

News Release

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S&P Global South Korea Manufacturing PMI®

Renewed rise in output amid price and supply disruption

Key findings

Manufacturing output rises for third time in four months

Input purchasing accelerates amid efforts to build safety stocks

Record increase in output charges

South Korea's manufacturing sector continued to face challenging price and supply conditions at the start of the second quarter of 2022, though there was tentative evidence that demand conditions were improving slightly as output returned to expansion territory amid a stronger rise in new order inflows. However, the reimposition of strict COVID-19 restrictions in China and the continuation of the Russia-Ukraine war caused further disruption to supply chains, leading South Korean firms to accelerate both purchases and holdings of raw materials and semi-finished goods. Moreover, a further acceleration in cost inflation pushed manufacturers to raise selling prices to a record extent.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) rose to 52.1 in April, up from 51.2 in March. This suggested the health of the South Korean manufacturing sector improved at a faster pace in April. That being said, the underlying components of the headline index point to more subdued operating conditions.

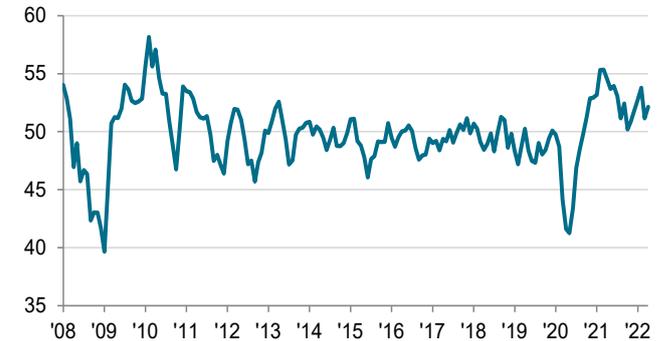
New orders increased at a slightly quicker pace in April, reflecting rising sales at domestic clients. However, the overall expansion was subdued compared to that seen at the start of the year. The relative weakness in total new order growth came amid a second successive solid drop in new export orders. The war in Ukraine, as well as COVID-19 restrictions in China which had impacted shipping and port capacity were reportedly behind the decrease.

Output volumes at South Korean manufacturers returned to growth territory at the start of the second quarter. The increase was only marginal, with a faster recovery being held back by supply-related constraints and higher prices for raw materials. Yet, firms commented on pockets of activity taking place in the automotive sector in particular.

Survey data highlighted sustained supply side challenges facing South Korean manufacturers in April. Firms reported that purchasing activity rose at a solid pace that was the

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 11-21 April 2022.

Comment

Usamah Bhatti, Economist at S&P Global, said:

"Data covering the start of the second quarter of 2022 provided tentative evidence of improving conditions at South Korean manufacturers. A renewed rise in output coincided with a stronger expansion in incoming order inflows in April, which pushed the headline PMI index up from March's recent low, yet firms continued to comment that rising prices and supply chain disruption had held back a much stronger recovery.

"Price and supply pressures were exacerbated by the ongoing war in Ukraine and the reimposition of strict COVID-19 restrictions across China, both of which stifled export orders partly due to port congestions and a lack of available containers. As part of efforts to protect themselves from future disruption and higher cost burdens, manufacturers looked to increase and store additional stocks of raw materials and semi-finished goods.

"Yet, an accelerated rise in material and commodity prices placed further strain on margins at South Korean manufacturers, as input prices rose at the third-fastest rate in the survey history. Firms increasingly passed these increases on to clients through higher output charges, which rose at an unprecedented rate. It was these price and supply pressures emanating from the twin issues of the Ukraine war and China lockdowns that dampened business confidence, as the level of positive sentiment eased to a four-month low."

PMI®

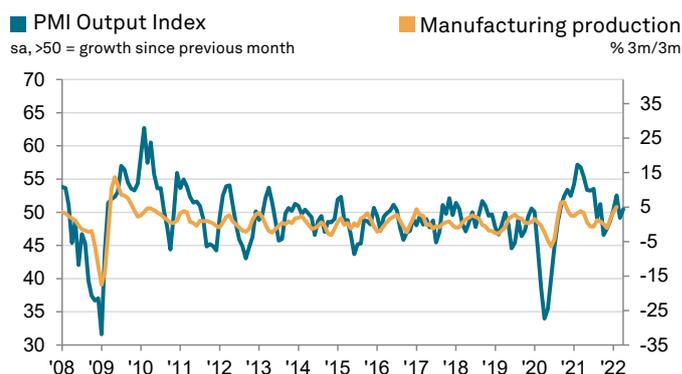
by S&P Global

fastest for nine months. This was often linked to efforts to build safety stocks to protect against future price rises and material shortages amid delivery delays. The average time taken to receive inputs continued to lengthen in the latest survey period, with the rate of deterioration strengthening from March. Efforts to build safety stocks meant that holdings of pre-production inventories rose to the greatest extent for a year.

Operating capacities at South Korean manufacturers were also squeezed in April. Overall, backlogs of work increased at the fastest rate since January. Some companies also linked capacity pressures to insufficient staffing numbers. Hiring activity eased to the softest recorded in the current five-month sequence of job creation in April. According to anecdotal evidence, higher production requirements prompted increased recruitment, though this was partially offset by the non-replacement of voluntary leavers.

Cost pressures remained acute in April, reflective of higher prices for a multitude of inputs. The rate of inflation quickened from March to the third-fastest on record. Firms increasingly passed higher costs on to customers, with the latest rise in output charges the sharpest in the survey history.

Looking forward, South Korean manufacturers remained optimistic regarding the year-ahead outlook for output in April. That said, the degree of confidence eased to a four-month low amid concern over the long-term impact of extended COVID-19 restrictions in China and the impact of the Ukraine war.



Sources: S&P Global, KOSTAT.

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Survey methodology

The S&P Global South Korea Manufacturing PMI® is compiled by S&P Global from responses to 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. Data collection began in April 2004.

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.

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

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