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IHS Markit South Korea Manufacturing PMI®

Demand conditions remain weak as supply constraints persist

Key findings

Manufacturing output falls for third straight month

Falling export demand compounded by continued supply shortages

Input lead times lengthen to greatest extent since April 2020

Data were collected 06-15 December 2021.

South Korea's manufacturing sector continued to face both challenging demand and supply conditions during December, with subdued growth in new business coinciding with the most widespread delays in input lead times since April 2020.

Difficulties securing raw materials also stretched operating capacities further and exerted upward pressures on costs, which firms continued to pass through to their selling prices.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) rose to 51.9 in December, up from 50.9 in November. Overall, this suggested that the health of the South Korean manufacturing sector improved at a faster pace in December.

That being said, less positive signs were seen upon analysis of some of the underlying components that make up the headline index.

New orders – which has the largest weighting in the PMI – increased during December at the fastest rate in three months, reportedly reflecting rising sales at domestic clients. However, the overall expansion was subdued by comparison to those seen in the first half of 2021. Relatively weak new order growth came amid the first month-on-month drop in new export orders since September 2020. Rising COVID-19 infections globally, poor shipping container availability and reduced demand from clients in Japan were reportedly behind the decrease.

Next, output volumes at South Korean manufacturers fell in December, latest survey data showed. Supply-related constraints were often linked to falling production, with shortages of key components limiting output levels. On the other hand, some firms attributed the decline to subdued demand conditions.

Survey data highlighted the intense supply-side challenges

continued...

South Korea Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"The final round of 2021 survey data for South Korea's manufacturing sector epitomised the supply-constrained narrative we've seen develop this year. Global manufacturers are struggling as factors on both the demand and supply side weigh on factory performance.

"If we take demand, reports from our survey members suggest that new orders are primarily being driven by domestic clients, and even then, growth is minimal. Survey data showed new export orders falling for the first time since September 2020, which firms attributed to rising COVID-19 cases globally, congestion at ports and a lack of available shipping containers.

"Indeed, these factors, alongside supply shortages at vendors, were also to blame for further delays in supplier delivery times, which lengthened to the greatest extent since April 2020.

"Given South Korea's prominence in the automotive and electronics industries, substantial improvements in global supply chains will be required before we see a meaningful acceleration in manufacturing growth."

facing companies in December, as supplier delivery times lengthened to the greatest extent since April 2020. Poor shipping container availability, congestion at ports and inadequate stocks of materials at vendors were all linked to the deterioration in supplier performance.

As a result of delayed input shipments, operating capacities at South Korean manufacturers were squeezed in December. Overall, backlogs of work increased at the fastest rate since August.

Some companies also linked capacity pressures to insufficient staffing numbers. Following two months of job shedding, hiring activity picked up during the latest survey period. According to firms, expectations of growing production requirements prompted increased recruitment.

That being said, cost-cutting efforts were seen elsewhere, with stocks of both pre- and post-production inventories being reduced during December. Although supply issues limited purchasing activity and the rate at which finished good stocks could be replenished, there were also reports of inventories being voluntarily reduced.

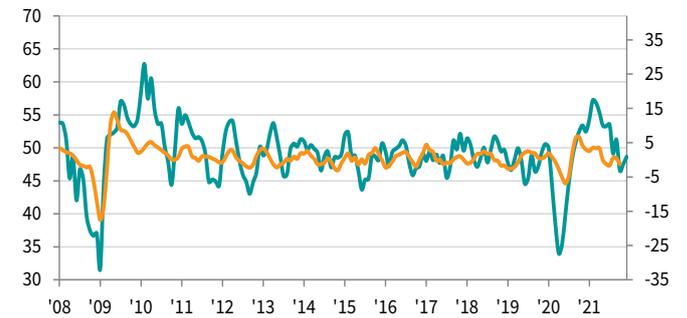
Lastly, cost pressures remained acute in December, reflecting higher prices for a multitude of inputs. The rate of inflation did however ease from November's survey record. Nonetheless, output charges rose sharply and at a rate that was little-changed from that seen previously.

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 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.

December 2021 data were collected 06-15 December 2021.

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. ihsmarkit.com/products/pmi.html