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IHS Markit South Korea Manufacturing PMI®

Output falls at sharpest rate since mid-2015 as COVID-19 outbreak leads to factory closures

Key findings

Headline PMI falls to 48.7 in February, from 49.8

Export orders drop at quickest pace in over six years

Shipment delays out of China lead to strong supply chain disruptions

According to the latest PMI® survey, South Korean manufacturers cut production and in some cases, closed their factories in response to the COVID-19 outbreak in mainland China during February. Output volumes fell at the steepest rate since June 2015, with anecdotal evidence suggesting that factory shutdowns in South Korea were most prevalent in the automobiles sector.

There was a notable demand-side impact from the coronavirus as new export orders declined at the fastest rate in over six years, although total order books only fell marginally in February as domestic orders partially offset overseas slack.

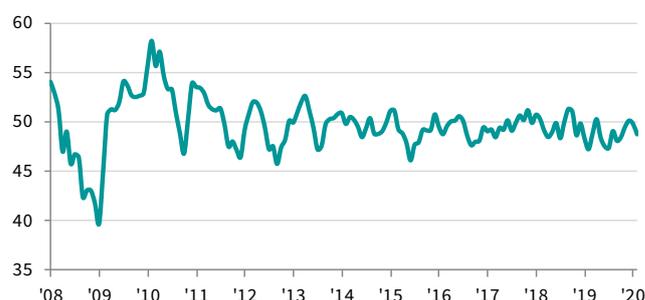
Meanwhile, supply chain disruptions were evidenced by delivery times lengthening at their fastest rate since August 2006 as COVID-19 restricted shipments from China.

The seasonally adjusted IHS Markit South Korea Manufacturing Output Index, which measures the change in manufacturing output volumes compared to one month previously, fell to 44.4 in February, signalling a strong rate of decline. Furthermore, this was down from 50.1 in January and signalled the sharpest drop in goods production since June 2015. According to firms, production was suspended as a result of the COVID-19 outbreak, with mentions of shutdowns primarily coming from automobile producers.

On the demand-side, latest survey data indicated that workloads from overseas were adversely hit during February as demand from key clients in China fell. Overall, new export sales declined at the sharpest rate since August 2013. That said, the drop in total order book volumes was only marginal during the latest survey period. While COVID-19 and sluggishness in the South Korean economy reportedly weighed on demand, the closure of competitors in mainland China led domestic buyers to substitute Chinese goods for domestically-produced alternatives, helping to

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South Korea Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Joe Hayes, Economist at IHS Markit, said:

"Unsurprisingly, the South Korean manufacturing sector was hit by a dual-pronged negative shock to the demand- and supply-side of the economy in February amid the COVID-19 outbreak."

"Output volumes fell sharply as production was suspended and, in some cases, factories were closed in response to the widespread disruption to China, South Korea's most important trade partner. Anecdotal evidence suggest that shutdowns were most prevalent at companies in the automobiles industry."

"The concern for South Korea will be how hard this is going to hit exports. Survey data showed foreign orders fell at the fastest rate in over six years. There was evidence that domestic companies had substituted Chinese imports for domestically-produced goods, which helped to partially negate the overseas demand drag, but this won't be sufficient, particularly for car makers."

"To the supply-side, input deliveries were delayed as shipments out of China were stopped due to COVID-19. Even if demand does recover, day-to-day operations are likely to suffer as firms seek alternative suppliers or operate below capacity until normality across supply chains is restored."

partially negate the drag from exports.

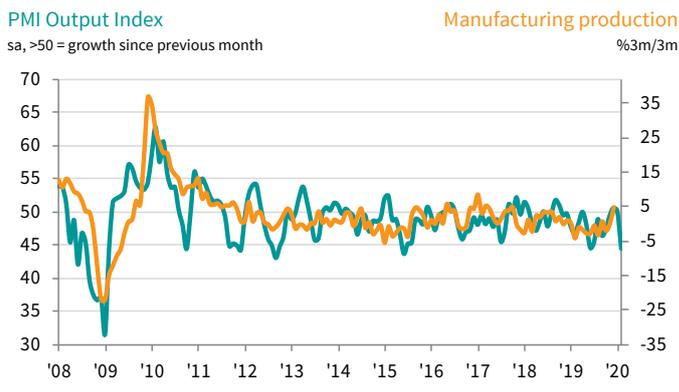
The slump in manufacturing output also reflected supply-side disruptions as input shipments were delayed out of China. Latest survey data signalled the greatest lengthening in supplier delivery times since August 2006. A combination of lower production requirements and difficulties in obtaining materials led companies to downwardly adjust both their quantities of purchases and pre-production inventories.

In contrast, stocks of finished goods rose at the strongest rate for just over three years. According to anecdotal evidence, some manufacturers were forced to place products ready for shipment into inventories at the last minute as orders were cancelled due to coronavirus.

Looking ahead, businesses expect output volumes to be higher than at present levels in 12 months' time. However, the degree of confidence slipped from January's near two-year high.

Meanwhile, employment fell in February for a tenth straight month as capacity pressures abated. This was signalled by a reduction in backlogs of work, which panellists linked to lower new orders.

Lastly, firms cut output prices for the first time in three months to stimulate demand. This was despite input cost inflation rising to a 15-month high amid stock shortages at suppliers.



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.

February 2020 data were collected 12-20 February 2020.

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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