

Nikkei South Korea Manufacturing PMI[®]

Soft demand continues to weigh on manufacturing sector in May

Key points:

- Fastest fall in output recorded since last November
- Modest reductions in input and output prices indicated
- Noticeable improvement in business confidence recorded

Data collected May 12th – 22nd

South Korean manufacturing sector underperformance continued during May, with output, new orders and employment falling further amid reports of ongoing demand weakness, particularly from important external markets.

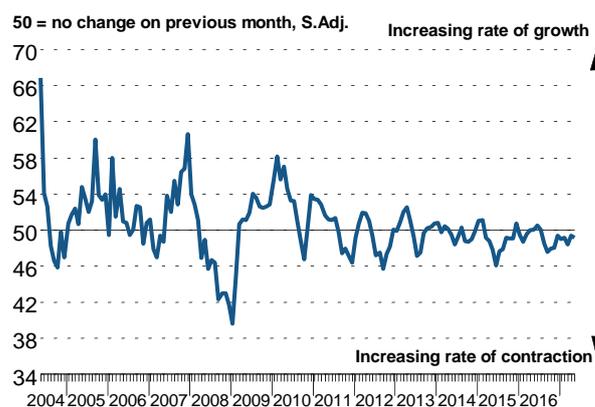
More positive, however, was a pick-up in business confidence to a 13-month high, while there was a modest drop in input costs following a period of (at times) rapid inflation. Output charges also declined for the first time since last November.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[™] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – recorded a level of 49.2 in May. Down from April's 49.4, the PMI indicated a slightly faster deterioration in performance, but at a pace that remained slight.

Moreover, the PMI has posted below the 50.0 no-change mark for ten successive months, with May's reading held back by a further fall in production. Latest data showed that output declined to the greatest degree since November 2016 with a number of respondents blaming underwhelming levels of incoming new business.

May's survey showed a fall in new orders placed with South Korean manufacturers for the twelfth successive month, although the rate of decline was marginal and the weakest since last June. New export orders continued to fall at a faster pace than overall new work amid ongoing weakness in sales to China. Political tensions around THAAD continued to undermine new export business with China, according to panellists.

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Sources: Nikkei, IHS Markit

Manufacturers were again able to reduce their levels of work outstanding during May, extending the current period of contraction to 27 months. The modest fall in backlogs was reported to reflect ongoing weakness in new order volumes, which also led to a decline in employment. Staffing levels have now fallen for nine months in succession, although May's reduction was marginal and the weakest since January. The fall in employment was largely implemented through the non-replacement of leavers.

Meanwhile, purchasing activity continued to fall during May in line with reduced volumes of incoming new work and lower production requirements. Panellists indicated a preference for utilising stocks wherever possible, which led to falls in both stocks of inputs and finished goods.

Lower international prices for a number of commodities (copper, grain, steel and oil were mentioned by panellists) was reported to have led to a reduction in overall input prices during the month. The modest fall followed a seven-month period of inflation and also led to a modest drop in output charges. There were also a number of reports from panellists that output charges were being cut in a bid to stimulate demand.

Finally, business sentiment improved noticeably during May, with confidence improving to its highest level since April 2016. Panellists indicated positive projections for new work, both at home and abroad. There were also reports of planned new product launches.

Comment:

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

“The underperformance of the South Korean manufacturing sector continued in May, with output falling and again suggestive that wider industrial production will trend towards stagnation in Q2 following an unexpectedly strong start to the year.

“Panellists continued to signal that export volumes to China remain under pressure, and were a key reason for wider underperformance, whilst overall sales failed to rise despite manufacturers taking advantage of reduced input costs and cutting charges to stimulate demand.”

-Ends-

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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.

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