Manufacturing downturn continues, but softens in August

Key findings

Output and new orders fall, but rates of contraction ease

Export weakness persists as global demand under pressure

Business outlook remains historically subdued

Difficulties in South Korea’s manufacturing sector remained apparent in August, as key gauges of economic health such as output, new orders and employment all declined. Weakness on the international front also remained a prominent headwind, with export sales falling further.

Challenging conditions are expected to continue, with the business outlook subdued and purchasing activity declining. Although output prices stabilised, firms continued to report client requests for price discounts.

The South Korea Manufacturing Purchasing Managers’ Index™ (PMI®) recorded 49.0 in August. This was up from 47.3 seen in July - the first increase in the headline index since April - but still indicative of a deterioration in business conditions. That said, the decline recorded in August was only mild and the softest seen across the current four-month downturn in manufacturing.

According to latest survey data, sluggish demand had ramped up pressure on manufacturers in August. New orders declined for a tenth successive month, with firms attributing reduced sales to unfavourable global and domestic economic conditions. Evidence of international struggles were apparent in new export orders data, which showed a further decline in foreign demand. Germany, China, Japan and parts of Southeast Asia were mentioned as sources of weakness. Nonetheless, rates of decrease in both total and export new business eased.

Production volumes were once again reduced by South Korean manufacturers, reflecting the challenging demand environment. That said, the decline in August softened to a mild pace and was notably weaker than July’s sharp reduction. There were some reports that new product launches in the electronics industry had lifted output, although not sufficiently to offset cutbacks elsewhere.

Comment

“While the pick-up in the headline index suggests that pressures on South Korean manufacturers have abated to an extent, underlying data still portray a deeply challenging environment.

“Demand fell further in August, reflecting weakness in domestic and key foreign economies. Slowing growth across APAC and Europe continues to impact South Korea’s crucial electronics and automobile industries, highlighted by the sustained downturn in export orders.

“That said, tailwinds from the roll-out of 5G are expected to inject some life into the tech sector over the coming months, with some firms already producing in preparation for this, partly explaining the slower rates of contraction in output and total new business.

“With an expansionary monetary policy bias becoming increasingly widespread across Asia, there is a glimmer of hope that Korean exports may see some respite in coming months.”
Falling inflows of new work enabled firms to reduce capacity pressures. Backlogs of work were depleted in August for the twelfth month in succession. Panelists reportedly used this as an opportunity to ship surplus stocks, with survey data indicating a fall in finished goods inventories.

Efforts to manage costs more effectively also underpinned inventory reduction in August. Stocks of purchases were scaled down, reflecting further tapering of purchasing activity. Meanwhile, latest survey data signalled a fourth successive decrease in staffing levels. The rate of job shedding was the fastest in six months as firms opted to cut payroll numbers and not replace voluntary leavers.

Elsewhere, cost pressures continued to build, as firms blamed won depreciation and higher raw material prices on an increase in input costs. That said, the rise was mild and softer than the historical average rate of inflation. Selling prices stabilised in August following eight successive monthly decreases. That said, firms continued to report client requests for discounts.

Finally, while business sentiment returned to positive territory in August, confidence was subdued overall. Tensions with Japan and a weak domestic economy were cited as reasons for pessimism by some companies.