

Nikkei South Korea Manufacturing PMI[®]

Sharpest reduction in output for nearly two years

Key points:

- Output undermined by broad stagnation in new orders and further fall in export sales
- Weaker demand from automobiles sector reported
- Output charges cut markedly as input prices fall

Data collected July 12th – 21st

The South Korean manufacturing sector returned to contraction during July, led by a sharp reduction in output. New orders were little changed on the month, undermined by a further reduction in new export orders. Moreover, manufacturers sought to meet sales directly from stock whilst simultaneously reducing their backlogs of work.

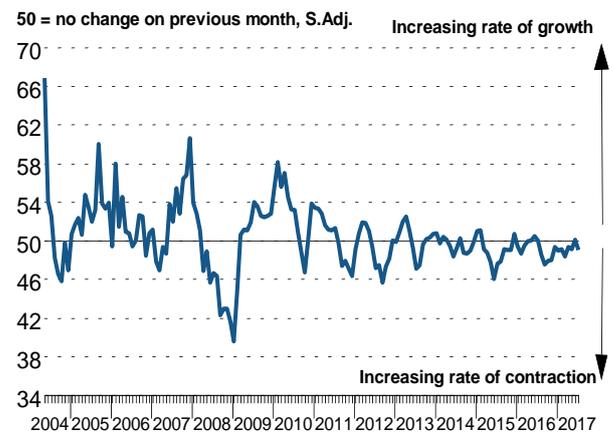
Underwhelming sales trends occurred in spite of a marked reduction in output charges, although margins were protected by a slight reduction in input prices. Meanwhile, optimism about the future was the weakest in three months.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – slipped below the 50.0 no-change mark in July, declining to 49.1. Down from June's 50.1, July's reading was the weakest since March.

The latest survey showed that production fell to the greatest degree in just under two years. Panellists blamed an underwhelming trend in new orders for the decline, with several companies signalling that orders from specific sub-sectors, especially automobiles, were lower. This was linked by a number of respondents to weakening demand for South Korean produced goods, particularly from China and Japan. Latest data showed that new export orders fell for a sixth month in succession. Overall new orders were little changed since June.

South Korean manufacturers were also able to cut output by meeting sales directly out of warehouse inventories wherever possible. Stocks of finished goods declined for a fourth month in a row during July, with the rate of contraction the greatest recorded by the survey since January.

Nikkei South Korea Manufacturing PMI



Sources: Nikkei, IHS Markit

Backlogs of work outstanding also fell, with the reduction the sharpest since last November.

The latest reduction in production, alongside the broad stagnation of order books, led to a modest fall in purchasing activity during July. Stocks of purchases were also cut in line with reduced production requirements.

Latest price data showed that average output charges were cut to the greatest degree since last September. Companies generally reduced their prices in response to strong competition, with some respondents reporting that lower input costs had afforded them the opportunity to reduce their own charges. July's survey showed that input prices had fallen marginally amid anecdotal evidence of reduced market demand and lower import costs.

South Korean manufacturers retained a degree of optimism regarding future output in July. Companies are widely forecasting an improvement in underlying market activity, and are hoping for an uptick in export demand over the next 12 months. However, optimism was the lowest since April, easing from June's 14-month high.

Finally, the size of the manufacturing workforce increased in July. Although marginal, the increase in employment was the first recorded by the survey since last August. In some cases, workers were

added as part of business expansion plans in line with positive demand projections.

Comment:

Commenting on the South Korean Manufacturing PMI survey data, **Paul Smith**, Senior Economist at IHS Markit, which compiles the survey, said:

“The manufacturing sector continues to struggle in the face of underwhelming demand, with companies reporting that orders from key export markets and those linked to important industries such as autos are down.

“Rather than raise production, companies are therefore currently engaged in a period of destocking, aiming to rebalance productive supply with current demand requirements.

“Until this is achieved, growth is therefore likely to remain subdued in the near-term at least, although companies are retaining some optimism about future conditions, with firms on average forecasting growth for the 12 months ahead.”

