

Nikkei South Korea Manufacturing PMI[®]

Rise in new orders helps lift PMI in June

Key points:

- Growth in overall new work recorded for first time since May 2016...
- ...but poor sales to China undermine export sales and overall production
- Business sentiment highest in 14 months

Data collected June 12th – 22nd

South Korea's manufacturing sector broadly stagnated during June, as a first rise in new orders for over a year was offset by ongoing reductions in both output and employment. Moreover, external sales continued to fall, due in the main to further reductions in demand from China.

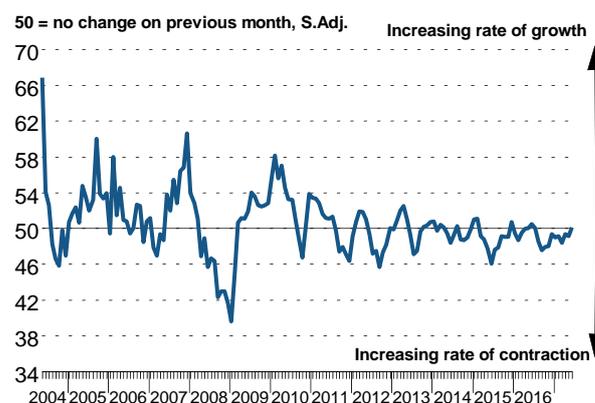
Nevertheless, the rise in overall new work meant companies were a little more upbeat about the future, with optimism reaching a 14-month high in June. Positive forecasts for output and demand also helped to lift both purchasing activity and input inventories since May.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – posted a reading of 50.1 in June. That was up from 49.2 in May and the first reading above 50.0 since last July.

Following 12 months of contraction, there was a return to growth in new work during June. New product introductions were reported to have benefitted from a slight improvement in overall market conditions. However, overall growth was modest, and new order wins were reported to be relatively small in nature. Moreover, new export orders continued to fall as reported improvements in demand from Japan, the Middle East and the US were more than offset by ongoing weakness in sales to China.

Production volumes fell again during the latest survey period, extending the current sequence of contraction to 11 months.

Nikkei South Korea Manufacturing PMI



Sources: Nikkei, IHS Markit

This meant that, with new orders rising on the month, levels of work outstanding increased during June for the first time since February 2015 and to the greatest extent since April 2011.

Encouraged by June's rise in new orders, manufacturers chose to bolster their purchasing activity over the month. The latest data marked the first time that buying activity has risen this year, and was a key factor behind the strongest accumulation of stocks of purchases since the end of 2008.

On the price front, there was little change in input prices recorded during June as any rises in raw material costs were offset in the main by favourable exchange rate movements and falls in the price of a number of commodities. Faced with an increasingly competitive marketplace, manufacturers chose to reduce their charges for a second successive month in June.

Optimism regarding the future continued to strengthen in June, with the survey showing the strongest degree of confidence since April 2016. Panellists widely expect economic performance in South Korea to pick-up in the coming months, and are also forecasting better external demand for their products.

Despite strengthened confidence, manufacturers chose to exercise caution when it came to staffing decisions during the month. Panellists signalled that they had largely chosen not to replace voluntary leavers in June, the net result being a fall in employment for a tenth successive month.

Comment:

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

“Although output and employment both continued to fall during June, there were some positive developments from the latest survey as new orders rose for the first time in over a year and optimism regarding the future hit a 14-month high.

“Whilst hinting of potentially brighter times to come, the latest data nonetheless remain consistent with ongoing stagnation of industrial production. Moreover, there remain some headwinds to growth emanating from the direction of China. Ongoing diplomatic tensions continue to undermine bilateral trade relations between the two nations, leading to further falls in new export orders to South Korea’s manufacturers.”

-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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