

Embargoed until 0930 KST (0030 UTC) 02 August 2021

IHS Markit South Korea Manufacturing PMI®

Sustained improvement in manufacturing output in July

Key findings

Output grows at fastest pace since April

Record rise in output charges

Business sentiment eases to seven-month low

Data were collected 12-22 July 2021.

Firms operating in the South Korean manufacturing sector indicated a continued improvement in operating conditions at the start of the second half of the year. Output and new orders continued to expand at a solid pace, with the former rising at the quickest rate for three months. This was despite manufacturers continually reporting that severe supply chain disruption was hindering demand in the sector and placing additional strain on business costs. Ongoing disruption contributed to a further steep rise in input costs, and a third consecutive survey record increase in output prices. Supply issues also contributed to softer confidence in the year-ahead outlook for output, as the degree of optimism was the slowest since December 2020.

At 53.0 in July, the seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) slipped from 53.9 in June, indicative of a softer, more moderate improvement in the health of the sector, and one that was the softest for seven months.

July data pointed to a moderate increase in manufacturing output, and one that was faster than that seen in June. In fact, production levels rose at the fastest pace for three months. Firms commonly associated higher output with greater new orders, notably in the semiconductor and electronics sectors.

South Korean manufacturers signalled an expansion in new order inflows for the tenth consecutive month in July. Despite remaining solid overall, the rate of growth was the slowest since January. Survey respondents commented that incoming business was boosted by stronger client confidence in both domestic and international markets, though demand was affected by supply chain disruption and a resurgence in COVID-19 cases. New export orders increased for the twelfth month running, with reports of strong demand in the US, China and Europe. However, a resurgence of the virus across Asia dampened confidence in the region.

As pressure on capacity built during July, firms signalled a further
continued...

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



Source: IHS Markit.

Comment

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

"South Korean manufacturers continued to report a sustained improvement in operating conditions at the start of the second half of the year as production levels continued to expand. However, the latest Manufacturing PMI signalled the softest improvement in the health of the sector for seven months, amid a softer upturn in new orders. Anecdotal evidence suggested a resurgence in COVID-19 cases across Asia and ongoing supply chain disruption had led to demand easing in domestic and external markets.

"Moreover, sustained shortages of raw materials and delivery delays had placed additional strain on manufacturers' costs. The second-fastest rise in cost burdens in the survey's history contributed to a third consecutive record increase in output charges, as South Korean manufacturers sought to pass higher prices to clients in an effort to protect margins.

"Ongoing supply chain disruption and the resurgence of the virus also contributed to a softening in business sentiment. The degree of optimism was the lowest since December 2020, yet was strong overall. Confidence was underpinned by hopes that global demand and supply chains would recover at a strong pace, which is in line with the IHS Markit estimate for industrial production to expand by 5.8% in 2021."

expansion in employment levels. That said, the rate of job creation was only modest and the softest in the current five-month sequence. Pressure on capacity was highlighted by a further solid accumulation of outstanding business at manufacturers, the ninth in succession.

Latest data pointed to a further rapid rise in input prices faced by South Korean manufacturers. This extended the current sequence of inflation to 13 months, with costs rising at the second-fastest pace in the survey's history. Businesses widely reported sharp rises in the cost of raw materials amid shortages. Concurrently, output prices increased at a survey-record pace for the third time in as many months as firms sought to pass higher costs on to clients.

Manufacturers noted that input buying continued to rise at a sharp pace in July, though the rate of growth eased to the softest for seven months. At the same time, stocks of raw materials and semi-finished goods reduced for the first time since October 2020. Firms commented that additional purchases of raw materials were required to protect against supply chain disruption, though delivery delays had resulted in firms utilising existing stocks. Supplier delivery times extended at a further strong pace in July.

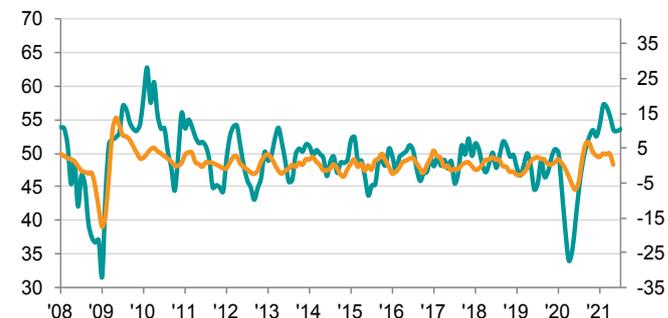
Looking ahead, South Korean goods producers were optimistic regarding the outlook for activity over the coming year, amid hopes that global demand and supply chains would further strengthen. However, positive sentiment eased to a seven-month low.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%3m/3m



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.

July 2021 data were collected 12-22 July 2021.

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. ihsmarkit.com/products/pmi.html