Growth in manufacturing sector stagnates in October as material shortages hit output

South Korean manufacturers signalled a near stagnation for the sector at the start of the fourth quarter of 2021. Signs of weakness were the result of a renewed fall in production levels, while new orders increased at the slowest pace seen in the current 13-month sequence of growth. Survey respondents often commented that raw material shortages and shipping delays hindered operations in the manufacturing sector, with ongoing disruption contributing to the quickest rise in input prices, and therefore output charges, since July. Delays and shortages significantly dampened optimism regarding the year-ahead outlook at South Korean manufacturers, as sentiment eased to the weakest since September 2020.

The seasonally adjusted South Korea Manufacturing Purchasing Managers’ Index (PMI®) dipped from 52.4 in September to 50.2 in October, indicating a fractional improvement in the health of the manufacturing sector. While the current sequence of expansion was extended to 13 months, the latest reading was the lowest in this sequence.

October data indicated a renewed fall in manufacturing output, marking the second instance of decline in the past three months. The rate of reduction was solid, and the quickest recorded since July 2020. Manufacturers attributed the decrease to significant shortages of raw materials, particularly for electrical components and semiconductors.

At the same time, businesses recorded a softer rise in new orders in the latest survey period. Panellists often commented that client confidence was supported by the launch of new products, however this was partially offset by material shortages and slowing international demand. As such, growth in foreign demand for South Korean goods eased to the weakest since the current sequence began last October. Stronger demand from China and Europe was offset by difficulty in sourcing logistical capacity.

Firms in the South Korean manufacturing sector also reported a renewed contraction in employment levels according the latest

Comment

Commenting on the latest survey results, Usamah Bhatti, Economist at IHS Markit, said:

"October data provided proof that ongoing raw material shortages and supply chain issues began to bite in the South Korean manufacturing sector at the start of the fourth quarter of 2021. The latest Manufacturing PMI reading slowed significantly from the previous month and pointed to a broad stagnation in operating conditions.

"The slowdown came amid a renewed contraction in output, and one that was the sharpest since July 2020. Moreover, total new order growth eased to a marginal pace, amid a stagnation in foreign demand.

"The latest data provided the first indication that sustained supply chain disruption had directly impacted activity. The impact of shortages has also been clear in rising raw material prices, with inflation accelerating to the quickest for three months. In an effort to protect margins, firms passed higher costs on to clients, with factory gate charges rising at the sharpest pace since July.

"South Korean manufacturers noted that ongoing shortages and disruptions impacted the outlook for output over the coming 12 months. The degree of confidence dipped in October, and was the softest signalled since September 2020. This is broadly in line with current IHS Markit estimates for industrial production to grow just 0.2% in 2022 following a 6.2% increase in 2021."
data. Staffing levels fell for the first time since February as firms often cited that the opening of new production lines that required additional capacity was offset by the non-replacement of voluntary leavers. In line with the trend for new orders, backlogs of work increased at a marginal rate.

Manufacturers pointed to an acceleration in input cost inflation for the first time in four months in October. Input price pressures intensified and were the steepest recorded since July as businesses widely reported sharp rises in the cost of raw materials amid acute shortages. Concurrently, South Korean goods producers sought to pass these costs on to clients, pushing factory gate inflation to a three-month high.

There was an expansion in purchasing activity for the fifteenth month in a row in October. Input buying was spurred by sustained new order growth as well as efforts to protect against ongoing delays and shortages. Amid sustained supply chain disruption, stocks of inputs and finished items were further depleted as manufacturers utilised existing holdings to fulfill incoming orders amid delays in receiving inputs.

Looking forward, manufacturers in South Korea remained optimistic regarding the year-ahead outlook for output in October. Yet the degree of confidence dropped significantly and was the softest recorded for 13 months. Firms predicted the economy would recover as markets learned to live with COVID-19 although there was uncertainty regarding how long supply chain pressures would persist.

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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. October 2021 data were collected 12-21 October 2021.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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