

Nikkei South Korea Manufacturing PMI[®]

Business conditions continue to deteriorate in June

Key points:

- New orders decline for a fourth successive month...
- ...But export sales rise at fastest pace since October 2013
- Business confidence strengthens for the first time since January

Data collected June 12th – 21st

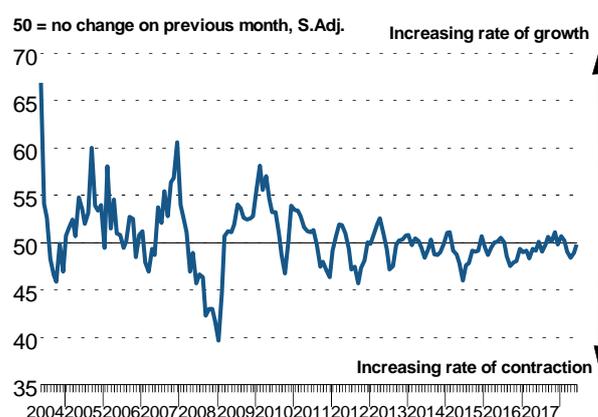
The health of the South Korean manufacturing sector continued to worsen at the end of the second quarter. In line with falling new business receipts, production line activity was put on hold, while firms opted to cut jobs for a third month in succession. Foreign demand rebounded however, with new export sales rising to a relatively marked extent. Despite fragile business conditions, business optimism strengthened for the first time since the start of the year.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – registered 49.8 in June, up from 48.9 in May to indicate a softer rate of deterioration in manufacturing sector operating conditions. The headline PMI has recorded in contractionary territory in each month since March.

South Korean goods producers observed a fourth successive monthly fall in new orders during the latest survey period. Panellists attributed fewer sales to weakness in the domestic economy. That said, the rate of decline eased and was only slight overall. To the upside, new business from abroad increased at the sharpest pace since October 2013 during June. East Asia, particularly China and Japan, was mentioned as a key source of international demand. Nonetheless, in line with the overall reduction in new business, production line activity was left unchanged in June. That said, this ended a three-month sequence of falling output.

With absent demand pressures, firms were able to clear outstanding orders. Backlogs of work have been reduced in each of the past five survey

Nikkei South Korea Manufacturing PMI



Sources: Nikkei, IHS Markit

periods. In fact, the rate of depletion was the joint-quickest since August 2016 (on a par with November 2016). However, lacking new order inflows and falling backlogs prompted cuts to staffing levels in June. Some panellists also noted that government policy to reduce the number of hours staff can work had encouraged some resignations.

Capacity pressures across the supply chain were evidenced by a further month of slowing lead times for the delivery of inputs. Nevertheless, vendor performance deteriorated only slightly and to a softer extent than the 128-month record observed in May.

South Korean manufacturers faced rising cost burdens in June. Panellists reporting higher operating expenses mentioned that raw material shortages had driven up their price. Overall, the rate of inflation was marked and quickened to a three-month high. Higher input costs were frequently cited as a reason supporting selling price hikes during June. Output prices have been raised in each month since September last year. Although the pace of increase was only moderate overall, it was the fastest in five months.

Confidence towards future output remained firmly positive in June. Moreover, the degree of optimism

strengthened for the first time since January. Upbeat sentiment was linked to new plant openings, forecasts of stronger demand and planned new product launches.

Comment:

Commenting on the South Korean Manufacturing PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

“A fourth consecutive month of deteriorating business conditions for South Korean manufacturers was notched in June. However, of these four negative readings, the extent of the latest decline was the softest.

“Nevertheless, with new orders continuing to fall, firms showed reluctance to hire additional staff and build up inventories of inputs and completed goods. Additionally, some panellists indicated that staff opted to leave due to restrictions on their working hours, leaving them with lower incomes, signalling some of the downsides to President Moon’s labour market reforms.

“With the new export orders index indicating the sharpest rise in overseas sales since October 2013, an overall decline in new orders suggests the fragility in demand is sourced from the domestic economy.”

-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 two and a half million subscribers. Nikkei's multi-platform media distribution also includes online, broadcast and magazines.

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 two and a half 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 500,000. Our fee-based online services have one of the largest readerships in the world among newspaper publishers. Eight years after its creation, the online edition has evolved 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)

Joe Hayes, Economist
Telephone +44 1491 461 006
Email joseph.hayes@ihsmarkit.com

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

Bernard Aw, Principal 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 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 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2018 IHS Markit Ltd. All rights reserved.

About PMI

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. To learn more go to <https://ihsmarkit.com/products/pmi.html>.

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. and/or its affiliates.

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