Manufacturing PMI signals slowest downturn in business conditions since February

Key findings

Headline PMI hits six-month high in August

Modest rise in average cost burdens

Business expectations turn positive for the first time since February

Manufacturers in South Korea continued to signal an overall downturn in business conditions during August, but the rate of decline continued to ease in comparison to that seen through the second quarter of 2020.

At 48.5 in August, up from 46.9 in July, the headline seasonally adjusted South Korea Manufacturing Purchasing Managers Index™ (PMI®) rose to its highest level for six months, although it remained below the neutral 50.0 threshold. The latest PMI reading compared favourably with the average seen from April to June (42.1), largely reflecting slower declines in production volumes and incoming new work.

August data indicated only a modest reduction in output levels across the manufacturing sector. The rate of contraction eased for the fourth month running and was the slowest since the downturn began in February. Survey respondents attributed lower output to spending cutbacks among clients in response to weaker global economic conditions and business uncertainty due to the coronavirus disease 2019 (COVID-19) pandemic. Where growth was reported, manufacturers often commented on the reopening of international supply chains and a gradual economic recovery across Europe and the US from the lows seen in April.

Cautious spending patterns among domestic and overseas customers were reflected in another fall in total new business volumes during August. However, the rate of decline was the slowest for six months. Lower export sales continued to act as a drag on order books, despite signs of a turnaround in demand across some key markets.

Slower reductions in output and new work helped to moderate the pace of job shedding among manufacturing companies in August. The latest fall in payroll numbers was the least marked since February. Where lower employment was reported, this was

Comment

Commenting on the latest survey results, Tim Moore, Director at IHS Markit, said:

“August data provides another signal that a turning point has been reached for the South Korea manufacturing sector after the steep falls in production during the second quarter of 2020. The latest Manufacturing PMI reading was the highest since February and pointed to only a modest deterioration in overall business conditions.

“Subdued global economic conditions due to the COVID-19 pandemic continued to hold back customer spending in August, but there were a number of reports citing a boost to demand from the return to work among clients in the US and Europe.

“The rate of decline in employment numbers also continued to moderate in August, helped by a recovery in business expectations towards the year ahead outlook. The proportion of manufacturers forecasting a rise in production in the next 12 months now exceeds those forecasting a decline, the first time the PMI survey has pointed to positive expectations since February.”

Data were collected 12-20 August 2020.

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often linked to natural attrition amid hiring freezes and the non-replacement of voluntary leavers.

Meanwhile, manufacturing firms faced a moderate increase in their average cost burdens during the latest survey period. The rate of inflation was the fastest for six months, which survey respondents linked to higher transportation bills, rising oil prices and a general increase in raw material costs. However, intense competition for new work resulted in another round of price discounting among manufacturing firms in August.

August data indicated that supply chain difficulties persisted across the manufacturing sector, which led to another lengthening of average lead times among vendors. Survey respondents noted that disruptions during the pandemic had contributed to shortages of stock and restricted capacity among suppliers.

Looking ahead, the proportion of manufacturers forecasting an increase in production over the next 12 months (30%) exceeds those anticipating a reduction (25%). As a result, the index measuring business expectations across the manufacturing sector was in positive territory for the first time since February, which was often attributed to hopes of a rebound in domestic and overseas demand for manufactured goods.

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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. August 2020 data were collected 12-20 August 2020.

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

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