-Ends-

Nikkei South Korea Manufacturing PMI[®] is sponsored by

Nikkei is a media organization with newspaper publishing at its core. Our flagship daily newspaper, The Nikkei, has approximately three million subscribers. Nikkei's multi-platform media distribution also includes online, broadcast and magazines.

The Nikkei marks its 140th anniversary this year. Since our founding in 1876 as the Chugai Bukka Shimpo (Domestic and Foreign Prices News), we have consistently provided high-quality reporting while maintaining fairness and impartiality. The Nikkei brand has become synonymous with trustworthiness at home and abroad.

Nikkei Inc. offers a range of media platforms to satisfy the diverse needs of our readers. At the core of these services is The Nikkei which has a circulation of approximately three million. Adding further depth to our offerings are our premium content and strong digital technology. The number of paying subscribers to the Nikkei Online Edition, which was launched in 2010, has surpassed 400,000. Our fee-based online services have one of the largest readerships in the world among newspaper publishers. Five years after its creation, the online edition is set to evolve from a medium for providing news to readers into a tool that helps people advance their careers.

In 2013, we kicked off the Nikkei Asian Review, an English-language news service provided both online and as a weekly print magazine. The following year, we established an Editorial Headquarters for Asia in Bangkok to deepen our coverage of Asian economic news. In addition, we doubled the number of reporters stationed in Asia outside Japan. 2014 also saw the launch of Nikkei Group Asia Pte., a new company in Singapore tasked with spreading the Nikkei brand in the region. Our goal is to make Nikkei the leading media voice in Asia.

<http://www.nikkei.co.jp/nikkeiinfo/en/>

ASIAN REVIEW <http://asia.nikkei.com/>

INTRODUCING THE ONLY BUSINESS PUBLICATION THAT BRINGS YOU INSIGHTS ABOUT ASIA, FROM THE INSIDE OUT

With more reporters and contributors across the region than any other business publication, only Nikkei Asian Review can give you a view of business in Asia from the inside.

Stay abreast of the latest news, analysis and insights with a subscription to Nikkei Asian Review – available in print, online, and on your mobile and tablet device.



Asia300:

Providing extensive coverage of over 300 leading companies in 11 countries and regions in Asia. Nikkei Asian Review aims to build the largest hub for Asian corporate news through enhanced reporting backed by large database of business and financial information on companies in the region.



JAPAN UPDATE:

Keeping you up-to-date with business and news from Japan.



VIEWPOINTS:

Bringing views of leading minds on Asia from around the world, including our column "Tea Leaves" written by some of our best writers.



POLITICS & ECONOMY:

Looking at fiscal and monetary policy, international affairs and more



MARKETS:

Deep analysis if the markets, with detailed industry news to keep you abreast of some of the fastest growing sectors in the region.



Video:

Watch analysts explain our articles, catch interviews with top executives.



Print Edition:

Weekly delivery of the best content from Nikkei Asian Review to your home or office

For further information, please contact:

IHS Markit (About PMI and its comment)

Paul Smith, Senior Economist
Telephone +44 1491 461 038
Email paul.smith@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922 4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Economist
Telephone +65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81 3 6256 7115
Email koho@nex.nikkei.co.jp

Notes to Editors:

The Nikkei South Korea Manufacturing *PMI*[®] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size, based on the industry contribution to GDP. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, and Transport. Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei South Korea Manufacturing *PMI*[®] is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

IHS Markit is a registered trademark of IHS Markit Ltd. All other company and product names may be trademarks of their respective owners © 2017 IHS Markit Ltd. All rights reserved.

About PMI

Purchasing Managers' Index[™] (*PMI*[®]) surveys are now available for over 30 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. To learn more go to www.markit.com/product/pmi.

The intellectual property rights to the Nikkei South Korea Manufacturing *PMI*[®] provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*[™] and *PMI*[®] are either registered trademarks of Markit Economics Limited or licensed to Markit Economics Limited. Nikkei uses the above marks under license. IHS Markit is a registered trademark of IHS Markit Ltd.

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@ihsmarkit.com. To read our privacy policy, [click here](#).