

Nikkei South Korea Manufacturing PMI[®]

Falling export orders undermine manufacturing sector performance in April

Key points:

- Fastest decline in new export orders for half-a-year amid reports of reduced Chinese trade
- Production continues to fall, while job cuts persist
- Input price inflation remains marked, but drops to five-month low

Data collected April 11th – 20th

April saw the continuation of a subdued performance of South Korea's manufacturing sector, with output, new orders and employment all falling since the previous month. Underwhelming demand, especially from important trading markets, was reported by panellists, and worries of the continuation of such a trend led to a historically low level of business confidence.

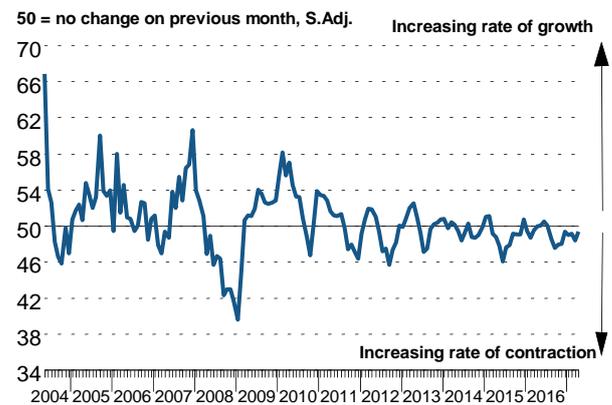
On the price front, input costs continued to rise markedly, but at the lowest rate since last November. Output charges rose only marginally as a result.

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 – reached its highest level of the year so far during April, posting 49.4 (up from 48.4 in March). However, by remaining below the crucial 50.0 no-change mark the index signalled a ninth consecutive month of deteriorating operating conditions.

Both production and new orders continued to fall during April, albeit at slower and marginal rates. However, new order books have now deteriorated persistently for just under a year, with April's data revealing that new export orders fell to the greatest degree since last October. There were reports from panellists that demand from China continued to fall, in part undermined by the ongoing political tensions around THAAD.

Falling export sales to China was also a notable factor behind the ongoing weakness in business confidence during April. Although on average companies are optimistic of a rise in output from present levels in the coming 12 months, the degree of positive sentiment remained historically subdued.

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Sources: Nikkei, IHS Markit

With current production requirements continuing to fall, allied with the ending of contracts (and in some cases their non-replacement with new business), another round of job cuts was implemented in April. Workforce numbers have now fallen for eight months in a row, although the latest decline was noticeably weaker than in March, when payroll numbers fell to the greatest degree in over eight years.

Despite reduced manpower, backlogs of work were again cut in April with the latest fall the greatest in five months. Given reduced new order volumes, companies commented on being able to focus resources on the clearance of existing business. Purchasing activity was also lowered in April, while manufacturers signalled reductions in both stocks of purchases and finished goods.

Finally, input prices rose again in April. Although inflation eased to a five-month low, and was well down on the level seen at the start of the year, the degree to which input prices rose remained marked, underpinned by rising raw material costs. While companies sought to protect margins via a rise in their own charges, client pressure restricted company pricing power. Charge inflation was only marginal as a result.

Comment:

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

“April saw another underwhelming performance from the South Korean manufacturing sector, with output, new orders and employment all showing falls since the previous month. Given the relationship with official data, industrial production subsequently seems to be broadly stagnating on a quarterly basis at the start of Q2.

“And based on the forward-looking data from the survey and comments from our survey panel, stagnation may continue in the near-term. These information sources are showing that new export orders are falling due to reduced trade flows with China, and firms are indicating concerns that this will continue over the coming months.”

-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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