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# IHS Markit South Korea Manufacturing PMI®

## Production continues to fall as demand conditions fail to recover

### Key findings

Weak demand and low operating rates weigh on manufacturing sector

Firms forced to stockpile due to underwhelming sales

Job losses continue at a near survey-record rate

Data were collected 12-22 June 2020.

South Korea's manufacturing sector posted another marked decline in production during June as demand remained weak. Global economic fragility as a consequence of the coronavirus disease 2019 (COVID-19) pandemic weighed heavily on order book volumes and factory operating rates. In response to poor sales performances, manufacturers cut their staffing volumes at a near survey-record pace and continued to discount their selling prices.

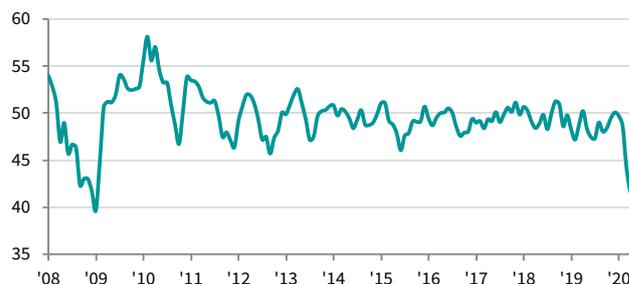
The South Korea Manufacturing *Purchasing Managers Index*™ (PMI®) increased to 43.4 in June, from 41.3 in May. Crucially, the headline figure remained below the 50.0 mark which separates improvement from deterioration, signalling a further decline in business conditions.

The slight increase in the PMI reflected slower rates of contraction in the index's major components, new orders and output. However, in both cases survey data were still indicative of marked drops when compared to May. According to anecdotal evidence, demand conditions remained extremely weak as a consequence of the ongoing global COVID-19 pandemic. Panellists indicated that reduced economic activity had detrimentally affected client orders, with some customers shutting down their businesses. Overseas demand also remained in negative territory in June. Despite the decline easing to the weakest since March, it was stronger than anything seen prior to this.

South Korean manufacturers responded by reducing output volumes further in June. Approximately 35% registered lower production, compared to 17% that observed growth. Numerous companies reported that the operating rates at their factories had been downwardly adjusted, reflecting the weaker outlook for sales. Nevertheless, some companies managed to secure new business lines, helping to soften the overall drop.

*continued...*

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:

*"The South Korean manufacturing sector remained firmly rooted in contraction territory during June, according to the PMI data. It seems that expectations of a release in pent-up demand following the lifting of lockdown measures around the globe were certainly misplaced as anecdotal evidence and survey results reveal a widespread and marked decline in new orders once again.*

*"While the output and new orders indices have risen from the bottoms seen in April, these increases have been marginal as many companies are operating well below capacity or simply observing no month-to-month improvement in production and new order volumes. Given the cyclical nature of South Korea's export-oriented economy, it appears the chances of a slow recovery from the COVID-19 economic shock are rising. Without a sustained pickup in demand, manufacturing output levels will likely remain subdued."*

Evidence of production volumes in some parts of the sector rising was seen in stocks of finished goods data, which increased since May. According to panellists, the rise in inventory levels reflected weak sales performances, leading companies to warehouse excess output.

Looking ahead, South Korean manufacturers took a pessimistic view towards the prospects for production over the coming 12 months. Survey respondents suggested that, due to uncertainty over COVID-19 and the potential for a sluggish recovery, the outlook was expected to be challenging.

A rise in spare capacity was recorded once again during June as firms struggled to secure new work to replace completed projects. The latest fall in backlogs of work was similar to those seen in April and May and among the most substantial since data collection began in 2004. Consequently, staffing levels were reduced for a fourteenth successive month in response to lower operating rates. The rate job shedding was similar to the survey record set in May.

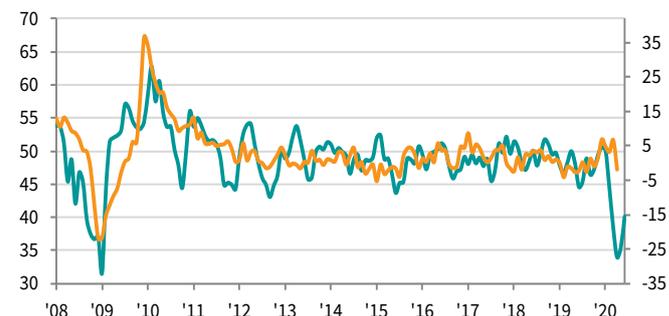
Latest data showed that deflationary trends were evident across both input and output prices. Cost pressures abated amid reports of lower raw material prices. As a result, and also due to weak sales and client requests for discounts, selling charges were reduced for a fifth straight month.

**PMI Output Index**

sa, >50 = growth since previous month

**Manufacturing production**

%3m/3m



Sources: IHS Markit, KOSTAT.

**Contact**

Joe Hayes  
Economist  
IHS Markit  
T: +44 1491 461 006  
[joseph.hayes@ihsmarkit.com](mailto:joseph.hayes@ihsmarkit.com)

Bernard Aw  
Principal Economist  
IHS Markit  
T: +65 6922 4226  
[bernard.aw@ihsmarkit.com](mailto:bernard.aw@ihsmarkit.com)

Katherine Smith  
Public Relations  
IHS Markit  
T: +1 781 301 9311  
[katherine.smith@ihsmarkit.com](mailto:katherine.smith@ihsmarkit.com)

**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 2020 data were collected 12-22 June 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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**About PMI**

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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