

Nikkei South Korea Manufacturing PMI[®]

Employment and output growth drive sector improvement in October

Key points:

- Production growth supports job creation...
- ...but firms discount prices amid weak gain in new work
- Business confidence remains historically low

Data collected October 12th – 23rd

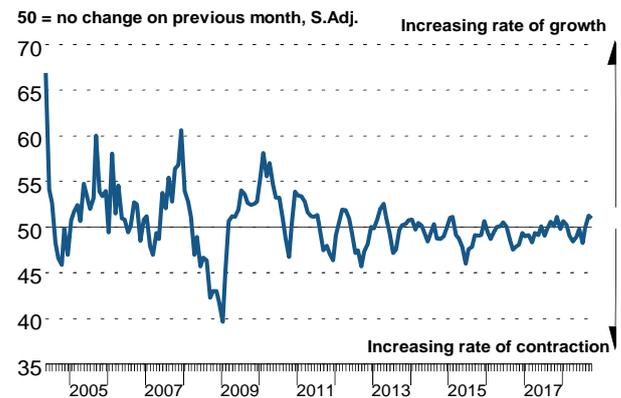
The South Korean goods producing sector started the fourth quarter on a positive footing, with business conditions improving for a second successive month. The positive headline figure was a reflection of relatively strong growth in output and employment. New orders rose, but the pace of increase was just marginal, while export sales continued to drop. To attract new work and stave off competitors, output prices were cut, despite input costs rising. Looking ahead, business sentiment towards the coming year remained notably weak.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – posted above the no-change mark of 50.0 for a second straight month to signal growth in the sector. At 51.0 in October, this was down from 51.3 in September and therefore signalled a weaker rate of expansion. However, it was stronger than the average seen across 14 years of data collection.

South Korean goods producers recorded a third successive monthly increase in sales in October. Promotional work and new contract wins were associated with the rise in demand. That said, growth was marginal and softer than in September. Meanwhile, new export orders declined, as has been the case since August, amid reports of challenging economic conditions at key trading partners.

Nonetheless, workloads remained ample to drive output higher in the latest survey period. New product launches also reportedly supported the latest expansion. Although the increase eased

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Sources: Nikkei, IHS Markit

since September's ten-month high, it was relatively solid overall.

Survey data also indicated that labour market conditions in South Korea's manufacturing sector remained robust. The rate of employment growth was relatively marked following September's five-and-a-half year peak, with some panellists attributing greater recruitment to company expansion and capacity improvements.

Staffing costs were one of several factors driving operating expenses higher in October. The combined effect of rising global raw material prices and depreciation of the won also squeezed manufacturers' margins. That said, the latest rise in input prices was the softest seen across the current 15-month period of inflation. Nonetheless, strong competitive pressures and requests to lower charges by clients encouraged output price discounting for the first time since August 2017.

Concerns over the demand outlook were also evidenced by a stabilisation of purchasing activity. Weaker output growth reportedly underpinned the first accumulation of input stocks since May, as firms used fewer inputs in the production process than expected. Nonetheless, pressure on the supply chain was sustained, with input lead times lengthening further.

Continued...

Lastly, although positive overall, business confidence remained historically weak in October. Forecasts of tougher global business conditions weighed on sentiment.

Comment:

Commenting on the South Korean Manufacturing PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

“At face value, the latest PMI survey presented a further month of positivity for the South Korean manufacturing economy. Output and employment growth were the key drivers behind another relatively solid outturn, despite paces of expansion easing in both cases.

“There is reason to be cautious, however. The double-whammy impact of rising global raw material prices and weakness of the Korean won squeezed margins, while strong competitive pressures and concerns towards the purchasing power of clients reportedly drove price discounting.

“Meanwhile, against the backdrop of rising trade tensions, survey data indicated that the downturn in export markets continued in October. Forecasts of challenging economic conditions globally and domestically suppressed the business outlook, with confidence remaining at a historically weak level.”

-Ends-

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Notes to Editors:

The Nikkei South Korea Manufacturing *PMI*® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size, based on the industry contribution to GDP. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, and Transport. Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei South Korea Manufacturing *PMI*® is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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