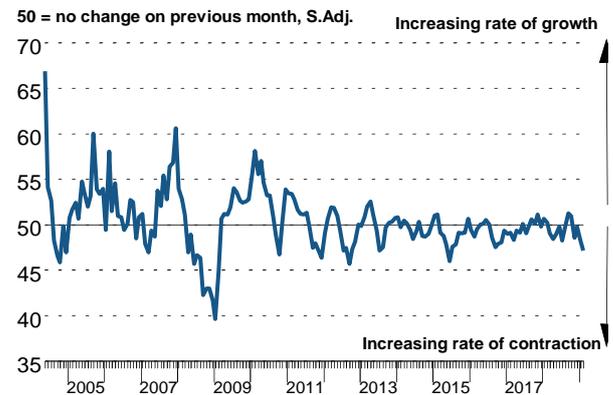
Data collected February 12th – 20th

Latest survey data highlighted stronger declines in new orders from domestic and overseas markets in February, leading to sharper reductions of both output and staffing levels. Consequently, the headline PMI signalled the strongest deterioration in manufacturing sector conditions since June 2015. As part of efforts to stimulate sales, firms discounted output prices markedly, while simultaneously reducing stocks and curbing input purchases to reduce costs. Although output volumes are expected to increase over the coming year, concern towards the domestic economy led business confidence to remain subdued.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index™ (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – fell to a 44-month low of 47.2 in February, from 48.3 in January, thereby indicating the sharpest deterioration in the health of South Korea's goods-producing economy since June 2015 and extending the current period of decline to four months.

A principal factor pulling the headline PMI deeper into contraction territory was demand, which survey data indicated fell markedly in the latest survey period and also at the fastest pace since mid-2015. The decline was attributed to weakness in both domestic and international markets. New export orders fell at the joint-fastest pace for five-and-a-half years in February, extending the current foreign demand downturn to seven months. As a result, South Korean manufacturers scaled back production for a fourth straight month. Panellists also mentioned softer underlying economic conditions as a reason for reducing output. Overall, production was cut at the strongest rate since July 2017.

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Sources: Nikkei, IHS Markit

In line with lower production volumes, manufacturing employment was reduced in February for the fourth month running. In fact, the rate of job shedding was the quickest in nine months. Other efforts to cut costs were observed, with purchasing activity falling for the first time since August. South Korean manufacturers also reduced their stocks of both inputs and finished goods.

There were reports of some raw material prices rising during February, while labour costs were also mentioned as a source of inflationary pressures. However, supplier discounts and lower oil prices kept overall operating expenses broadly unchanged from January. In turn, this gave firms discretion with their output pricing decisions. Selling charges were reduced in February at the sharpest rate since January 2016, with competitive pressures and client requests for discounts encouraging the reductions.

Elsewhere, fewer new business intakes helped alleviate capacity pressures at South Korean manufacturers, with backlogs of work falling for a sixth month in a row. However, supply chains continued to be squeezed, as signalled by longer input delivery times.

Business confidence improved slightly since January, but remained subdued in the context of historical data. Further slowing of international demand and concern about the strength of the

domestic economy restricted the rise in positive sentiment.

Comment:

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

“Latest PMI data show no sign of recovery in South Korea’s manufacturing sector, with evidence that the struggling global trade cycle is pinching a key exporting market. International demand fell at the joint-sharpest pace in five-and-a-half years during February, with weak underlying conditions reportedly compounded by rising competitive pressures.

“For South Korea’s economy to sustain its relatively robust growth path, the domestic economy will need to pick up the slack from overseas markets. With total order book volumes falling at the strongest rate in almost four years, this seems unlikely. Businesses are subsequently relatively downbeat on year-ahead prospects, and have moved to reduce staffing levels and discount prices to stimulate demand. Indeed, the continued deterioration in PMI data suggest the November rate hike by the Bank of Korea has been ill-timed.”

-Ends-

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Notes to Editors:

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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