

Nikkei South Korea Manufacturing PMI[®]

Business conditions remain unfavourable in December

Key points:

- Falls in domestic and foreign sales weigh on output
- Weak demand encourages firms to reduce selling prices
- Business confidence rebounds to six-month high

Data collected December 5th – 13th

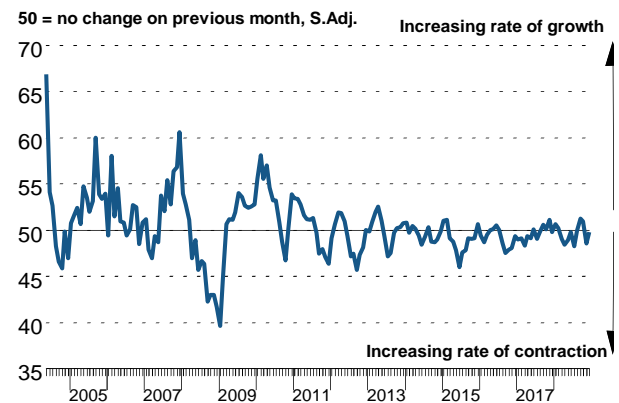
South Korea's manufacturing sector concluded the fourth quarter of 2018 with a second successive monthly deterioration in operating conditions. Driving the downturn were reduced sales, both to domestic and overseas markets, which led firms to cut back output, employment and stocks. Efforts to remain competitive were also apparent as firms discounted selling prices. To the upside, input costs increased at a weaker pace, while business confidence strengthened to a six-month peak.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – increased in December, but remained below the crucial 50.0 mark which separates growth from contraction. At 49.8, this was up from 48.6 seen in November, thereby indicating a softer pace of deterioration in operating conditions in South Korea's goods-producing economy.

Order book volumes fell for a second month in a row during December. The downturn in sales was attributed to weak underlying demand conditions in both domestic and foreign markets. Indeed, survey data also indicated a drop in export sales amid reports of poor order intakes from Europe and China. That said, the rates of reduction in both work overall and from abroad were slower than in November and only marginal.

With demand pressures weakening, South Korean manufacturers scaled production back in December. Contraction was also recorded in November, although the latest decrease was slightly softer. The combined effect of fewer sales and reduced output reportedly encouraged job shedding at some

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Sources: Nikkei, IHS Markit

firms. Employment declined at a fractionally faster rate. However, a broadly similar proportion of firms reported staff cutbacks as those that raised headcounts. The fall was softened by some panellists recruiting extra workers to boost productivity.

Despite falling output, South Korean goods producers alleviated capacity pressures by clearing work backlogs in December. Firms linked reduced inflows of new business to the fall in outstanding orders. Finished goods inventories were depleted in December as firms fulfilled existing obligations. The decline in stocks was modest overall, but the sharpest since July.

Lower volumes of incoming work encouraged businesses to reduce selling charges. Competitive pressures had also reportedly underpinned discounting decisions in some instances. That said, the rate of deflation was only mild overall. Meanwhile, operating costs increased at a weaker pace amid reports of cheaper imported purchase prices. Nevertheless, labour costs and other raw materials drove costs higher overall.

Looking ahead, firms were the most optimistic towards future output since June. New product launches, improvements in the South Korean economy and greater demand are expected to support growth over the coming year. In fact, optimism towards demand encouraged firms to

raise input purchasing at the fastest pace in three months.

Comment:

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

“Survey data for South Korea’s manufacturing sector continues to point to underlying weakness brewing within the domestic economy. Order book volumes continued to deteriorate, prompting production cutbacks and stagnating employment. Export markets also remained in downturn, as sales to Europe and China reportedly dropped off at the back-end of the year.

“The lacking pressure from the demand-side led firms to discount prices to remain competitive and pull in clients. Fortunately, this fell in line with weaker cost inflation. Nevertheless, there was a strengthening of manufacturing confidence, which improved to a six-month high. Panellists foresee firmer growth in the South Korean economy over the coming year, which is expected to be supported by healthier order inflows and new product launches.”

-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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