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IHS Markit South Korea Manufacturing PMI®

Manufacturing PMI signals sustained expansion at end of 2020

Key findings

Sustained, but softer rises in output and new orders

Employment levels rise for the first time since April 2019

Business expectations remain positive

Data were collected 4-15 December 2020.

South Korean manufacturers ended a turbulent year with a further moderate improvement in operating conditions. December data pointed to sustained increases in both output and new orders, albeit at softer rates than in November. Positively, businesses expanded employment levels within the sector for the first time in 20 months. South Korean manufacturing firms remained optimistic in their outlook for activity over the coming year.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) was unmoved at 52.9 in December, signalling an improvement in the health of the South Korean manufacturing sector for the third consecutive month following disruption throughout the spring and summer caused by the coronavirus disease 2019 (COVID-19) pandemic.

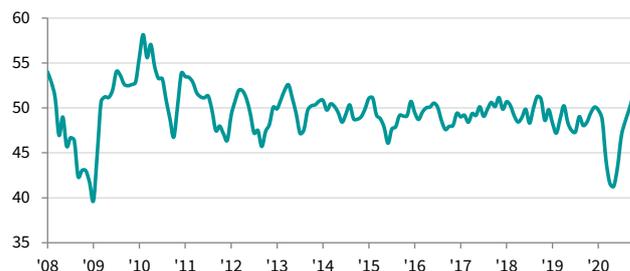
Latest data pointed to manufacturing output increasing for a fourth month in a row. The pace of growth softened from the previous survey period, but was still solid overall amid reports of improved demand conditions, notably in the automotive sector, following disruptions caused by multiple waves of COVID-19 infections.

New orders among South Korean manufacturers also rose further in December. Although softening from November's ten-and-a-half year high, the overall pace of expansion remained solid. Respondents linked higher sales to orders for new products as well as greater client confidence in both domestic and international markets. Moreover, foreign demand for South Korean manufactured goods remained in expansion territory at the end of the year, with firms citing the gradual recovery from COVID-19, notably in China and Japan.

The South Korean manufacturing sector was boosted by the first rise in employment levels since April 2019 in December, with businesses taking on additional personnel in response to greater output requirements and to replace voluntary leavers. In a sign of

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:

"December data marked a sustained improvement in the health of the South Korean manufacturing sector, as the latest Manufacturing PMI ended a turbulent year firmly in expansion territory. A continued recovery from the disruption caused by the COVID-19 pandemic was seen throughout the final quarter of 2020.

"South Korean firms recorded further increases in both output and new orders in the latest survey period, as firms reported improved demand, particularly in the automotive sector. External demand for manufactured goods also ended the year positively, driven by gradual recoveries in China and Japan.

"Additional pressure on capacity also encouraged businesses to expand workforce numbers for the first time in 20 months in December, following stabilisation in November.

"South Korean goods producers remained optimistic in their outlook for activity over the coming 12 months, as the pandemic fades further and new products are launched. IHS Markit currently estimates industrial production will expand by 1.6% in 2021."

greater pressure on capacity, backlogs of work also rose marginally for the second successive month. Some firms attributed this to accepting orders scheduled to be delivered in the future.

Meanwhile, South Korean manufacturers indicated a quicker expansion in purchasing activity, with the respective seasonally adjusted Index reaching its highest point since April 2010 as a result of increasing orders. Meanwhile, average vendor performance deteriorated to the greatest extent since May, with manufacturers citing delays in receiving shipments due to COVID-19 restrictions. Stocks of purchases were raised to guard against delivery delays and in preparation for future order fulfilment, while panel members indicated that existing orders were completed using post-production holdings where possible.

December data signalled further rises in average cost burdens among South Korean manufacturers. The rate of input cost inflation accelerated to the fastest since March 2018 in the latest survey period. Respondents commonly attributed higher input costs to widespread rises in raw material prices. These were partially passed on to clients through higher factory gate charges, which rose at their fastest pace in 29 months.

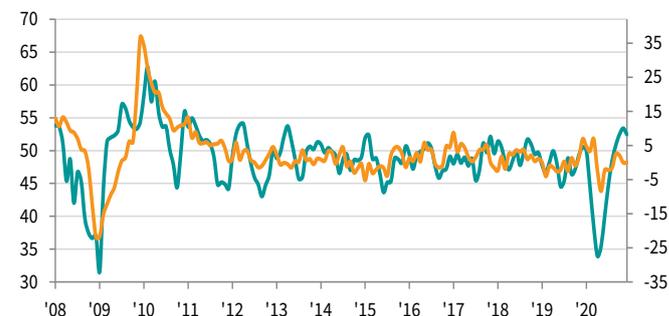
Looking forward, business expectations remained positive among South Korean goods producers, as firms continued to forecast a rise in output in the coming year. Firms commonly predicted that a further recovery in demand conditions as the pandemic recedes would boost the sector in the coming year.

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 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.

December 2020 data were collected 4-15 December 2020.

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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