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IHS Markit South Korea Manufacturing PMI®

Manufacturing PMI signals further expansion in June

Key findings

Growth in new orders quickens

Record rises in input and output prices amid supply chain disruption

Business expectations remain upbeat

Data were collected 11-22 June 2021.

South Korean manufacturers signalled an improved performance for the sector at the end of the second quarter of 2021. Contributing to stronger business conditions was sustained growth in production levels, while new orders expanded at a quicker pace compared to May. That said, raw material shortages and shipping delays continued to hinder operations in the manufacturing sector, as ongoing disruption resulted in a survey-record increase in input prices. Moreover, as firms sought to pass higher prices on to clients, output prices also increased at a record rate. Yet, South Korean manufacturers were strongly optimistic regarding their outlook for output over the coming 12 months, as sentiment remained positive for the eleventh month in a row.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) edged up to 53.9 in June from 53.7 in May, indicating a moderate improvement in the health of the manufacturing sector and extending the current sequence of growth to nine months.

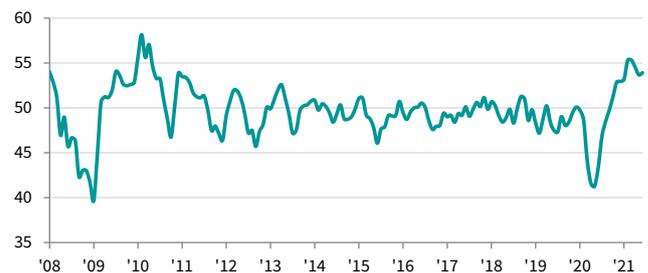
Businesses recorded a quicker rise in new orders in the latest survey period. Panellists often commented that sustained increases in both domestic and external demand supported new business inflows throughout the month. Moreover, growth in international demand for South Korean goods accelerated in June, and was moderate overall. This came amid greater orders from export markets in and around South East Asia.

June data indicated a further increase in manufacturing output, marking the tenth consecutive instance of growth. The rate of expansion was broadly similar to that seen in May and was moderate overall. Manufacturers attributed the expansion to a sustained rise in demand which supported higher production levels.

The South Korean manufacturing sector was also boosted by a further increase in employment levels according to the latest data. Staffing levels rose for the fourth month in succession as

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:

"June data provided proof that the South Korean manufacturing sector remained firmly in expansion territory at the end of the second quarter of 2021. The latest Manufacturing PMI reading picked up from the previous month and indicated that the health of the sector continued to improve solidly throughout the quarter."

"Both output and new orders continued to expand, with growth in the latter accelerating from the previous month as firms saw rising client demand continue to sustain new business inflows. There was also a further rise in international demand, particularly in economies in the Asia-Pacific region."

"That said, manufacturers were increasingly commenting that severe supply chain disruption was starting to impact activity. Sharp rises in raw material prices amid severe shortages in supply and freight capacity contributed to the sharpest rise in input prices on record. In an effort to protect margins, firms passed higher costs on to clients, with factory gate charges also rising at a survey-record rate."

"Yet, South Korean manufacturers reported a significantly optimistic outlook for production over the coming 12 months, which is broadly in line with current IHS Markit estimates for industrial production to grow by 6.1% in 2021."

firms often cited that the opening of new production lines and higher orders required additional capacity. In line with stronger demand, backlogs of work increased at a solid rate in the same period.

Manufacturers pointed to a further acceleration in input cost inflation during June. Input price pressures intensified in the latest survey period and were the steepest on record as businesses widely reported sharp rises in the cost of raw materials amid acute shortages. At the same time, South Korean goods producers sought to pass these costs on to clients, resulting in the strongest rise in output prices since the survey began in April 2004.

There was an expansion in purchasing activity for the eleventh month in a row in June. Input buying was spurred on by increased production requirements, while firms purchased additional inputs to protect against future price rises. Amid heightened supply chain disruption, stocks of raw materials and semi-finished items were raised in an effort to safeguard against further delays. Firms also utilised holdings of finished goods to fulfil orders to counteract delays to the production process.

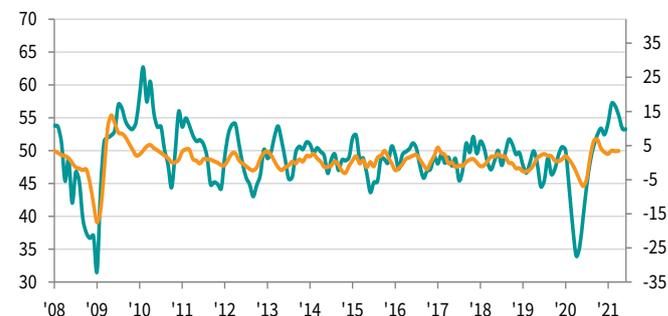
Looking forward, manufacturers in South Korea were strongly optimistic regarding the year-ahead outlook for output in June. The degree of confidence rose from May as firms predicted the economy would continue to recover from COVID-19 impacts, while supply chain pressure would ease and boost demand further.

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.

June 2021 data were collected 11-22 June 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