News Release

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IHS Markit
South Korea Manufacturing PMI®

PMI down to four-month low in June as orders and output decline

Key findings

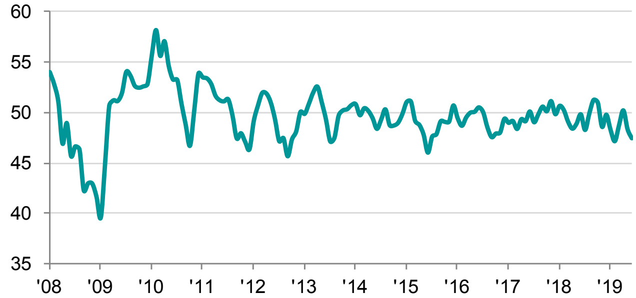
Fastest reduction in output for four years

Global trade slowdown weighs on order books

Margins under pressure as charges cut again

South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

South Korea's manufacturing sector endured a challenging month in June, with both output and new orders declining at faster rates. Job losses were also reported for a second month in succession amid signs of an increasing degree of excess capacity in the sector.

Faced with flagging demand, a number of manufacturers chose to cut their output charges, leading to further pressure on margins especially at a time when higher chemical prices and exchange rate factors raised the cost of inputs. Confidence about the future remained relatively low.

At 47.5 in June (May: 48.4), the South Korea Manufacturing Purchasing Managers' Index™ (PMI®) signalled a deterioration in the health of the manufacturing sector for the seventh time in the past eight months. Moreover, the latest reading signalled the sharpest contraction since February and the second greatest in the past four years.

The weakness of the PMI in June was linked to a noticeable reduction in manufacturing output. Latest data showed that the slump in production was the sharpest recorded by the survey since June 2015 and closely linked to another reduction in new order book volumes.

Indeed, new work placed at manufacturers continued a recent slide, falling for an eighth successive month and at the greatest pace since February. Companies commented on demand weakness from the key autos and electronics sectors, in turn reflective of a challenging global economic environment. This was highlighted by a reduction in new export sales, which in June were down for an eleventh month in succession. Moreover, the reduction was the greatest recorded by the survey since March amid numerous reports of the damaging effects on activity of the China-US trade war.

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Comment

Commenting on the latest survey results, Paul Smith, Economics Director at IHS Markit, said:

"The continued weakness exhibited by the South Korea Manufacturing PMI during June primarily reflects the ongoing global trade slowdown. Panellists reported that this is taking its toll on their businesses, weighing on demand for goods and subsequently leading to cuts in production. Once again, it was the automobiles and electronics industries that seem to be bearing the brunt of the weakness.

"Moreover, there are real concerns that global growth will continue to soften in the coming months amid ongoing tensions between China and the US over tariffs and trade. Manufacturers subsequently remain fairly subdued about the future, with even the prospect of new product lines failing to lift their spirits.

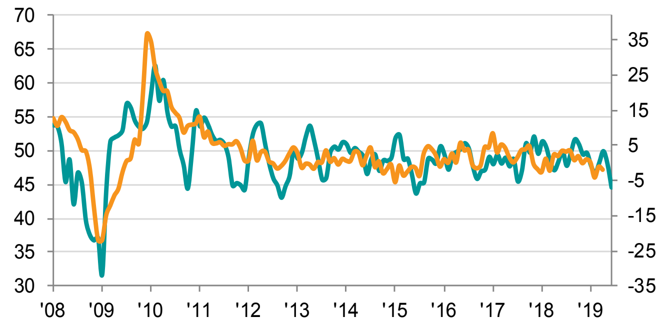
"Subsequently firms are taking a cautious view to employment, preferring to not replace leavers wherever possible and also utilise existing stocks to meet current production and order requirements, rather than buy in new inputs."

There remained signs of excess capacity in the sector during June. Backlogs of work were cut markedly, and at the fastest pace for four years. A number of manufacturers responded by reducing their staffing levels. Although relatively marginal, June marked the second month in succession that employment has fallen.

Responding to lower order book volumes and reduced production requirements, manufacturers chose to lower their purchasing activity. Signalling a preference to utilise existing stocks in production, the fall in input buying was the sharpest recorded by the survey since November 2016. The reduction in buying activity also lowered pressure on vendors, as signalled by little change in delivery times during June.

South Korean manufacturers reported higher prices paid for chemicals in June, especially from Chinese suppliers. With a number of firms also reporting unfavourable exchange rates, overall input prices were reported to have risen at a solid pace. However, in contrast, output charges were cut for a seventh month running, largely in response to intense market competition and flagging demand.

Finally, worries that the China-US trade war will continue to escalate and contribute to a further reduction in global trade and growth, meant that confidence amongst South Korean manufacturers remained subdued in June.



Sources: IHS Markit, CSO.

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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 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.

June 2019 data were collected 12-20 June 2019.

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

About IHS Markit

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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. To learn more go to ihsmarkit.com/products/pmi.html.