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IHS Markit South Korea Manufacturing PMI®

Manufacturing PMI signals stronger improvement in September

Key findings

Production levels return to expansion territory

Delivery times lengthen to greatest extent since April 2020

Business confidence eases to 11-month low

Data were collected 13-22 September 2021.

Businesses operating in the South Korean manufacturing sector indicated a further improvement in operating conditions in September. Renewed growth in output levels and a quicker expansion in new orders meant that the pace of growth accelerated in comparison to August. That said, businesses continued to report severe supply chain disruption, with difficulties in sourcing and receiving raw materials hampering production and demand. Average lead times extended to the greatest extent since the first wave of the COVID-19 pandemic. Ongoing supply chain issues also contributed to a dampened outlook for manufacturers, as business optimism dipped to the lowest since October 2020.

At 52.4 in September, the seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) rose slightly from 51.2 in August, signalling a stronger improvement in the health of the manufacturing sector. That said, the latest reading was below the average recorded in 2021 so far.

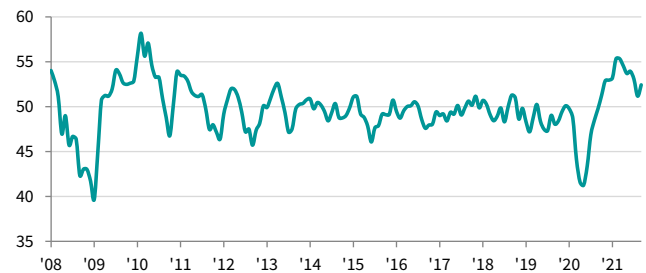
September data pointed to a return to growth in production levels. The expansion was only marginal, but marked the twelfth increase in the past 13 months. Firms commonly associated the renewed rise in output to higher orders for goods, notably from international clients.

South Korean manufacturers signalled an expansion in new business for the twelfth consecutive month in September. The rate of growth quickened slightly from August and was moderate overall. Panel members often commented that new business inflows were boosted by increased demand for newly launched products. At the same time, the improvement in foreign demand for South Korean manufactured goods picked up, though new export orders still increased at only a marginal pace.

As demand conditions were broadly positive, South Korean goods producers increased employment levels for the seventh successive month in the latest survey period. The rate of job creation was only fractional, and broadly unchanged from

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 reported a stronger improvement in the health of the sector for the first time in three months in September, with the latest Manufacturing PMI signalling a modest improvement in business conditions. This came as manufacturers reported a renewed rise in output and a further pick-up in new order inflows. Moreover, firms noted that demand had risen notably among international clients, with growth in new export sales accelerating.

"That said, supply chain disruption continued to hinder overall activity and demand in the manufacturing sector. Material shortages and rising input costs were exacerbated by ongoing delays in sourcing and receiving inputs, as evidenced by the strongest lengthening in supplier delivery times since the COVID-19 pandemic first hit in April last year.

"Goods producers remained confident that output would rise over the coming 12 months, however some firms voiced concerns that sustained disruption to supply chains, particularly in the key semiconductor industry and in the wider manufacturing sector would act as a drag on the recovery if issues remain unresolved until 2022. As a result, business confidence eased to the softest level reported since October 2020."

August. Anecdotal evidence suggested that increasing orders had encouraged some firms to expand capacity, yet this was offset by a number of voluntary resignations. In line with the trend for new orders however, backlogs of work rose at a softer, more marginal rate, indicative of easing pressure on existing capacity.

South Korean manufacturing firms noted that growth of input buying continued at a more marginal pace in September. At the same time, stocks of raw materials and semi-finished goods fell for the third month running. Firms commonly attributed additional purchases of raw materials to efforts to protect against delays to shipments amid ongoing supply chain disruption. That said, some firms noted that difficulty in receiving stocks of inputs had led to the utilisation of existing holdings to support production. Supplier delivery times lengthened to the greatest extent since April 2020.

Latest data pointed to a further robust rise in input costs faced by South Korean manufacturers as firms continued to note sharp rises in raw material prices. Despite this, the increase in cost burdens was the softest recorded since February. Concurrently, output prices rose at a quicker pace in September, as firms increasingly sought to pass higher costs on to clients.

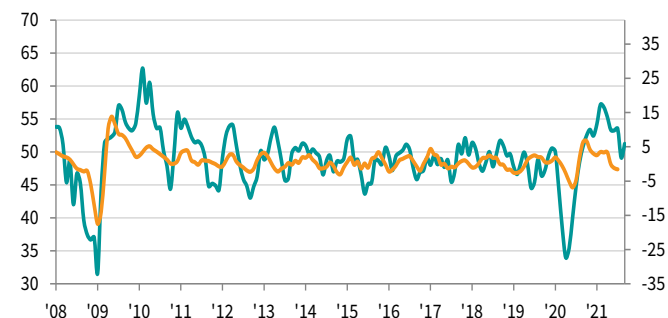
Looking ahead, manufacturers remained strongly optimistic regarding activity in the year ahead, amid hopes that the end of the pandemic would trigger a boost to demand, notably for new products. However, the level of positive sentiment eased to an 11-month low.

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.

September 2021 data were collected 13-22 September 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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