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IHS Markit South Korea Manufacturing PMI®

New order growth slows amid sustained supply chain disruption

Key findings

Output levels fall further amid slower new order growth

Record rise in input prices amid supply shortages and delivery delays

Business sentiment rises to three-month high

Data were collected 12-22 November 2021.

Supply issues continued to impact the South Korean manufacturing sector midway through the fourth quarter of the year. Output volumes fell for the second successive month, while new order growth broadly stagnated as manufacturers continued to report that sustained supply chain disruption had hindered demand in the sector and placed additional strain on business costs and capacity. As such, the ongoing issues surrounding raw material supply contributed to a survey record increase in input costs. Nonetheless, businesses cited hopes of an easing of disruption as a key factor in a stronger year-ahead outlook, which improved to the highest since August.

At 50.9 in November, the seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) rose from 50.2 in October, indicative of a quicker, yet still marginal improvement in the health of the sector. The latest increase extended the current sequence of improving operating conditions to 14 months.

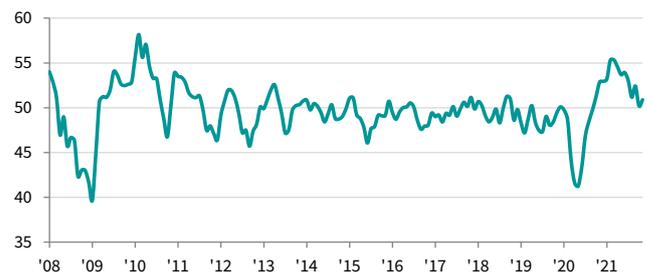
November data pointed to a second successive decrease in manufacturing output, albeit one that was softer than October. Firms commonly associated lower output with shortages of raw materials and slower new order growth, particularly in the semiconductor industry.

South Korean manufacturers signalled that incoming orders broadly stagnated in November. Despite rising for the fourteenth month running, the rate of increase was the softest in the sequence as demand was affected by supply chain disruption, notably in the automotive sector. Positively, new export orders saw the rate of growth quicken in the latest survey period, with reports of improving demand across the Asia-Pacific region.

Pressure on operating capacity was evident during November, as firms signalled a stronger rate of accumulation in backlogs of work. Firms often attributed rising outstanding business to

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:

"South Korean manufacturers continued to report that supply chain disruption and material shortages had hindered production and demand midway through the fourth quarter of the year. Despite the headline PMI rising slightly in November, this masked a second successive contraction in output levels, while new order growth broadly stagnated as supply shortages hit demand, most notably in the automotive and semiconductor industries.

"Moreover, sustained shortages of raw materials and delivery delays placed further strain on manufacturer cost burdens. Average input prices rose at the sharpest pace in the history of the survey, which contributed to an acceleration in factory gate inflation as firms sought to pass higher prices to clients in an effort to protect margins.

"Despite headwinds from ongoing supply chain disruption, positive sentiment rose sharply in November. The degree of optimism was the highest since August and was marked overall. Confidence was underpinned by hopes that supply chain pressure would ease and the recovery in global demand would accelerate the launch and mass production of new products. This is in line with IHS Markit's projection that industrial production will rise by 6.1% in 2022."

difficulty in sourcing raw materials and lower staffing levels. In fact, South Korean manufacturers reduced employment levels at the quickest rate for ten months.

Latest data pointed to a further rise in input prices faced by South Korean manufacturers. This extended the current sequence of inflation to 17 months, with costs rising at the fastest pace in the survey's history. Businesses widely reported sharp rises in the cost of raw materials amid shortages. Concurrently, output prices increased at the sharpest pace since July's survey record as firms sought to pass higher costs on to clients.

Manufacturers noted that input buying continued to rise in November, with the rate of growth reaching a three-month high. At the same time, stocks of raw materials and finished goods were reduced further. Firms commented that additional purchases of inputs were partly reflective of efforts to mitigate supply shortages and price rises, though delivery delays meant that existing inventories were utilised to fulfil orders. In fact, supplier delivery times lengthened to the greatest extent since April 2020 in November.

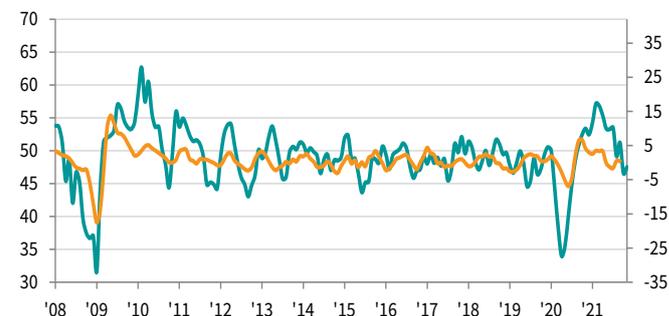
Looking ahead, South Korean goods producers were optimistic regarding the outlook for activity over the coming year, amid hopes that supply chain pressure would ease alongside a global recovery in demand. Positive sentiment strengthened in comparison to October and was the highest since August.

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.

November 2021 data were collected 12-22 November 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.
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