

Nikkei South Korea Manufacturing PMI[®]

Further fall in production leads to fastest cut to jobs since late-2008

Key points:

- Deteriorating order books impact negatively on output in March
- Employee numbers reduced to greatest degree since late-2008
- Output charges rise at sharper rate despite slower cost inflation and waning demand

Data collected March 13th – 23rd

The underlying health of the South Korean manufacturing sector weakened during March amid further falls in output and new orders. With excess capacity mounting, and business confidence at the lowest level for three months, the sharpest cut to employee numbers since the end of 2008 was recorded.

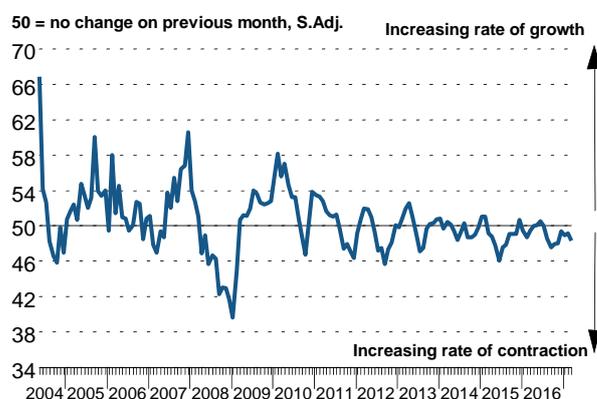
Despite waning demand, and slower input cost inflation, companies nonetheless sought to rebuild margins by raising their charges to the greatest degree for nearly six years.

The headline Nikkei South Korea Manufacturing Purchasing Managers' IndexTM (PMI)TM – a composite single-figure indicator of manufacturing performance derived from five key survey indices – fell to a four-month low of 48.4 in March. That was down from 49.2 in February. Posting below the 50.0 no-change mark for an eighth successive month, the latest PMI reading was indicative of a further moderate deterioration in the health of the manufacturing sector.

A tenth consecutive monthly fall in new orders was widely reported to have weighed on manufacturing output during March. Panellists commented on lower demand from both at home and abroad. New export orders fell for a second month in a row amid some reports that sales to China, a key market, had suffered in the face of political tensions around THAAD. Lower Chinese demand was offset to a degree by reports of increased sales to Japan and other countries in the Asia Pacific region.

March's survey indicated that production was cut modestly, extending the current run of contraction to eight months. Nonetheless, manufacturers were able to add to their warehouse stocks, with the latest data showing growth in finished goods inventory for the first time in three months.

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Sources: Nikkei, IHS Markit

In contrast, stocks of purchases were lowered in response to reduced production. Similar factors led to a fall in purchasing activity.

Labour capacity was cut for the seventh successive month. The degree of job shedding was marked and the greatest in over eight years. There were reports from panellists that employee numbers were reduced in response to persistently lower production requirements. Some companies also noted a natural churn in employees and the introduction of new productivity enhancing output techniques.

On the price front, supply-side shortages underpinned cost inflation during March (and also served to lengthen vendor delivery times). Although the degree to which input prices rose was the lowest in three months, inflation nonetheless remained marked and encouraged manufacturers to raise their own tariffs. Latest data showed a solid increase in output charges: the greatest recorded by the survey since April 2011.

Finally, South Korean manufacturers retained some optimism regarding future activity. However, the degree of optimism was the lowest in three months amid worries about the future performance of the South Korean economy.

Comment:

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

“March’s PMI data signalled the continued underperformance of the South Korean manufacturing sector. Weak demand is undermining output, which has now fallen for eight months in succession. Based on a strong observed relationship with the PMI, we subsequently expect to see industrial production growth trending towards zero and therefore providing minimal contribution to GDP over Q1.

“The survey also provides little cheer for households, with companies choosing to pare back jobs to the greatest extent in over eight years while ongoing cost pressures mean that charges are being raised markedly at a time when demand is waning.”

-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, Transport.

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.

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 Markit. Please contact economics@ihsmarkit.com.

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