

Nikkei South Korea Manufacturing PMI[®]

PMI signals a slight improvement in business conditions

Key points:

- The headline PMI Index registers at 50.6 in September
- Renewed expansion in output
- Business confidence eases to the weakest in ten months

Data collected September 11th – 21st

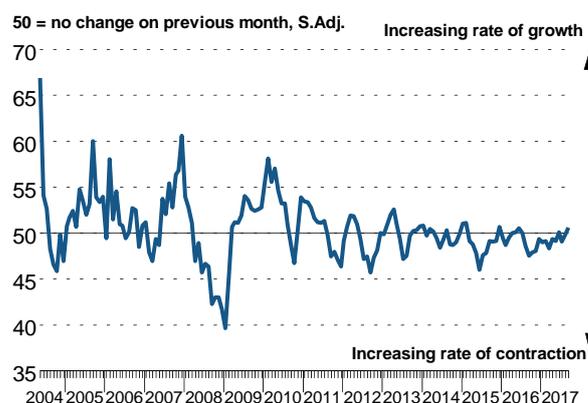
September data signalled a recovery in the manufacturing sector, underpinned by a rise in output for the first time in 14 months. Meanwhile, the pace of new order growth accelerated to the joint-fastest since April 2013. New export orders declined in September amid reports of weak demand from key export markets, particularly China. Despite greater output requirements, firms reduced their staffing levels, thereby ending a two-month period of employment growth. On the price front, cost pressures facing firms rose sharply during September.

Business confidence towards the 12-month outlook for output eased to the weakest since November 2016 as panellists expressed their concerns regarding the long-term implications of weaker demand from China.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – rose from 49.9 in August to 50.6 in September. The rate of improvement in South Korea's manufacturing sector was marginal but the fastest since December 2015. Notably, the headline index registered above the crucial 50.0 threshold for only the second time in the past 14 months.

The overall improvement in operating conditions was supported by a rise in production. This followed a 13-month sequence of decline. That said, the rate of growth was marginal. Where an increase was registered, firms widely linked this to rising inflows of new business. That said, those panellists that registered lower output commented on weaker demand in the automotive industry.

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Sources: Nikkei, IHS Markit

Order book volumes increased at the end of the third quarter. The rate of growth accelerated to the joint-fastest in nearly four-and-a-half years, but was modest. Where an increase was registered, firms attributed this to stronger demand conditions. In contrast, new export business declined after having increased in August for the first time in seven months. However, the rate of decline was marginal. Respondents reported on lower overseas demand, with the local automotive sector particularly affected by weaker demand from China.

The South Korean manufacturing sector saw a renewed increase in purchasing activity during September. Moreover, the rate of expansion accelerated to the joint-strongest since January 2014. Panellists commented on increased new business. Meanwhile, companies reportedly engaged in stock building initiatives in anticipation of further rises in raw material prices in coming months.

Despite greater capacity pressures, firms reduced their staffing levels for the first time in three months. The rate of decline in employment was modest, but quickened to the fastest since March.

Input cost inflation facing the manufacturing sector accelerated to the fastest since January. Subsequently, firms raised their output charges during September. Nevertheless, the rate of

inflation was only marginal as firms were restricted in their ability to fully pass on higher cost burdens to clients.

Comment:

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

“September saw welcome signs of recovery in South Korea’s manufacturing sector, underpinned by a rise in output for the first time in 14 months. New order growth accelerated to the joint-fastest in nearly four-and-a-half years, but was modest. Domestic consumers took up the gauntlet to drive economic growth, with overseas demand for local goods deteriorating.

“There are clearly challenges remaining for the sector, however, as signalled by a fall in employment, thereby reversing the recent upward trend.

“Business confidence towards the 12-month outlook for output was the weakest since November 2016. The deployment of THAAD (US missile defence system) in the Korean peninsula in spite of China’s disapproval has led the business community to be concerned as demand from China reduced, with the local automobile sector reportedly particularly affected.”

-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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